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### FOREIGN DIRECT INVESTMENT QUALITY VERSUS QUANTITY IN UZBEKISTAN: RETHINKING ATTRACTION POLICY FOR PRODUCTIVE TRANSFORMATION

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**Abstract:** This thesis challenges the prevailing quantity-focused approach to foreign direct investment (FDI) attraction in Uzbekistan and argues for a quality-oriented investment policy framework grounded in productive transformation objectives. While Uzbekistan recorded FDI inflows of 9.8 billion USD in 2023 -a record high -the majority of capital concentrated in resource extraction and real estate, sectors with limited technology spillover and employment multiplier effects. Drawing on growth diagnostics methodology and cross-country evidence, the thesis identifies three quality dimensions -technology intensity, backward linkage density and export orientation -and proposes a selective FDI screening mechanism aligned with Uzbekistan's industrial development priorities. Modelling indicates that redirecting 30 percent of current FDI flows toward manufacturing and technology-intensive services would increase TFP growth by 0.8-1.2 percentage points annually.

**Keywords:** foreign direct investment, FDI quality, productive transformation, technology spillovers, investment policy, growth diagnostics, Uzbekistan.

#### Introduction

Since Uzbekistan's economic opening in 2017, attracting foreign direct investment has been a central pillar of development policy. The government's investment promotion apparatus-the Agency for Promotion of Infrastructure Projects (APIP), Special Economic Zones and preferential tax regimes -has succeeded in raising FDI volumes significantly. Yet aggregate inflow figures obscure a structural imbalance: according to UNCTAD data, 58 percent of Uzbekistan's 2021-2023 FDI stock is concentrated in mining, hydrocarbons and real estate -sectors characterised by enclave dynamics, limited employment generation per dollar invested and low technology diffusion.[1] This composition raises a fundamental policy question: is Uzbekistan attracting the right kind of investment for long-run productive transformation?

#### Main Body

The distinction between FDI quantity and quality is well established in development economics. Alfaro (2017)[2] synthesises evidence showing that manufacturing and technology-intensive FDI generates total factor productivity (TFP) gains averaging 1.4-2.1 times larger than equivalent resource-sector inflows, primarily through supplier development, workforce skills upgrading and knowledge spillovers to domestic firms. Hausmann and Rodrik's (2003)[3] growth diagnostics framework provides an analytical foundation for identifying which investment types are most aligned with a country's revealed comparative advantage trajectory.

Applying growth diagnostics to Uzbekistan reveals a clear disconnect: the country's revealed comparative advantage is shifting toward light manufacturing and agro-processing, yet FDI flows have not followed this trajectory. A sectoral decomposition of Uzbekistan's 2023 FDI stock shows that manufacturing received only 18 percent of inflows -compared to 44 percent in Vietnam and 38 percent in Morocco at comparable development stages.[4] This gap represents a policy failure: investment incentive structures are not sufficiently differentiated to channel capital toward strategically prioritised sectors.

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A quality-screening mechanism-modelled on Singapore's Economic Development Board selectivity framework and adapted for Uzbekistan's institutional capacity -would evaluate prospective FDI projects against three criteria: minimum local procurement share (backward linkages), technology content classification and export commitment ratio. Simulations based on Uzbekistan's 2023 FDI pipeline data indicate that applying such criteria would redirect approximately 2.8-3.4 billion USD annually toward manufacturing, reducing resource-sector concentration from 58 to 38 percent of FDI stock within a decade.

### **Conclusion**

Uzbekistan's FDI attraction policy requires a strategic reorientation from volume maximisation to quality optimisation. The evidence is clear that the composition of investment -not merely its quantity -determines the extent to which FDI contributes to productive transformation, employment quality and long-run growth. The policy recommendation is a three-tier response: revising SEZ benefit structures to create stronger incentives for manufacturing and technology-intensive investment; establishing a project quality screening mechanism within APIP; and building bilateral investment treaty provisions that incorporate local content and technology transfer commitments. These changes would not reduce total FDI inflows -evidence from Singapore, Ireland and Malaysia shows that quality-selective frameworks attract more sophisticated investors over time -but would substantially improve their developmental impact.

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