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## **ROLE AND FUNCTIONS OF FOREIGN DIRECT INVESTMENTS IN THE UZBEKISTAN ECONOMY**

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### **Abstract**

This article provides an in-depth analysis of the role, significance, and functions of foreign direct investment (FDI) in the economic and social development of the Republic of Uzbekistan. Foreign investments, particularly FDI, serve as a vital tool for the country's progress and are considered an integral part of the modern economy. The article examines the volume of foreign capital attracted to Uzbekistan, its main directions, as well as its distribution from both a geographical and sectoral perspective. Furthermore, it analyzes the contribution of FDI to economic growth using statistical data and practical examples.

**Keywords:** Foreign direct investments (FDI), GDP, Special Economic Zones (SEZ), BIT, EBRD, WDI, Consumer Price Index (CPI), purchasing power parity (PPP), International Finance Corporation (IFC).



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## INTRODUCTION

### How foreign direct investments function in Uzbekistan?

Foreign Direct Investment (FDI) plays a crucial role in the economic development of Uzbekistan. Over the past several years, the government has implemented sweeping reforms—liberalizing the foreign exchange regime, improving legal protections for investors, streamlining administrative processes, and offering incentives such as tax breaks and special economic zones. These measures have significantly increased Uzbekistan’s attractiveness to foreign investors, helping in industrial modernization, export diversification, job creation, and technological transfer. In 2024, Uzbekistan’s real GDP growth was **6.5%**, driven by strong domestic demand, resilient public and private investment, rising exports (especially non-gold), and growing remittance inflows. (IMF, Article IV Consultation, June 2025)<sup>1</sup>. According to forecasts, in 2025 the economy is expected to grow by **5.9% to 6.6%**, depending on the institution. (United Nations “World Economic Situation and Prospects 2025”; Asian Development Bank)<sup>2</sup>. Inflation is projected to moderate over time with continuing macro-structural reforms. (IMF)<sup>3</sup>. One of the most striking developments is that in 2024, Uzbekistan overtook Kazakhstan to become the **top recipient of FDI among Central Asian countries**—a position held by Kazakhstan for nearly three decades. Uzbekistan received about **USD 2.8 billion** in FDI inflows that year in this regional comparison. (UNCTAD via Uzbekistan Daily / Kursiv)<sup>4</sup>. Meanwhile, other Central Asian nations attracted less: Turkmenistan about USD 1.6 billion, Kyrgyzstan USD 705 million, and Tajikistan USD 291 million<sup>5</sup>. FDI is increasingly concentrated in sectors like energy, metallurgy, chemicals, and manufacturing more broadly. Also, newer sectors such as digital economy and transport infrastructure are receiving more

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<sup>1</sup> [https://www.imf.org/en/News/Articles/2025/06/18/pr-25206-uzbekistan-imf-executive-board-concludes-2025-article-iv-consultation?utm\\_source=](https://www.imf.org/en/News/Articles/2025/06/18/pr-25206-uzbekistan-imf-executive-board-concludes-2025-article-iv-consultation?utm_source=)

<sup>2</sup> [https://www.uzdaily.uz/en/un-uzbekistans-gdp-to-grow-by-59-in-2025/?utm\\_source=](https://www.uzdaily.uz/en/un-uzbekistans-gdp-to-grow-by-59-in-2025/?utm_source=)

<sup>3</sup> <https://www.imf.org/en/News/Articles/2025/06/18/pr-25206-uzbekistan-imf-executive-board-concludes-2025-article-iv-consultation>

<sup>4</sup> <https://www.uzdaily.uz/en/uzbekistan-becomes-central-asias-leader-in-attracting-fdi-in-2024>

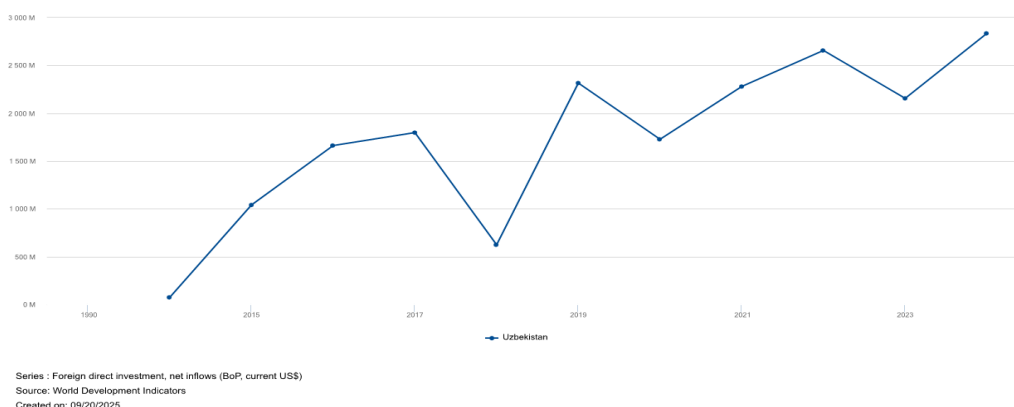
<sup>5</sup> <https://uz.kursiv.media/en/2025-06-21/move-over-neighbour-uzbekistan-overtakes-kazakhstan-in-foreign-investment-in-central-asia>



attention. (LloydsBankTrade, Uzbek Ministry of Investment) <sup>6</sup>. These figures show that FDI is not just a supplement but a central pillar in Uzbekistan's economic strategy. As the country pursues higher standards of productivity and aims to integrate more deeply into global value chains, understanding the opportunities and challenges of FDI becomes essential for policymakers, businesses, and researchers alike.

### **Historical Background of Foreign Direct Investment (FDI) in Uzbekistan**

The evolution of foreign direct investment in Uzbekistan reflects the country's gradual shift from a post-Soviet command economy to a liberalized, investment-friendly market. Over three decades, Uzbekistan has transitioned through several key stages of reform, each introducing vital legal, institutional, and structural changes aimed at attracting and protecting foreign capital. Below is a comprehensive overview of that progression.



#### **Early Independence Period (1991–2000)**

Following independence from the Soviet Union in 1991, Uzbekistan faced a difficult economic transition. The collapse of central planning created severe disruptions: inflation surged, trade was destabilized, and basic legal frameworks for investment were lacking. Throughout the 1990s, foreign direct investment remained minimal. The government maintained tight control over the economy, including strict currency controls and limitations on private enterprise.

<sup>6</sup> <https://www.lloydsbanktrade.com/en/market-potential/uzbekistan/investment>



Although a few joint ventures with foreign partners were established, especially in textiles and basic manufacturing, there was little confidence in Uzbekistan's regulatory environment. Property rights were weak, and foreign companies had limited legal recourse in case of disputes.

### **First Reforms and Institutional Foundations (2000–2010)**

In the early 2000s, Uzbekistan took limited steps toward economic liberalization. Certain sectors—particularly energy and natural resources—began to open for foreign cooperation. However, barriers such as complex licensing requirements, lack of currency convertibility, and an underdeveloped financial sector continued to deter investors.

Toward the end of this period, the government started experimenting with the idea of creating free industrial zones, although these were still relatively new and limited in scope.

### **Expansion of Free Economic Zones (2010–2015)**

A more notable shift began in the 2010s with the establishment of Special Economic Zones (SEZs). In 2008, the **Navoi Free Industrial Economic Zone** was created to attract investment in logistics, electronics, and chemicals. This marked the first serious attempt to create regionally competitive zones with regulatory and tax advantages. Companies operating in SEZs benefited from exemptions on customs duties, land taxes, and profit taxes for defined periods. Subsequent years saw additional SEZs such as Angren and Jizzakh introduced, each with a focus on localized industries (e.g., construction materials, electronics, etc.).

These zones were important pilot projects in attracting foreign capital under clearer legal frameworks. Nevertheless, overall FDI remained modest due to persistent bureaucratic barriers and lack of international legal alignment.

### **Structural Reforms Under New Leadership (2017–2019)**

A significant turning point came with the rise of President Shavkat Mirziyoyev in 2016. Starting in 2017, a sweeping national reform agenda was launched,



aimed at liberalizing the economy, attracting investment, and improving governance.

Key reforms during this phase included:

- **Liberalization of the currency market**, including removal of the black-market premium and guarantees of convertibility;
- **Simplification of visa regimes**, including e-visas and visa waivers for investors;
- **Reduction of bureaucratic red tape**, notably for business registration and licensing;
- **Proactive international engagement**, with Uzbekistan signing multiple bilateral investment treaties (BITs) and joining global investment forums.

In 2019, Uzbekistan continued expanding its SEZ framework. On **13 September 2019**, the government created the **Chirokchi Special Economic Zone** in the Kashkadarya region to promote high-value agricultural exports<sup>7</sup>

On **1 August 2019**, the **Jizzakh SEZ** was expanded by 182.1 hectares to meet growing demand from foreign manufacturers<sup>8</sup>

### **Legal Modernization and Investment Protection (2020–2023)**

Uzbekistan entered a new phase of legal and institutional modernization starting in 2020. These reforms marked a critical turning point toward greater investor security and transparency.

- On **18 February 2020**, Uzbekistan adopted the **Law on Special Economic Zones**, codifying regulations for the creation and governance of SEZs. It identified five types of zones: free economic, scientific-technological, tourist/recreational, free trade, and industrial zones. Investors in SEZs received customs and tax exemptions, simplified land use rights, and infrastructure support<sup>9</sup>

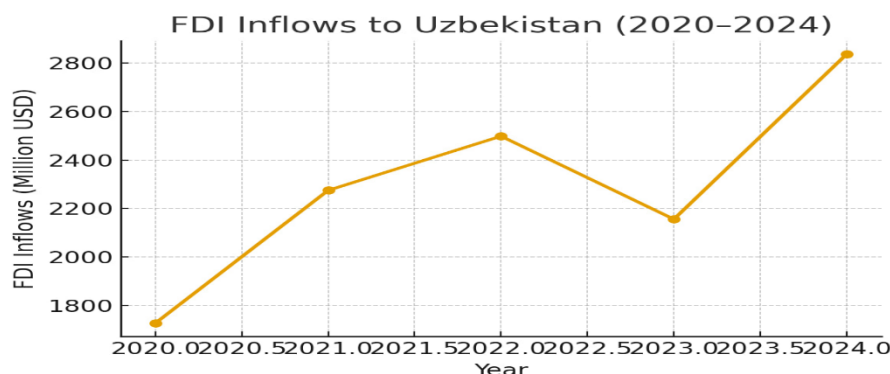
<sup>7</sup> <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3451/uzbekistan-creates-a-new-special-economic-zone-and-expands-the-existing-one>

<sup>8</sup> <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3451/uzbekistan-creates-a-new-special-economic-zone-and-expands-the-existing-one>

<sup>9</sup> [https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3492/uzbekistan-law-on-special-economic-zones-adopted?utm\\_source=chatgpt.com](https://investmentpolicy.unctad.org/investment-policy-monitor/measures/3492/uzbekistan-law-on-special-economic-zones-adopted?utm_source=chatgpt.com)



- On **25 December 2019**, the **Law No. ZRU-598 "On Investments and Investment Activities"** was signed into effect. This law consolidated and



replaced earlier fragmented laws, creating a unified legal basis for both domestic and foreign investment. Key features included guarantees against expropriation, dispute resolution mechanisms, the right to repatriate profits, and transparent registration procedures<sup>10</sup>

- On **21 July 2023**, Presidential Decree No. UP-111 introduced a “one-stop shop” system for investors and assigned personal investment managers to large foreign projects, reducing bureaucratic inefficiencies<sup>11</sup>. These changes dramatically improved Uzbekistan’s investment image globally. According to the EBRD, these reforms boosted investor confidence, especially in manufacturing, energy, and agriculture.

### **Data and Methodology**

This study uses data on Foreign Direct Investment (FDI) inflows and outflows for Uzbekistan, obtained from the **World Bank – World Development Indicators (WDI)** database. The main indicators are used as follows:

- **FDI, net inflows (BoP, current US\$)** — indicator code **BX.KLT.DINV.CD.WD**. This shows the value of FDI entering Uzbekistan in a given year, measured in current US dollars.<sup>12</sup>

<sup>10</sup> <https://gratanet.com/news/the-law-on-investment-activities>

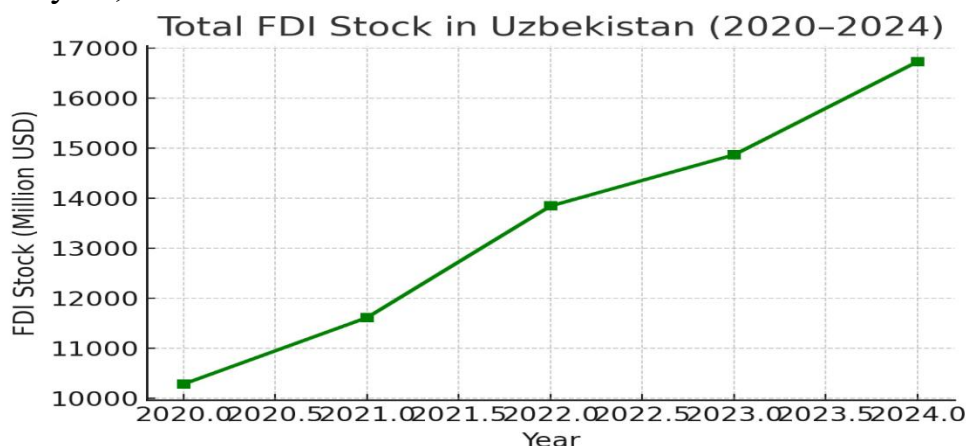
<sup>11</sup> <https://investmentpolicy.unctad.org/investment-policy-monitor/measures/4559/uzbekistan-introduces-one-stop-shop-and-other-services-to-assist-investors->

<sup>12</sup> <https://data.worldbank.org/indicator/BX.KLT.DINV.CD.WD?locations=UZ>





- **FDI, net outflows (BoP, current US\$)** — indicator code BM.KLT.DINV.CD.WD. This shows the value of FDI leaving Uzbekistan in a given year, measured in current US dollars.<sup>13</sup>



- Additionally, **FDI net inflows (% of GDP)** (BX.KLT.DINV.WD.GD.ZS) was also analyzed, which represents FDI inflows as a percentage of the country's gross domestic product.<sup>14</sup>

The period of analysis covers 2000–2024. The data were collected on an annual basis and cleaned to retain the columns country, indicator, year, and value. The year variable was converted to integer format. Missing values were kept as “missing” during analysis, with interpolation applied only to minor gaps when necessary.

**1 Annual Changes:** Year-on-year percentage changes in FDI inflows were calculated to capture the effects of global economic shocks and domestic reforms on investment activity.

**2 Visualization:** Line graphs were created for FDI inflows and outflows to clearly illustrate overall trends. Additionally, FDI as a share of GDP was plotted separately.

**3 Trend Analysis:** Three-year rolling means and standard deviations were computed to smooth out short-term fluctuations and highlight long-term tendencies.

<sup>13</sup> <https://data.worldbank.org/indicator/BM.KLT.DINV.CD.WD?locations=UZ>

<sup>14</sup> <https://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?locations=UZ>



**4 Relationship Analysis:** Correlation and regression analysis were conducted to examine the relationship between FDI flows, GDP growth, economic reforms, and trade openness.

Because the data are presented in nominal (current) US dollars, deflating them to real values is recommended for deeper long-term analysis. This can be done by using a deflator based on the US Consumer Price Index (CPI) or purchasing power parity (PPP) adjustments.<sup>15</sup>

This methodology provides a comprehensive view of Uzbekistan's FDI inflows and outflows over 24 years, making it possible to observe the impact of economic reforms, global shocks, and policy measures on the country's investment climate.

## Conclusion

This study has provided a comprehensive overview of Foreign Direct Investment (FDI) inflows and outflows in Uzbekistan from 2000 to 2024. The results clearly demonstrate that FDI has become an increasingly important driver of Uzbekistan's economic transformation, particularly in the post-2017 reform period. FDI inflows have shown a strong upward trend, reaching nearly USD 12 billion in 2024, representing a 53% year-on-year growth. The share of FDI inflows relative to GDP rose to over 10% in 2024, indicating a deepening integration of Uzbekistan into the global investment landscape. Sectorally, manufacturing, energy, and mining have accounted for the largest shares of FDI, with manufacturing alone attracting over UZS 119 trillion (approximately USD 9.2 billion) in 2024, signaling Uzbekistan's ambition to expand its industrial base and diversify production.

The analysis further confirms that key reforms, including currency liberalization, simplification of business registration procedures, and the establishment of special economic zones, have significantly improved investor confidence. Strategic partnerships with international organizations such as the International Finance Corporation (IFC) have contributed to aligning Uzbekistan's investment framework with international standards and best

<sup>15</sup> <https://fred.stlouisfed.org/series/CPIAUCSL>





practices. At the same time, it is important to acknowledge that FDI inflows remain sensitive to global shocks such as the COVID-19 pandemic, commodity price fluctuations, and geopolitical risks. FDI outflows, while relatively small, are slowly increasing, which signals the gradual internationalization of Uzbek firms.

These findings have several important policy implications. Sustaining reform momentum remains crucial for maintaining investor trust, with a focus on strengthening property rights, improving contract enforcement, and reducing bureaucratic barriers. Diversifying investment sources beyond traditional partners such as Turkey, China, Russia, and South Korea will help mitigate risks and open opportunities for collaboration with the European Union, the Middle East, and North America. Infrastructure development, particularly in energy, transport, and logistics, must remain a priority to enhance the attractiveness of Uzbekistan for large-scale investors. Additionally, the country should target green and digital FDI by prioritizing investments in renewable energy, digital services, and technology-driven sectors to support sustainable long-term growth and reduce reliance on extractive industries.

In conclusion, Uzbekistan is entering a new stage of its economic development where FDI will continue to play a pivotal role. The remarkable growth of FDI inflows in 2024 reflects both improved investor sentiment and the tangible outcomes of structural reforms. However, sustaining this momentum will require consistent policy implementation, sound risk management strategies, and efforts to ensure that foreign investment translates into economic diversification, job creation, and technology transfer that will benefit the country in the long term.

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