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IMPROVING MECHANISMS FOR ATTRACTING FOREIGN INVESTMENTS TO FIXED CAPITAL AND THEIR FINANCING

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In today's global economy, foreign direct investment (FDI) holds strategic importance for national economies. Investments directed toward fixed capital such as infrastructure, energy, transport, production capacities, and modernization projects play a crucial role in enhancing a country's competitiveness, achieving technological renewal, and ensuring long-term sustainable development. Global experience clearly confirms this trend: many developing countries have expanded their fixed capital and stimulated economic growth by attracting both domestic and foreign private capital.

However, attracting foreign investment alone is not sufficient. Efficient financing and conversion of these investments into fixed capital require a range of mechanisms, institutional reliability, a robust legal framework, and a stable investment climate. Key components in this process include investment agreements, the users and sectors of the investment, sources of financing, and risk management. In other words, the process of transforming foreign investments into fixed capital projects should integrate not only the "attraction" phase but also the "financing," "implementation," and "management of outcomes" phases.

For example, in Uzbekistan, foreign investment inflows have increased significantly in recent years: in 2023, FDI amounted to 7.2 billion USD. Additionally, the country has adopted legislation aimed at attracting new investment. The "Law on Investments and Investment Activity" (ZRU-598), enacted in 2020, guarantees equal treatment for foreign and domestic investors and establishes mechanisms to support investment activities.

Nevertheless, alongside attracting foreign investment, there are constraints on converting it into fixed capital and generating high returns. Challenges include the stability of the investment climate, full enforcement of legal guarantees, efficiency of project financing mechanisms, and improvement of regulatory conditions to increase foreign investors' confidence. Global practice (e.g., in Central Asian countries) has demonstrated that these factors often limit the conversion of foreign investment into real projects.

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Creating a system to assess the investment attractiveness of regions is a necessary condition for national and regional development. Enhancing regional investment attractiveness plays a decisive role in attracting foreign capital to specific areas. Between 2017 and 2023, foreign direct investment in Uzbekistan increased 6.5 times, contributing positively to the modernization of fixed assets, introduction of new technology, acquisition of management experience and skills, and creation of new jobs (Table 1).

Table 1 Foreign Direct Investment (FDI) Attracted to the Regions of the Republic of Uzbekistan, billion UZS

Indicators	2017	2018	2019	2020	2021	2022	2023
Republic of Karakalpakstan	252,7	526,9	816,2	203,7	170,6	383,0	415,4
Regions							
Andijan	194,1	404,4	1441,7	940,4	693,6	2052,6	7501,3
Bukhara	7812,1	3 055,9	2 254,9	719,4	1 900,9	1 567,3	12 496,0
Jizzakh	178,3	240,6	1 493,4	4 397,3	1 561,3	1 601,7	4 382,0
Kashkadarya	1638,6	700,5	5 653,4	4 295,5	1 675,1	1 380,7	3 959,6
Navoi	75,8	26,2	655,3	757,1	2 160,6	2 682,4	6 296,8
Namangan	134,8	318,3	1123,7	929,5	995,5	1073,1	1722,5
Samarkand	65,1	150,4	1161,7	779,7	1552,9	3479,3	6894,0
Surkhandarya	46,9	472,8	6 457,0	4 265,5	2 394,0	2 550,4	8 083,5
Sirdarya	57,9	81,4	1 961,0	919,6	2 048,2	7 447,4	9 722,7
Tashkent Region	160,4	389,3	3869,5	4344,2	5868,4	4079,5	6080,4
Fergana	152,2	796,1	2335,6	2219,2	2163,9	2685,9	5229,7
Khorezm	19,1	49,3	806,4	333,6	758,5	983,5	1 399,7
Tashkent City	1980,7	1 932,5	7 723,4	4 739,1	5 967,0	7 783,1	8 714,2

However, the distribution of foreign direct investment (FDI) across the regions of Uzbekistan is uneven. Specifically, between 2017 and 2023, FDI in the Republic of Karakalpakstan and Bukhara region increased only 1.6 times, while in Kashkadarya region it grew 2.4 times. In contrast, Surkhandarya region experienced a 172.4-fold increase, and Sirdarya region saw a 167.9-fold growth.

There are several challenges in effectively converting foreign investment projects into fixed capital. The system for preparing and monitoring investment projects is not yet fully developed, financing instruments are not sufficiently diversified, and mechanisms for managing investment risks are still evolving. Global experience shows that successful FDI projects are typically associated with thorough preparation, transparent financing



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mechanisms, and government guarantees. From this perspective, Uzbekistan needs to improve the process of attracting investment and directing it toward fixed capital projects.

The directions for improvement include: enhancing transparency and reliability of the investment climate, diversifying financing instruments, preparing and monitoring projects according to international standards, and expanding regional and international cooperation. These measures will facilitate the effective attraction of foreign investment, channel it into fixed capital, and contribute to the long-term sustainable development of Uzbekistan's economy.

When foreign investments are successfully directed toward fixed capital projects, they not only stimulate economic growth but also promote technological modernization, job creation, and the enhancement of the country's global competitiveness. Therefore, improving investment mechanisms and increasing the reliability of the investment climate is of strategic importance for Uzbekistan's development.

According to the data in the table, Uzbekistan's portfolio of foreign investments has shown a fluctuating trend over the past five years. Although GDP has steadily increased, the share of portfolio investments in GDP reached its peak of 6.1% in 2021, and then gradually declined to 2.8% in 2024. This indicates that as the economy grows, the relative share of portfolio investments has decreased, meaning that foreign investments constitute a smaller proportion of the country's total GDP.

Table 2 The Share of Portfolio Foreign Investments in Uzbekistan's GDP (trillion UZS)

Indicators	Years				
	2020	2021	2022	2023	2024
GDP	605,5	738,4	896,6	1066,6	1 454,6
Portfolio Foreign Investments	20,7	45,1	40,3	42,1	41,3
Share in GDP, %	3,4	6,1	4,5	3,9	2,8

Although portfolio foreign investments in Uzbekistan have shown a growth trend over the past five years, their share in the country's total GDP remains relatively low. In 2020, the share of foreign portfolio investments in GDP was 3.4%, which decreased to 2.8% in 2024.

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Uzbekistan's portfolio foreign investments exhibited a fluctuating trend from 2020 to 2024. During this period, GDP steadily increased from 605.5 trillion UZS to 1,454.6 trillion UZS. Portfolio investments also grew, rising from 20.7 trillion UZS to 41.3 trillion UZS; however, their relative share in GDP declined. In 2021, this share reached 6.1%, but by 2024 it had decreased to 2.8%. This indicates that as the overall size of the economy expands, the relative impact of portfolio foreign investments diminishes.

Nevertheless, foreign investments remain an important source of capital for the economy, and it is essential to continue attracting them to support sustainable economic growth.