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# THE FOREIGN ECONOMIC POLICY OF SMALL STATES IN THE CONTEXT OF GLOBALIZATION

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## Abstract

This article analyzes the impact of globalization processes on the foreign economic policy of small states. Due to the limited economic resources of small countries and the intense competition in international markets, their foreign economic activities have specific characteristics. The study examines the main directions of globalization such as trade, investment, technology flows, and labor migration, while also analyzing the experiences of Uzbekistan and other small states.

**Keywords:** Globalization, small state, foreign economic policy, international trade, investment, integration.

## Introduction

Before analyzing small states, it is necessary to clarify the concept of globalization. Globalization is the process of intensifying economic, political, cultural, and social relations among the countries of the world, leading to stronger interdependence and mutual influence. Examples include international trade, the internet, foreign investments, and labor migration—all of which represent forms of globalization.

The foreign economic policy of small states has its own specific characteristics. Their formation is directly influenced by limited economic resources, narrow



domestic markets, and high levels of competition in international markets. Small states usually do not possess abundant natural resources, their populations are relatively small, and their domestic markets are underdeveloped. As a result, they are forced to rely heavily on export–import relations. Therefore, their foreign economic activities are shaped by international trade, the inflow of foreign investments, technology transfer, and labor migration.

Globalization processes directly affect the foreign economic policy of small and medium-sized states. International trade, investment flows, technology transfers, and labor migration are among the key factors shaping their economies. The case of Uzbekistan illustrates this situation vividly.

Uzbekistan is one of the strategically important states in Central Asia, and in recent years its foreign economic policy has become significantly more active. In the early years of independence, the country’s foreign economic activity was mainly based on the export of raw materials such as cotton, gold, and natural gas. However, the deepening of globalization processes, intensifying competition in international markets, and the need for economic diversification have compelled Uzbekistan to reconsider its foreign economic strategy.

In the context of globalization, Uzbekistan has identified trade liberalization as one of its key priorities. In the early years of independence, foreign trade was strictly regulated: customs tariffs were high, and export–import procedures were complex, limiting integration into the global economy. In recent years, however, economic reforms have simplified customs regulations, reduced bureaucratic barriers, and encouraged more active participation in the international trade system.

Today, Uzbekistan’s main trade partners include China, Russia, Turkey, South Korea, and the European Union. Trade with China is primarily focused on importing energy, machinery, electronics, and consumer goods, while exporting cotton fiber, non-ferrous metals, and agricultural products. Trade with Russia is dominated by fuel-energy, food, and industrial products. Relations with Turkey are developing rapidly in textiles, construction materials, mechanical engineering, and food production. South Korea, on the other hand, plays a special role as a technological partner, with joint projects in automotive and electronics.



Despite these advances, Uzbekistan has not yet achieved a leading position in the global market. This is mainly because the country's export structure remains dominated by raw materials—cotton, gas, gold, and agricultural raw materials. The share of manufactured goods in total exports remains low, limiting the country's ability to compete with high value-added products in international markets.

Another challenge is the underdeveloped state of transport and logistics infrastructure. Being a landlocked country, Uzbekistan faces additional transport costs in international trade. Therefore, developing transport corridors with neighboring countries and making greater use of international transit routes is of particular importance in the country's trade policy.

To further strengthen Uzbekistan's trade policy, it is essential to expand the production of high-tech manufactured goods, diversify exports, improve logistics infrastructure, and accelerate the process of becoming a full member of the World Trade Organization (WTO). WTO membership will provide Uzbekistan with greater access to global markets, allow it to use international trade legal mechanisms, and enhance its overall competitiveness.



### *I-rasm "O'zbekistonning tashqi savdo balansi"*

Although raw materials still account for a significant share of Uzbekistan's exports, the country's imports are dominated by finished goods, technologies, and equipment. Therefore, Uzbekistan has not yet been able to secure a leading position in global markets. This situation highlights the need to strengthen the production base of the economy and diversify the structure of exports.

Attracting foreign investment is considered one of the key priorities of Uzbekistan's foreign economic policy. Under globalization, capital flows enhance economic integration between countries and serve as one of the main

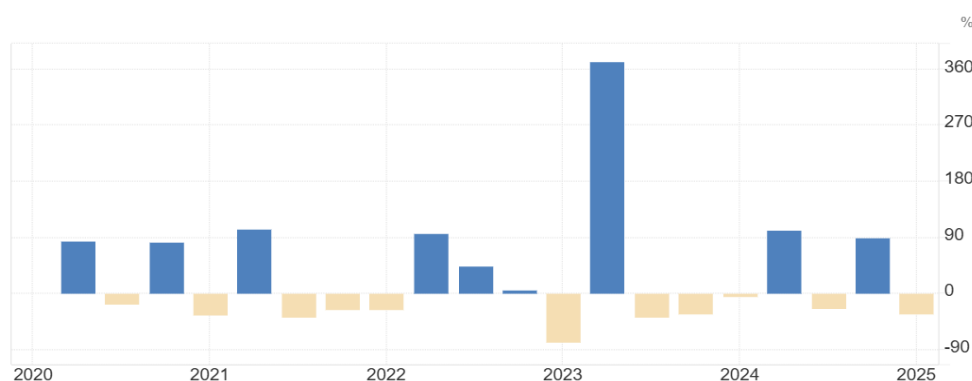


drivers of economic growth. For this reason, in recent years, Uzbekistan has paid special attention to creating a favorable business environment for foreign investors, strengthening the legal framework, and expanding tax incentives.

In the structure of foreign direct investment (FDI) directed to Uzbekistan, the energy, automotive, chemical, textile, and agricultural sectors occupy leading positions. In particular, projects in “green energy” (solar and wind power plants), new automobile manufacturing plants, and chemical industry clusters are of great significance. Such investments contribute to increasing production capacity, creating new jobs, and expanding export potential.

The main investor countries include Turkey, China, South Korea, Russia, and the United Arab Emirates. The active investment activities of these countries are explained by Uzbekistan’s strategic geo-economic location and its broad domestic market opportunities.

However, Uzbekistan’s investment attractiveness in the context of global competition still remains limited. The main reasons for this are the insufficient development of production infrastructure, the mismatch of the logistics system with modern requirements, the slow pace of technological renewal and innovation, and the shortage of qualified specialists. Consequently, the country lags behind certain regional states in attracting investment flows. In the future, technological modernization, the development of transport and communication systems, and the creation of a secure business environment for investors will remain priority tasks.



2-rasm “O‘zbekistonga to‘g‘ridan-to‘g‘ri xorijiy investitsiyalar”



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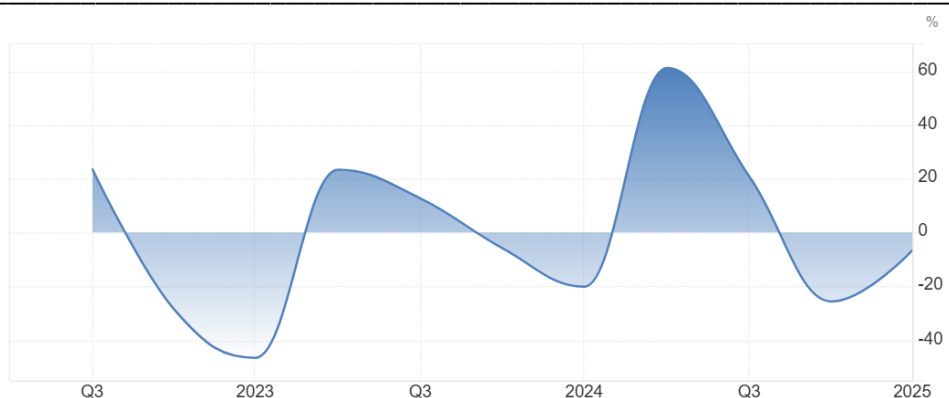
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These changes indicate that Uzbekistan's investment attractiveness is gradually increasing; however, in order to strengthen it further, it is necessary to develop production infrastructure, accelerate technological renewal, and improve the legal framework.

In recent years, Uzbekistan has identified the digital economy and technological development as key priorities of its foreign economic policy. National strategies place special emphasis on introducing information and communication technologies (ICT), developing the e-government system, and expanding the digital services market. Joint projects are being implemented in cooperation with South Korea, Turkey, and China. For example, through ICT Park residents, support for startups, the activities of technoparks, and the attraction of foreign investment in the field of information technologies have been established. In addition, industrial enterprises are carrying out modernization of production processes and the introduction of new technologies. At the same time, the challenge is that the share of high-tech products in Uzbekistan's total exports still remains very small. This reduces the country's competitiveness in international markets and indicates that economic resources are not being fully utilized. To make effective use of technological flows, it remains essential to expand research activities, develop innovation infrastructure, and strengthen human capital.

Uzbekistan is also actively engaged in labor migration, which is one of the important aspects of globalization processes. Currently, millions of Uzbek citizens are employed in Russia, Kazakhstan, South Korea, Turkey, and Middle Eastern countries. Their remittances play a strategic role in Uzbekistan's economy, as they serve as a stable source of foreign currency inflows.

According to recent data from the Central Bank of Uzbekistan, remittances from labor migrants constitute a significant share of the country's GDP and help to cover the deficit in the trade balance. This process not only supports the living standards of the population but also increases the activity of the domestic consumer market. However, labor migration also has negative aspects. Most importantly, the outflow of skilled labor creates challenges in the domestic labor market. Moreover, dependence on migration may slow down the processes of economic diversification and the development of high-tech industries.



Therefore, in its foreign economic policy, Uzbekistan needs to pay close attention to channeling remittance inflows into effective investments and expanding domestic employment opportunities.

Although remittance inflows to Uzbekistan have sharply increased in recent years, they remain subject to seasonal and external factors. Following the peak in 2022, a relative decline was observed. Nevertheless, remittances are still significantly above the long-term average and continue to play an important role in ensuring the country's economic stability.

By further strengthening relations with Turkey, Uzbekistan can gradually address key challenges in its foreign economic policy. In particular, in the trade sphere, opportunities will emerge to expand the export of finished goods and diversify markets. In the field of investment, attracting Turkish capital and business expertise can help improve production infrastructure and introduce new technologies. Moreover, joint technological projects with Turkey will enhance Uzbekistan's innovation potential, while cooperation in the area of labor migration will contribute to improving the working conditions and social protection of Uzbek workers.

Globalization is creating important opportunities for small states to develop external economic relations. The case of Uzbekistan demonstrates that trade, investment, technology flows, and labor migration serve as key factors in ensuring the sustainable development of the national economy. However, challenges such as dependence on raw material exports, slow technological renewal, and the outflow of skilled labor still remain.





Addressing these challenges requires expanding economic, investment, and technological cooperation with Turkey. Such cooperation is crucial for Uzbekistan as it will increase the country's competitiveness and ensure more active participation in international economic integration.

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