

## DIRECT FOREIGN INVESTMENT AND THE ROLE OF INVESTMENT CLIMATE

G. P. Gulyamova

Associate Professor, PhD in Economics,  
International Islamic Academy of Uzbekistan

### Abstract

The article examines the impact of foreign investments on the national economy, the directions of the state's investment policy, and the characteristics of the investment climate. It analyzes Uzbekistan's investment climate and the factors influencing it, as well as the dynamics of investments made into the national economy. The structure of attracted investments is also explored.

**Keywords:** Investment, direct investment, investment climate, investment policy, portfolio investments.

### Introduction

Under current conditions, investments that increase employment, promote production growth, and enhance budget revenues are essential for the economies of countries. Foreign investments play a significant role in the economies of developing and transitional countries. It is impossible to carry out deep structural reforms of the economy, raise the technological level of production, and improve the competitiveness of products in national and global markets without long-term financing provided by foreign investments.

In today's global economic environment, attracting foreign investment is considered one of the key factors for developing a country's economy and ensuring sustainable growth. The Republic of Uzbekistan is also paying great attention to attracting foreign capital with the aim of modernizing its economy, creating new jobs, and introducing innovative technologies.

Foreign investments not only stimulate economic growth but also help strengthen the country's position in international economic relations. Broad-scale reforms are being implemented in Uzbekistan to improve the investment environment and attract direct foreign investments. This process includes measures such as improving legislation, developing infrastructure, and offering tax incentives and preferences.

"The Uzbekistan – 2030" strategy sets the goal of ensuring sustainable economic development and doubling the population's income. Within this strategy, attracting foreign investment and improving the investment environment are defined as key priorities. Additionally, the strategy identifies the development of infrastructure, support for industrial and innovation sectors, and the creation of favorable conditions for foreign investors as central focus areas.

The readiness of investors to invest in a particular country, along with the volume, structure, and dynamics of foreign investments, primarily depends on the investment climate existing in that country for both domestic and foreign investors. The conditions influencing the flow of foreign investments into a country are tied to a complex of various factors collectively referred to as the "investment climate."

Foreign investors are interested in factors of political, economic, social, legal, cultural, natural, scientific-technical, and other natures. Naturally, investors study issues related to identifying potential and determining risks that could impact returns in a systematic manner. The collection of information

related to the direction of investments, as outlined above, is encapsulated by the term “investment climate”<sup>1</sup>.

The global investment market is a highly competitive arena, where countries offering foreign investors a free and stable investment regime come out ahead. Given the considerable economic advantages of attracting foreign capital in the form of direct investments, since the 1990s there has been an active process of liberalizing foreign investment regulation regimes. Countries continue introducing new laws and regulatory frameworks aimed at making their investment climate more favorable for foreign investors.

Between 2014 and 2024, a total of 1,311 changes were observed in the global regulatory regimes for foreign direct investment, of which 845 were aimed at creating a favorable investment climate<sup>2</sup>.

During the implementation of economic reforms, Uzbekistan achieved economic stability and ensured steady growth. Structural reforms aimed at reconstructing and developing the main sectors of the economy were carried out. At the same time, favorable conditions for the inflow of foreign investments into the economy were created, and continuous efforts are underway to improve this environment. A number of laws have been adopted to regulate the processes of privatization, support for entrepreneurship, and the attraction of investments.

One of the key elements of the overall investment process is direct foreign investment, as it represents a promising source of financial and production resources, advanced technologies, and modern management methods that are essential for the dynamic development of any national economy.

Among the key legal documents regulating direct investment relations in the Republic of Uzbekistan is the Law “On Investments and Investment Activities” (2019)<sup>3</sup>. This law guarantees equal opportunities for both foreign and domestic investors. It clearly defines the rights and obligations of investors, mechanisms for protecting investments, tax incentives, and other benefits.

In the current period of new reforms, one of Uzbekistan’s main tasks is to improve the process of attracting direct foreign investments, address issues related to foreign capital inflows, increase the volume of foreign investments, and expand opportunities for their effective use. Thanks to the implementation of such measures, it is noted that the growth rate of foreign investments attracted to the country during 2016–2024 has been sustained.

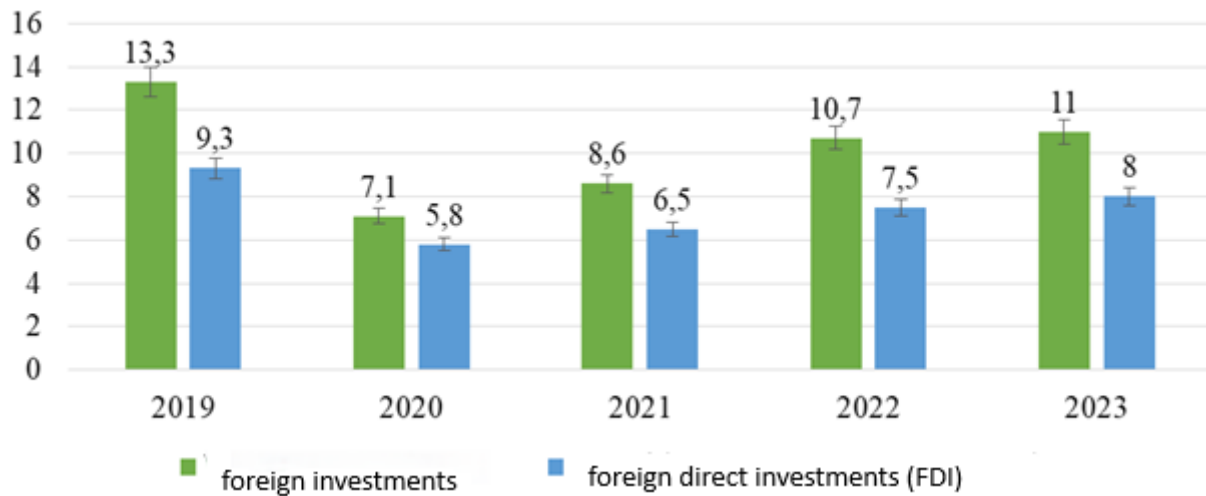
In 2023, the flow of foreign direct investment (FDI) into our country amounted to 8 billion USD. Thanks to the implementation of previously planned investment projects, as well as government support for business entities and entrepreneurs carrying out investment activities during the pandemic, the total volume of foreign investments reached 11.0 billion USD in 2023. As a result, no decline was observed compared to 2022 (Figure 2.1).

According to the main trends and indicators of Uzbekistan’s socio-economic development and forecasts for the coming years, one of the key priorities is to further increase the volume of foreign direct investment attracted to the country. This includes creating reliable guarantees for foreign investors and strengthening their confidence by forming an even more favorable investment environment.

---

<sup>2</sup>World Investment Report 2024. <https://unctad.org/publication/world-investment-report-2024>

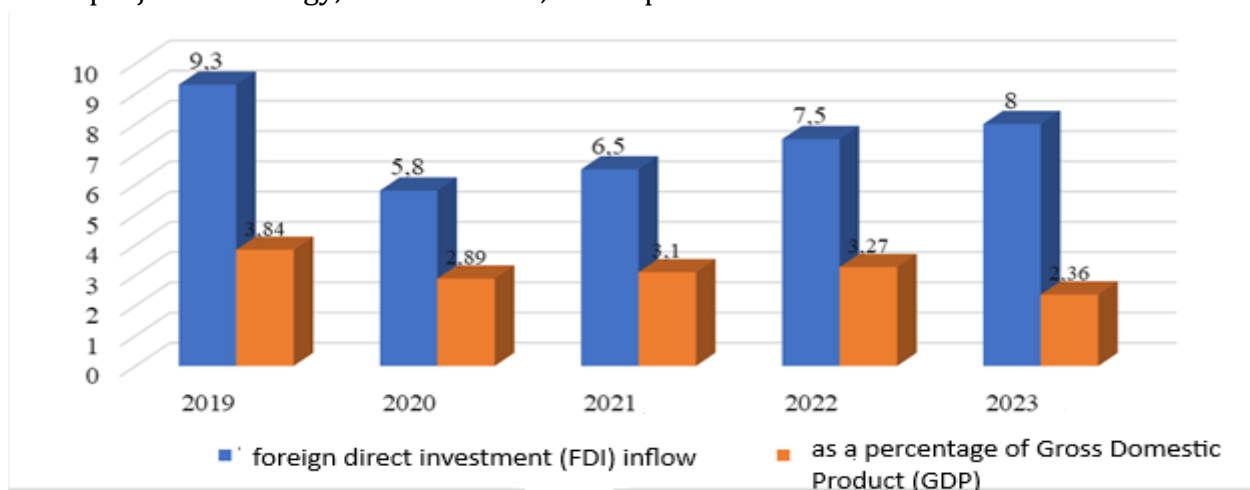
<sup>3</sup> <https://lex.uz/mact/4664142>



**Figure 2.1. Data on foreign investments in the Uzbek economy (billion US dollars)<sup>4</sup>**

As seen from Figure 2.1, the volume of FDI in 2019 was \$9.3 billion, serving as the baseline year. The high level of FDI in that year is attributed to the active phase of economic reforms. In 2020, under the impact of the pandemic, FDI fell to \$5.8 billion - a 37.6% decline compared to 2019 - due to the effects of COVID-19 on the global economy and investor anxiety.

In 2021, considered a recovery phase, FDI increased to \$6.5 billion, marking a 12.1% rise from 2020. This reflects the beginning of economic recovery in Uzbekistan and the return of investor confidence. In 2022, with stable growth, FDI reached \$7.5 billion - a 15.4% increase compared to 2021 - linked to large-scale projects in energy, infrastructure, and export-oriented sectors.



**Figure 2.2. Foreign direct investment inflows to Uzbekistan in 2019-2023 (in billion US dollars as a percentage of GDP)<sup>5</sup>**

In 2023, growth continued, and FDI amounted to \$8 billion - a 6.7% increase from 2022 - although the growth rate slowed slightly.

<sup>4</sup> Compiled based on data from the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan and the Central Bank.

<sup>5</sup> Compiled by the author based on statistical data from *Macrotrends*.

The necessity of implementing modern technologies, assimilating international entrepreneurial experience, and improving the investment climate has led to a shift in the composition of foreign investments within the total volume of capital inflows into the country. Not only the volume but also the structure of the investment resources being attracted is of great importance.

When categorizing foreign investments by their significance, direct foreign investments are especially preferable, as they are closely connected with the development of the real sector of the economy and production, as well as the application of advanced technologies and modern methods of management and marketing.

In recent years, the volume of foreign investments and loans attracted to the economy has continued to show a growth trend, while the share of projects financed under state guarantees has gradually decreased.

In the fierce competition to attract foreign investments, countries that offer political and economic stability, liberalized investment activities, incentives for foreign investors, the ability to repatriate principal capital and profits, and direct government support-essentially, those that have created a favorable investment climate-hold a strong competitive advantage.

The national economy requires foreign capital, which is why the state facilitates the maintenance of stable conditions for implementing investment projects and, as much as possible, takes into account the preferences of foreign investors. An objective assessment of the established investment climate in our country helps investors make informed decisions.

In conclusion, it can be stated that the existence of a stable and optimal legal framework, reliable legal guarantees for the investment activities of national and foreign investors, the state's ability to ensure fair protection of investments and investor rights, as well as the establishment of an effective institutional structure in this area, will increase Uzbekistan's attractiveness to foreign capital. As a promising recipient of foreign direct investment, the Republic of Uzbekistan must continue to effectively utilize the organizational and legal mechanisms created in the country, as highlighted above, to further enhance its reputation among potential investors as a nation with a favorable investment climate.

## References

1. Avazov N. Begalova D. "Factors Affecting the Investment Climate and the Role of Investments in Economic Development (In the Case of Uzbekistan)" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-5 | Issue-2, February 2021, pp.877-880, URL: [www.ijtsrd.com/papers/ijtsrd38559.pdf](http://www.ijtsrd.com/papers/ijtsrd38559.pdf)
2. Ministry of Investments and Foreign Trade of the Republic of Uzbekistan, and Central Bank of the Republic of Uzbekistan. Statistical and Analytical Reports, Tashkent, Uzbekistan.
3. Macrotrends. Foreign Direct Investment in Uzbekistan (2014–2024). Retrieved from <https://www.macrotrends.net/globalmetrics/countries/uzb/uzbekistan/foreign-direct-investment>