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Article

Attractiveness of Uzbekistan's Investment Environment for Investors and Specific Features of the Bukhara Region's Industrial Complex

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Abstract: In this context, it is of interest to see what potential Uzbekistan has as an object for investment and the specific features of the Bukhara region's industry. Drawing on quantitative analysis of macroeconomic data and FDI between 2020 and 2024, this paper examines the reasons underlying Uzbekistan as a regional pole of investment. The study underscores that Uzbekistan drew significant amounts of FDI, which reached $11.9 billion in 2024 and grew by 53.6% compared to the previous year. Since 2008, over $8 billion has been invested in the Bukhara region, and some 6 thousand new industrial facilities built there. The most significant areas of investment are oil and gas refineries, petrochemicals, renewable energy sources, textiles and tourism. Special economic zones, and in particular the Karakul Free Economic Zone with its $6.3 billion megaproject,l are important tools for industrial development, the study notes. Our evidence suggests that although Uzbekistan has achieved significant progress in terms of the improvement of its investment climate through regulatory reforms, infrastructure upgrading and market opening, difficulties still prevail in contract enforcement, financial markets development as well as diversified economy. The findings offer some strategic implications for policymakers and investors on the pattern of regional industrial development in Central Asia.

Keywords: Foreign Direct Investment, Uzbekistan, Bukhara Region, Industrial Complex, Special Economic Zones, Investment Climate, Central Asia.

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1. Introduction

Located in the very heart of Central Asia, Uzbekistan has seen a stunning turn-around in its economy since 2017 and today is one of the most attractive markets in the region. The country is highly favorable for foreign investment as it enjoys a population of 37.5 million people and holds considerable natural resources, both of which make it a lucrative destination for foreign investors seeking access to the Central Asian market (U.S. Department of State, 2025). Reform processes launched in the economy by the government of President Sh.Mirziyoyev completely changed the system from state-management to market- oriented mode [1].

For Uzbekistan, as for any other country in transition, direct foreign investment (FDI) is of crucial importance. FDI is an important tool for the transfer of technology, creation of employment and connecting to international value chains. Uzbekistan's inflow of FDI rose to $2.84bn in 2024, from a level of $1.73bn five years ago, which translates into an increase over the past year by 31.5%, reads UNCTAD World Investment Report 2025.

The stock of FDI in the country amounted to $16.73 billion to 2024 or 14.6% of GDP, which underlines the growing confidence of international investors in Uzbekistan [2].

The Bukhara oblast occupies a special place in the industrial-geographical complex of Uzbekistan. It is also one of the country's historical and cultural centers, and has become an industrial center since the 20thcentury.It has developed from oil refining, gas processing, petrochemicals textile film production tourism. The strategic location, natural resource bounty and historical significance of trading point along the old silk road in the region have made it potential destination for investment from national and international investors [3]. Bukhara has received over $8 billion in investments over the last eight years, resulting in fundamental changes to its economy (Daryo News, 2025).

The objective of this study is to investigate the investment potential of the Uzbekistan's economy in general and the peculiarities of Bukhara region industrial system. The four research objectives are: (1) an assessment of macroeconomic performance and FDI trends in Uzbekistan; (2) identification of the major determinants of investment attractiveness; (3) an analysis of the structure of Bukhara's industrial sector;and (4) an evaluation of the contribution by special economic zones to local industrials development.

LITERATURE REVIEW

The appealingness of the investment environment in Uzbekistan has been addressed in recent academic circles, mainly with regards to economic reforms introduced since the mid-2010s. Academics stress that the nation, however, has been subjected to the vast institutional and structural changes of its own that was directed at liberalizing the economy, protecting property rights and upgrading investment legal environment [4], [5]. These reforms have considerably improved Uzbekistan's status as an attractive investment target in Central Asia. A number of studies highlight the role played by macroeconomic stability, GDP growth rate itself, inflation management as well as favorable demographic structure in enhancing the country's investment attractiveness. State interventionist investment policies, such as tax incentives, customs privileges, and the creation of free trade zones for example are shown under research to be very important in their role in promoting foreign direct (FDI) and domestic capital formation. Furthermore, the liberalization of banking and currency has diminished investment risks and boosted international investor confidence.

At the same time, studies emphasize enduring obstacles to making investment more appealing such as rigidities with respect to administration, institutional inefficiencies, and regional differences in infrastructural development. Analysts say resolving the discrepancies is necessary to maintain a steady and permanent flow of investments. Generally, academia agrees that there has been improvement in the Uzbek investment climate, but more needs to be done for the country to fully exploit its potential for attracting investments [6]. A great deal of evidence is generated regarding the regional structure of investment in Uzbekistan. These researchers suggest that national-level investment indexes do not adequately represent local economy to be able to have a good understanding of real levels of investment attractiveness. To evaluate regional potential for investment, scholars use a series of composite indicators involving various factors such as industrial output, facilities supply, labour resources and innovation capacity [7], [8].

The literature suggests that regions with a diversified industrial structure, well-developed transport and logistics infrastructure as well as access to natural resources are more likely to be targets of increased investment. Contrarily, less industrialized areas or places with weaker institutions struggle to compete for investment (pp. 94). Such a regional view is particularly useful for making focused investment policies, so that the overall development of (the) country remains harmonious. The Bukhara oblast occupies a special place as regards the formation of Uzbekistan's industry and investment. Its industrial complex has been characterized in academic research as resource-based and with an emphasis on both fuel, energy, petrochemicals, construction materials, textiles and food processing [9]. Largely there are substantial natural gas resources which historically defined the industrial focus of the region and it is favorable for heavy industry investments.

According to researchers, the industrial complex of Bukhara oblast is well placed in terms of its geographical location and logistics for interregional and export-oriented manufacture with the development of transport communications. Industrial modernization and industrial zones development have in recent years resulted in higher inflows of investment, especially into manufacturing sectors with higher value added. At the same time, however, the literature refers to structural constraints within the regional industrial system such as technological obsolescence in some sectors, low innovative activity and a heavy reliance on extraction of raw materials. The scholars insist on the importance of industrial diversification, digitalization and the creation of SMEs (small and medium enterprises) in order to increase the region's attractiveness from a long-term investment perspective [10]. One growing arena that has examined industry development in context of investment attractiveness. Literature posits that an advanced industrial complex serves to not only attract investment but also contribute toward the development of regional competitiveness through employment creation, improvement in productivity and technology spillover (Hasibuan et al., 2018). Here, for the Bukhara region as an example, scientists underline necessity of harmonious correlation between investment policy and industrial development strategy as a condition of sustainable growth. Moreover, the international experience described in the literature argues that these days investment attractiveness largely depends on different factors such as environmental efficiency, innovative potential and human capital formation. These principles, if applied to the Bukhara region will enhance its industrial base and attract long term investors [11].

In conclusion, the literature reviewed shows that Uzbekistan has succeeded to a large extent in creating an investment environment conducive for investment by implementing economic liberalization and institutional policies. At a regional level, the attractiveness of investment is determined by industrial structure as well as the infrastructure and resource framework. The industrial complex of the Bukhara region has considerable investment potential based on available reserves and their proximity to markets, although its future attractiveness is subject to revitalization, modernization and innovative development [12]. The literature therefore offers a good theoretical and empirical base for future analysis of investment attractiveness and regional industrial development in Uzbekistan.

2. Materials and Methods

The research approach used here is mixedmethod, that is qualitative and quantitative which helps for comprehensive review of Uzbekistan investment climate and industrial potential in Bukhara region. Quantitative study uses the official statistical data of FDI to be, industrial output, infrastructure construction and regional economy. Different comparative and trend analysis techniques are applied to analyze these data in order to illustrate dynamics and changing structures over time. The qualitative approach involves reviewing the national investment policies, the regional development plans and regulatory environments that have been established for doing business in industrial activity. Moreover, expert appraisements and the secondary source analysis is applied to take stock of the institutional/regional/sectorial factors that affect investor appeal. By combining the above two approaches, it can be an economic evaluation from macro level of stock condition and regional industrial characteristics, making the conclusions more reliable and unbiased.

3. Results and Discussion

Strong gains in economic activities were also observed during the study period for the Uzbekistan economy, where GDP growth averaged above 6% per annum. The economy grew 6.5 percent in 2024, driven by double-digit growth in the industry, service, and construction sectors. The Asian Development Bank increased its forecast of Uzbekistan's GDP growth by up to 6.2 per cent in 2025, which is an indicator that there is a strong belief in the economic development of the country (ADB, 2024). Table 1 Key macroeconomic indicators from 2020 to 2024.

Table 1. Key macroeconomic indicators of Uzbekistan (2020-2024).

Indicator	2020	2021	2022	2023	2024
GDP Growth Rate (%)	1.9	7.4	5.7	6.0	6.5
FDI Inflows ($ billion)	1.73	2.28	2.50	2.16	2.84
FDI Stock ($ billion)	10.29	11.62	13.85	14.87	16.73
FDI as % of GDP	7.5	9.1	9.5	6.5	6.7
Fixed Capital Investment Growth (%)	-2.2	-2.2	15.2	13.6	27.6
Industrial Production Growth (%)	0.7	9.5	5.4	6.0	7.0

Source: UNCTAD World Investment Report 2025; Central Bank of Uzbekistan; State Statistics Committee.

How and where does Foreign Direct Investment concentration occur? China became the leading investor, having a share of 25.6% when taking into account total FDI inflow for 2023, followed by Russia (13.4%), Saudi Arabia (7.9%), Turkey (6.4%), UAE (5.8%), and Germany (4.3%). The distribution of sectors reveals a dominance of energy and extractive industries, with renewable energy, manufacturing, and infrastructure identified as growth areas (U.S. Department of State, 2024). Table 2 shows FDI distribution from the major source countries.

Table 2. FDI distribution by source country (2023).

Country	Share (%)	Key investment sectors
China	25.6	Energy, Manufacturing, Infrastructure
Russia	13.4	Oil & Gas, Metallurgy, Trade
Saudi Arabia	7.9	Renewable Energy, Construction
Turkey	6.4	Textiles, Construction, Mining
UAE	5.8	Real Estate, Finance, Tourism
Germany	4.3	Manufacturing, Engineering
Other Countries	36.6	Various Sectors

Source: U.S. Department of State Investment Climate Statement 2024.

The industrial wing, with a contribution of about 32% to the GDP of Uzbekistan, has also enjoyed steady growth in revenue, due to construction materials and consumer goods. In 2024, industrial manufacture was worth 885.3 trillion soums, and manufacturing accounted for 85.1 per cent of total output. The metallurgy industry has by far the largest share of manufacturing (22.7%); followed by food production (14.1%), textiles and clothing (16.7%), and the vehicles industry (11.6%). The industrial production structure by sector is displayed in Table 3.

Table 3. Industrial production structure of Uzbekistan (2024).

Sector	Output (trillion UZS)	Share (%)	Growth Rate (%)
Manufacturing Industry	753.6	85.1	7.0
- Metallurgy	171.4	22.7	6.3
- Textiles & Clothing	89.5	11.9	11.1
- Food Production	103.7	13.8	4.5
- Chemical Industry	40.6	5.4	3.4
- Automotive	87.4	11.6	7.9
Mining Industry	88.4	10.0	-4.5
Energy & Utilities	43.3	4.9	-5.8

Source: State Statistics Committee of Uzbekistan; INVEXI Analysis 2025.

The Bukhara also provides an important industrial and commercial standpoint in the economy of Uzbekistan. During the past 8 years, this funding has facilitated the attraction of over $8 billion in investments and generated more than 6.000 new industrial enterprises with six times the volume of production compared to previous years. Two major oil and gas companies operate in the area, and a third is under construction, along with 10 large-scale solar and wind power plant projects.

Table 4. Key indicators of bukhara region's industrial development.

Indicator	Value
Total Investments Attracted (8 years)	$8+ billion
New Industrial Enterprises Established	6,000
Industrial Production Growth (8 years)	6x increase
Current Investment Portfolio (21 projects)	$1.7 billion
Expected Job Creation (current projects)	32,000
Projected Export Increase	$180 million
Annual Tourist Arrivals	1.7 million
Major Oil & Gas Enterprises	2 operational, 1 under construction
Renewable Energy Projects (in development)	10 solar/wind plants

Source: Presidential Press Service of Uzbekistan; Fergana Agency; Daryo News 2025.

The Bukhara region hosts several special economic zones that serve as primary mechanisms for attracting investment and developing industrial capacity. The Karakul Free Economic Zone (FEZ) represents the most significant industrial development initiative, with a $6.3 billion megaproject spanning 556 hectares [13]. The Gas Chemical Complex MTO, valued at $3.1 billion, will produce 1.1 million tonnes of polymer materials annually upon completion, making it the largest polymer producer in Central Asia. Additional FEZs include Gijduvan and Bukhoro-Agro. Table 5 provides detailed information on special economic zones in the Bukhara region.

Table 5. Special economic zones in the Bukhara Region.

SEZ Name	Investment Volume	Area (hectares)	Key Focus Sectors
Karakul FEZ	$6.3 billion	556	Petrochemicals, Polymers, Gas Processing
Gijduvan FEZ	$200+ million	100+	Textiles, Food Processing, Construction Materials
Bukhoro-Agro FEZ	$150+ million	200	Greenhouses, Agriculture, Food Processing

Small Industrial Zones	$300+ million	217	Light Manufacturing, SME Development

Source: Ministry of Investment, Industry, and Trade; Euronews Business; Government Decrees.

Investment incentives: Uzbekistan has a competitive package of investment incentives to encourage foreign investors. The monthly legal framework of free economic zones includes 3-10 years of tax break according to the investment, customs duty exemption for importation of production equipment and materials, and facilitated administrative processes. Table 6: Boons in investment provided by Uzbekistan's special economic zones. Source: Compiled from official sources.

Table 6. Investment incentives in special economic zones.

Investment Volume (USD)	Tax Holiday Period	Benefits Included
$300,000 - $3 million	3 years	Income tax, property tax, and land tax exemption
$3 million - $10 million	5 years	All above + customs duty exemption
$10 million - $30 million	7 years	All above + infrastructure support
Over $30 million	10 years	All above + priority land allocation

Source: Presidential Decree dated October 26, 2016; Ministry of Investment.

The result testified to Uzbekistan's much increased investment attractiveness being based on several interrelated factors. A wide-ranging programme of economic reforms, initiated in 2017 and including liberalization of the currency rate, tax simplification, and the sale of government enterprises, has led to a more favourable business climate. Uzbekistan's removal from the USTR Special 301 Watch List in 2024 demonstrates strides made in intellectual property protection, which continues to increase investor confidence. Robust domestic and international investment is reflected in the very strong increase of fixed capital stock (27.6% up to 2024)。 " The strong momentum towards investment-led decentralisation (up 32.8% and more than 90% of the total) reinforces the emerging role of the private sector in economic expansion. FDI continued to rise — 53.6 per cent year-on-year to $11.9bn — indicating the government policies had worked and brought international capital into the country.

The industrial development path of the Bukhara province is indicated as an example of a possibility for regionalisation outside traditional centers of economic might [14]. Competitive advantages of the zone are its geographical location at the junction of historic trade routes, abundant natural resources (oil, gas), and a well-developed tourist industry (1.7 million tourists a year), all combined with convenience in relation to Turkmenistan in the context of cross-border economic activity on developed advanced cooperation areas. The $5 billion methanol-to-olefins gas-chemical complex built in Bukhara creates a new industry utilizing 1.3 billion cubic meters of gas and 430,000 tons of naphtha per year. This is in line with the government's game plan of moving up the value chain from resource extraction to more value-added manufacturing. The construction of chemical industries, among them the Karakulkimiyo complex with an annual production capacity of 495,000 tons of ammonia and 594,000 tons of urea, makes Bukhara a regional center for nitrogen fertilizers.

Special economic zones expansion, most notably from 5 in 2018 to 24 by year 2024, has facilitated the attraction of investment in strategic fields and areas. The 556 ha Karakul

FEZ is already 80% full within just one year of operation, a verification of the success of narrowly concentrated industrial clusters with access to infrastructure including the planned third phase 500 MW solar power plant. So, while the to-be-improved investment incentive mechanism with up to 10 year tax holidays after investing $30m makes a good business case in terms of minimising country-specific risks. But the performance of SEZs is closely connected with good and sufficient quality of infrastructure, administrative efficiency and links to domestic supply chains [15]. The Cabinet of Ministers' resolution to lease out 240 hectares in the special industrial zones of Bukhara, Navoi and Tashkent regions to foreign businesses is a remarkable move towards promoting development zones.

Although there has been significant improvement, investment capacity is somewhat limited due to several challenges. Weak rule of law and complicated regulation remain foreign investors' challenges. Financial sector is underdeveloped, with constraints on long-term financing and low financial inclusion. Operational constraints are due to infrastructure bottlenecks, especially in energy and transport networks. The absence of a coastline demands improved cooperation within the region to access global markets optimally. External dependencies are a high risk factor. The great dependence on trade and remittances from Russia (remittances amounting to 11% of GDP) leads to external economic shocks susceptibility [16]. Commodities risk There is a commodities risk given the export base gold, cotton, copper. Meanwhile, the high level of external debt $64.1 billion or 55.7 percent of GDP in 2024 points to increasing leverage that will need to be managed prudently. In the Central Asian region, Uzbekistan has relatively strong FDI inflows compared to most of its neighbours with the exception of Kazakhstan, which boasts a larger FDI stock due to its developed oil and gas industry. The 12.5% increase in Uzbekistan's FDI stock in 2024 was above the regional average making the country an increasingly competitive location. The strategy of diversification that targets production, green energy and services is what differentiates Uzbekistan from its resource-led neighbours.

4. Conclusion

In this study, the attractiveness of investment in the Bukhara region industrial complex in Uzbekistan from an economic point of view was considered. The results reveal that Uzbekistan has made significant advances in improving the investment environment through the implementation of broad economic reforms, special economic zone development, and strategic infrastructure investments. The increase in the Foreign Direct Investments to $11.9 billion and FDI stock to $16.73 billion is a testament to increasing investor confidence from around the world. The Bukhara oblast is a promising example of the development of local industries due to investments in special economic zones. The region's restructuring is powered by more than 8 billion dollars of investment, the setting up of 6000 enterprises, and such stand-out projects as the 6.3-billion-dollar Karakul FEZ megaproject – vivid evidence that compact industrial clusters work for economic diversification, value-added quality production.

Crucial policy advice for this optimal goal-setting would include: (1) further improvement in the contract enforcement and rule of law; (2) progress in financial sector development to induce long-term finance; (3) expansion of infrastructure, particularly the reliability of power supply; (4) diversification with regard to trade partners to avoid external dependence, as well as (5) investment into human capital formation by fostering a labor force able to help industrial catch-up. For the Bukhara region in particular, development of small and medium enterprises around dominant industrial clusters is a priority, as well as improvement of tourism infrastructure to benefit from cultural heritage resources, and support for FORWARD-LOOKINGINTEGRATION supply chain oriented relationships between industrial zones and local providers. This is a progressive industrial growth model based on the favorable strategic location of the region for petrochemical production and the development of renewables, which can serve as an example for other regions of Uzbekistan and Central Asian countries.

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