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Problems and Solutions of Attracting Investments in Economic Regions

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Abstract: This study examines the pressing challenges and viable solutions associated with attracting both foreign and domestic investments to the economic regions of Uzbekistan. Although the country has made substantial progress in reforming its investment climate—evident in legal enhancements, infrastructure upgrades, and the creation of special economic zones—persistent regional disparities and bureaucratic inefficiencies continue to hinder balanced development. By analyzing statistical trends from 2020 to 2024 and identifying key investor countries, this research provides a comprehensive overview of investment dynamics in the country. A SWOT analysis is utilized to diagnose internal strengths and weaknesses alongside external opportunities and threats. The study concludes by offering targeted policy recommendations that emphasize innovation, regional infrastructure, human capital, and public-private partnerships as essential pillars for fostering long-term, inclusive growth across Uzbekistan’s diverse economic landscape.

Keywords: : Uzbekistan, investment climate, economic regions, foreign direct investment (FDI), regional development, SWOT analysis, investment policy, economic growth, infrastructure, public-private partnership.

1. Introduction

Ensuring the stable and balanced economic development of the regions of our country is considered one of the most important directions of the economic policy pursued in Uzbekistan. The socio-economic development of the regions and the improvement of living conditions are directly connected with the development of their economies. Since the national economy consists of a unified system made up of regions, ensuring socio-economic development in each of them creates a foundation for the sustainable and continuous progress of our country [1]. A balanced allocation of investments across the regions is the basis for the sustainable development of our national economy. As the President of our Republic, Shavkat Mirziyoyev, has noted: “Global experience shows that the countries that have pursued an active investment policy have achieved sustainable economic growth [2]. Therefore, investment is the driver of the economy — in other words, the heart of the economy.” One of the most important issues in regulating investment activity and ensuring the efficient use of investments is the optimal and balanced distribution of enterprises with foreign investments across regions and the increased attraction of foreign investors to these regions.

Literature review.

Many foreign researchers have studied the problems of investment flows in economic regions in their scientific works and have proposed conclusions and recommendations. Among them, David Ricardo wrote in his works about the distribution of trade and the interconnection between economic regions [3]. According to Ricardo, each region possesses unique resources, and by efficiently allocating these resources, economic growth can be achieved. Ricardo also emphasized the importance of the legal environment and political stability in attracting investments. John Maynard Keynes, in his

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research, emphasized the role of the state in the economy. Keynes pointed out that the government plays a significant role in attracting investments, as it can develop infrastructure, improve the skills of the workforce, and implement various measures. Paul Krugman, in his views, wrote about the global economy and the distribution of trade [4]. Krugman noted that competition in the global economy is intensifying, which may pose challenges in attracting investments. He also emphasized the importance of innovation and technology in investment attraction. From the conclusions of these economists, it is evident that multiple factors play a crucial role in attracting investments.

2. Materials and Methods

This study employed a mixed-method approach to investigate the factors influencing investment inflows in Uzbekistan's economic regions. The research integrated both qualitative and quantitative strategies. Initially, a literature review was conducted to assess historical and theoretical foundations for regional investment strategies, with references to works by Ricardo, Keynes, and Krugman. A comparative analysis was used to examine Uzbekistan's investment policy framework against that of other Central Asian countries.

Statistical data from the State Committee on Statistics (2020–2024) was analyzed to identify regional disparities and trends in investment allocation. A SWOT analysis was applied to evaluate internal and external factors affecting regional investment attractiveness. Furthermore, descriptive and analytical techniques were used to interpret investment flows by source, sector, and investor country. Particular attention was given to foreign direct investment (FDI) distribution, the role of public-private partnerships, and the impact of recent legal and institutional reforms. The findings were supported with data visualizations such as tables and charts. Each data point was interpreted in relation to Uzbekistan's strategic objectives outlined in the "Development Strategy until 2030." Policy recommendations were then drawn from synthesis of empirical evidence and theoretical models, with the aim of proposing actionable steps for improving regional competitiveness and fostering sustainable economic growth.

3. Result

In recent years, many initiatives have been implemented in Uzbekistan to attract investments. As a result of these efforts, Uzbekistan has succeeded in improving its investment environment. In terms of improving the legal environment, the Government of Uzbekistan is striving to create a favorable legal framework for attracting investments. New laws have been adopted, existing laws have been improved, and the fight against corruption has been strengthened. The Government of Uzbekistan pays special attention to the development of infrastructure in the fields of transport, energy, and communications [5]. Measures are being taken such as the construction of new roads, railways, airports, power stations, and the development of internet networks. Efforts are also being made to diversify the economy, including the development of new industries, support for small and medium-sized businesses, and the expansion of exports [6].

The Government of Uzbekistan is also taking a number of other measures to attract investments. For instance, in order to enhance investment in the economy, the government is establishing cooperation with various international organizations. All these efforts contribute to improving Uzbekistan's investment environment [7]. However, there are still several challenges in attracting investments in Uzbekistan. Under the leadership of the Head of State, Shavkat Mirziyoyev, numerous steps are being taken at the government level to address these issues. In general, many measures have been implemented in recent years to attract investments to Uzbekistan, and as a result, the country has achieved significant improvements in its investment climate.

In particular, in 2023, a total of 352.1 trillion soums of investments were utilized in fixed capital, which is 122.1% compared to the same period of 2022. Of the total investments in fixed capital, 66.4% or 233.8 trillion soums were financed through attracted

funds, while 33.6% or 118.3 trillion soums were financed through the funds of enterprises, organizations, and the population. In addition, 44.8 trillion soums of fixed capital investments were financed from centralized sources, while 307.3 trillion soums were financed from non-centralized sources.

In terms of the technological structure of fixed capital investments across the Republic of Uzbekistan, 161.5 trillion soums were directed towards machinery, equipment, and inventory, accounting for 45.9% of total investments. Construction and installation works accounted for 160.5 trillion soums (45.6%), while other expenses made up 30.1 trillion soums (8.5%). In terms of regional distribution, the highest share of construction and installation works in the total volume of fixed capital investments was observed in the Andijan region – 66.8% or 12.1 trillion soums. The lowest share was recorded in the Syrdarya region, amounting to 27.6% or 4.6 trillion soums. Notably, the Syrdarya region showed the highest share of expenditures on machinery, equipment, and inventory – 66.0% or 11.0 trillion soums. Table 1 presents a breakdown of the top investor countries from 2020 to 2024.(Table 1)

Table 1. Top 10 investor countries by share in total foreign investments and loans in fixed capital in Uzbekistan (2020–2024)

Country	2020 (%)	2021 (%)	2022 (%)	2023 (%)	2024 (%)
China	21.4	23.1	24.7	26.0	25.6
Russia	15.2	14.5	14.0	13.6	13.4
Saudi Arabia	4.5	5.2	6.6	7.5	7.9
Turkey	5.8	6.0	6.2	6.3	6.4
United Arab Emirates (UAE)	3.9	4.5	5.0	5.5	5.8
Germany	4.6	4.5	4.4	4.3	4.3
Cyprus	2.8	3.1	3.3	3.3	3.4
Switzerland	2.6	2.8	3.0	3.1	3.1
Netherlands	3.2	3.3	3.4	3.4	3.4
United States of America (USA)	2.5	2.4	2.4	2.3	2.3

Table 1 presents the share of the top 10 investor countries in total foreign investments and loans in fixed capital in Uzbekistan over the period 2020–2024. China consistently holds the leading position, with its share rising from 21.4% in 2020 to a peak of 26.0% in 2023, slightly declining to 25.6% in 2024. Russia follows as the second-largest investor, although its contribution shows a steady decline over the years. Saudi Arabia and the United Arab Emirates have significantly increased their investment shares, reflecting growing economic ties with Uzbekistan. European countries such as Germany, Switzerland, and the Netherlands maintained stable shares, while the United States remained a modest but consistent contributor.

In January–September 2024, a total of 343.1 trillion soums of investments were utilized in fixed capital, which represents 131.0% compared to the same period in 2023. Of the total volume of fixed capital investments, 75.2% or 258.0 trillion soums were financed through attracted funds, while 24.8% or 85.1 trillion soums were financed using the funds of enterprises, organizations, and the population. Additionally, 36.9 trillion soums of fixed capital investments were financed from centralized sources, while 306.2 trillion soums were financed from non-centralized sources. During January–September 2024, 62.4 trillion soums (or 18.2% of total fixed capital investments) were financed through the own funds of enterprises and organizations. The population's funds accounted for 6.6% or 22.7 trillion soums of total fixed capital investments.

The volume of investments attracted through direct foreign investments reached 100.9 trillion soums, increasing by 3.3 percentage points compared to the same period in 2023 and making up 29.4% of total investments. Furthermore, 8.1 trillion soums (2.3%) were financed through commercial bank loans and other borrowed funds. Foreign loans guaranteed by the Republic of Uzbekistan amounted to 20.0 trillion soums (5.8%), while

non-guaranteed and other foreign investments and loans made up 112.1 trillion soums (32.7%). The Fund for Reconstruction and Development financed 2.0 trillion soums (0.6%), the state budget contributed 13.3 trillion soums (3.9%), and the Water Supply and Sewerage Systems Development Fund allocated 1.6 trillion soums (0.5%) in fixed capital investments [8]. (Figure 1)

This **figure** illustrates the upward trend in total investments across Uzbekistan over the five-year period.

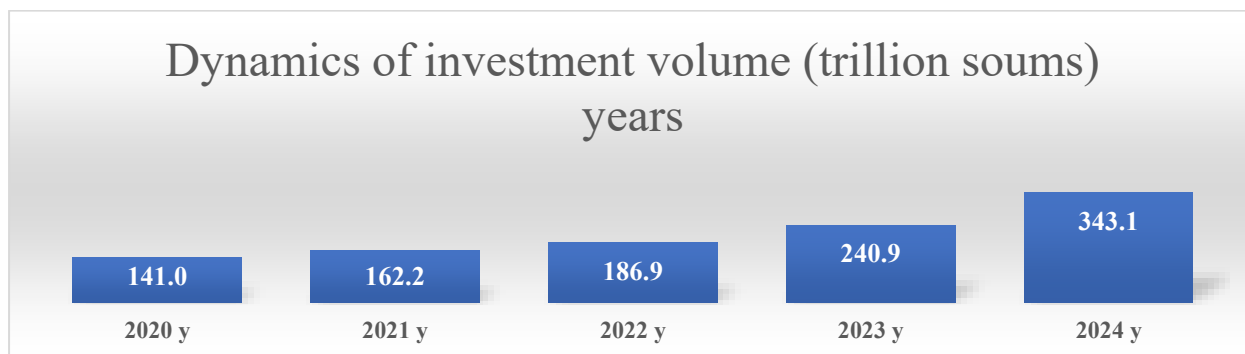


Figure 1. Volume of investments in the Republic of Uzbekistan by year

The volume of investments in Uzbekistan has shown a steady and significant increase from 2020 to 2024. In 2020, the total investment volume was 141.0 trillion soums, and by 2024, it more than doubled to reach 343.1 trillion soums. This positive trend reflects the country's growing economic activity, improved investment climate, and active foreign and domestic investor participation [9].

In Uzbekistan's "Development Strategy until 2030", several directions aimed at attracting investments have been outlined.

In particular:

1. Economic diversification: Special attention is given to economic diversification in the Development Strategy of Uzbekistan until 2030 [10]. Measures such as the development of new industries, support for small and medium-sized enterprises, and the expansion of exports are being implemented. These efforts help create a favorable environment for attracting investments [11].
2. Infrastructure development: Special focus is placed on the development of infrastructure in transport, energy, and communication sectors. This includes the construction of new roads, railways, airports, power stations, and the development of internet networks.
3. Improvement of the legal environment: Considerable attention is given to improving the legal environment. This direction includes important aspects such as fighting corruption, protecting investments, and reforming the judicial system.
4. Human capital development: Special attention is given to developing human capital. Measures are being taken to improve the education system, develop vocational training, and enhance the skills of the workforce. These steps are aimed at creating a favorable environment for attracting investments [12].

The SWOT analysis of attracting investments in Uzbekistan's economic regions reveals a dynamic environment shaped by both strong advantages and critical challenges. Uzbekistan's strategic location, abundant natural resources, and active reform agenda serve as major strengths in appealing to foreign and domestic investors. Additionally, the rise of special economic zones and public-private partnership mechanisms has contributed positively to regional investment flows [13].

Table 2 shows that, persistent bureaucratic inefficiencies, infrastructure gaps, and regional inequality continue to hinder the full realization of investment potential. Moreover, global economic uncertainties and competition from neighboring countries pose external threats to long-term investor confidence [14]. To overcome these issues,

Uzbekistan must focus on, improving regional infrastructure, enhancing transparency and governance, expanding digital and green investment opportunities, and developing human capital tailored to regional economic needs. By aligning investment policy with sustainability, innovation, and inclusive growth, Uzbekistan can turn its economic regions into competitive and attractive hubs for international capital [15].

This table presents a SWOT analysis — a strategic planning tool that evaluates the Strengths, Weaknesses, Opportunities, and Threats of attracting investments to the economic regions of Uzbekistan. Each quadrant identifies internal and external factors influencing the success of investment policies.

4. Discussion

Strengths:

Strategic geographic location in Central Asia, making Uzbekistan a key transit corridor (e.g., China-Europe).

Abundant natural resources, such as gas, gold, uranium, cotton, etc.

Political stability and strong reform agenda have improved investor confidence.

Establishment of Special Economic Zones (SEZs) and industrial zones fosters business environment.

Young and growing population, which ensures a steady labor supply and domestic market potential.

Weaknesses:

Bureaucratic inefficiencies and slow procedures in regional administration discourage potential investors.

Uneven investment distribution, with Tashkent attracting a disproportionately large share.

Poor infrastructure in remote regions limits access and operational efficiency.

Mismatch in workforce skills, especially in technical and digital competencies.

Limited English and IT literacy among the labor force, which affects international business integration.

Opportunities:

Integration with regional trade and investment platforms like the Belt and Road Initiative and CIS Free Trade Area.

Ongoing tax, land, and legal reforms create a more attractive and predictable business environment.

Growing investor interest in green energy, logistics, and agro-industries.

Expansion of public-private partnerships (PPPs) for infrastructure and service development.

Diaspora and returning migrants offer capital, skills, and international networks.

Threats:

Geopolitical instability and global economic shocks (e.g., war, inflation) may reduce investor confidence.

Sectoral overdependence on raw materials increases vulnerability to market fluctuations.

Regional competitors like Kazakhstan and Georgia often offer more flexible investment terms.

Currency volatility and inflation impact long-term investment planning.

Environmental risks, particularly water shortages and land degradation, may deter sustainable investment.

In summary, this SWOT table highlights that Uzbekistan's investment potential is high, but its realization depends on continued reform, administrative decentralization, infrastructure expansion, and regional inclusivity. (Tabel 2)

Table 2. SWOT analysis: problems and solutions of attracting investments in economic regions (Uzbekistan case)

Strengths (S)	Weaknesses (W)
<ul style="list-style-type: none"> • Strategic location at the heart of Central Asia, key to regional connectivity (e.g., China-Europe transit) • Rich in natural resources: gold, gas, uranium, cotton, and minerals • Political stability and strong government commitment to economic reforms • Creation of special economic Zones (SEZs) and industrial zones across regions • Young and growing population providing a large labor force 	<ul style="list-style-type: none"> • Bureaucratic hurdles and slow administrative procedures in some regions • Unequal regional development: investment heavily concentrated in Tashkent and surrounding areas • Insufficient modern infrastructure in remote or mountainous regions • Skills gap: mismatch between educational output and industry needs • Limited English proficiency and digital skills among the workforce in some areas
Opportunities (O)	Threats (T)
<ul style="list-style-type: none"> • Integration with regional initiatives (e.g., Belt and Road Initiative, CIS Free Trade Area) • Reforms in land, tax, and customs policies to attract foreign investors • Growing interest from investors in renewable energy, logistics, and agribusiness • Potential of public-private partnerships (PPPs) for infrastructure projects • Active diaspora and returning migrants with capital and entrepreneurial skills 	<ul style="list-style-type: none"> • Global economic uncertainty and reduced investor confidence due to geopolitical tensions • Over-reliance on a few sectors (e.g., raw materials) poses diversification risks • Regional competition: Kazakhstan, Georgia, and others offering better terms in some sectors • Exchange rate volatility and inflation may reduce investment returns • Environmental issues such as water scarcity and desertification in certain regions

5. Conclusion

Based on the reforms and systematic changes recently implemented in Uzbekistan, it is essential to continue taking serious steps aimed at improving the investment climate. This includes enhancing the legal environment, developing infrastructure, diversifying the economy, and strengthening human capital. Efforts must be made to develop new production and industrial complexes, support small and medium-sized businesses, and expand exports. It is also important to actively promote Uzbekistan's investment potential in the global market and demonstrate that a favorable environment for investment has been created. Moreover, systematic work should be undertaken to improve the education system, develop vocational education, and raise the qualifications of the workforce.

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