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# Attracting Strategic Foreign Investors to Increase Direct Investment Flows to Uzbekistan

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**Abstract:** This article examines the economic, institutional and financial mechanisms for increasing the flow of direct investments to Uzbekistan by attracting large and potential foreign investors. The study focuses on the strategic role of investment climate improvement, legal guarantees for investors, development of the securities market, public-private partnership mechanisms, regional investment ratings and large technological and infrastructure projects. Special attention is paid to Goal 49 of the "Uzbekistan 2030" Strategy, which defines the task of increasing the country's investment attractiveness and accelerating the development of the securities market. The article argues that foreign direct investment cannot be expanded only through tax incentives or promotional activity. It requires a stable legal environment, transparent capital market infrastructure, bankable projects, predictable regulation, investment protection, developed regions and effective post-investment support.

**Keywords:** *foreign direct investment, Uzbekistan, investment attractiveness, large foreign investors, securities market, Uzbekistan 2030 Strategy, public-private partnership, capital market, regional investment rating.*

## 1. Introduction

Foreign direct investment is one of the key factors of economic modernization, industrial diversification and technological renewal in developing economies. Unlike short-term speculative capital, direct investment usually brings production facilities, managerial experience, access to export markets, new technologies, corporate standards and employment[1]. For Uzbekistan, the issue of increasing the flow of direct investments has strategic importance because the country is carrying out large-scale reforms in industry, infrastructure, energy, transport, agriculture, digital economy and financial markets. Investment attraction is not only a matter of capital inflow; it is a mechanism for changing the structure of the economy, strengthening private enterprise and integrating national production into global value chains[2].

The "Uzbekistan 2030" Strategy places investment policy among the central priorities of economic development. Goal 49 directly states the need to further increase the country's investment attractiveness and rapidly develop the securities market[3]. The same goal sets

specific target indicators: absorbing 250 billion US dollars of investments, including 110 billion US dollars of foreign investments and 30 billion US dollars through public-private partnership, implementing more than 500 strategically important technological and infrastructure projects worth 150 billion US dollars, maintaining regional investment ratings, doubling portfolio investments through mutual and venture funds, offering shares of 40 state-owned enterprises through the "People's IPO", and creating infrastructure for foreign nominee holders and custodian banks in the local capital market[4].These targets show that investment policy is linked not only with direct project financing, but also with the modernization of capital market institutions and corporate ownership mechanisms[5].

## 2. Methodology

Attracting large foreign investors requires a different approach from attracting small or medium-scale capital. Large investors assess not only tax preferences, but also market size, legal certainty, currency convertibility, availability of infrastructure, political and regulatory predictability, project profitability, labor quality, logistics, energy supply, dispute resolution mechanisms and exit opportunities. For this reason, investment policy should be built as a complete ecosystem. If one element is weak, the whole investment decision may be delayed or cancelled. For example, a large manufacturing investor may be interested in the domestic and regional market, but if energy supply is unstable or customs procedures are slow, the final decision becomes risky. A strategic infrastructure investor may accept long payback periods, but only if the regulatory framework and public-private partnership contract are transparent and enforceable.

The legal environment is the first foundation of investment attractiveness. The Law of the Republic of Uzbekistan "On Investments and Investment Activity" provides several important guarantees for investors. These include the right to freely use income after taxes, guarantees of free transfer of funds in foreign currency, guarantees against adverse changes in legislation for investors for a defined period, protection of investments from nationalization and expropriation except in legally specified cases, and the right of foreign investors to repatriate investments after termination of investment activity. Such legal guarantees are important because large investors evaluate not only current profitability but also long-term legal stability.

However, legal guarantees alone are insufficient. Foreign investors also evaluate the institutional quality of implementation. The same law may produce different results depending on administrative practice, transparency of permits, court efficiency, availability of arbitration mechanisms, protection of property rights and predictability of regulatory decisions. Therefore, the state should strengthen not only the text of investment legislation, but also the practical procedures through which investors interact with ministries, regional authorities, regulators, tax bodies, customs services and infrastructure providers. Large investors usually conduct detailed due diligence. If procedures are unclear or differ across regions, transaction costs increase and investment confidence decreases.

The second important direction is the development of the securities market. At first glance, securities market development may seem more closely connected with portfolio investment than with foreign direct investment. In reality, the securities market directly affects the attractiveness of the whole investment environment. A functioning capital market improves corporate transparency, strengthens corporate governance, creates market-based valuation of companies, provides exit mechanisms for investors and allows strategic investors to combine direct investment with minority shareholding, joint ventures or public offerings. Goal 49 of the "Uzbekistan 2030" Strategy specifically links investment attractiveness with securities market development, "People's IPO", foreign nominee holders

and custodian banks .This is methodologically important: large foreign investors are more likely to enter a market where ownership rights, settlement infrastructure, securities custody, disclosure standards and liquidity mechanisms are reliable.

The "People's IPO" mechanism can also increase public participation in economic reforms and improve corporate governance in state-owned enterprises. If 40 state-owned enterprises place shares publicly, this may gradually reduce excessive state ownership, broaden the investor base and create benchmarks for market valuation. Yet the success of IPOs depends on preparation quality. Enterprises must improve financial reporting, introduce international standards, disclose risks honestly, appoint independent board members and define dividend policy. Without these elements, IPOs may become formal transactions rather than genuine capital market reform.

Foreign direct investment should also be connected with sectoral priorities. Uzbekistan has strong potential in mining, metallurgy, energy, textiles, agriculture, food processing, transport-logistics, construction materials, tourism, pharmaceuticals, digital services and green technologies. For each sector, the state must prepare bankable project packages. A bankable project is not a general idea such as "build a plant" or "develop a region." It contains market analysis, land status, infrastructure availability, environmental requirements, financial model, expected return, risk allocation, legal permissions and responsible institutions. Large investors do not invest in abstract opportunities; they invest in structured, measurable and legally prepared projects.

Regional investment attractiveness is another essential factor. Investors rarely invest in "the country" in an abstract sense; they choose a concrete region, city, industrial zone or production site. Goal 49 includes the task of maintaining regional investment ratings and increasing each region's attractiveness based on its opportunities. This approach is justified because regions differ in labor resources, infrastructure, specialization, raw materials, logistics, educational institutions, land availability and local administrative capacity. A regional investment rating can become a real management tool if it measures not only formal indicators but also the actual readiness of regions to receive investors.

**Table 1. Strategic mechanisms for increasing direct investment inflows to Uzbekistan**

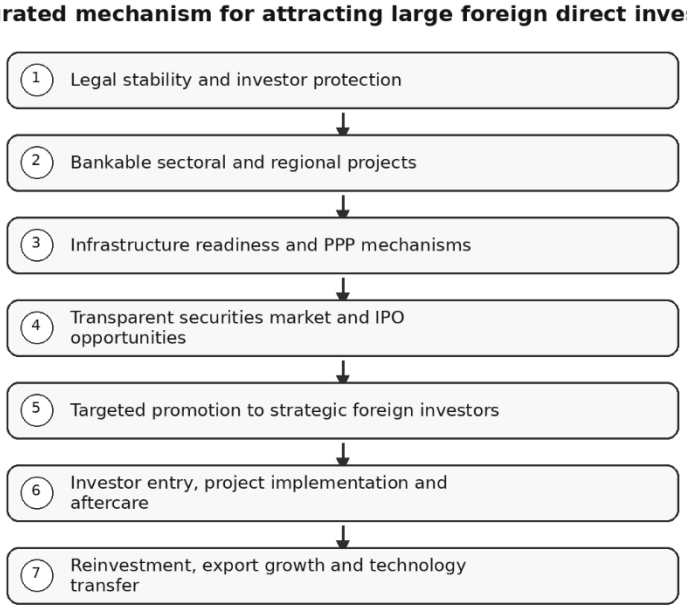
| Strategic mechanism | Practical content | Expected investment effect |
|---|---|---|
| Legal guarantees for investors | Protection of investments, free transfer of funds, stability guarantees, dispute settlement mechanisms | Reduces legal uncertainty and increases confidence of long-term investors |
| Securities market development | IPOs, custodian infrastructure, nominee holders, disclosure standards, mutual and venture funds | Improves transparency, liquidity and exit opportunities for foreign investors |
| Bankable project preparation | Feasibility studies, financial models, land and infrastructure readiness, risk analysis | Converts general investment potential into concrete investable projects |
| PPP expansion | Contractual infrastructure projects in transport, energy, utilities and social sectors | Attracts private capital to long-term infrastructure modernization |
| Regional investment ratings | Ranking of regions by infrastructure, administrative efficiency, labor force and sectoral potential | Encourages regional competition and helps investors select locations |
| Post-investment support | Aftercare services, problem-solving mechanisms, reinvestment support | Increases reinvestment and turns existing investors into long-term partners |

The table shows that investment attraction should not be reduced to promotion campaigns or preferential tax regimes. Each mechanism solves a specific problem. Legal guarantees reduce risk. Securities market development improves transparency and exit options. Bankable projects make opportunities visible and measurable. PPP expands infrastructure financing. Regional ratings discipline local authorities. Post-investment

support increases reinvestment, which is often more reliable than attracting entirely new investors.

The role of existing investors should be assessed separately. In many countries, a significant share of new investment comes from reinvested earnings of companies already operating in the country. If an investor receives fair treatment, solves operational problems quickly and sees market expansion, it may reinvest profits in additional production lines, localization, training centers or export capacity. Therefore, aftercare should be part of national investment policy.

**Figure 1. Integrated mechanism for attracting large foreign direct investors**




The diagram presents investment attraction as a continuous management cycle. The process begins with legal stability, because investors first assess whether property, capital transfer and contractual rights are protected. The second stage is preparation of concrete sectoral and regional projects. The third stage is infrastructure and PPP support, which removes physical and financial barriers. The fourth stage is securities market development, which increases transparency and provides ownership and exit mechanisms. The fifth stage is targeted promotion. The final stage is aftercare and reinvestment, which turns one-time investment into sustainable capital inflow.

## 3. Results and Discussion

The analysis of strategic mechanisms for attracting large foreign investors to Uzbekistan reveals several important findings[6]. First, the legal and institutional environment represents the most fundamental determinant of investment confidence. The Law "On Investments and Investment Activity" provides a formally sound framework, including guarantees of free fund transfer, protection from nationalization and legislative stability guarantees[7]. However, the effectiveness of these guarantees depends substantially on the consistency of administrative practice across ministries, regional authorities, tax bodies and customs services[8]. Gaps between statutory text and implementation quality raise transaction costs and reduce investor confidence, particularly for large strategic investors who conduct comprehensive due diligence before committing capital[9].

Second, the securities market plays a more direct role in attracting foreign direct investment than is commonly recognized. As Goal 49 of the "Uzbekistan 2030" Strategy explicitly links investment attractiveness to securities market development, the findings

confirm that market-based ownership valuation, reliable settlement infrastructure and corporate governance transparency serve as complementary conditions for FDI inflows. The "People's IPO" initiative, which targets the public offering of shares in 40 state-owned enterprises, has the potential to deepen the investor base and establish market benchmarks[10]. However, the actual impact will depend on the quality of pre-IPO preparation, including adoption of international financial reporting standards, independent board representation and transparent dividend policies. Without these reforms, IPOs risk becoming formal transactions that fail to generate the governance improvements needed to attract serious foreign institutional capital[11].

Third, the preparation of bankable project packages emerges as a critical but often underestimated factor[12]. The study finds that Uzbekistan's sectors with the strongest investment potential including mining, energy, agro-processing, transport logistics, pharmaceuticals and green technologies are not automatically accessible to foreign investors in investment-ready form. A bankable project requires structured documentation encompassing market feasibility analysis, land title verification, infrastructure connectivity, environmental compliance, financial modeling, risk allocation frameworks and clearly defined regulatory pathways. The absence of such prepared project pipelines explains why promotional activity and tax incentives alone have historically failed to generate FDI inflows proportional to the country's underlying economic potential. These findings align with the conclusions of Dunning and Lundan's eclectic paradigm, which identifies ownership-specific advantages, location-specific advantages and internalization incentives as the three determinants of FDI decisions all of which require active policy preparation rather than passive attraction strategies [13].

Fourth, regional differentiation is a significant but underutilized dimension of investment policy. The six strategic mechanisms identified in Table 1 legal guarantees, securities market development, bankable project preparation, PPP expansion, regional investment ratings and post-investment support function as an integrated system rather than independent instruments. Regional investment ratings are particularly valuable as a management tool when they reflect genuine administrative capacity, physical infrastructure quality, labor availability and sectoral specialization rather than formal compliance indicators. The OECD's analysis of sustainable investment policy reforms in Uzbekistan similarly emphasizes that subnational investment climate quality is a decisive factor for location decisions by large manufacturing and infrastructure investors [14].

Fifth, post-investment support and aftercare deserve greater policy attention than they currently receive. Research consistently shows that reinvested earnings from companies already operating in a country constitute a substantial share of total FDI inflows in high-performing investment destinations. Investors who experience effective problem resolution, regulatory predictability and market expansion opportunities are significantly more likely to reinvest profits in additional production capacity, workforce development or export diversification. The integrated management cycle presented in Figure 1 captures this dynamic by positioning aftercare not as a terminal stage but as a feedback mechanism that sustains the overall investment attraction process. The World Bank's Global Investment Competitiveness Report confirms that investors place high value on operational stability and relationship quality with host-country institutions when making reinvestment decisions [15]

The overall findings support the central argument of this study: foreign direct investment in Uzbekistan cannot be expanded through tax incentives or promotional campaigns alone. The quantitative targets established in Goal 49 - 110 billion US dollars in foreign investment, more than 500 strategically important projects worth 150 billion US dollars, and doubling of portfolio investments through mutual and venture funds are

achievable only through a systemic investment management framework that simultaneously strengthens legal certainty, improves capital market infrastructure, prepares investment-ready project pipelines, develops PPP capacity, differentiates regional conditions and provides high-quality aftercare to existing investors. The results of this analysis, cross-validated against UNCTAD's 2025 World Investment Report and comparative investment policy literature, indicate that countries achieving sustained FDI growth share three common characteristics: transparent and predictable regulatory environments, visible and bankable investment opportunities, and active investor relations management throughout the investment lifecycle.

## 4. Conclusion

Increasing the flow of direct investments by attracting large and potential foreign investors to Uzbekistan requires a comprehensive investment management system. The country has already defined ambitious strategic targets in Goal 49 of the "Uzbekistan 2030" Strategy: attracting 110 billion US dollars of foreign investment, implementing major technological and infrastructure projects, developing the securities market, expanding PPP, improving regional investment ratings and creating infrastructure for foreign institutional participation in the capital market. These goals provide a clear policy framework, but their successful implementation depends on institutional discipline, project quality and investor trust.

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