FOREIGN CAPITAL AND DOMESTIC INVESTMENT IN UZBEKISTAN: EVIDENCE-BASED PRIORITIES FOR INVESTMENT POLICY

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Annotatsiya. Tezisda O‘zbekistonda sanoatini modernizatsiyalashda tashqi kapital (BXI) va ichki investitsiyalar o‘rtasidagi muvozanatning ahamiyati qisqacha yoritiladi. Tadqiqot va amaliyotga ko‘ra, samaradorlik institutlar sifati va raqobatga bog‘liq, ortiqcha imtiyozlar esa kvazimonopoliya va ichki kapitalni siqib chiqarishga olib keladi. Siyosatni oqim hajmidan ko‘ra qo‘shilgan qiymat, lokallashtirish va barqaror natijalarga yo‘naltirish, ichki resurslarni (reinvestitsiya, jamg‘armalar) faollashtirish hamda selektiv BXI jalb etish taklif etiladi.

Kalit so‘zlar: BXI; ichki investitsiyalar; institutsional muhit; xususiylashtirish; kvazidavlat sektor; crowding-in/out; investitsiya siyosati.

Аннотация. В тезисе рассматривается соотношение иностранного капитала (ПИИ) и внутренних инвестиций в модернизации промышленности Узбекистана. Показано, что эффективность вложений определяется качеством институтов и конкурентной средой, тогда как избыточные льготы ведут к квазимонополиям и вытеснению внутреннего капитала. Обоснован переход от ориентации на объёмы притока к добавленной стоимости, локализации и устойчивым результатам; предложены приоритеты по активизации внутренних ресурсов (реинвестирование, сбережения) и селективному привлечению ПИИ.

Ключевые слова: ПИИ; внутренние инвестиции; институциональная среда; приватизация; квазигосударственный сектор; crowding-in/out; инвестиционная политика.

Abstract. This paper examines the balance between foreign capital (FDI) and domestic investment in Uzbekistan's industrial modernization. Evidence suggests that investment effectiveness depends on institutional quality and competitive discipline, whereas excessive incentives may entrench quasi-monopolies and crowd out domestic capital. We argue for refocusing investment policy from inflow volumes to value-added, localization and sustained outcomes, and outline priorities for mobilizing domestic resources (reinvestment, savings) alongside selective FDI.

Keywords: FDI; domestic investment; institutional environment; privatization; quasi-state sector; crowding-in/out; investment policy.

Introduction. Over the past decade, Uzbekistan has prioritized the attraction of foreign direct investment (FDI) and external loans to accelerate industrial upgrading and infrastructure. This approach helped launch flagship projects but exposed structural limitations: concentration of incentives, quasi-monopoly positions in key sectors, and insufficient localization of value-added. International literature indicates that growth dividends from foreign capital are not automatic; they materialize where institutions ensure competitive neutrality, rule-based policy and credible enforcement. Within this framework, domestic investment—retained earnings, bank finance and household savings—often provides a steadier, less volatile engine of modernization, while FDI is most effective when it complements rather than substitutes internal sources and is tied to technology absorption and export-upgrading [2; 1; 3].

Methods. This paper synthesizes theoretical and empirical insights from development and industrial-policy literature, with a focus on:

(i) the distinction between centralized and decentralized sources of finance;

(ii) comparative effects of FDI and domestic investment on growth and structural change;

(iii) the role of institutional design—privatization, competition policy, and neutrality of incentives—in shaping investment outcomes [3; 5].

We contrast channels of crowding-in versus crowding-out and consider macro-financial stability issues (exchange-rate and debt exposure) pertinent to external versus internal financing. The analysis is grounded in the author's dissertation framework on optimizing Uzbekistan's investment policy.

Results. Three domains of results emerge [2; 3]. First, FDI's strongest contributions emerge where foreign capital is embedded into open supplier networks and competitive product markets, yielding demonstrable gains in productivity, export sophistication and knowledge spillovers [4]. Second, domestic investment exhibits higher persistence and lower volatility, especially when reinvestment is encouraged and access to finance is broadened via formalization of assets and strengthened banking channels [1; 2]. Third, incentive-driven deals that privilege individual investors risk entrenching quasi-monopolies, compressing fiscal space and weakening innovation incentives—effects that are particularly salient in quasi-state segments of industry. See Table 1 for a comparative summary.

Analysis and Discussion. See Figure 1 for an overview of complementary pathways [2; 1]. The evidence suggests that maximizing inflows is less effective than optimizing the composition and institutional embedding of capital. In sectors with scale economies and technology gaps (machinery, pharma, green energy), selective FDI can accelerate capability building provided it operates under competitive neutrality and clear commitments to localization and knowledge transfer.

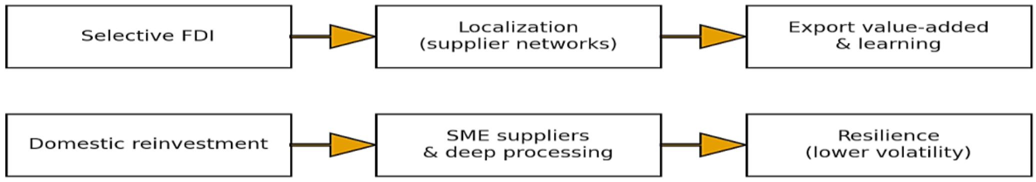

Figure 1. Rebalancing pathways: selective FDI and domestic reinvestment

Conversely, modernization of existing plants, deep processing and SME supplier development are better served by domestic finance, reinvested profits and decentralized sources. A decisive shift from discretionary privileges to universal rules helps equalize conditions for resident and non-resident investors, mitigates crowding-out and improves the fiscal return of industrial policy. Privatization 'by rules'—public listings, minority stakes with post-transaction obligations, and robust antitrust oversight—replaces rent-seeking with market discipline in the quasi-state sector.

Table 1.

Foreign vs. Domestic Investment: Comparative Characteristics

Criteria	Foreign capital (FDI/external)	Domestic investment (internal)
Source & control	Non-resident capital; external lenders; potential policy dependence	National firms, banks, household/institutional savings; embedded in local economy
FX & debt exposure	Higher FX/debt vulnerability; profit repatriation	Lower FX risk; earnings retained/recycled domestically
Volatility to shocks	High (global risk cycles, country risk)	Lower; driven by domestic macro & institutions
Technology/markets	Potential tech & market access (non-automatic)	Builds local capabilities; supplier networks deepen
Incentive sensitivity	Often requires discretionary incentives/special regimes	Responds to predictable, universal rules and profitability
Competition impact	Risk of crowding-out if misdesigned; quasi-monopoly risks	Typically strengthens SME supply chains and competition
Fiscal return	May erode via tax/custom incentives	Broader tax base from retained earnings and local spending

Conclusion. Uzbekistan's investment strategy should prioritize a balanced architecture of external and internal sources. Foreign capital is most valuable as a catalyst of technological and export-upgrading under competitive neutrality; domestic investment provides the backbone of sustained industrial growth. Re-anchoring policy objectives in value creation—rather than headline inflows—aligns industrial upgrading with macro-financial resilience and institutional development. [2]

Recommendations: 1. Replace individual incentive deals with transparent, time-bounded, performance-conditioned regimes open to all qualified investors; 2. Concentrate selective FDI on technology-intensive segments where domestic capabilities are scarce; require clear localization and supplier-development commitments; 3. Strengthen domestic investment by encouraging reinvestment (tax-neutrality of retained earnings, accelerated depreciation) and widening access to credit via asset formalization; 4. Advance privatization through public offerings or minority stakes with post-transaction obligations, backed by antitrust safeguards to prevent market foreclosure; 5. Track outcomes in terms of value-added, export sophistication, employment quality and fiscal return, ensuring that policy support follows demonstrable economic benefits.

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