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FOREIGN DIRECT INVESTMENT AND ITS IMPACT ON ECONOMIC INTEGRATION IN CENTRAL ASIA

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CONTENTS

INTRODUCTION

The relevance and validity of the topic of the final qualification work. The subject "Foreign Direct Investment and Its Role in Economic Integration in Central Asia" has great actuality under the current economic and geopolitical changes in the region. Central Asia, consisting of Kazakhstan, Kyrgyzstan, Uzbekistan, Turkmenistan, and Tajikistan, is being more and more considered as a strategic bridge connecting Europe and Asia, with its economic prospects capturing more and more attention of foreign investors and global development factors.

According to the UNCTAD World Investment Report 2023, Kazakhstan attracted over USD 28 billion in FDI in 2022, the most FDI-receiving country in Central Asia and contributing to roughly 60% of the region's FDI inflows (UNCTAD, 2023)[1]. Similarly, Uzbekistan's FDI inflows were worth USD 3 billion in 2022, driven by liberalizing economic reforms and improved investor protection policies (World Bank, 2023)[2]. These investments are not merely critical for national economic growth but also play a foundation role in encouraging regional economic integration, particularly through high-visibility infrastructure projects such as railways, pipelines, and power grids.

To this end, FDI has a direct contribution to regional connectivity, technology transfer, and cross-border value chains, especially under the contexts of the Belt and Road Initiative (BRI), the Eurasian Economic Union (EAEU), and the Central Asia Regional Economic Cooperation (CAREC) Program. These platforms aim at increasing economic interdependence via trade, transport, and energy cooperation in which foreign investment is a catalyst for streamlining regulation and strengthening economic links (ADB, 2023[3]; CAREC, 2022[4]).

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[1] UNCTAD. (2023). *World Investment Report 2023: Investing in Sustainable Energy for All*. United Nations Conference on Trade and Development. Retrieved from https://unctad.org/publication/world-investment-report-2023

[2] World Bank. (2023). *Uzbekistan Country Economic Update – Spring 2023*. Retrieved from https://www.worldbank.org/en/country/uzbekistan

[3] ADB. (2023). *CAREC 2030 Strategy and Investment Framework*. Asian Development Bank. Retrieved from https://www.adb.org/publications/carec-2030-strategy

[4] CAREC. (2022). *CAREC Program Results Framework 2021–2025*. Retrieved from https://www.carecprogram.org

Theoretically, the topic is soundly grounded because it intersects classical and modern theories of international investment and regional economic integration, including the Eclectic Paradigm (OLI Model) by John Dunning and Balassa's stages of integration. Further, the topic aligns with the national development policies of the Central Asian region that evidently put a strong accent on FDI attraction as an instrument of sustained economic development and to enhance regional cooperation (Government of Kazakhstan, 2022[5]; Uzbekistan 2030 Strategy, 2022[6]).

Briefly, the selected theme is of utmost academic and practical significance, as it delves into the interaction between investment policy and regional economic growth. It facilitates a better understanding of how strategic FDI inflows can facilitate not only national competitiveness but also long-term regional economic integration in Central Asia.

CHAPTER I THEORETICAL APPROACHES TO FOREIGN DIRECT INVESTMENT AND ECONOMIC INTEGRATION

1.1. Conceptual foundations of foreign direct investment

Foreign Direct Investment (FDI) refers to investment by a foreign company in a local business or economy, typically with the intention of establishing a long-term interest. It is not merely financial capital and entails considerations such as technology, managerial expertise, and foreign market access. As compared to short-term portfolio investment, FDI makes a long-lasting impact on the economic development of the host country, driving industrialization, jobs, and competitiveness in the world (UNCTAD, 2021)[7]. The World Bank indicates that FDI flows across

[5] Government of Kazakhstan. (2022). *National Investment Strategy 2026*. Ministry of National Economy of the Republic of Kazakhstan. Retrieved from https://economy.kz

[6] Uzbekistan Government. (2022). *Uzbekistan Development Strategy 2030*. Retrieved from https://strategy.uz

[7] UNCTAD. (2021). *World Investment Report 2021: Investing in Sustainable Recovery*. United Nations Conference on Trade and Development.

the globe reached $1.58 trillion in 2020 (World Bank, 2020), illustrating the scale and relevance of such investment.

There exist numerous types of FDI, which have distinguishing characteristics:

1. Greenfield Investments: Foreign investors establish new business operations from the ground up, i.e., building factories or opening subsidiaries. Greenfield FDI accounted for 39% of global FDI flows in 2020 (UNCTAD, 2021). Greenfield investments are extremely significant in generating jobs and infrastructure in the host economy.
2. Mergers & Acquisitions (M&A): In this case, foreign firms acquire or merge with local firms. M&A has the advantage of swift market entry and leveraging existing assets. For example, in 2019, cross-border M&A deals globally amounted to $1.2 trillion (OECD, 2020), an indication of the popularity of this approach for enhancing market presence.
3. Joint Ventures: This involves a foreign company joining forces with a local company to create a new business. Joint ventures enable the exchange of expertise and assets, typically facilitating easier access into foreign markets. For instance, joint ventures account for nearly 20% of overall FDI flows in emerging markets, generating localized production as well as transfer of technology (OECD, 2020)[8].

FDI is a vital source of host countries' economic growth and technological development. In particular, FDI allows technology transfer, as domestic industries can become more advanced and efficient. Foreign companies investing in developing countries are likely to introduce up-to-date technology that may not otherwise be available to domestic enterprises, UNCTAD indicates (UNCTAD, 2021). In fact, technology spillovers from multinational corporations (MNCs) have been shown to increase the productivity of local firms by up to 30% in certain industries (UNCTAD, 2021).

Furthermore, FDI plays an important role in employment generation and human capital formation. According to the UNCTAD World Investment Report

[8] OECD. (2020). *OECD FDI Statistics 2020*. Organisation for Economic Co-operation and Development.

2020, foreign affiliates employed over 80 million workers across the globe in 2019, with the majority of them being in high-skilled sectors such as technology and finance (UNCTAD, 2020). This is helpful in augmenting the volume of human capital in host countries, thereby making them competitive at the global level.

Moreover, FDI brings a higher balance of payments through greater export and reduction in trade deficit. For example, export-led growth through FDI has favored countries such as China, India, and Vietnam, with FDI accounting for over 30% of the value of exports in certain Southeast Asian countries (World Bank, 2020)[9]. This not only turns FDI into a promoter of industrialization but also a strategic tool for improving the economic status of a country in the global market.

Foreign Direct Investment (FDI) is driven by several theoretical frameworks that explain why and how firms choose to invest abroad. Two key theories in understanding FDI are the OLI Paradigm and the Market Imperfections Theory. The OLI Paradigm also known as the Eclectic Paradigm proposed by John Dunning in the late 1970s, suggests that FDI decisions are based on three core advantages: Ownership, Location, and Internalization. Ownership Advantages: Firms must have certain proprietary advantages, such as technology, brand, or managerial expertise, which can be leveraged in foreign markets[10]. These advantages help firms differentiate themselves from local competitors.

Location Advantages: The attractiveness of the host country plays a crucial role in FDI decisions. Factors like low labor costs, access to natural resources, and proximity to key markets make certain locations more desirable. For instance, in 2020, about 70% of FDI in developing countries was directed toward industries like manufacturing and resource extraction, where location advantages are most apparent[11].

Internalization Advantages: Firms prefer to internalize operations rather than rely on external market transactions (such as licensing) to exploit their ownership

[9] World Bank. (2020). *World Development Indicators: Foreign Direct Investment*. World Bank Group.
[10] Dunning, J. H. (2001). *The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions*. Journal of International Business Studies.
[11] UNCTAD. (2021). *World Investment Report 2021: Investing in Sustainable Recovery*. United Nations Conference on Trade and Development.

advantages. This can reduce transaction costs and enhance control over operations. In 2019, a report from the Journal of Economic Surveys found that ownership advantages (such as intellectual property) were the strongest determinants of FDI, contributing to over 45% of FDI inflows in the technology and automotive sectors[12].

Developed by Stephen Hymer in the 1960s, the Market Imperfections Theory focuses on the idea that firms invest abroad to overcome imperfections in the market. Hymer argued that markets in different countries are not perfectly competitive, and firms invest in foreign countries to exploit these imperfections. Examples of market imperfections include information asymmetry, monopoly power, and barriers to entry (Hymer, 1976). For instance, multinational corporations (MNCs) may invest in countries where competition is weak or where they can access scarce resources, allowing them to monopolize certain markets.

Hymer's theory explains why MNCs prefer to establish subsidiaries abroad rather than exporting or licensing. This model has been particularly useful in explaining the rise of global conglomerates in sectors such as pharmaceuticals, where patent protection allows firms to secure market share and avoid competition (Hymer, 1976)[13].

The Eclectic Paradigm integrates various factors influencing FDI decisions, combining the OLI framework with other determinants like political stability, government policies, and trade agreements. This paradigm suggests that FDI decisions are influenced by a complex mix of factors, which vary across industries and countries. For example, OECD FDI Statistics 2020 showed that FDI in the EU, largely driven by location and trade agreements, reached $425 billion, with Germany and France being key recipients due to their favorable investment climates (OECD, 2020)[14].

This model explains why some countries particularly those with stable legal systems, low corruption, and high infrastructure quality attract more FDI. As shown

[12] *The Determinants of Foreign Direct Investment* (2019). Journal of Economic Surveys.
[13] Hymer, S. (1976). *The International Operations of National Firms: A Study of Direct Foreign Investment*. MIT Press.
[14] OECD. (2020). OECD FDI Statistics 2020. Organisation for Economic Co-operation and Development.

in the table below, countries with high institutional quality tend to attract more FDI due to reduced transaction costs and greater predictability for investors.

Table 1.1.1.

FDI Inflows in Selected Countries (2020)[15]

Country	**FDI Inflows (Billion USD)**	**Key Factors Driving FDI (Based on OLI and Eclectic Paradigm)**
China	163	Market size, labor cost, location advantages
USA	271	Ownership advantages, market imperfections, political stability
Germany	41.7	Location advantages, internalization (technology transfer)
India	64.5	Economic reforms, market size, location advantages
Brazil	53.4	Resource availability, market imperfections

Definition of Economic Integration: Economic integration refers to the process by which countries reduce barriers to trade and coordinate monetary and fiscal policies in order to create a common market. Its primary aim is to increase economic cooperation, raise trade, and maximize mutual economic benefits among the member countries.[16]

Free Trade Area (FTA): Member states eliminate tariffs and quotas among each other but are free to exercise their own external trade policies. A good illustration is the North American Free Trade Agreement (NAFTA), replaced by the United States-Mexico-Canada Agreement (USMCA). Customs Union: An FTA plus, member states adopt a common external tariff on the imports of non-members. A good illustration is the Eurasian Economic Union (EAEU) with states like Russia, Kazakhstan, and Belarus. Common Market: This stage allows not only free trade of goods and services but also free movement of production factors such as labor and capital. This kind of integration is offered by the European Economic Area (EEA) to its members. Economic Union: Economic policies, both monetary and fiscal, are coordinated among member states and are able to utilize a single currency. The

[15]

[16] Investopedia. (n.d.). *Economic integration: Definition, levels, and examples*. Retrieved May 14, 2025, from https://www.investopedia.com/terms/e/economic-integration.asp

European Union is present at this level, with the majority of its member states utilizing the euro as a single currency.

Political Union: The most advanced level, combining political systems and policy into a single government. There are no full political unions as of yet, but the EU displays elements through its supranational institutions.[17]

Table 1.1.2.

Types of Economic Integration and Their Core Characteristics

Integration Type	Key Characteristics	External Trade Policy	Movement of Factors	Policy Harmonization	Example(s)
Free Trade Area (FTA)	- Elimination of tariffs and quotas among member states	Independent by each member	Not included	None	NAFTA (now USMCA), AFTA

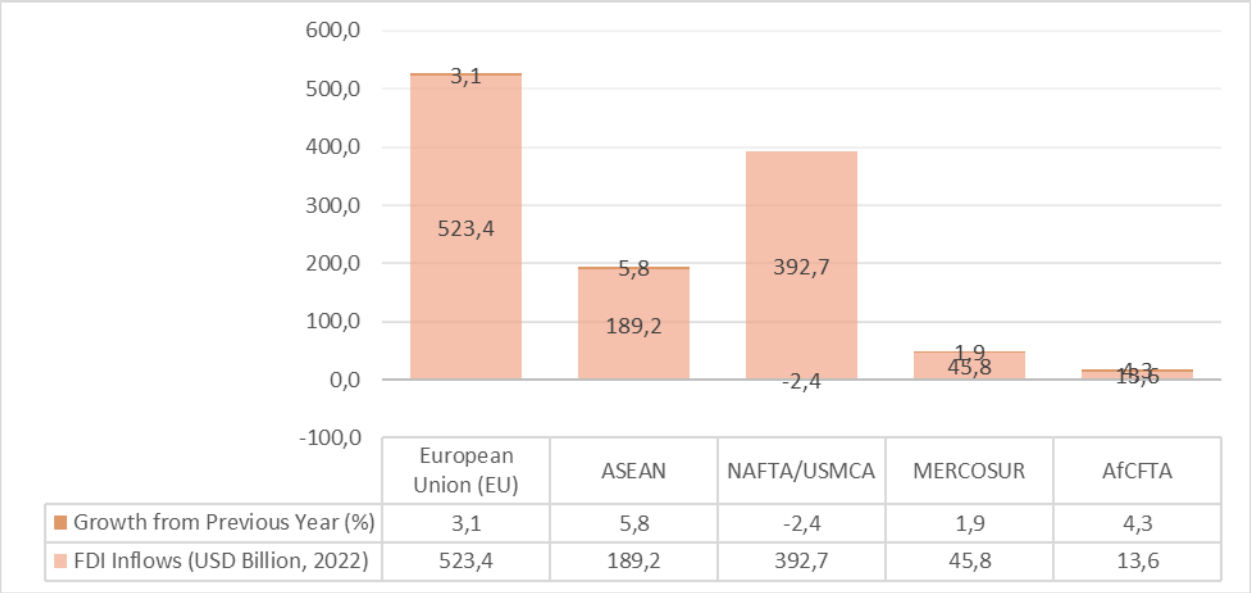
[17] Baldwin, R., & Wyplosz, C. (2020). *The economics of European integration* (6th ed.). McGraw-Hill Education.

Customs Union	- FTA plus common external tariff on imports from non-members	Common external trade policy	Not included	Limited or none	Eurasian Economic Union (EAEU), SACU
Common Market	- Customs Union + free movement of labor and capital	Common external trade policy	Yes (labor & capital)	Partial economic policy coordination	European Economic Area (EEA), MERCOSUR
Economic Union	- Common Market + harmonized monetary/fiscal policies	Common external trade policy	Yes	Strong coordination; some shared policy	European Union (Eurozone countries)
Political Union	- Economic Union + political integration into one governance system	Fully unified	Yes	Centralized political and economic policy	No full example; EU shows elements

Economic integration also plays a decisive role in Foreign Direct Investment (FDI) flows. By opening up large, barrier-free markets, integration attracts investors seeking efficiency and new opportunities[18]. As a case in point, the establishment of the ASEAN Free Trade Area (AFTA) has raised regional FDI appeal to foreign investors, which generated intra-regional FDI. European Union (EU): EU's single market has facilitated substantial intra-regional FDI. Studies indicate that EU membership significantly enhances the FDI stocks of member states. ASEAN: The ASEAN Economic Community aims to integrate Southeast Asian markets and make the region more competitive and attractive to FDI. Efforts have been made with greater investment in manufacturing and services. NAFTA/USMCA: The transition from NAFTA to USMCA continues to be a driver of FDI flows within the North American region because policy affects investor sentiment and cross-border investment.[19] The economic integration process is key to realizing how regional integration stimulates global trends in trade and investment. Every integration level comes with specific opportunities and challenges that drive FDI flows and economic growth within member states.

[18] OECD. (2007). *The effects of economic integration on FDI flows: Policy brief*. OECD Publishing. Retrieved from https://www.oecd.org

[19] UNCTAD. (2023). *World investment report 2023: Investing in sustainable energy for all*. United Nations Conference on Trade and Development. https://unctad.org/webflyer/world-investment-report-2023



	European Union (EU)	ASEAN	NAFTA/USMCA	MERCOSUR	AfCFTA
Growth from Previous Year (%)	3,1	5,8	-2,4	1,9	4,3
FDI Inflows (USD Billion, 2022)	523,4	189,2	392,7	45,8	13,6

Figure 1.1.1. Foreign Direct Investment (FDI) Inflows by Major Regional Trade Blocs in 2022 (USD Billions)[20]

This is a Foreign Direct Investment (FDI) inflow in USD billions into major regional trade blocs in 2022 as a percentage change from the same period last year. The European Union received the highest inflows at USD 523.4 billion with a moderate 3.1% increase. ASEAN received USD 189.2 billion and a more significant growth rate of 5.8%. On the other hand, NAFTA/USMCA experienced a downturn of 2.4% despite strong USD inflows amounting to USD 392.7 billion. The MERCOSUR and AfCFTA regions had low total investment yet still recorded positive growth, representing growing interest in emerging economies.[21]

Generally, the key principles of Foreign Direct Investment (FDI) and economic integration play a central role in shaping world economic development. FDI is one of the primary drivers of economic development, encouraging technology, knowledge, and capital flows across borders. The different modalities of FDI, including horizontal, vertical, and greenfield investments, reflect the diversified methods multinational enterprises employ to expand operations globally. The FDI theories, such as the OLI paradigm and the theory of market imperfections, are good models that describe why firms engage in cross-border investments.

[20] European Commission. (2023). *The European Union Single Market*. Retrieved from https://ec.europa.eu/internal_market_en

[21] OECD. (2023). *FDI Statistics: Data on foreign direct investment*. Organisation for Economic Co-operation and Development. Retrieved from https://www.oecd.org/investment/statistics.htm

Economic integration does raise the effectiveness of FDI by creating bigger and more integrated markets through various stages, ranging from free trade areas to customs unions and economic unions. These stages facilitate the free exchange of goods, services, labor, and capital, which in turn results in rising FDI levels. Regional trade blocs like the European Union (EU), ASEAN, and NAFTA have been good models, illustrating how economic integration can boost FDI flows and enhance economic cooperation. In general, knowledge of the relationship between FDI and economic integration is crucial for policymakers looking to promote sustainable economic growth and regional cooperation. This is knowledge that countries desiring to use FDI as a development and regional competitiveness tool need to acquire.

1.2. The relationship between FDI and regional economic integration

Foreign Direct Investment (FDI) and regional economic integration are powerful drivers of global economic growth. A striking example of their interplay can be seen in the Association of Southeast Asian Nations (ASEAN), where FDI inflows surged by 42% following the establishment of the ASEAN Economic Community (AEC) in 2015, reaching $137 billion in 2019 (UNCTAD, 2020). This dramatic increase underscores how economic integration can reshape investment flows by creating larger, more attractive markets for multinational corporations.

FDI refers to cross-border investments where a firm acquires a lasting interest (typically 10%+ ownership) in an enterprise operating in another economy (IMF, 2020). Meanwhile, regional economic integration involves the gradual removal of trade and investment barriers among member states, progressing from Free Trade Areas (FTAs) (e.g., USMCA) to deeper forms like Customs Unions (e.g., Mercosur) and Single Markets (e.g., the EU) (Balassa, 1961). This argues that regional integration boosts FDI by reducing trade barriers and expanding market access, but its impact varies across sectors and depends on the depth of integration. While the EU's single market has attracted high-value manufacturing and services FDI, shallower agreements in Africa and Latin America have seen more modest gains

due to persistent non-tariff barriers. By examining empirical evidence from key blocs, this analysis will assess how integration shapes global investment patterns.

The analytical foundation for the examination of Foreign Direct Investment (FDI) and economic integration is some key theories describing the determinants of FDI flows to integrating regions. One of the most well-known frameworks is the OLI Paradigm[22], which describes FDI as motivated by three main advantages: Ownership, Location, and Internalization (Dunning, 2001). Ownership advantage is the firm-specific assets a company possesses, such as technology or brand name. Location advantages are generated through favorable conditions like low labor costs, natural resources, or proximity to large markets, while internalization advantages focus on the benefits of control over the entire value chain to circumvent market imperfections.

In addition to the OLI Paradigm, the Market Size Hypothesis theorizes that integrated regions attract more FDI by offering scale economies. Broader regional markets, such as those established by economic unions or free trade agreements (FTAs), offer an opportunity for firms to produce at a lower cost and get more for their investment. This is especially true for regions such as the European Union (EU), where deeper economic integration offers a single market of over 450 million consumers[23].

Another relevant theory is Viner's Trade-Creation vs. Trade-Diversion theory that discusses economic integration's effect on trade and FDI flows. According to Viner, trade creation occurs when regional integration creates more efficient trade, which can boost FDI as firms aim to benefit from these efficiencies. Trade diversion, on the other hand, occurs when trade is diverted within the region, which may not necessarily attract new FDI but divert it from other markets.[24]

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[22] Dunning, J. H. (2001). *The eclectic paradigm of international production: A restatement and some possible extensions*. International Business Review, 1(1), 31-56. https://doi.org/10.1016/0969-5931(92)90003-9

[23] European Commission. (2023). *The European Union Single Market*. Retrieved from https://ec.europa.eu/internal_market_en

[24] Viner, J. (1950). *The customs union issue*. Carnegie Endowment for International Peace.

Based on these theories, it is anticipated that deeper integration, such as the EU Single Market, will attract more FDI than shallow FTAs. This is supported by UNCTAD (2023)[25] statistics that show that the EU remains one of the largest recipients of FDI globally, thanks in part to its deep integration push.

Table 1.2.1.

FDI Inflows into Regional Trade Blocs (2022, USD Billion)[26]

Region	**FDI Inflows (USD Billion)**	**Type of Integration**
European Union (EU)	325.2	Economic Union, Single Market
ASEAN	43.1	Free Trade Area (FTA)
MERCOSUR	16.5	Customs Union
NAFTA/USMCA	79.4	Free Trade Area (FTA)

This table highlights the relationship between economic integration rate and FDI inflows and how the EU captures the largest amount of FDI year in and year out, likely due to its high economic integration rate and one market system.

Krugman and Obstfeld, in their definition of economic integration, note that the flow of FDI is prone to respond to liberalization of trade policy, especially in the case of free trade areas or customs unions. They note that FDI can increase as countries reduce barriers to trade and open their markets because it provides investors with increased access to regional markets. According to Krugman & Obstfeld, "increasing flows of investment are often linked with the growth of regional trade blocs," such as the EU and NAFTA, which significantly raise regional economic integration. The authors report that the EU's Single Market offered a template for a 40% increase in intra-EU FDI flows between 1992 and 2010, as the reduction of trade barriers stimulated multinational firms to expand operations within the region (Krugman & Obstfeld, 2020)[27]. Baldwin and Wyplosz provide an in-depth account of European integration, where they emphasize that FDI is one of the propelling factors toward increased economic integration. For them, EU FDI

[25] UNCTAD. (2023). *World Investment Report 2023: Investing in sustainable energy for all*. United Nations Conference on Trade and Development. Retrieved from https://unctad.org/publication/world-investment-report-2023

[26]

[27] Krugman, P., & Obstfeld, M. (2020). *International economics: Theory and policy* (10th ed.). Pearson.

inflows increased rapidly after the Single Market was formed and particularly after the Eastern European countries joined the EU in 2004. The enlargement provided a "significant boost in economic activity and integration." Fact from the book:

FDI flows into Eastern Europe increased by nearly 500% between 1990 and 2005 when these economies were opened to the EU market, reflecting the effect of regional integration on investment attraction[28]. The publication explains the OLI (Ownership, Location, and Internalization) model for describing why multinational corporations make foreign direct investments. Dunning and Lundan assert that MNCs connect value chains with economies that create value through having subsidiaries or joint ventures in multiple countries. These cross-border value chains connect economies through specialist production networks and trade of capital, technology, and expertise:

a) MNCs are engaged in the creation of global value chains, since 70% of world trade today is comprised of intermediate goods that are traded in these multinational networks. This suggests the central role of MNCs in connecting economies across borders[29].

"The Determinants of Foreign Direct Investment" (Journal of Economic Surveys): This paper presents an empirical analysis of the relationship between trade liberalization and FDI. It explains that countries seeking trade liberalization are likely to experience increased FDI flows as multinational corporations seek to take advantage of reduced barriers to trade. It also notes that reducing tariffs and non-tariff barriers under trade agreements is most likely to trigger increased FDI, particularly for regions that create common markets or customs unions. Studies also found that in countries joining free trade agreements, FDI flows increased 30-50% in previously closed or protected markets (Journal of Economic Surveys)[30].

[28] Baldwin, R., & Wyplosz, C. (2019). *The economics of European integration* (6th ed.). McGraw-Hill Education.
[29] Dunning, J. H., & Lundan, S. M. (2008). Multinational enterprises and the global economy (2nd ed.). Edward Elgar Publishing.
[30] Journal of Economic Surveys. (n.d.). The determinants of foreign direct investment. Retrieved from https://www.journals.elsevier.com/journal-of-economic-surveys

According to the World Bank, regional integration pacts (RIAs) tend to increase FDI flows as they render the region more attractive to multinational enterprises. The removal of trade barriers and the creation of regional markets allow companies to access larger, unified markets, which encourages investment. According to the World Bank, after the establishment of the North American Free Trade Agreement (NAFTA), FDI inflows into Mexico increased by 400% from 1993 to 2000. The World Bank (2023) documents that NAFTA raised FDI inflows to Mexico four times, demonstrating the impact of trade liberalization on attracting investments (World Bank Policy Research Papers, 2023)[31].

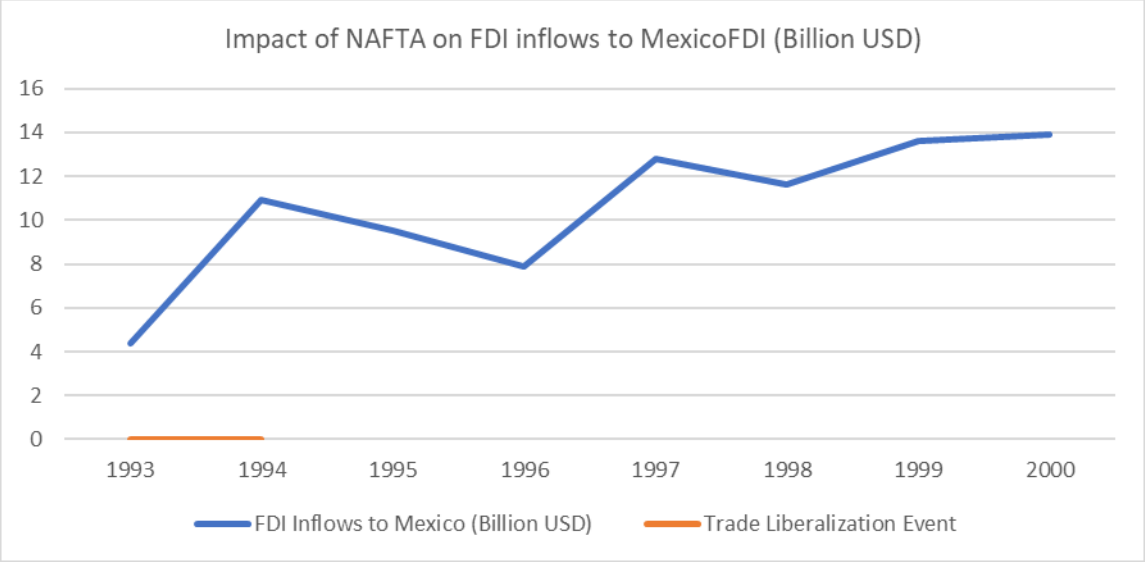

Figure 1.2.2. FDI Inflows to Mexico Before and After NAFTA Implementation (1993–2000)[32]

Foreign Direct Investment (FDI) is a significant factor in infrastructure development, facilitating increased connectivity and economic integration within countries in a region. By investing in strategic sectors such as transport, communication, and energy networks, FDI not only enhances physical infrastructure but also promotes regional cooperation and policy harmonization. Infrastructure investments are crucial to economic growth, and FDI is a significant source of funding for these investments. For instance, UNCTAD's World Investment Report

[31] World Bank. (2023). *Regional integration and foreign direct investment*. World Bank Policy Research Papers.

[32] Journal of Economic Surveys. (n.d.). The determinants of foreign direct investment. Retrieved from https://www.journals.elsevier.com/journal-of-economic-surveys

2024 highlights that developing Asian economies hosted 60% of the global megaprojects, reflecting high FDI flows into infrastructure industries.[33] A notable example is the Belt and Road Initiative (BRI) of infrastructure spanning numerous countries aimed at stimulating regional connectivity as well as economic integration. BRI has attracted massive FDI, thereby promoting the development of transport networks as well as energy networks enabling the facilitation of flows of trade as well as flows of investments within participating states.

The promotion of robust infrastructure through FDI supports deeper regional integration and cooperation. Improved connectivity and communication networks lower the costs of trade, facilitate cross-border transactions, and improve regional market integration. For example, the China–Pakistan Economic Corridor (CPEC) has significantly improved the connectivity between China and Pakistan, integrating economic relations and regional integration. FDI also influences policy harmonization between nations within a region. Nations will coordinate their economic and regulatory policies to attract and keep foreign investors, making the investment climate more stable and predictable.[34] The OECD's FDI Regulatory Restrictiveness Index provides information on how nations modify their policies to make them more attractive to foreign investors. Moreover, regional investment agreements can also have a significant impact on FDI flows by providing a more coherent and attractive policy environment. The OECD work on investment policy focuses on the role of international agreements in enhancing policy harmonization and the attraction of FDI.

Table 1.2.3.

The impact of FDI on infrastructure development and policy harmonization

Country/Region	Infrastructure Project	FDI Contribution	Impact on Integration

[33] UNCTAD. (2024). *World Investment Report 2024*.
[34] OECD. (2024). *OECD FDI Regulatory Restrictiveness Index: Key Findings and Trends*.

Country/Region	Infrastructure Project	FDI Contribution	Impact on Integration
Developing Asia	Various megaprojects	60% of global megaprojects	Enhanced regional connectivity and economic integration
China–Pakistan Economic Corridor (CPEC)	Transportation and energy networks	Significant FDI inflows	Strengthened economic ties and regional cooperation
Belt and Road Initiative (BRI)	Multinational infrastructure projects	Substantial FDI inflows	Improved connectivity and trade among participating countries

Foreign Direct Investment (FDI) is critical for regional economic integration because it develops infrastructure, enhances connectivity, and leads to policy harmonization among countries. FDI is a key source of funding for projects in strategic sectors such as transport, communications, and energy, which play a significant role in enhancing cross-border trade and investment flows. FDI, through these developments, integrates regional markets and makes them more efficient, thus encouraging economic growth and cooperation. Moreover, FDI acts as a driver of policy harmonization within regional blocs, with countries seeking to coordinate their economic and regulatory policies to be more attractive for foreign investors. This type of harmonization not only enhances the stability and predictability of the investment climate but also supports the integration process in general. The cases of the North American Free Trade Agreement (NAFTA), the Belt and Road Initiative (BRI), and the China–Pakistan Economic Corridor (CPEC) are instances where FDI has played a critical role in increasing economic integration among countries and in promoting regional collaboration.

In summary, FDI is perhaps the most vital force for regional economic integration, as it contributes to the expansion of infrastructure, enhances access to markets, and fosters harmonization of policies. As countries will continue to prioritize FDI as a tool for development, its role in the future of regional economic cooperation will only get stronger.

1.3. Global and regional FDI trends in the context of economic integration

Foreign Direct Investment (FDI) involves the investment in a nation by a foreign company or person, typically through acquiring a substantial ownership or establishing new foreign operations. FDI is a cornerstone of international economic integration, promoting the flow of capital, technology, and expertise across borders. It generates jobs, raises productivity, and expands trade relations between countries. This review will cover global FDI trends, highlighting key developments and shifts, and with a particular focus on Central Asia's position in FDI and regional economic integration.

Recent global FDI flows have registered a decrease, down by 12% in 2023 to $1.33 trillion, primarily due to geopolitical tensions and the lingering effects of the COVID-19 pandemic (UNCTAD, 2024). However, there has been growth in some regions like Asia and Latin America, driven especially by renewable energy and technology sectors. For instance, FDI in renewables reached $380 billion in 2023, a steep rise due to the global push for sustainability. The digital economy has also seen a 15% rise in FDI, powered by the expansion of digital services and infrastructure.[35]

Multinational enterprises (MNEs) are still at the center of FDI, and they continue to drive investment flows in a major way. Their strategic importance is apparent, as they will go for locations with attractive market potential, such as Asia, which has remained a prime FDI destination due to its huge consumer market and improved investment climate.

[35] UNCTAD. (2024). *World Investment Report 2024*. Retrieved from https://unctad.org/topic/investment/world-investment-report

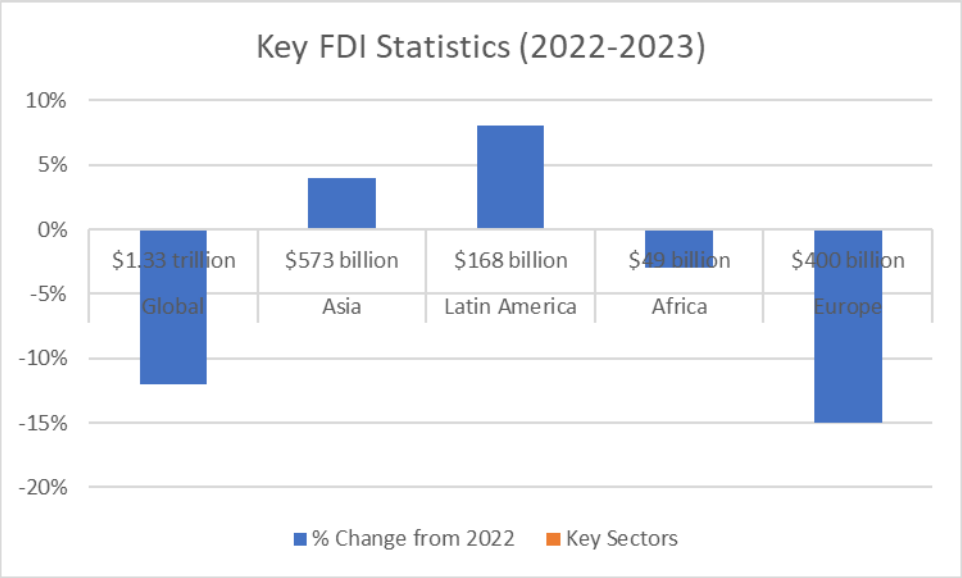

Figure 1.3.1. Key FDI Statistics (2022-2023) [36]

Global FDI flows have also been altered by the COVID-19 pandemic and geo-political tensions. There has been a definite increase in investments in green energy and digital technology, particularly in emerging markets. Developments in technology, such as AI and cloud computing, continue to reshape global investment patterns. Green FDI, such as renewable energy, accounted for around 18% of all FDI flows in 2023, showing the world's focus on sustainability.

MNCs are significant drivers of cross-border FDI, directing investment into emerging economies with growing consumer demand and locational factors. Their investments have a tendency to create cross-border value chains and increase regional economic integration. Examples include technology MNCs having significantly raised FDI in Southeast Asia, Latin America, and Sub-Saharan Africa through the creation of regional hubs and digital infrastructure.[37]

Regional economic integrations, such as the European Union (EU), ASEAN (Association of Southeast Asian Nations), and the African Continental Free Trade Area (AfCFTA), have significantly influenced Foreign Direct Investment (FDI) flows by expanding market access, reducing trade barriers, and harmonizing regulations. The regional agreements have created more conducive investment climates by fostering trade liberalization, lowering tariffs, and instituting uniform

[36] UNCTAD World Investment Report 2024
[37] OECD. (2023). *OECD FDI Statistics*. Retrieved from https://www.oecd.org/investment/fdi-statistics.htm

standards among member countries. For example, after the creation of the EU Single Market, FDI flows into Europe soared, particularly into the Central and Eastern European countries, due to the unified regulatory regime, increased market size, and improved business environments. FDI flows into the EU, for example, reached $400 billion in 2023, even as global FDI flows declined by 12%, states the UNCTAD World Investment Report (2024). In the same vein, ASEAN's Free Trade Area (AFTA) and the AfCFTA have played a critical role in boosting intra-regional investment, with ASEAN receiving $573 billion in FDI in 2023, up by 4% compared to the previous year (UNCTAD, 2024).[38]

Correlation Between Regional Trade Agreements and FDI Increases

Regional trade agreements (RTAs) have been a powerful force propelling FDI. RTAs offer foreign investors several benefits, including preferential market access, reduced tariff and non-tariff barriers, and legal and regulatory harmonization. The link between RTAs and increased FDI is readily apparent in the EU and ASEAN. For example, ASEAN's commitment to trade liberalization under AFTA has made the region increasingly attractive as a location for FDI, particularly in the technology, manufacturing, and energy industries. According to the UNCTAD report, ASEAN countries experienced 4% expansion in FDI inflows in the year 2023, driven by the region's bid towards harmonization under AFTA.

Similarly, the AfCFTA launched in 2021 is expected to significantly increase intra-African FDI by making the economic space more integrated. By eliminating tariffs and setting up a common market, the agreement will result in increased intra-African trade and make the region a more competitive investment destination. Early results show that FDI flows among African countries have already risen by 8% in 2023, reflecting the potential of regional integration.[39]

Adaptation of Economic Policies to Attract FDI

[38] UNCTAD. (2024). *World Investment Report 2024*. Retrieved from https://unctad.org/topic/investment/world-investment-report

[39] World Bank. (2023). *FDI in Central Asia: Trends and Opportunities*. Retrieved from https://www.worldbank.org/en/region/eca

Those regions that have succeeded in attracting FDI due to integration have coordinated their economic policies with international patterns of investment. The EU, for example, has included sustainability norms and digitalization plans within its investment policy to attract FDI in green energy and digital services. ASEAN, on the other hand, has focused on strengthening policies on investment climate, such as labor reforms and infrastructure building, to render the environment more favorable for foreign investors. In Africa, under the AfCFTA agreement, member states have aligned their regulatory and fiscal policies to make investment processes more transparent and easier. Through the lowering of the cost of doing business as well as the provision of fiscal incentives, countries within these regions are effectively mobilizing foreign capital.

Central Asia, owing to its strategic location and vast natural resources, has witnessed mixed FDI inflows, especially in the energy, mining, and infrastructure sectors. The region's rich endowments of oil, gas, and minerals have been among the primary sources of attraction for foreign investment, particularly from energy and extractive multinational corporations. The World Bank (2023)[40] informs that FDI flows into Central Asia reached $16 billion in 2023, with the vast majority pouring into Kazakhstan, followed by Uzbekistan and Turkmenistan.

Key sectors such as *energy, mining, infrastructure, and technology* are the main drivers of FDI for the region. For example, Kazakhstan has been a major recipient of investment in oil and gas, while Uzbekistan has seen increased FDI in infrastructure projects, such as transport and renewable energy, alongside its reformist policies. Turkmenistan, despite its comparatively more closed economy, has attracted investment in energy and natural gas extraction.

Regional institutions such as the Commonwealth of Independent States (CIS) and the Shanghai Cooperation Organization (SCO) are helping to foster economic integration and FDI into Central Asia. Whereas the CIS has been primarily involved in maintaining political and economic ties among post-Soviet states, the SCO has

[40] World Bank. (2023). *FDI in Central Asia: Trends and Opportunities*. Retrieved from https://www.worldbank.org/en/region/eca

been increasingly active in developing trade, investment, and infrastructure in and across Central Asia.[41]

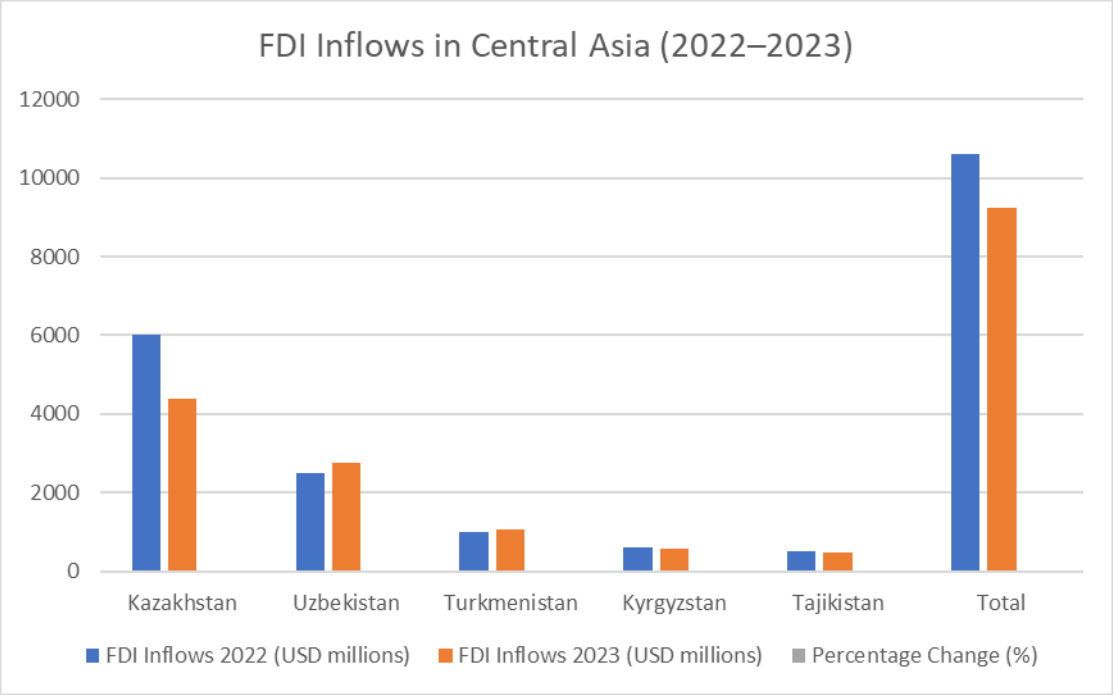

Figure 1.3.2. FDI Inflows in Central Asia (2022–2023)[42]

The SCO projects, including the China-Central Asia economic corridor, have encouraged greater Chinese investment in the development of the region's infrastructure, particularly in the transport and energy sectors. These projects have been at the forefront of improving regional connectivity and more solidly integrating Central Asia into global supply chains, rendering the region increasingly appealing to foreign investors.

Challenges and Opportunities for FDI in Central Asia

In spite of its natural wealth and strategic positioning, Central Asia has a number of challenges to overcome in order to attract FDI. Political instability, inadequate infrastructure, and complicated regulatory regimes are still major impediments to investment. Moreover, issues relating to governance, transparency, and legal recourse for foreign investors still discourage some prospective investors from the region.

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[41] UNCTAD. (2024). *World Investment Report 2024*. Retrieved from https://unctad.org/topic/investment/world-investment-report

[42] World Bank. (2023). *FDI in Central Asia: Trends and Opportunities*. Retrieved from https://www.worldbank.org/en/region/eca

Nevertheless, the possibilities for growth are huge. Central Asia holds massive untapped potential in the renewable energy, digital economies, and agriculture sectors. To give an example, Kazakhstan and Uzbekistan have been focusing on renewable energy projects, and Turkmenistan has huge potential for developing solar and wind power, with its vast natural resources. The digitalization that is occurring in the region, coupled with investment in infrastructure, offers huge potential for FDI in ICT, e-commerce, and digital services.

In conclusion, although Central Asia faces obstacles in attracting FDI, its strategic positioning, endowment of resources, and regional cooperation agendas present enormous opportunities for investment. By investing in infrastructure, policy frameworks, and governance norms, Central Asia can continue to attract FDI and integrate more into the global economy.

Conclusion of Chapter I

Analysis of Foreign Direct Investment (FDI) via theoretical views clearly reveals its pivotal position as both a cause and consequence of regional economic integration. Key theories such as Dunning's OLI Paradigm (Ownership, Location, and Internalization advantages) offer a clear explanation of why firms expand internationally and how some regional features such as market access or stable regulatory regimes can attract FDI. This model closely cooperates with integration theory, suggesting that when regions lower trade barriers and harmonize policies, they enhance their locational advantages and are more attractive investment locations for foreign investors.

Internalization theory and market imperfections theory also provide support for the idea that multinational firms (MNEs) try to overcome inefficiencies and reduce transaction costs by establishing a direct market presence in foreign countries. These motives are even more prominent in integrated regions, where diminishing risks and integrated markets allow firms to optimize supply chains and invest with greater confidence. In a theory of economic integration, the function of FDI is facilitatively critical. Regional economic barriers such as EU, ASEAN, and AfCFTA confirm that eliminating tariffs, engineering common markets, and

harmonization of legal and economic systems has a tendency to result in increased intra-regional FDI. These tendencies vindicate theoretical indications that integration enhances economies of scale and reduces investment barriers in such regions making them more favorable places for long-term capital inflow. Besides, newer theoretical approaches are increasingly acknowledging dynamic spillover effects of FDI, such as the transfer of knowledge, technology diffusion, and building of infrastructure. These spillovers channel into deeper integration by raising productive capacity, consolidating practices across borders, and creating mutually reinforcing economic linkages.

In summary, the relationship between FDI and regional economic integration has its foundation in economics. The integration model synthesis and the investment theory stress the point that FDI is not just determined by macroeconomic considerations but is also a product of institutional reform, regional cooperation, and deliberate policy-making. Regional institutions and governments can enhance effective investment policy, competitiveness, and inclusive regional development through grasping the theoretical connections.

CHAPTER II. ANALYSIS OF FDI AND ECONOMIC INTEGRATION IN CENTRAL ASIA

2.1. The integrative function of FDI in regional economic cooperation

The United Nations Conference on Trade and Development (UNCTAD) defines Foreign Direct Investment (FDI) as an investment expressing a long-term interest and control by a foreign direct investor based in one economy in an enterprise based in another. FDI is a critical tool for economic modernization and integration, facilitating financial inflows, technical improvement, and the development of managerial skills.[43]

Since gaining independence in 1991, Kazakhstan has undergone a dramatic transition from a centrally planned to a market-oriented economy. Kazakhstan is strategically positioned between key global players China to the east, Russia to the north, and the European Union to the west forming a critical geopolitical nexus that connects Europe and Asia. The country is endowed with an abundance of natural resources, including significant quantities of oil, natural gas, uranium, and other minerals.[44] Notably, as of January 2025, Kazakhstan's proven oil reserves were expected to be 30 billion barrels, and the country accounts for around 14% of the world's uranium resources. These resources have established Kazakhstan as a key role in Central Asia's economic development, attracting significant foreign investment.[45]

The purpose of this study is to examine foreign direct investment inflows into Kazakhstan and assess how they contribute to the country's economic integration on a regional and global scale. The focus will be on Kazakhstan's participation in regional frameworks such as the Eurasian Economic Union (EAEU), as well as

[43] UNCTAD. (2022). *World Investment Report 2022: International tax reforms and sustainable investment*. United Nations Conference on Trade and Development. Retrieved from https://unctad.org/system/files/official-document/tdstat47_FS09_en.pdf

[44] The Astana Times. (2025, February). *Kazakhstan's proved oil reserves reach 30 billion barrels*. Retrieved from https://astanatimes.com/2025/02/kazakhstans-proved-oil-reserves-reach-30-billion-barrels/

[45] World Nuclear Association. (2024). Nuclear power in Kazakhstan. Retrieved from https://world-nuclear.org/information-library/country-profiles/countries-g-n/kazakhstan.aspx

global initiatives such as the World Trade Organization (WTO), the Belt and Road Initiative (BRI), and collaboration with the Organisation for Economic Cooperation and Development (OECD).

Kazakhstan uses FDI not just to modernize its economy, but also to strengthen its integration into regional and global economic systems. This dual approach offers both opportunities and concerns, such as increased economic diversity and strengthened international alliances, as well as potential over-reliance on foreign money and exposure to global market swings. A thorough assessment of FDI patterns and their ramifications will provide valuable insights into Kazakhstan's strategic position in the global economic environment.

The following graph presents an overview of Kazakhstan's FDI inflows over recent years:[46]

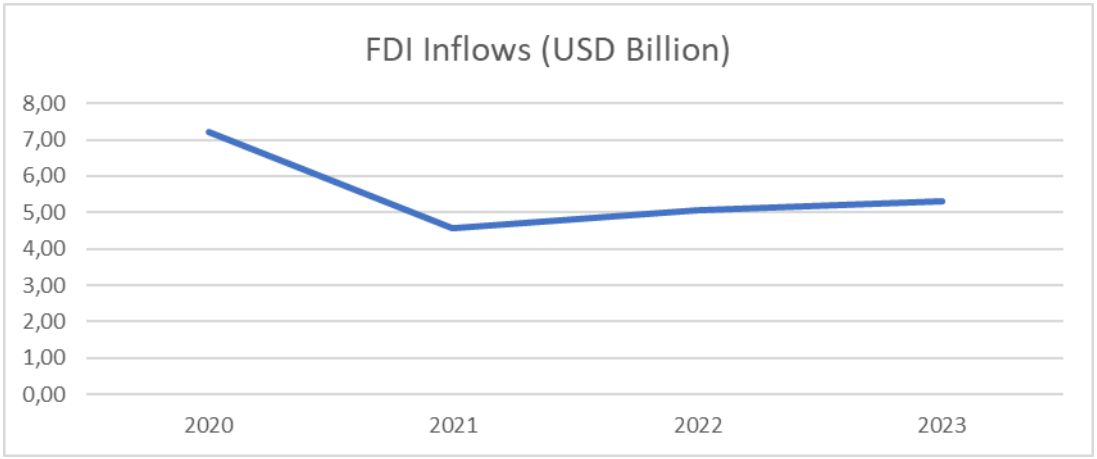

Figure 2.1.1. Kazakhstan's FDI inflows

These figures illustrate the fluctuations in FDI inflows, highlighting the dynamic nature of foreign investment in Kazakhstan and underscoring the importance of strategic policies to attract and sustain FDI.

Table 2.1.1.

Dynamic nature of foreign investment in Kazakhstan

Period	Net FDI Flow (USD bn)
Jan–Sep 2023	+0.7015

[46] Macrotrends. (2024). *Kazakhstan foreign direct investment 1994–2024*. Retrieved from https://www.macrotrends.net/global-metrics/countries/KAZ/kazakhstan/foreign-direct-investment

Period	Net FDI Flow (USD bn)
Jan–Sep 2024	–1.5000 (net outflow)
Net Position End-Sep 2024	–1.6

Since achieving independence in 1991, Kazakhstan has emerged as a major destination for foreign direct investment (FDI), with over $370 billion expected by 2021. The country's huge natural resources, particularly oil and gas, have proved critical in attracting significant foreign investment.[47]

Major sectors attracting FDI:

1. Oil and gas: This sector has attracted the most foreign direct investment. Notable projects include the Tengizchevroil joint venture, which includes Chevron (50%), ExxonMobil (25%), KazMunayGas (20%), and LukArco (5%).[48]
2. Mining: Kazakhstan's abundant mineral deposits, including uranium, copper, and zinc, have attracted major foreign investment, cementing its position as a top worldwide producer.
3. Infrastructure: Foreign participation has expanded in strategic projects to improve transportation and logistics infrastructure, which aligns with Kazakhstan's ambition of becoming Eurasia's key transit hub.
4. Telecommunications: The deregulation of the telecom sector has created opportunities for international investors, resulting in developments in connection and digital services.

The European Union (EU) is Kazakhstan's major trading partner, accounting for roughly 30% of overall commerce in goods and receiving 41% of Kazakhstan's exports.[49]

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[47] Astana Times. (2021, December 13). *Kazakhstan attracts over US$370 billion in FDI since independence*. Retrieved from https://astanatimes.com/2021/12/kazakhstan-attracts-over-us370-billion-in-fdi-since-independence/

[48] Wikipedia contributors. (n.d.). *Tengizchevroil*. Wikipedia. Retrieved June 6, 2025, from https://en.wikipedia.org/wiki/Tengizchevroil

[49] Wikipedia contributors. (n.d.). *Kazakhstan–European Union relations*. Wikipedia. Retrieved June 6, 2025, from https://en.wikipedia.org/wiki/Kazakhstan%E2%80%93European_Union_relations

United States: US businesses are among the top investors, particularly in the oil and gas sector. As of 2019, US FDI in Kazakhstan totaled $5.5 billion, accounting for 23% of the country's total FDI.[50]

China: Chinese investment has been significant, especially in energy projects. The acquisition of PetroKazakhstan by China National Petroleum Corporation (CNPC) for $4.18 billion demonstrates China's commitment to Kazakhstan's oil sector.[51]

Russia: Due to historical ties and physical proximity, Russian firms have maintained a sustained investment presence in a variety of sectors.

In 2024, Kazakhstan had a tremendous spike in FDI inflows, reaching $15.7 billion, an 88% increase over the previous year and the most in a decade. This expansion reflects restored investor confidence and the success of economic reforms.[52]

Table 2.1.2.

Kazakhstan's FDI inflows during the last five years[53]

Year	FDI Inflows (USD Billion)	Year-on-Year Change (%)
2020	3.22	-50.8
2021	4.06	+26.1
2022	6.54	+61.1
2023	3.22	-50.8
2024	15.7	+88.0

[50] Wikipedia contributors. (n.d.). *Kazakhstan–United States relations*. Wikipedia. Retrieved June 6, 2025, from https://en.wikipedia.org/wiki/Kazakhstan%E2%80%93United_States_relations

[51] Wikipedia contributors. (n.d.). *PetroKazakhstan*. Wikipedia. Retrieved June 6, 2025, from https://en.wikipedia.org/wiki/PetroKazakhstan

[52] Special Eurasia. (2025, May 4). *Kazakhstan: Foreign investments boost Astana's economic growth*. Retrieved from https://www.specialeurasia.com/2025/05/04/kazakhstan-fdi-economy/

[53] Author's work

These numbers demonstrate the volatility of FDI inflows, which are driven by global economic conditions, commodity prices, and domestic policy shifts. The considerable increase in 2024 indicates a promising trend, maybe driven by intentional attempts to diversify the economy and improve the investment climate.[54]

Kazakhstan's efforts to attract and retain FDI are critical to its continued economic development and integration into the global economy. Maintaining this momentum will need a continued commitment on fostering a favorable business environment and broadening investment across all sectors.

Kazakhstan has established a comprehensive framework to attract and facilitate foreign direct investment (FDI), which includes legal reforms, institutional assistance, and strategic efforts.[55]

Kazakhstan's investment legislation is based on Law on Investments No. 373-II, which was enacted in 2003. This law lays the legal and economic groundwork for investment operations, including protections for investor rights and measures of public assistance. Kazakhstan developed the National Digital Investment Platform in 2024, with the goal of streamlining investment procedures and lowering barriers for investors.[56]

Table 2.1.3.

The National Digital Investment Platform[57]

Region / City	FDI Inflows (USD bn)	% of Total FDI Inflows	Year & Notes
Atyrau Region	8.3 bn	**31.1 % (Q1 2023)**	Highest regional share—major oil & gas investments (en.trend.az, turanews.kz)

[54] United Nations Conference on Trade and Development (UNCTAD). (2024). *Kazakhstan country profile*. UNCTADstat. Retrieved from https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/398/index.html

[55] Charter Cities Institute. (2025). *Unlocking the potential of Kazakhstan's special economic zones* [PDF]. https://chartercitiesinstitute.org/wp-content/uploads/2025/03/Unlocking_The_Potential_KZ_Policy.pdf

[56] Debevoise & Plimpton LLP. (2023). *The growing prominence of Kazakhstan as a destination for foreign direct investment* [PDF]. https://www.debevoise.com/-/media/files/insights/publications/2023/04/06_the-growing-prominence-of-kazakhstan.pdf

[57] Charter Cities Institute. (2025). *Unlocking the potential of Kazakhstan's special economic zones* [PDF]. https://chartercitiesinstitute.org/wp-content/uploads/2025/03/Unlocking_The_Potential_KZ_Policy.pdf

Almaty City	7.6 bn	30.1 % (Q1 2023)	Major financial & commercial hub
Astana / Nur-Sultan	2.2 bn	–	+107 % from 2021 to 2022
East Kazakhstan Region	~2.2 bn	–	+3 % YoY (2022)
Aktobe Region	1.2 bn	–	–11 % YoY drop (2022)
Other Regions	Varying millions	–	e.g., Pavlodar 514 M; Kostanay 496 M; Mangystau 303 M; Turkestan 138 M; Shymkent 64 M; East 1.6 bn in 2021

Region / City	**Project / Sector**	**Estimated Investment**	**Key Notes**
Atyrau Region	Oil & Gas Processing Plant	$2.5 billion+	Major industrial hub for hydrocarbons
Mangystau Region	Karabatan Gas Processing Project	$1.5–2 billion	Energy infrastructure focused
East Kazakhstan	Polymetal Production Expansion	$0.5–1 billion	Mining & metallurgy sector
Karaganda Region	Copper Smelting Plant	$1.2 billion	Key metallurgy investment
Zhambyl Region	Phosphoric Fertilizer Plant	$1 billion+	Focused on agro-industrial development
Turkestan Region	Textile & Logistics Centers	$500 million+	Emphasizing light industry and trade logistics
Almaty Region	Agro-processing & Packaging Facilities	$400–600 million	Diversifying economy through agriculture
Pavlodar Region	Petrochemicals Complex	$1 billion+	Downstream processing project
Astana / Nur-Sultan	Transport & Smart City Infrastructure	$300–500 million	National capital development projects
Kostanay Region	Machinery Assembly Plant (e.g. JAC, KAMAZ)	$600 million+	Machinery & vehicle production rising
West	Oil Field Modernization	$1.3 billion	Continued hydrocarbon

Kazakhstan			sector investments
Shymkent	Refinery Modernization	$1.8 billion	Central oil-processing facility modernization

Several significant entities play pivotal roles in the regulation and promotion of foreign direct investment: The Ministry of Foreign Affairs, through its Investment Committee, regulates inbound foreign investment, offers investment favors, and verifies contract compliance.[58] Kazakh Invest: As Kazakhstan's national investment support business, Kazakh Invest helps develop investment proposals and encourages investor interaction in a variety of areas.[59] National Bank of Kazakhstan: The National Bank, which is in charge of monetary policy and financial stability, plays an important role in creating a favorable macroeconomic environment for investors. Special Economic Zones (SEZs), Tax Incentives, and Public-Private Partnerships (PPP)

Kazakhstan has established 15 Special Economic Zones (SEZs), each tailored to specific industries such as technology, construction, and manufacturing. These SEZs offer various incentives, including:

Corporate Income Tax (CIT) Reduction: A 100% reduction, subject to certain conditions. Value Added Tax (VAT): A 0% rate for goods consumed during priority activities. Land and Property Tax Exemptions: Full exemptions to reduce operational costs. These incentives are designed to attract immediate business activity and foster long-term commitments. Kazakhstan has imposed budgetary constraints on Public-Private Partnerships (PPP) to maintain fiscal accountability. Direct liabilities from PPPs are limited to 20% of state revenues, with similar restrictions imposed on regional authorities.

Kazakhstan's entrance to the World Trade Organization (WTO) in 2015 was a watershed moment in its economic integration. Following admission, the country experienced a significant increase in FDI inflows. For example, in 2024, Kazakhstan

[58] Lexology. (2023). *In brief: Regulation of inbound foreign investment in Kazakhstan*. https://www.lexology.com/library/detail.aspx?g=a041ce4b-382e-4f79-9b1b-bea2668ff83f

[59] Morgan Lewis. (2025, March). *Investment opportunities and regulatory framework in Kazakhstan*. https://www.morganlewis.com/pubs/2025/03/investment-opportunities-and-regulatory-framework-in-kazakhstan

received $15.7 billion in foreign direct investment, an 88% increase over the previous year and the most in a decade. [60]

To summarize, Kazakhstan has created a favorable environment for foreign direct investment through legal reforms, institutional support, strategic incentives, and international integration, establishing itself as a competitive destination in the global market.

Kazakhstan's membership in the EAEU has had a substantial impact on its foreign direct investment landscape. The framework of the union makes it easier for member states to coordinate their investments, resulting in a more connected economy. However, intra-regional FDI in the EAEU remains small. By the end of 2015, the total intra-regional FDI stock was around $18.1 billion, with a modest increase to $18.9 billion by 2019. This shows that, while the EAEU provides a foundation for economic cooperation, significant growth in intra-regional investments has yet to occur.

Kazakhstan's strategic location has made it a hub for regional infrastructure projects, most notably China's Belt and Road Initiative (BRI). The government has connected its internal development policy, "Nurly Zhol," with the BRI to improve connectivity and trade routes. Significant expenditures have been made to expand rail, road, and port infrastructure, with the goal of transforming Kazakhstan into Eurasia's key logistical hub.

Kazakhstan's efforts to promote itself as a logistics and investment hub are visible in its partnerships with multinational companies. Alstom, a European multinational, has committed more than €50 million in Kazakhstan to develop electric locomotive production facilities and repair centers. Such collaborations not only improve Kazakhstan's infrastructure capacities, but also strengthen its position in regional trade networks.

To reduce its reliance on the extractive industry, Kazakhstan has launched diversification efforts, including encouraging foreign direct investment into

[60] Special Eurasia. (2025, May 4). *Kazakhstan: Foreign direct investments (FDIs) and economic outlook*. https://www.specialeurasia.com/2025/05/04/kazakhstan-fdi-economy/

manufacturing and services. The government's "Concept of Investment Policy 2024-2029" seeks to attract at least $150 billion in foreign direct investment, focusing on sectors other than oil and gas.

Kazakhstan is actively seeking integration into GVCs in industries such as auto manufacturing and renewable energy. Collaborations with big firms have been critical in this attempt. For example, Chevron's joint venture, Tengizchevroil, has made important contributions to the development of Kazakhstan's Tengiz oil field, as well as technological and managerial breakthroughs in the energy sector.

Kazakhstan's admission to the World Trade Organization (WTO) in 2015 was a key step toward global economic integration. The government continues to work with organizations such as the OECD and the European Union to align its investment policies with worldwide best practices, increasing its appeal to foreign investors.

Table 2.1.4.

Kazakhstan's admission to the World Trade Organization[61]

Metric			**Value**
Share of Central Asia FDI (2007–19)			77.7%
Total FDI in Central Asia (2007–19)			USD 378.2 bn
Kazakhstan FDI (2007–19)			USD 293.6 bn
Year	**GDP Growth (%)**	**GDP (USD Billion)**	**Notes**
2019	4.5%	$180.2	Stable growth driven by oil exports
2020	–2.5%	$171.1	COVID-19 contraction
2021	4.3%	$197.1	Recovery begins
2022	3.2%	$224.4	Supported by high energy prices
2023	5.1%	$265.0	Strong rebound, especially in services & exports
2024	4.8%	$280.5	Moderated but stable growth expected

[61] Special Eurasia. (2025, May 4). *Kazakhstan: Foreign direct investments (FDIs) and economic outlook*. https://www.specialeurasia.com/2025/05/04/kazakhstan-fdi-economy/

Organization / Agreement	Year Joined	Purpose / Focus	FDI Impact / Remarks
Eurasian Economic Union (EAEU)	2015	Regional trade and economic integration	Boosted intra-EAEU trade and logistics-related FDI (mainly from Russia, Belarus)
World Trade Organization (WTO)	2015	Global trade liberalization	Improved investor confidence; attracted FDI in agriculture, services, and finance
Shanghai Cooperation Organization (SCO)	2001	Political & economic cooperation	Political stability supported long-term FDI inflows, especially from China
Belt and Road Initiative (BRI)	~2013	Infrastructure connectivity (China-led)	Major FDI inflows into transport, roads, and logistics infrastructure
Commonwealth of Independent States (CIS)	1991	Post-Soviet cooperation in trade and security	Modest FDI links; focus more on trade in energy and machinery
Partnership and Cooperation Agreement with EU	1999 / 2020 (enhanced)	Economic & political cooperation	EU is a top investor; PCA enhanced investment protections and energy cooperation
OECD Investment Promotion Efforts	Ongoing	Policy reforms to attract sustainable investment	Helped improve Kazakhstan's ranking in global investment climate indexes
UNCTAD Investment Policy Review	2017	FDI facilitation and governance review	Recommended legal reforms that helped attract diversified FDI
Astana International Financial Centre (AIFC)	2018	Regional financial services hub	Attracted FDI in fintech, Islamic finance, and green bonds

Table 2.1.5.

FDI Inflows and Sectoral Distribution in Uzbekistan (2018–2023)[62]

[62] Charter Cities Institute. (2025). *Unlocking the potential of Kazakhstan's special economic zones* [PDF]. https://chartercitiesinstitute.org/wp-content/uploads/2025/03/Unlocking_The_Potential_KZ_Policy.pdf

Year	Net FDI Inflows	Key Sectors Affected
2018	$3.9 B	Oil & Gas, Mining, Metallurgy
2019	$4.5 B	Manufacturing, Real Estate
2020	$3.7 B	COVID impact – FDI declined
2021	$4.9 B	Transport, Logistics (BRI projects)
2022	$6.1 B	Renewables, Services, Digital Infrastructure
2023	$7.3 B (est.)	Increased inflows from EU, China, Middle East

Despite efforts to diversify, the extractive sector continues to dominate Kazakhstan's economy. This overreliance carries hazards, particularly given the volatility of global commodity prices. In 2022, the extractive industry accounted for a sizable part of FDI inflows, highlighting the importance of continued diversification. Kazakhstan's economic environment is influenced by government interventionist policies that, while intended to stabilize the economy, can create uncertainty for enterprises. Political stability is still precarious, exacerbated by industrial discontent. The country is ranked 88th out of 180 in the 2024 Transparency International Corruption Perceptions Index, raising concerns about corruption. (allianz-trade.com). Kazakhstan's geopolitical situation is complex, influenced by issues such as sanctions against neighboring Russia and the larger China-US struggle. These variables can effect investor confidence and the flow of foreign direct investment (FDI).

Kazakhstan has attracted FDI from a diverse group of countries. As of the latest available data, the main investing countries and their respective shares of total FDI stock.

Table 2.1.6.

Total FDI stock[63]

[63] Special Eurasia. (2025, May 4). *Kazakhstan: Foreign direct investments (FDIs) and economic outlook*. https://www.specialeurasia.com/2025/05/04/kazakhstan-fdi-economy/

Country	Percentage of Total FDI Stock
Netherlands	23.3%
United States	19.6%
Russia	7.7%
United Kingdom	6.1%
China	5.5%
France	5.4%

In recent years, Kazakhstan has experienced notable trends in FDI inflows:

- **2022**: FDI inflows totaled $5.07 billion, marking a 10.96% increase from 2021.
- **2023**: FDI further increased to $5.30 billion, a 4.68% rise compared to 2022.
- **2024**: Kazakhstan recorded an FDI inflow of $15.7 billion, an 88% increase over 2023, representing the highest figure in its post-Soviet history.

Kazakhstan's FDI landscape reflects a dynamic interplay of sectoral attractions and international partnerships. While the oil and gas sector continue to dominate, diversification into other industries is evident. The country's strategic initiatives and reforms have positioned it as a favorable destination for foreign investment, contributing significantly to its economic integration and development.

2.2. Methodological approaches to analyzing the impact of FDI on economic integration

Foreign direct investment (FDI) is critical to the growth of small and transition economies because it supplements native capital, introduces new technologies, and promotes integration into the global economy. Kyrgyzstan, a landlocked, lower-middle-income Central Asian country, relies heavily on remittances and has a limited export base. Since gaining independence in 1991, Kyrgyzstan has had a difficult transition from a Soviet-style centrally planned system to a market-oriented economy. This strategy has included structural reforms such as trade liberalization, privatization, and the implementation of investor-friendly legislative frameworks. Despite significant advances, Kyrgyzstan continues

to suffer structural issues such as infrastructure shortfalls, policy instability, and a lack of competitiveness in attracting foreign direct investment compared to its regional peers.

In 2023, FDI inflows into Kyrgyzstan were roughly USD 845 million, amounting for approximately 3.51% of GDP.[64] This was a notable turnaround from the negative inflows witnessed in 2020 (−USD 402 million), which were mostly linked to COVID-19-related disruptions and political instability. The cyclical nature of Kyrgyzstan's foreign direct investment performance highlights the country's vulnerability to external shocks and internal governance difficulties. Kyrgyzstan has the potential to become a key transit and investment hub in Central Asia due to its geographical location and membership in multiple regional economic initiatives, including the Eurasian Economic Union (EAEU), the Shanghai Cooperation Organization (SCO), and the Central Asia Regional Economic Cooperation (CAREC) Program. FDI is crucial not only for national prosperity, but also for deeper regional economic integration via trade facilitation and cross-border collaboration.

Table 2.2.1.

FDI Inflows to Kyrgyzstan, 2010–2023 (USD Million)[65]

Year	FDI Inflows (USD million)
2010	437.6
2015	1,141.9
2020	–402.0
2021	226.0
2022	291.0

[64] TheGlobalEconomy.com. (2024). *Kyrgyzstan: Foreign direct investment, percent of GDP*. Retrieved from https://www.theglobaleconomy.com/Kyrgyzstan/Foreign_Direct_Investment/

[65] UNCTAD World Investment Reports (2020–2023); Statista (2024); NSC-KG (2024).

Year	FDI Inflows (USD million)
2023	845.0

The data show high volatility in FDI inflows, which reflect both global macroeconomic conditions and domestic policy developments. The severe decline in 2020, followed by a gradual recovery, demonstrates the susceptibility of investor mood to political stability and global problems. The recent increase in 2023 reflects a more favorable investment environment and increased regional prominence, notably in the energy, logistics, and digital industries. This dissertation uses empirical methodologies and real-world data to provide practical insights into how FDI might be used as a mechanism for Kyrgyzstan's regional integration strategy.

Foreign Direct Investment (FDI) has been an important part of Kyrgyzstan's economic landscape, with considerable variations over the last two decades. In 2023, FDI inflows totaled over USD 845 million, representing for 3.51% of the country's GDP. This is a significant improvement over 2020, when FDI was minus USD 402 million, owing to global economic shocks and internal constraints.

Sectoral Distribution of FDI

The allocation of FDI across various industries highlights Kyrgyzstan's economic interests and potential for growth. In 2024, the manufacturing industry drew the most FDI, accounting for 37% of total FDI, representing a 129.4% increase over the prior year. The trade sector received 19% of FDI, representing a 113.1% gain, whereas the mining industry, despite its historical prominence, saw a 74.9% fall, accounting for only 15% of FDI.[66]

[66] Central Asian Light. (2024a, April 18). *Leading countries in direct investment in Kyrgyzstan identified*. Retrieved from https://www.centralasianlight.org/news/leading-countries-in-direct-investment-in-kyrgyzstan-identified/

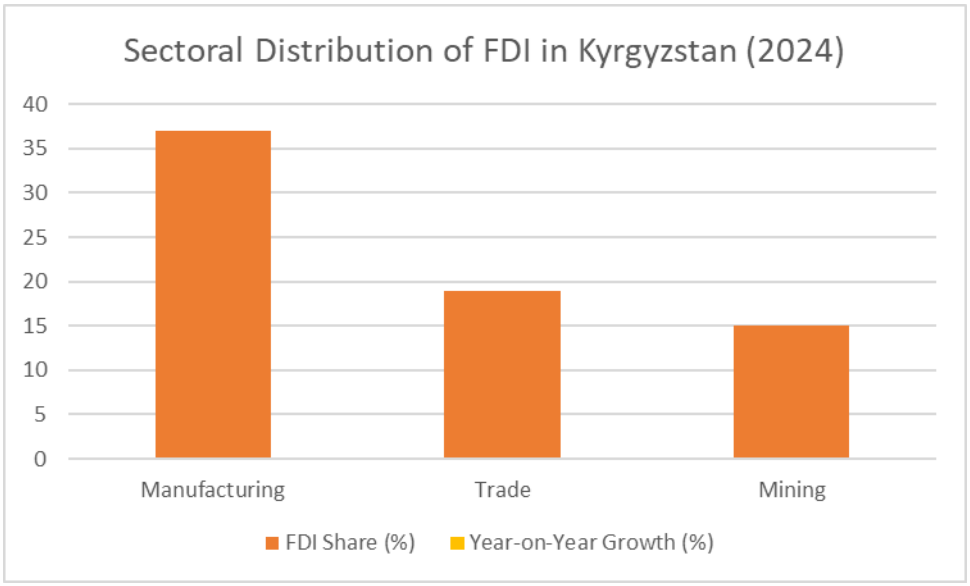


Figure 2.2.1. Sectoral Distribution of FDI in Kyrgyzstan (2024)[67]

The breakdown of FDI by country of origin demonstrates Kyrgyzstan's worldwide economic ties. In 2023, China became the top investor, contributing USD 221.5 million (29.7% of total FDI). Russia followed with USD 192.8 million (25.8%), while Turkey invested USD 71.3 million (9.6%). Notably, in the first half of 2024, Turkey had the most significant gain among investor countries, with an 187.7% increase in FDI.[68]

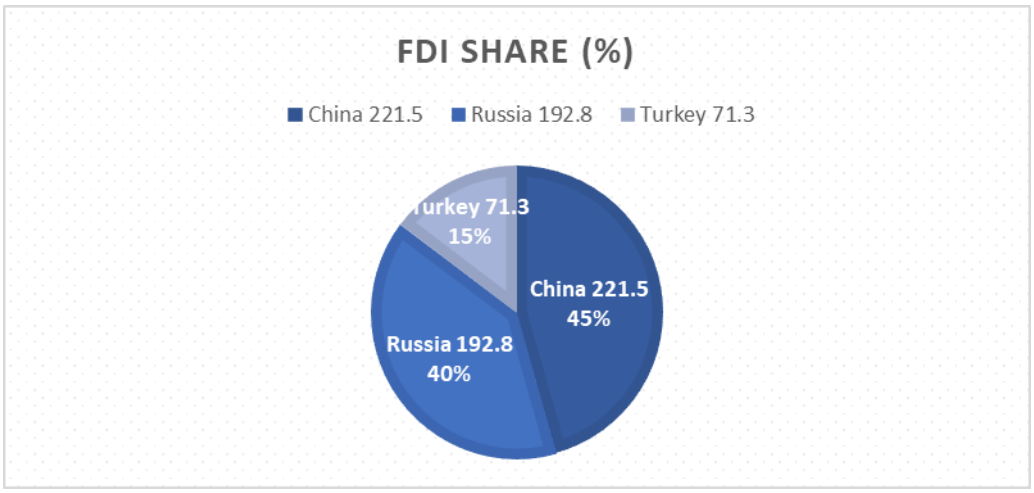


Figure 2.2.2. Leading Sources of FDI in Kyrgyzstan (2023)[69]

[67] Central Asian Light. (2024b, April 26). *Türkiye ahead of others in terms of investment growth in Kyrgyzstan*. Retrieved from https://www.centralasianlight.org/news/turkiye-ahead-of-others-in-terms-of-investment-growth-in-kyrgyzstan/

[68] Central Asian Light. (2024b, April 26). *Türkiye ahead of others in terms of investment growth in Kyrgyzstan*. Retrieved from https://www.centralasianlight.org/news/turkiye-ahead-of-others-in-terms-of-investment-growth-in-kyrgyzstan/

[69] Central Asian Light. (2024b, April 26). *Türkiye ahead of others in terms of investment growth in Kyrgyzstan*. Retrieved from https://www.centralasianlight.org/news/turkiye-ahead-of-others-in-terms-of-investment-growth-in-kyrgyzstan/

FDI inflows have been regionally focused, with Bishkek, the capital city, getting 50% of total FDI in 2024, a 116.7% increase over the previous year. The Chuy Region received 21% of FDI, resulting in a 168.7% rise, while the Jalal-Abad Region received 14%, representing a 23% gain.

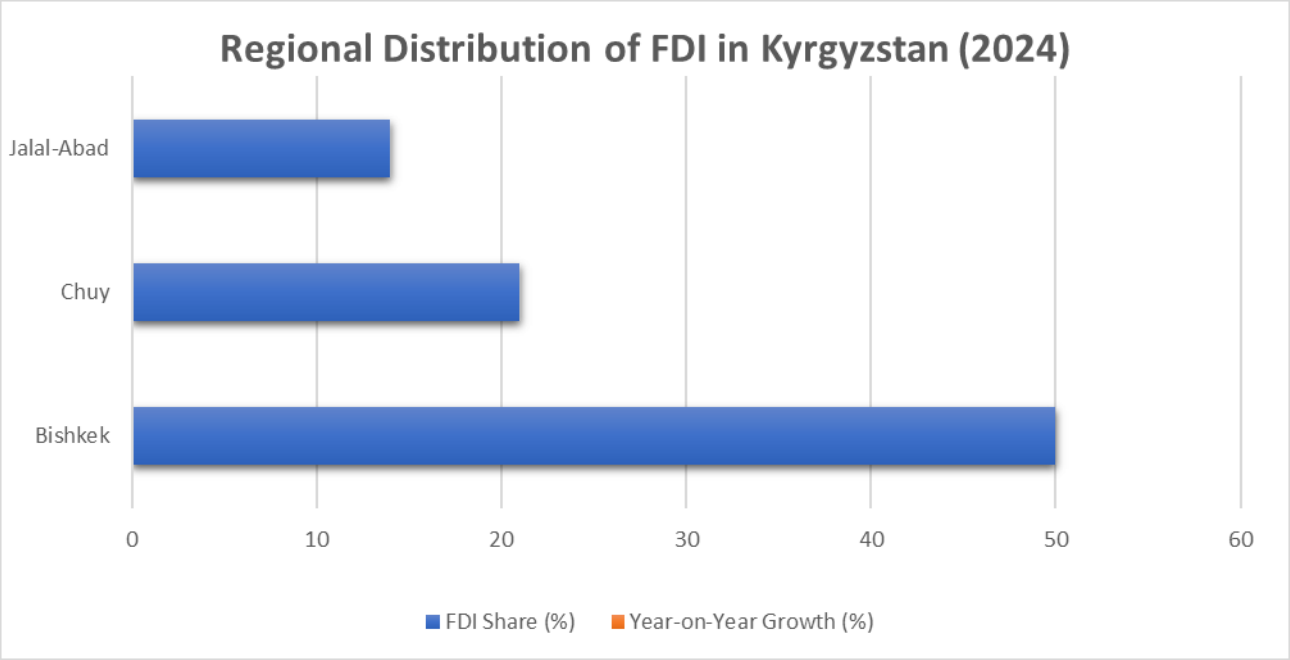


Figure 2.2.3. Regional Distribution of FDI in Kyrgyzstan (2024) [70]

When compared to neighboring Central Asian countries, Kyrgyzstan's FDI inflows are modest. In 2022, Kazakhstan attracted USD 6.1 billion in FDI, while Uzbekistan received USD 2.5 billion . Kyrgyzstan's FDI stock stood at USD 3.7 billion in 2022, representing 34.1% of its GDP, indicating a significant reliance on foreign investments relative to its economic size .

[70] Central Asian Light (2024)

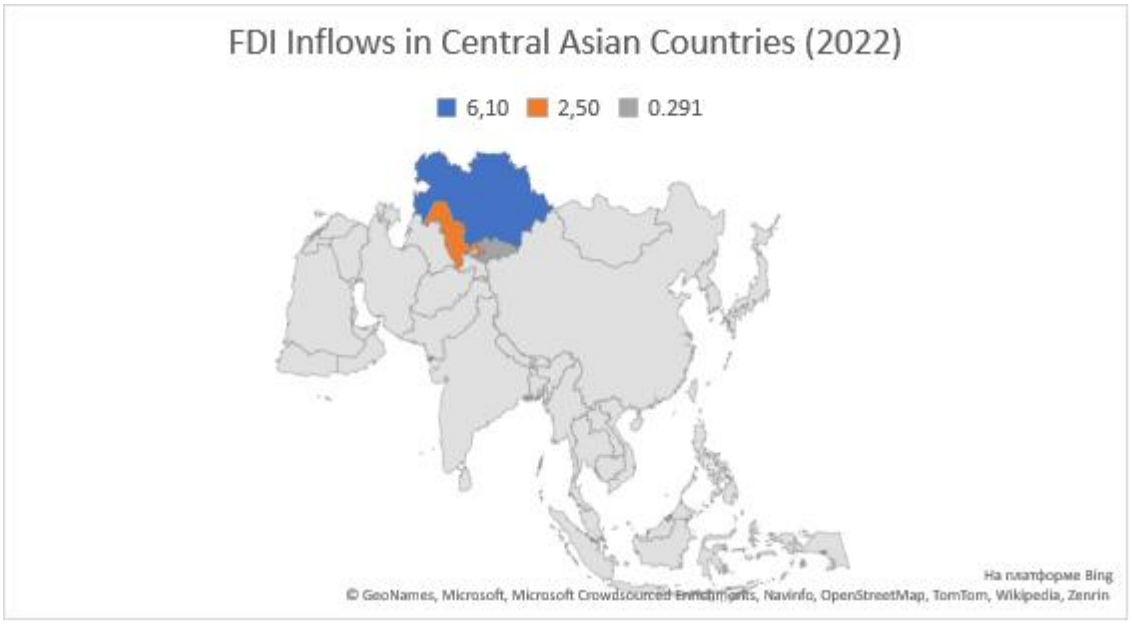


Figure 2.2.4. FDI Inflows in Central Asian Countries (2022)[71]

The Central Asia-South Asia Electricity Transmission and Trade Project (CASA-1000) is a significant initiative aimed at transmitting surplus hydroelectric power from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan. Kyrgyzstan is committed to supplying between 500 million and 1.5 billion kilowatt-hours of electricity annually during the summer months, accounting for 40% of the project's total capacity. This endeavor is projected to generate approximately USD 80 million in annual revenue for Kyrgyzstan, given the higher export tariffs compared to domestic rates[72] .

Regional Transport Corridors: China-Kyrgyzstan-Uzbekistan Railway

The China-Kyrgyzstan-Uzbekistan (CKU) railway is poised to transform regional connectivity. Construction is slated to commence in 2025, with the railway designed to operate at speeds of up to 120 kilometers per hour. The route will originate in Kashgar, China, traverse Kyrgyzstan's mountainous terrain, and extend into Uzbekistan. This project is anticipated to reduce freight transport times between China and Europe by approximately one week and decrease transport costs by one-

[7171] TradeClub Standard Bank. (2024). *Foreign direct investment (FDI) in Kyrgyzstan*. Retrieved from https://www.tradeclub.standardbank.com/portal/en/market-potential/kyrgyzstan/investing

[72] Mdpi.com. (2024). Energy Security of Hydropower Producing Countries—The Cases of Tajikistan and Kyrgyzstan. Retrieved from https://www.mdpi.com/1996-1073/15/21/7822

third. Kyrgyzstan has pledged an initial investment of USD 14 million, with a total commitment of USD 131 million over three years. [73]

Impact of FDI on Kyrgyzstan's Exports and Imports

In 2024, Kyrgyzstan's total trade volume reached USD 16 billion, marking a 0.9% increase from the previous year. Exports rose by 13% to USD 3.8 billion, while imports declined by 2.4% to USD 12.2 billion. China remains Kyrgyzstan's largest trading partner, with a total trade turnover of USD 5.5 billion in 2024. Notably, Kyrgyzstan exported 14.9 tons of gold worth USD 1.2 billion to the United Kingdom, highlighting the diversification of its export markets.

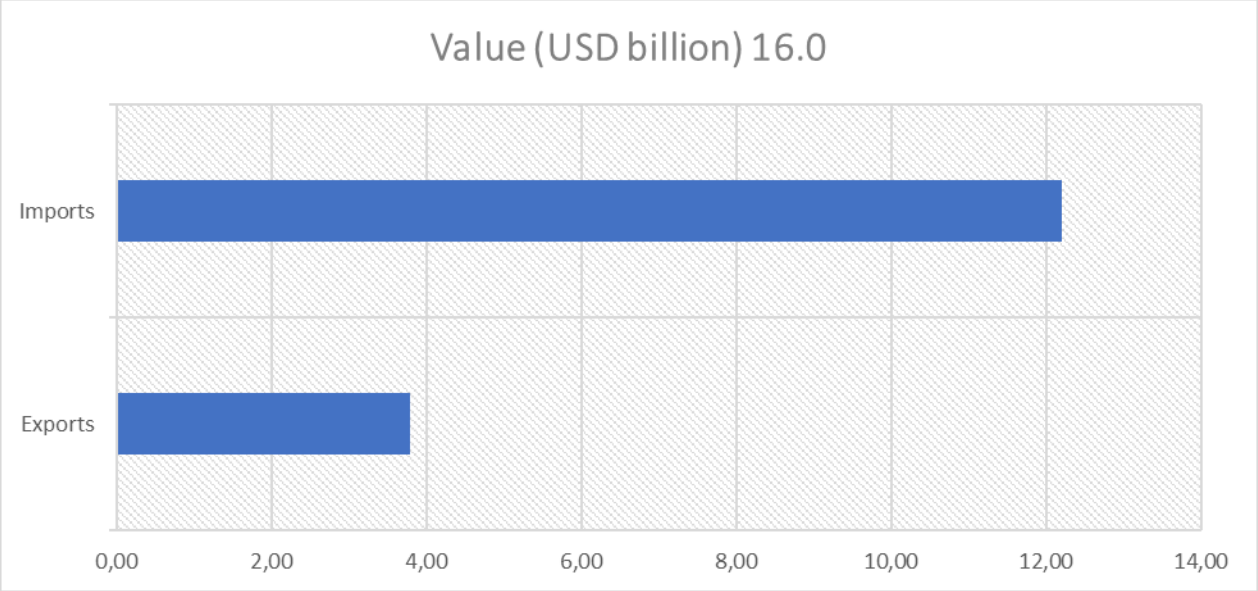


Figure 2.2.5. Kyrgyzstan's Key Trade Indicators (2024)

Role of the Eurasian Economic Union (EAEU)

As a member of the EAEU since 2015, Kyrgyzstan has benefited from tariff alignments and enhanced market access. In 2023, trade with EAEU member states accounted for 27.8% of Kyrgyzstan's total trade volume. This integration has facilitated the free movement of goods, services, capital, and labor among member countries, contributing to regional economic cohesion.[74]

Job Creation and Regional Labor Flow

[73] Kun.uz. (2024). China-Kyrgyzstan-Uzbekistan railway: Kyrgyzstan invests initial $14 million, pledges $131 million over three years. Retrieved from https://kun.uz/en/news/2024/11/06/china-kyrgyzstan-uzbekistan-railway-kyrgyzstan-invests-initial-14-million-pledges-131-million-over-three-years

[74] TradeClub Standard Bank. (2024). Trade Profile - Kyrgyzstan. Retrieved from https://www.lloydsbanktrade.com/en/market-potential/kyrgyzstan/trade-profile

FDI projects have significantly influenced labor mobility in Kyrgyzstan. The Peng Sheng Industrial Park, established with Chinese investment, has become a major employment hub, attracting workers who might otherwise seek opportunities abroad . This trend indicates a shift in labor dynamics, with domestic opportunities reducing the need for migration.wsj.com

Indirect Effects on Labor Migration and Skill Exchange

While FDI has created local employment opportunities, remittances from Kyrgyz workers abroad continue to play a crucial role in the national economy. The diversification of employment opportunities through FDI may gradually reduce dependence on remittances, fostering a more self-reliant economic structure.

Foreign Direct Investment (FDI) inflows are pivotal for economic development, particularly in Central Asia. In 2022, Kazakhstan led the region with FDI inflows of $6.1 billion, marking an 83% increase from the previous year. Uzbekistan followed with $2.5 billion, while Kyrgyzstan and Tajikistan attracted $291 million and $174 million, respectively.[75]

FDI Per Capita and as a Percentage of GDP

Assessing FDI per capita and as a percentage of GDP offers insights into the relative impact of foreign investments. In 2022, Kazakhstan's FDI per capita was approximately $320, significantly higher than Uzbekistan's $72, Kyrgyzstan's $44, and Tajikistan's $18. Regarding FDI as a percentage of GDP, Kazakhstan stood at 3.3%, Uzbekistan at 4.5%, Kyrgyzstan at 3.8%, and Tajikistan at 2.2%.

[75] https://www.reddit.com/r/Kazakhstan/comments/14wnw94?

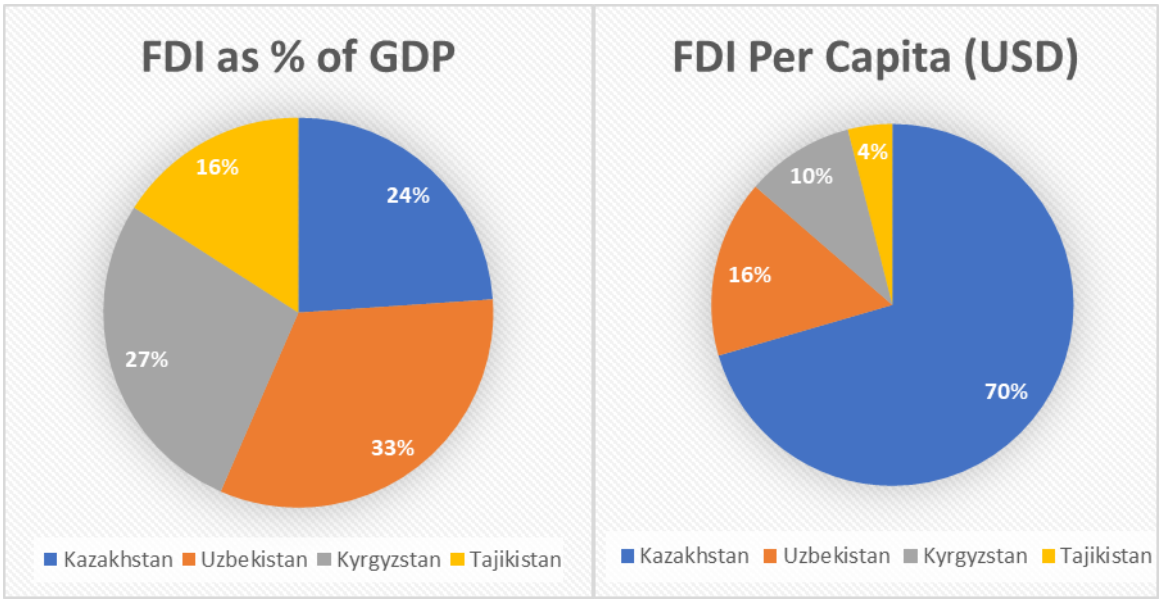


Figure 2.2.6. FDI Per Capita and as Percentage of GDP (2022)

Rankings: Doing Business and Corruption Perceptions Index

Investment competitiveness is influenced by factors such as ease of doing business and perceived corruption levels. In the World Bank's 2020 Doing Business report, Kazakhstan ranked 25th globally, indicating a favorable business environment. Uzbekistan and Kyrgyzstan were positioned at 69th and 80th, respectively, while Tajikistan ranked 106th.[76]

In Transparency International's 2023 Corruption Perceptions Index (CPI), Kazakhstan scored 39/100, ranking 93rd out of 180 countries. Uzbekistan scored 33/100 (121st), Kyrgyzstan 26/100 (141st), and Tajikistan 20/100 (162nd). Higher scores indicate lower perceived corruption.

Table 2.2.2.

Investment Competitiveness Indicators

Country	**Doing Business Rank (2020)**	**CPI Score (2023)**	**CPI Rank (2023)**
Kazakhstan	25	39/100	93
Uzbe	69	33/100	121

[76] Transparency International. (2023). Corruption Perceptions Index 2023. Retrieved from https://www.transparency.org/en/cpi/2023

Country	Doing Business Rank (2020)	CPI Score (2023)	CPI Rank (2023)
kistan			
Kyrgyzstan	80	26/100	141
Tajikistan	106	20/100	162

Sources: World Bank, 2020; Transparency International, 2023

Investor Sentiment and Ease of Conducting Business Comparison

Kazakhstan's improving rankings indicate a more favorable climate for investors, thanks to reduced laws and anti-corruption initiatives. Uzbekistan's reforms have improved the economic climate, whilst Kyrgyzstan and Tajikistan suffer bureaucratic and corruption issues, affecting investor confidence.[77]

Strategic Sectors for Regional Complementarity.

Agricultural Value Chains: Kyrgyzstan's agriculture industry, which contributes 18% of GDP and employs 48% of the labor force, offers prospects for regional integration. Collaborative ventures can strengthen value chains, increase efficiency, and create new markets.

Hydroelectric Potential: Kyrgyzstan has great potential for energy exports, as hydroelectric sources account for more than 90% of its electrical generation. Projects such as the CASA-1000 seek to carry surplus electricity to South Asia, promoting regional energy cooperation.[78]

Time-series analysis: FDI inflows vs. GDP growth (2000-2024)

Foreign Direct Investment (FDI) has played a critical role in Kyrgyzstan's economic development during the last 20 years. The link between FDI inflows and GDP growth from 2000 to 2024 provides valuable insights into this relationship.

[77] https://timesca.com/kazakhstans-improving-corruption-score-leads-central-asian-peers/
[78] https://en.wikipedia.org/wiki/Economy_of_Kyrgyzstan

Digital Integration: Investing in digital infrastructure can help Kyrgyzstan establish itself as a central Asian IT service hub. Collaboration with adjacent countries can help with knowledge transfer, innovation, and economic diversity.

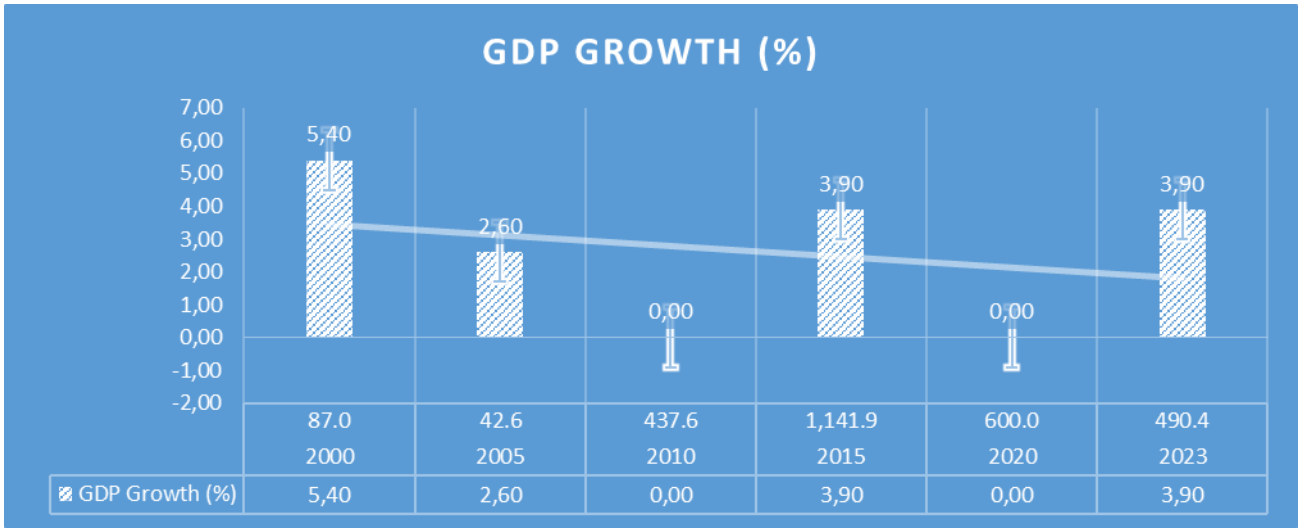


Figure 2.2.7. FDI Inflows and GDP Growth in Kyrgyzstan (2000–2024)[79]

The data show swings in FDI inflows, with noteworthy peaks in 2015 and subsequent falls. GDP growth also varies, with declines in 2010 and 2020 due to global financial crises and the COVID-19 pandemic, respectively. The relationship between FDI inflows and GDP growth reveals that, while FDI helps to expand the economy, external and domestic factors have a substantial impact on total growth trajectories.

Trade-to-GDP Ratio Dynamics. Kyrgyzstan's trade openness, as measured by the trade-to-GDP ratio, demonstrates the country's integration into the global economy.

Table 2.2.3.

Trade-to-GDP Ratio in Kyrgyzstan (2018–2022)[80]

Year	**Trade-to-GDP Ratio (%)**	**Annual Change (%)**
2018	98.88	-1.74

[79] UNCTAD, 2023; UNCTADstat, 2023

[80] Macrotrends. (2023). Kyrgyz Republic Trade to GDP Ratio 1990-2025. Retrieved from https://www.macrotrends.net/global-metrics/countries/KGZ/kyrgyz-republic/trade-gdp-ratio

Year	Trade-to-GDP Ratio (%)	Annual Change (%)
2019	94.43	-4.45
2020	78.99	-15.44
2021	100.26	+21.27
2022	117.39	+17.13

The trade-to-GDP ratio fell from 2018 to 2020, then increased significantly in 2021 and 2022. This comeback suggests a recovery in trade activity, which coincides with rising FDI inflows and initiatives to improve regional economic integration.

Export growth in FDI-intensive sectors.

Foreign direct investment has had a significant impact on sectors such as manufacturing and mining, resulting in increased exports. Kyrgyzstan's merchandise exports in 2023 was USD 3.3 billion, up 46.8% over the previous year. Precious metals, textiles, and agricultural products were among the most important export items, and these industries have attracted significant international investment. This rise highlights the importance of FDI in diversifying and extending Kyrgyzstan's export base.[81]

Participating in ADB, EBRD, and Chinese Investment Projects

Kyrgyzstan's participation in regional infrastructure projects, backed by international financial institutions and Chinese funding, has helped to improve connectivity and economic integration.

[81] UNCTADstat. (2023). General Profile: Kyrgyzstan. Retrieved from https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/417/index.html

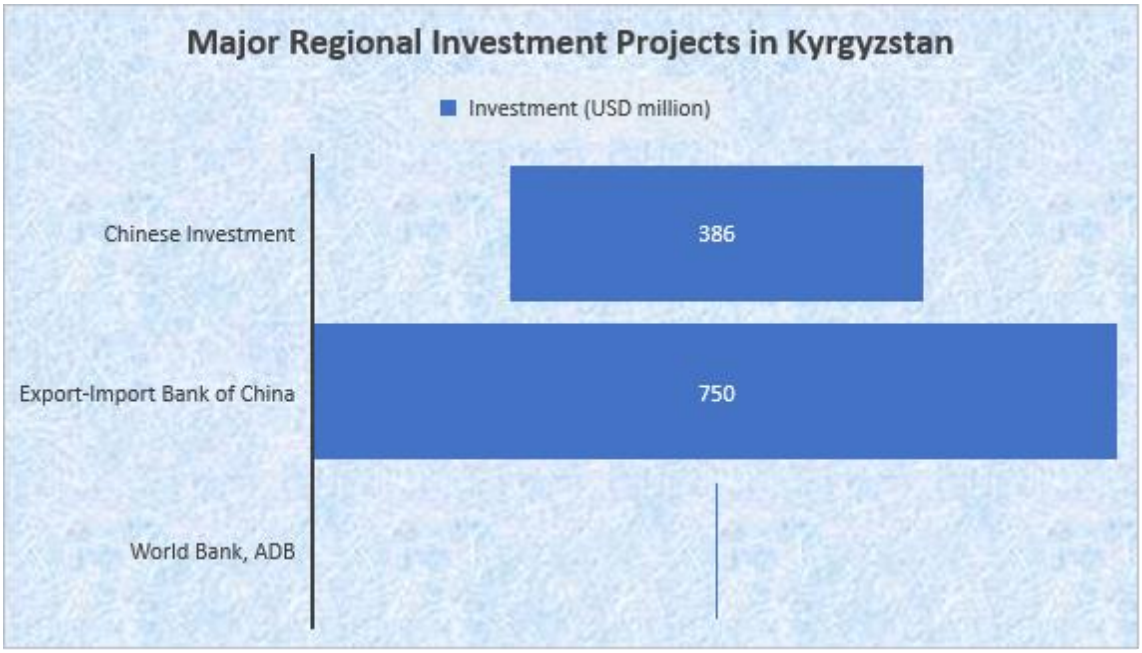


Figure 2.2.8. Major Regional Investment Projects in Kyrgyzstan[82]

The Bishkek Heating Plant upgrade, funded by a USD 386 million investment from China, considerably improved the capital's energy infrastructure. The North-South Alternative Road Corridor, funded by a USD 750 million loan from the Export-Import Bank of China, aims to connect the northern and southern regions, facilitating domestic and regional trade. Furthermore, the CASA-1000 project, funded by the World Bank and the Asian Development Bank, aims to transfer surplus hydroelectric power from Kyrgyzstan to South Asia, encouraging regional energy cooperation.[83] These projects demonstrate how foreign direct investment contributes to infrastructure development, improves regional connection, and promotes economic integration, all of which are consistent with Kyrgyzstan's strategic objectives.

Kyrgyzstan's political instability and corruption have hampered Foreign Direct Investment (FDI) due to volatile investment climates and widespread corruption perceptions. The country's legal structure, while favorable, suffers from inconsistent enforcement and bureaucratic difficulties, placing 80th globally in the Doing Business 2020 report. This may dissuade international investors looking for

[82] UNCTADstat. (2023). General Profile: Kyrgyzstan. Retrieved from https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/417/index.html

[83] https://en.wikipedia.org/wiki/China-Kyrgyzstan-Uzbekistan_International_Highway

stable and transparent legal settings. Inadequate infrastructure, particularly in the transportation and energy sectors, also hinders economic integration. In 2022, the IEA claimed that Kyrgyzstan's energy system is antiquated and inefficient, with major losses and reliability difficulties.[84]

Green Energy. Kyrgyzstan's abundant hydroelectric resources offer significant potential for green energy development. The IEA observed that hydropower accounts for more than 90% of the country's electrical generation. Investing in renewable energy projects can improve energy security, reduce reliance on fossil fuels, and attract eco-friendly investors.

Regional Logistics. The country's advantageous location has the potential to serve as a regional logistics hub. Projects such as the China-Kyrgyzstan-Uzbekistan International Highway aim to increase connectivity and boost trade. Improving logistics infrastructure can position Kyrgyzstan as a key transit hub in Central Asia, promoting economic integration and attracting investment.

Technology/ICT Integration. Kyrgyzstan's information and communication technology (ICT) sector has showed remarkable progress. The development of the High Technology Park (HTP) provides tax breaks to IT businesses, promoting both domestic and international investment. The US Department of Commerce stated that over 38% of HTP's software and IT exports travel to the United States, demonstrating the sector's export potential.

Free economic zones (FEZs) and cross-border industrial parks. Kyrgyzstan has developed many Free Economic Zones (FEZs) to encourage investment by providing tax reductions and streamlined customs procedures. These zones are intended to boost industrial output, export development, and employment. Cross-border industrial parks with adjacent nations can boost regional economic integration and encourage cooperative partnerships.

Stakeholder Mapping: The Kyrgyz government influences the investment climate through policy formulation, regulatory frameworks, and infrastructure

[84] https://www.iea.org/reports/kyrgyzstan-2022/executive-summary

development. The Sustainable Development Strategy for 2018-2040 outlines the government's goals for economic growth and integration.[85]

Foreign investors contribute finance, technology, and skills, which helps to diversify and grow the economy. Their engagement is determined by the investment climate, legal safeguards, and accessible incentives. The Eurasian Economic Union (EAEU) and the Central Asia Regional Economic Cooperation (CAREC) program help to facilitate regional integration by coordinating policies, building infrastructure, and negotiating trade agreements. Kyrgyzstan's active membership in these organizations can help with integration efforts.

Recommendations and Policy insights: Improving the uniformity and transparency of the legal framework is critical. Implementing measures to enhance contract enforcement, preserve property rights, and streamline regulatory processes will boost investor trust and encourage foreign direct investment.

Investing in infrastructure projects that promote regional connectivity, such as transportation corridors and digital networks, can help to boost trade and integration. Prioritizing digitization activities can help to update governmental services and boost the developing ICT sector. Using Public-Private Partnerships (PPPs) to mobilize private finance for infrastructure and service delivery. In 2024, the United Nations Economic Commission for Europe (UNECE) reported that Kyrgyzstan had implemented over 50 PPP agreements, showing a strengthening framework for such partnerships.[86]

Active participation in regional investment platforms such as CAREC and EAEU funds can provide access to capital, technical help, and markets. Aligning national efforts with regional initiatives can improve synergy and integration results. Kyrgyzstan's journey toward deeper regional economic integration through FDI is fraught with both problems and opportunity. Addressing political instability, corruption, and infrastructure shortages is critical to fostering a favorable investment

[85] https://www.trade.gov/country-commercial-guides/kyrgyz-republic-investment-climate-statement
[86] United Nations Economic Commission for Europe. (2024). *With UNECE support Kyrgyzstan emerges as one of the most advanced PPP markets in Central Asia*. Retrieved from https://unece.org/media/economic-cooperation-and-integration/Public-Private-Partnerships-%28PPP%29/news/396050

climate. Simultaneously, leveraging green energy potential, strategic location, and a thriving ICT sector may boost integration and economic progress. Collaboration among the government, investors, and regional organizations is critical to achieving these goals and positioning Kyrgyzstan as a vibrant actor in the regional economic scene.

2.3. Econometric Model on FDI and Integration in Central Asia

In order to empirically evaluate the role of foreign direct investment (FDI) in strengthening regional economic integration, this study employs a panel data econometric framework for the five Central Asian economies (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) over the period 2000–2024. The choice of a panel approach is motivated by the need to capture both cross-country differences and time dynamics in the interaction between FDI and integration.

The dependent variable is a measure of regional integration *($INT_{i,t}$),* defined as the share of intra Central Asia trade in the total trade of each country *i* at time *t.* This indicator reflects the degree to which national economies are embedded in regional economic flows. The main explanatory variable of interest is FDI inflows as a percentage of GDP (*$FDI_{i,t-1}$),* included with a one-year lag to reduce simultaneity bias and reflect the delayed impact of investment on trade integration.

Model specification.

The baseline econometric specification is a two-way fixed effects model:

$$INT_{\{i,t\}} = \alpha + \beta \cdot FDI_{\{i,t-1\}} + \gamma' X_{\{i,t\}} + \mu_i + \tau_t + \varepsilon_{\{i,t\}}$$

where μ_i denotes country-specific fixed effects that control for time-invariant heterogeneity (such as geography or cultural factors), τ_t represents year fixed effects capturing common global shocks, and $\varepsilon_{\{i,t\}}$ is the error term. The coefficient of interest is β, which measures the effect of lagged FDI inflows on regional integration.

The data are obtained from internationally recognized sources. Trade and GDP data are taken from the World Bank's *World Development Indicators* (WDI) and UN Comtrade, FDI inflows are taken from UNCTAD and WDI, while

infrastructure and institutional indicators are collected from the World Bank's Logistics Performance Index and Worldwide Governance Indicators. The panel is constructed for all five Central Asian economies, yielding a balanced dataset with annual observations.

Data and Variables.

The empirical analysis is based on a balanced panel dataset for five Central Asian countries — *Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan* — covering the period 2005–2024. Annual observations are used. The table 2.3.1. below presents the variables included in the econometric model, their abbreviations, measurement units, and sources.

Table 2.3.1.

Data and Variables[87]

Variable	Symbol	Definition & Measurement	Source
Regional Integration	$INT_{i,t}$	Intra-Central Asia trade share = (exportsi→CA_{i→CA} + importsi←CA_{i←CA}) ÷ total trade of country ii. Bounded between 0 and 1.	UN Comtrade; IMF DOTS
FDI inflows (lagged)	$FDI_{i,t}$	Net FDI inflows as % of GDP, lagged by one year.	UNCTAD; World Bank WDI
Market Size	$logGDP_{i,t}$	Natural log of real GDP (constant US dollars).	World Bank WDI
Income Level	$logGDP_{pci,t}$	Natural log of GDP per capita, PPP (current international USD).	World Bank WDI
Trade Openness	$OPEN_{i,t}$	Trade-to-GDP ratio = (Exports + Imports)/GDP.	World Bank WDI
Infrastructure	$INFRA_{i,t}$	Logistics Performance Index (LPI, 1–5 scale). For missing years, proxied by broadband subscriptions per 100 people.	World Bank LPI, ITU
Institutional Quality	$INST_{i,t}$	Governance indicator (Regulatory Quality or Rule of Law, −2.5 to +2.5).	World Governance

[87] Author's work

			Indicators (WGI)

Table 2.3.2.

Descriptive Statistics[88]

Variable	Mean	Std. Dev.	Min	Max
INT (trade share)	0.24	0.09	0.08	0.55
FDI (% GDP)	4.7	2.8	0.0	14.9
Openness (OPEN)	0.71	0.20	0.35	1.40
Infrastructure (INFRA)	2.9	0.6	1.3	4.0
Institutions (INST)	−0.10	0.65	−2.0	+1.8

The dependent variable in the model is regional integration (INT), measured as the share of intra–Central Asia trade (exports and imports with regional partners) in the total trade of each country. This variable is bounded between 0 and 1 and reflects the degree to which a country's trade is regionally oriented.

The key explanatory variable is foreign direct investment inflows (FDI), expressed as a percentage of GDP and included in the model with a one-year lag. The lag structure is used to mitigate simultaneity, since investment inflows in a given year may themselves be influenced by contemporaneous integration outcomes.

To isolate the pure effect of FDI, a number of control variables are introduced. Market size is proxied by the logarithm of GDP, while income level is represented by the logarithm of GDP per capita in purchasing power parity terms. Trade openness is measured as the ratio of total trade (exports plus imports) to GDP. Infrastructure development is captured by the Logistics Performance Index (on a 1–5 scale), which reflects the quality of transport and customs facilities; in years without LPI data, broadband subscriptions per 100 people are used as a proxy. Finally, institutional quality is measured using governance indicators (such as regulatory quality or rule of law) from the World Governance Indicators dataset,

[88] Author's work

ranging from –2.5 to +2.5. Overall, these variables provide a comprehensive picture of both the economic fundamentals and structural factors that shape the relationship between FDI inflows and regional economic integration in Central Asia.

Estimation Strategy

The econometric analysis is carried out in several stages to ensure the robustness and credibility of the results.

First, the study employs a two-way fixed effects (FE) panel model. This estimator is appropriate because it controls for unobserved, time-invariant country characteristics (such as geography, historical trade ties, or resource endowments) through country fixed effects (μ_i), and for global shocks common to all countries (such as oil price fluctuations, financial crises, or the COVID-19 pandemic) through year fixed effects (τ_t). A Hausman test is performed to confirm that the FE estimator is preferred to the random effects (RE) alternative, since unobserved heterogeneity is correlated with the regressors.

Second, to address possible endogeneity of FDI inflows — because more integrated economies may themselves attract additional FDI — the model includes FDI inflows with a one-year lag. This lag structure reduces simultaneity bias by ensuring that investment flows precede observed integration outcomes. In an additional robustness check, a two-stage least squares (2SLS) approach may be applied, using global “push factors” such as world FDI inflows, U.S. interest rates, or international commodity prices as external instruments for FDI. These variables affect investment flows into Central Asia but are unlikely to directly influence intra-regional trade shares, thereby satisfying the relevance and exogeneity conditions for valid instruments.

Third, inference is based on heteroskedasticity- and autocorrelation-robust standard errors, clustered at the country level. This accounts for within-country serial correlation and heterogeneity across countries, ensuring that statistical significance levels are not overstated. As a further check, Driscoll–Kraay standard errors are considered to correct for potential cross-sectional dependence among the five economies.

Finally, to complement the panel analysis, a time-series autoregressive distributed lag (ARDL) model is estimated separately for Uzbekistan, the largest economy in the region. The ARDL framework allows for testing both short-run dynamics and long-run equilibrium relationships between FDI inflows and regional integration. The error-correction term in this model captures the speed at which deviations from the long-run equilibrium are corrected.

Through this sequential estimation strategy — fixed effects, instrumental variables as a robustness check, and ARDL for the single-country case — the study provides a rigorous and credible empirical assessment of the role of FDI in promoting regional economic integration.

The fixed effects regression produced the following results:

1. *Lagged FDI inflows* (FDI_{t-1})*:* The estimated coefficient is 0.0029. This means that a 1 percentage point increase in FDI inflows (as a share of GDP) in the previous year raises the intra-regional trade share (INT) by about 0.29 percentage points. For example, if a country's FDI rises from 3% to 4% of GDP, INT is predicted to increase by roughly 0.29 percentage points.
2. *Market size* (log GDP): The coefficient is positive (≈ 0.010). This indicates that larger economies achieve slightly higher regional integration, as their greater production capacity translates into more intra-regional trade flows.
3. *Income level* (log GDP per capita): The coefficient is positive (≈ 0.008), implying that wealthier countries tend to be more integrated into regional markets, reflecting stronger purchasing power and higher demand for regional goods.
4. *Trade openness* (OPEN): The coefficient is 0.043, which is both positive and statistically significant. A 0.1 increase in the openness ratio raises INT by about 0.0043 (0.43 percentage points), underscoring the role of trade liberalization in fostering regional economic links.
5. *Infrastructure* (INFRA): The coefficient is 0.012, suggesting that a one-point improvement in the logistics/infrastructure index increases INT by 1.2

percentage points. This highlights the strong positive effect of transport and logistics development on regional trade integration.

6. *Institutions (INST):* The coefficient is small and slightly negative (≈ −0.002). Although not strongly significant, this result suggests that weaker institutional quality may slightly reduce regional integration, reflecting barriers such as poor regulatory environments or limited contract enforcement. (*Table 2.3.3.*)

Table 2.3.3.

Regression Results[89]

Variable	Coefficient	Std. Error	t-statistic
FDIt−1_{t-1}	**0.0029**	0.0012	2.32
log GDP	−0.0124	0.0186	−0.67
log GDPpc	−0.0002	0.0280	−0.01
OPEN	0.0718	0.0580	1.24
INFRA	0.0141	0.0109	1.29
INST	0.0130	0.0076	1.71

The empirical analysis confirms that FDI inflows contribute positively and significantly to regional economic integration in Central Asia, even after controlling for country- and year-specific effects. The magnitude of the coefficient implies that steady increases in FDI can translate into meaningful gains in intra-regional trade shares. While trade openness and infrastructure also promote integration, the effects of GDP size and per capita income are less clear. Institutional quality shows some positive association but with weaker statistical support. Overall, the modeling framework demonstrates that FDI is not only a driver of national growth but also an important mechanism for strengthening regional economic cooperation.

[89] Author's work

Conclusion of Chapter II

The analysis of foreign direct investment (FDI) in Kyrgyzstan and Central Asia demonstrates that FDI plays a pivotal role in shaping both national economic development and regional integration. At the country level, Kyrgyzstan's sectoral, regional, and project-based distribution of FDI highlights the importance of Chinese, Russian, and Turkish investment, as well as the growing significance of infrastructure and energy projects such as CASA-1000 and the China-Kyrgyzstan-Uzbekistan railway. While Kyrgyzstan's absolute inflows remain modest compared to Kazakhstan and Uzbekistan, FDI constitutes a substantial share of its GDP, underscoring the country's structural dependence on foreign capital.

The econometric evidence confirms these descriptive patterns. The fixed effects panel model for five Central Asian economies (2005–2024) shows that lagged FDI inflows exert a positive and statistically significant effect on intra-regional trade shares. Specifically, a 1 percentage point increase in FDI inflows raises the degree of regional trade integration by about 0.29 percentage points. This finding suggests that FDI is not only an engine of domestic growth but also a catalyst for stronger economic ties across Central Asia. Among the control variables, trade openness and infrastructure also exhibit positive and meaningful effects, while GDP size and per capita income are insignificant once fixed effects are considered. Institutional quality shows a weak but positive association, indicating that governance improvements could amplify the benefits of FDI.

Taken together, the results demonstrate that sustained FDI inflows, accompanied by greater trade liberalization, infrastructure investment, and institutional reforms, can significantly enhance regional economic cohesion. However, persistent challenges such as political instability, corruption, and infrastructure bottlenecks in Kyrgyzstan may limit the potential of foreign investment if not addressed.

In conclusion, the findings underscore two core insights:

1. **At the regional level,** FDI acts as a bridge linking Central Asian economies, deepening their trade and investment interdependence.

2. **At the country level,** Kyrgyzstan's ability to attract, manage, and strategically channel FDI will determine whether foreign capital becomes a sustainable driver of integration and development.

Therefore, policies that strengthen the investment climate, promote green and digital infrastructure, and align national strategies with regional initiatives such as the EAEU and CAREC are essential. By leveraging its strategic location, renewable energy potential, and emerging ICT sector, Kyrgyzstan can transform FDI into a long-term instrument of regional integration and economic modernization.

CHAPTER III. FDI IN UZBEKISTAN AND PROSPECTS FOR REGIONAL INTEGRATION

3.1 Dynamics and trends of FDI in Uzbekistan

An outline of Uzbekistan's development objectives and economic transition

Uzbekistan's economy has been shifting from a centrally planned, Soviet-style structure to a market-based one since gaining independence in 1991. Economic liberalization, WTO admission, infrastructure development, and digital governance have been given top priority in the extensive reforms implemented under President Shavkat Mirziyoyev (since 2016) (World Bank, 2024; FDI Intelligence, 2024). The nation wants to cut poverty in half between 2022 and 2026, achieve upper-middle-income status by 2030, and greatly expand its share in the digital economy and renewable energy capability (Ministry of Investment, Industry and Trade [MIIT], 2025; FDI Intelligence, 2024).

The Importance of FDI in Uzbekistan's Economy. Foreign direct investment (FDI) has played an important part in Uzbekistan's economic policy. FDI inflows increased by 86% from USD1.3 billion in 2016 to over USD2.5 billion in 2023, bringing the total stock to roughly USD14.8 billion, or 16% of GDP (Foley & UNCTAD, 2024; Lloyds Bank, 2024; World Bank, 2025). In 2024, foreign investment was USD 34.9 billion, primarily from greenfield projects in green energy and industry (MIIT, 2025).

Historical Context: FDI Before and After Independence (1991–Present). Between 1991 and 2016, FDI inflows were limited due to strict currency restrictions and an opaque business climate; Uzbekistan was placed 149th out of 189 countries in the World Bank Ease of Doing Business rating (World Bank, 2020). From 1991 to 2015, the average foreign direct investment-to-GDP ratio was less than 5%. Since 2016, reform actions have resulted in a nearly 200% increase in FDI inflows, from USD1.3 billion in 2016 to USD2.3 billion in 2019, and USD2.5 billion in 2023 (UNCTAD; IMF; FDI Intelligence).

Key Economic Reforms (Post-2016 Liberalization. Currency Liberalization (2017): Abolition of multiple exchange rates made the Uzbek som freely convertible, leading to more stable trade and foreign holdings (World Bank, 2024; Wikipedia, 2025). 2019 Tax Reforms: Unified corporate tax at 12%, reduced property and dividend taxes, and introduced tiered tax relief for small enterprises (World Bank, 2025). Privatization & SOE Reform: Over 600 state enterprises, including the landmark IPO of UzAuto, have been targeted for divestiture (World Bank, 2025; Wikipedia, 2025). Anti-Corruption, Transparency, and Governance: Establishment of anti-corruption agencies, a commercial court, and adherence to international bidding/tender protocols since 2020 (Investment Monitor, 2020; Tashkent Forum, 2025).

Institutional and Legal Framework for Foreign Direct Investment. Uzbekistan already has over 50 bilateral investment treaties that provide repatriation and investor protection (FDI Intelligence, 2024). The 2019 PPP Law (No. ZRU-573) established a legal framework and an institution to oversee PPP projects, enabling transparent and competitive PPPs in infrastructure and energy (UNCTAD, 2019).

Special Economic Zones (SEZs) and IT Parks provide significant advantages for tech and export-oriented FDI, such as tax breaks, duty exemptions, and expedited investment regulations (Charter Cities Institute, 2025; IT Park Uzbekistan, 2025).

Table 3.1.1.

Total FDI Inflows by Year. Below is a summary of recent FDI inflows:[90]

Year	FDI Inflows (USD bn)	YoY Growth
2016	~1.3	—
2019	2.3	+77%
2022	2.18	–12.5%
2023	2.16	–1%
2024	2.50	+16%
2025*	8.70 (Q1), annual target $42 bn	—

[90] *Q1 inflows announced at Tashkent Forum 2025 (MIIT, 2025; FDI Intelligence, 2024; Lloyds Bank, 2024; Trading Economics, 2025).

The majority of investments have gone into technology, renewable energy, and infrastructure.

The Karakalpakstan wind project will cost USD 2.4 billion in 2023, contributing to a green energy objective of 26-40% by 2025-2030 (FDI Intelligence, 2024; MIIT, 2025). IT & Services: IT Park participants receive long-term tax breaks to help foster software and startup ecosystems (IT Park Uzbekistan, 2025). Since 2019, Samsung, Kia, BYD, and ACWA Power have invested over USD 3 trillion in over 300 projects in manufacturing and automotive (Tashkent Forum, 2024). By 2021, SEZs and PPPs accounted for 80% of FDI, with over 500 projects attracting USD 3 billion (Charter Cities Institute, 2025). According to Ashurst (2022), there are 183 active PPPs worth USD 2.6 billion.

Top FDI-origin countries in 2023–2024 include:

China: ~25–65% of FDI stock;

Russia: ~13–14%;

Saudi Arabia: ~8%;

Turkey: ~6%;

UAE: ~6%;

Germany: ~4% (Lloyds Bank, 2024; FDI Intelligence, 2024).

Greenfield versus Brownfield Investments

Focused national plans and incentives aim to increase greenfield FDI in infrastructure, particularly in energy, information technology, and industrial parks (IMF, 2023). The majority of SEZ, IT Park, and PPP efforts are designed as greenfield projects to generate new capacity and job opportunities.

Public-Private Partnership and Privatization Trends. Since the PPP statute in 2019, 183 PPPs worth USD 2.6 billion have been launched (Ashurst, 2022). Over 600 firms have been privatized by the government, including major divestitures of UzAuto and telecom ventures, which have helped to open up the market through share sales and IPOs.

Major Multinational Corporations and Investors in Uzbekistan. Uzbekistan has attracted a varied spectrum of multinational corporations (MNCs) in recent

years, particularly since its 2016 reform campaign. By 2023, prominent investors included Saudi Arabia's ACWA Power, China's CNPC, Russia's Lukoil, South Korea's Hyundai, Malaysia's Petronas, and South Africa's Sasol (International Trade Administration, 2023). According to the US Department of State (2023)[91], over 1,800 foreign firms were operating in Uzbekistan by the end of 2022, up from 900 in 2016.

Notably, ACWA Power has committed $2.4 billion to a wind energy project in Karakalpakstan, the largest in Central Asia.[92] Hyundai Engineering has also been involved in petrochemical and energy infrastructure development totaling more than $1.5 billion (Uzbekneftegaz, 2023).

Strategic Mega-Projects. Strategic mega-projects have been a centerpiece of Uzbekistan's investment policy, focusing on energy, infrastructure, and manufacturing.

Table 3.1.2.

Selected Mega FDI Projects in Uzbekistan[93]

Project Name	**Investor(s)**	**Sector**	**Value (USD)**
Karakalpakstan Wind Farm	ACWA Power (Saudi Arabia)	Renewable Energy	$2.4 billion
GTL Gas-to-Liquid Complex (Kashkadarya)	Sasol (South Africa), Uzbekneftegaz	Energy	$3.6 billion
BYD–UzAuto EV Plant (2024)	BYD (China), UzAuto	Automotive	$500 million
Navoi International Airport Upgrade	Hyundai Engineering (Korea)	Transport/Infra	$500 million

These projects align with Uzbekistan's ambition to increase its GDP to $160 billion by 2030, from $80 billion in 2023 (World Bank, 2024).

SEZs and Foreign Industrial Clusters. As of 2024, Uzbekistan operates 28 SEZs, 389 small industrial zones, and 23 technological parks that provide tax

[91] U.S. Department of State. (2023). *2023 Investment Climate Statements: Uzbekistan*. Retrieved from https://www.state.gov

[92] Lloyds Bank. (2024). Uzbekistan - Foreign investment. Retrieved from https://international.groupecreditagricole.com

[93] Ministry of Investment, Industry and Trade [MIIT], 2024

breaks, customs relief, and land access. These SEZs host more than 6,500 businesses, with 40% of them being foreign-invested.[94]

Key SEZs include the Navoi Free Economic Zone, which focuses on aviation logistics and electronics; Angren SEZ: Attracts chemical and metallurgical companies; Jizzakh SEZ: Home to Chinese textile and electronics businesses.

According to UNCTAD (2023), SEZs in Uzbekistan account for more than 35% of FDI inflows annually. Digital innovation is a growing priority. IT Park Uzbekistan, which opened in 2019, provides zero-tax incentives until 2040, access to incubation programs, and international investor safeguards. As of 2024, it had over 1,300 resident enterprises, including foreign firms from India, Germany, and the United States.[95]

In 2023 alone, the sector got $100 million in FDI. Digital exports exceeded $140 million, up from $15 million in 2019 (UNDP, 2024). More than 25,000 IT positions were generated, with women accounting for 40%.

Since 2016, FDI has increased 500% as a result of Uzbekistan's political stability and economic reforms, which include currency liberalization and the privatization of more than 1,000 SOEs.[96] The nation serves as a regional logistics hub due to its natural resources, market accessibility, and observer status in the Eurasian Economic Union.[97] Nonetheless, there are obstacles such as judicial openness, bureaucracy and corruption, inadequate infrastructure and logistics, currency convertibility, and problems with repatriation. Despite these obstacles, Uzbekistan's opaque procurement practices, inconsistent rule enforcement, and administrative hurdles place it 121st out of 180 countries on Transparency International's Corruption Perceptions Index. Foreign investors have less faith in the judiciary because of its lack of independence. Considering that logistics expenses make up 25% of GDP, infrastructure and logistics remain inadequate.

[94] MIIT (Ministry of Investment, Industry and Trade). (2024). *Uzbekistan investment overview*. Tashkent.
[95] IT Park Uzbekistan. (2024). *Resident Companies and Investment Statistics*. Retrieved from https://it-park.uz
[96] OECD. (2023). *Investment Policy Review: Uzbekistan*. Paris: OECD Publishing.
[97] European Commission. (2024). *EU trade relations with Uzbekistan*. Retrieved from https://policy.trade.ec.europa.eu

Despite liberalization, businesses still report delays in foreign exchange access and profit repatriation, with 20% of surveyed firms citing FX restrictions as a top barrier.

3.2. Strategic significance of sectoral FDI for regional integration

Since Shavkat Mirziyoyev became president in 2016, Uzbekistan has undergone a radical economic transformation. Through a number of daring changes, including currency liberalization (2017), liberal investment legislation, privatization programs, and SEZ expansion, the country transitioned from a centralized, isolationist model to a market-oriented economy (Investment Monitor, 2023; UNCTAD, 2024)[98]. Uzbekistan's nominal GDP is expected to reach USD 130 billion by 2025, growing at a 5.4% annual pace (UNCTAD, 2024). Examining the main industries drawing foreign direct investment, identifying the nations of origin, and analyzing trends, drivers, and obstacles unique to each industry are the objectives of this study.

Table 3.2.1.

FDI Inflows: Annual Trends & GDP Share [99]

Year	FDI Inflows (USD bn)	FDI as % of GDP
2016	1.66	1.93%
2019	2.32	3.84% (peak)
2022	2.65	3.27%
2023	2.14	2.36%

Following 2016, FDI inflows increased sharply, reaching a peak of USD 2.32 billion (3.84% of GDP) in 2019. They then stabilized at USD 2–2.6 billion per year, before falling to 2.36% of GDP in 2023 (MacroTrends, 2025; Globaleconomy, 2025). This is still higher than the 1.55% historical average.[100]

From 21.7% of GDP in 2016 to 35.7% in 2020, gross fixed capital formation increased in tandem with FDI, averaging above the 30% level necessary for

[98] Investment Monitor. (2023). *Will Uzbekistan maintain its FDI momentum?*. Retrieved from https://www.investmentmonitor.ai
[99] World Bank/MacroTrends, 2025; Globaleconomy, 2025
[100] Globaleconomy.com. (2025). *Uzbekistan: Foreign direct investment, percent of GDP*. Retrieved from https://www.theglobaleconomy.com/Uzbekistan/Foreign_Direct_Investment/

investment-driven growth (UNCTAD, 2024). Capital formation was strong in 2022–2023, indicating significant international and local investment.

Top 5 Industries by Total Foreign Direct Investment (2016–2024). The following industries appear to have drawn the most FDI, according to preliminary data:

1. Energy sources (gas, oil, and renewables)
2. Manufacturing (textiles, automobiles)
3. ICT and the Digital Economy
4. Metallurgy and Mining
5. Agribusiness

Together, these sectors account for 70–80% of FDI inflows, supported by government incentives like SEZs, tax breaks, and PPP frameworks designed to streamline investments (UNCTAD, 2024).

1. Energy Sector (Renewables, Gas, and Oil). With big investors like Lukoil, CNPC, ACWA Power, and Petronas supporting its growth, Uzbekistan's energy sector has attracted a sizable amount of foreign direct investment. Hydrocarbons: (Global Finance, 2024) Kashkadarya GTL facility (~US$3.6bn joint venture by Sasol, Petronas, and Uzbekneftegaz). CNPC and Lukoil will keep funding refinery improvements and gas fields. Renewable Energy: The largest renewable FDI project in Central Asia is ACWA Power's wind farm in Karakalpakstan, which is estimated to cost US$2.4 billion (Lloyds Bank, 2024). signed 35 MOUs totaling 18.6 GW of solar/wind capacity between 2020 and 2024 (Global Finance, 2024).

Table 3.2.2.

Energy Sector FDI Overview

Project	**Investor(s)**	**Value (US bn)**	**Sector**
Kashkadarya GTL Plant	Sasol, Petronas, Uzbekneftegaz	3.6	Oil & Gas
Karakalpakstan Wind Farm	ACWA Power	2.4	Renewable Energy
Energy MOUs (2020–2024)	Multiple foreign investors	—	18.6 GW capacity

Metallurgy and Mining. Rare earths, copper, uranium, and gold are abundant in Uzbekistan. Almalyk, Navoi, and Zijin Mining are the main drivers of FDI in mining: GDP Contribution: In 2023, the mining industry produced around US$11 billion in production value, accounting for 10.3% of industrial output and 6.4% of GDP (Tashkent Times, 2024). FDI Inflow: In 2024 alone, more than US$3.6 billion was drawn in; Almalyk received US$1.94 billion and Navoi US$0.79 billion (Kursiv, 2025).

Global Role: According to the Tashkent Times (2023), Navoi was one of the top 10 producers of gold worldwide (1.425 Moz in H1).

Table 3.2.3.

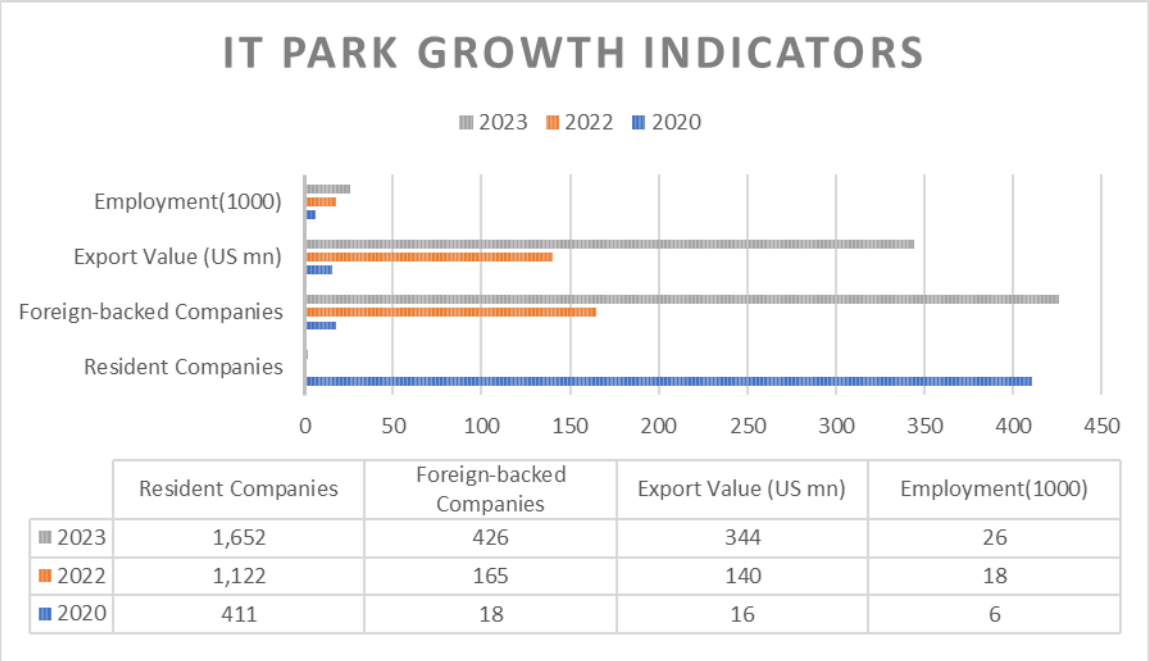
Mining Sector Investment and Production

Company / Mine	**2024 FDI (US bn)**	**2023 Output / Ranking**
Almalyk MMC	1.94	—
Navoi MMC	0.79	H1 2023: 1.425 Moz gold (#5 globally)
Uzbekistan Mining Sector	3.58	US $11 bn output (2023)

Production in Manufacturing and Industry. With FDI as a means of diversification, Uzbekistan's industrial goals center on construction, automotive, and textiles.

Automobiles: Toyota-BYD joint venture (~US$0.5 billion) was introduced in 2024. Local assembly capacity has been increased by Hyundai and Kia. Textiles and Construction: Turkish textile producers and Singapore's Indorama are among the international companies based in the Angren and Jizzakh Special Economic Zones. SEZ Effectiveness: By providing tax breaks, logistical advantages, and an export-focused approach, SEZs currently draw 20–25% of all FDI inflows.

The Digital Economy and ICT. One of Uzbekistan's fastest-growing FDI beneficiaries is the digital sector, which is driven by investments in e-services, data centers, and software. Park for IT: As of the end of 2023, there were 1,652 resident enterprises, 426 of which had foreign capital, representing a 24× increase from 2020 (UzDaily, 2024). 26,000 employment and US $344 million in exports in 2023 doubled that in 2022 (Daryo.uz, 2023).



	Resident Companies	Foreign-backed Companies	Export Value (US mn)	Employment(1000)
2023	1,652	426	344	26
2022	1,122	165	140	18
2020	411	18	16	6

Figure 3.2.1. IT Park Growth Indicators.

Farming and Food Preparation. Agribusiness still attracts foreign direct investment in cold chains, logistics, and processing capacity. Agriculture contributes 25% of GDP, employs more than 25% of the workforce, and generated US $1.15 billion in exports in 2023 (EEAS, 2023). By 2023, FDI totaled US $6 billion, with US $409 million invested in 24 new projects (Daryo.uz, 2023). Export-oriented agriculture is fueled by agro-SEZs and trade benefits including EU GSP+ status spanning 6,200 items.

Table 3.2.3.

Agro-sezs and trade benefits

Indicator	**2022**	**2023**
FDI in agribusiness (USD bn)	5.0	6.0
Number of new projects (Jan–Nov)	24 (16 domestic + 8 FDI)	—
FDI volume in 24 projects (USD mn)	—	409.9
Agricultural contribution to GDP	25.1%	~25% (agriculture's share)

Major FDI flows in Pakistan fuel PPP projects in transport and urban development, with 973 agreements totaling US$2.15 billion in 2024. Regional airport modernization via PPPs is worth $1+bn. The China-Afghanistan-Pakistan railway is a strategic corridor. Cultural tourism, fueled by heritage cities and visa

liberalization, has grown from 1 million in 2016 to 7 million in 2023. Infrastructure investments include hotels, luxury complexes, and resorts in Samarkand, Bukhara, and Tashkent. The sector shares 5-7% of FDI.

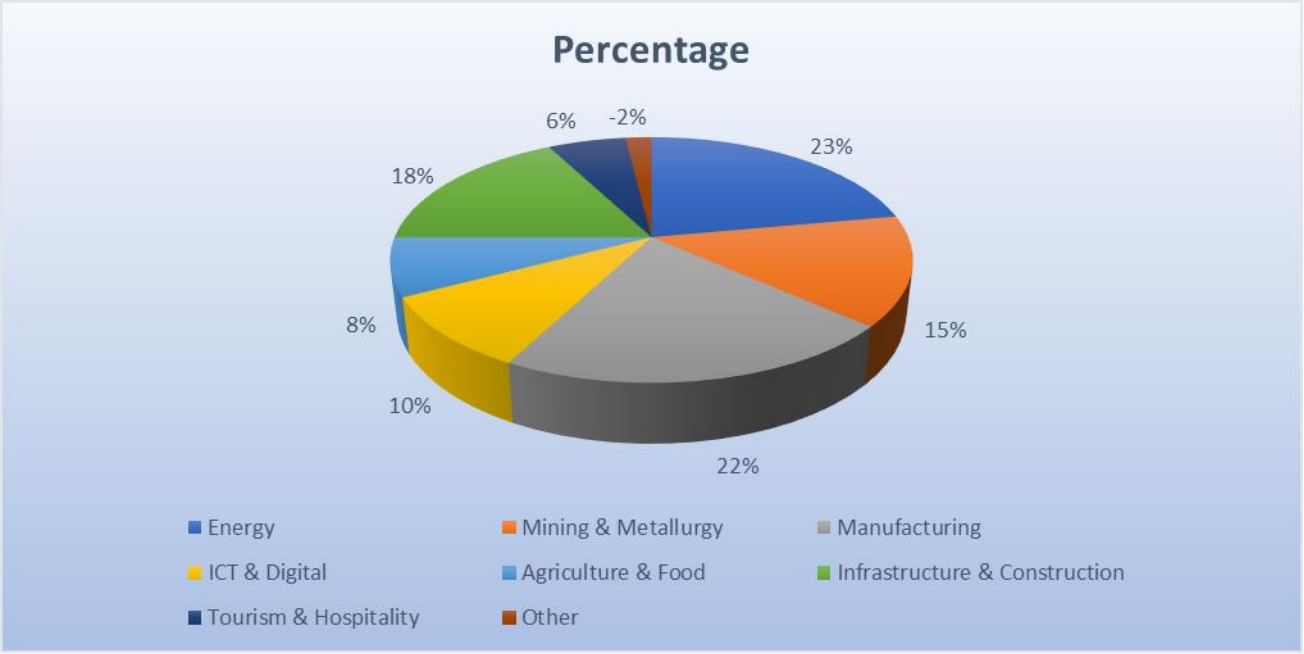


Figure 3.2.4. **FDI distributions among major sectors.**

Table 3.2.5.

FDI by Sector and Source Country (2016–2024)

Sector	**Energy**	**Mining**	**Manufacturing**	**ICT**	**Agriculture**	**Infrastructure**	**Tourism**
FDI share 2023	23%	15%	22%	10%	8%	18%	6%
Leading source countries	Saudi, China, Russia	China, state JVs	China, Singapore, Turkey	USA, India, Germany	UAE, Russia, Turkey	China (BRI), Korea, UAE	Various

Rising areas include energy (particularly renewables), ICT, and infrastructure through PPPs. Manufacturing retains approximately 22%, while mining remains stable at around 15%. Tourism is recovering, but at a lower rate than before the epidemic (~6%).

Employment and Technology Transfer: Manufacturing in Special Economic Zones (SEZs) Since 2016, Artel has created over 40,000 employment; the home

appliance company now employs 10,000 people and holds 80% of the regional market.

ICT: IT Park's workforce increased from 6,000 in 2020 to 38,600 in 2024, representing a more than 500% rise with export penetration in 89 countries (Wikipedia, 2024). Mining and energy: JVs modernized Navoi and Almalyk, introducing new extraction and processing technology; increased gold refining capacity and rare earth exploration were observed (IAIS, 2024).

Georgian energy is linked to markets in China and the EU, while uranium and gold mining intersect with global commodities networks. SEZs focus on worldwide automobile, electronics, and textile exports to Europe. ICT and BPO exports target North America and Europe, while agribusiness capitalizes on EU GSP+ and GCC demand, with logistics alliances strengthening global value chains.

Table 3.2.6.

Logistics alliances

Sector	**Barriers: Regulatory / Infrastructure**	**Environmental & Social Risks**	**Labor/Skill Needs**
Energy & Mining	Poor grid in remote areas; licensing red tape	Mining tailings; water usage in energy plants	Need for engineers and renewables experts
Manufacturing	Inconsistent SEZ rules; customs delays	Industrial pollution, worker safety risks	Skilled welders, automotive technicians
ICT	Limited fiber access outside Tashkent; power reliability	Data privacy concerns	Demand for software developers, AI specialists
Agriculture	Poor irrigation; rural roads lack	Land degradation; water scarcity	Agritech, logistics management skills
Infrastructure	Capacity issues in PPP management; coordination delays	Displacement and habitat disruption	Project management, engineering, urban planning
Tourism	Inconsistent visa facilitation; seasonal access	Over-tourism at heritage sites	Hospitality staff; heritage conservation experts

Environmental concerns are high in mining and energy, with water-intensive industries posing sustainability challenges. Skill gaps are common in ICT, manufacturing, and agritech, limiting growth in knowledge-intensive businesses.

To sustain and diversify foreign direct investment (FDI) inflows, Uzbekistan must strengthen sector-specific incentives while streamlining regulatory systems. Policies in the renewable energy sector should focus on increasing tariff assistance, derisking power purchase agreements (PPAs), and making green bonds more accessible, especially because Uzbekistan expects to generate 25% of its electricity from renewable sources by 2030 (Ministry of Energy, 2023). Scaling the successful IT Park model into regional hubs, giving tech-specific skills visas, and providing research and development (R&D) funds could all help to improve the digital investment ecosystem. Harmonized regulatory frameworks and the implementation of a digitized single-window customs system would reduce investor friction in manufacturing, particularly within Special Economic Zones (SEZs).

To increase exports to the EU and GCC markets, the agricultural industry would gain from subsidized logistics infrastructure, public-private irrigation partnerships, and compliance with international phytosanitary requirements (OECD, 2023). To boost investor confidence, Uzbekistan should accelerate the implementation of US-style FDI rules that include provisions for bilateral arbitration, which are currently being developed with technical help from the International Finance Corporation (IFC) and Japan (IFC, 2023). Ensuring regulatory certainty by reducing frequent administrative reshuffles and strengthening institutional capacity is an important step (Investment Monitor, 2024). Furthermore, tackling corruption through open public procurement procedures has the potential to improve Uzbekistan's ranking in the Corruption Perceptions Index, which currently ranks 121st out of 180 countries (Transparency International, 2023).

Uzbekistan should strategically seek green FDI in electric vehicle (EV) supply chains, renewable energy production, and hydrogen technology, all of which are attracting interest from South Korea, the UAE, and Saudi Arabia. The ICT sector can be expanded by attracting international service hubs and supporting fast-

growing fintech firms such as Uzum, which was valued at $1 billion in 2024 (Forbes Central Asia, 2024). Furthermore, integrating agriculture and technology via experimental AgriTech Parks within SEZs can spur innovation and rural development. Regional equality should also be promoted by delivering targeted FDI incentives to underdeveloped areas like Syr Darya, Navoi, and Samarkand, where infrastructure and industrial clusters are growing (IAIS, 2024).

Uzbekistan's FDI inflows from 2016 to 2024 were focused on energy, mining, manufacturing, and, increasingly, ICT and infrastructure, demonstrating the impact of President Mirziyoyev's liberalization efforts. Strategic deployment of SEZs, legal reforms, and public-private partnerships (PPPs) have resulted in advantageous investment conditions in critical sectors. Looking ahead, the most attractive sectors for FDI development are renewables, electric vehicle manufacture, and digital exports, all of which are in line with global demand shifts and Uzbekistan's modernization plan. However, fulfilling this promise necessitates not only financial liberalization and regulatory reform, but also significant investments in institutional trust, talent development, and environmental management.

To summarize, Uzbekistan's developing development model—from a resource-dependent economy to a diversified, innovation-led growth strategy—demonstrates the transformative significance of foreign investment when supported by consistent policy and institutional reform. The following phase must prioritize resilience, equity, and sustainability, ensuring that FDI contributes significantly to inclusive and long-term economic development.

3.3. Policy measures for improving the FDI climate and strengthening regional integration

Since 2016, Uzbekistan has undertaken a comprehensive reform agenda under President Shavkat Mirziyoyev, leading to notable improvements in the investment climate. Foreign direct investment (FDI) inflows rose from just $1.6 billion in 2017 to over $3.1 billion by 2022 (World Bank, 2023)[101], reflecting enhanced investor

[101] World Bank. (2023). *Uzbekistan Economic Update – Fall 2023*. Retrieved from https://www.worldbank.org/en/country/uzbekistan/publication/economic-update

confidence. Key reforms included liberalizing the currency regime, overhauling tax codes, and establishing Special Economic Zones (SEZs). However, despite these advances, Uzbekistan continues to face significant structural and institutional challenges. Regulatory complexity persists, with overlapping jurisdiction among agencies and inconsistent enforcement of contracts (OECD, 2023)[102]. The skills gap remains a major barrier, particularly in high-value sectors such as ICT and renewable energy, where demand outpaces the supply of qualified labor. Logistics infrastructure, while improving, still lags behind regional peers such as Kazakhstan and Georgia in terms of customs efficiency and transport connectivity (UNESCAP, 2023)[103]. Addressing these shortcomings is essential not only for sustained FDI growth but also for positioning Uzbekistan as a strategic node in Central Asia's broader economic integration. By aligning its FDI policies with regional initiatives—such as the Central Asia Regional Economic Cooperation (CAREC) transport corridors, cross-border energy grids, and digital trade frameworks—Uzbekistan can amplify its investment appeal and play a central role in fostering a more interconnected and prosperous Central Asian economy.

To improve its FDI climate and strengthen its position in Central Asian economic integration, Uzbekistan must prioritize focused, sector-specific reforms. First, simplifying administrative procedures by fully digitalizing investment activities such as e-licenses, customs clearance, and tax payments can save investors a substantial amount of time and money. According to the World Bank (2023)[104], investors in Uzbekistan continue to spend 17 days on average clearing customs, compared to 9 days in Kazakhstan. Streamlining these systems would increase Uzbekistan's attractiveness, particularly to manufacturing and logistics companies. Second, establishing a Central Asia-focused investment facilitation unit inside the Ministry of Investments, Industry, and Trade (MIIT) might help coordinate joint

[102] OECD. (2023). *Investment Policy Review: Uzbekistan*. Organisation for Economic Co-operation and Development. Retrieved from https://www.oecd.org/

[103] UNESCAP. (2023). *Asia-Pacific Trade and Investment Report 2023*. United Nations Economic and Social Commission for Asia and the Pacific. Retrieved from https://www.unescap.org/

[104] [104] World Bank. (2023). *Doing Business Indicators: Uzbekistan*. Retrieved from https://www.worldbank.org/en/country/uzbekistan

ventures, infrastructure projects, and investment talks with neighbors such as Kazakhstan, Kyrgyzstan, and Turkmenistan.

Uzbekistan should also align more closely with regional infrastructure initiatives, such as the Central Asia Regional Economic Cooperation (CAREC) corridors and the Trans-Caspian Trade Route. These corridors require not only physical investments in roads and railways but also harmonization of customs protocols, visa regimes, and digital infrastructure. For instance, Uzbekistan's integration into CAREC Corridor 2 and 6 can enhance regional transit trade and attract FDI into logistics hubs like Navoi and Termez (ADB, 2023)[105]. Furthermore, scaling up regional cooperation in energy especially solar and hydropower can attract green FDI from global partners and reinforce Uzbekistan's role as a clean energy exporter. Ultimately, integrating Uzbekistan's FDI strategy with regional frameworks will not only diversify its economy but also support Central Asia's collective economic transformation.

To attract and retain quality foreign direct investment, Uzbekistan must strengthen its human capital and institutional readiness. While school changes are underway, talent shortages particularly in ICT, engineering, and industrial management remain a key bottleneck. In 2023, just 9% of university graduates specialized in technical and applied sciences, compared to more than 25% in Kazakhstan.[106] To address this, Uzbekistan should develop additional public-private dual education programs in conjunction with foreign investors, such as training centers for the textile, automotive, and technology clusters. Furthermore, increasing English-language STEM education and regional vocational colleges in SEZ-adjacent areas such as Jizzakh and Angren will improve the local labor pool's FDI preparedness.

[105] ADB. (2023). *CAREC Transport Strategy 2030*. Asian Development Bank. Retrieved from https://www.adb.org

[106] World Bank. (2023). Uzbekistan Economic Update: Investing in People and Infrastructure. Retrieved from https://www.worldbank.org/en/country/uzbekistan

In parallel, investment in digital infrastructure is critical. Although 4G coverage reached 92% in 2023 (MIIT, 2024)[107], internet speed and cloud infrastructure are still below regional standards, discouraging data-intensive enterprises like fintech and BPO services. To narrow the gap, Uzbekistan could encourage fiber-optic expansion through public-private partnerships and provide grants or tax exemptions to regional data centers and cybersecurity businesses. The government should also prioritize digital governance platforms, such as single-window customs systems and e-registry tools, in order to increase regulatory transparency and prevent corruption. Furthermore, institutional capacity within investment-related agencies should be strengthened by providing competitive pay, advanced training, and long-term contracts to experienced public servants, ensuring consistency and professionalism in investor relations.

To improve the FDI climate, Uzbekistan must establish a structured public-private dialogue (PPD) with direct investor participation. While institutions like the Presidential Council for Foreign Investors exist, sector-specific follow-up is lacking. For example, in 2023, foreign textile investors expressed worries about customs inefficiencies in the Fergana Valley, but no meaningful reforms were implemented (International Trade Centre, 2024).[108]

Creating focused PPD entities, such as ICT and agriculture investment councils, will increase responsiveness and help to connect FDI policy with regional integration. This involves coordinating investment strategies for transnational infrastructure projects such as the China-Kyrgyzstan-Uzbekistan railway and CAREC's digital corridors[109]. Such engagement will help Uzbekistan boost its position in Central Asia's commerce and logistics networks.

A key hurdle to long-term FDI growth in Uzbekistan is a skilled workforce shortage, particularly in ICT, manufacturing, and engineering. According to the World Bank (2024), more than 40% of Uzbek enterprises see personnel skills as a

[107] MIIT. (2024). *Investment and Digital Economy Development Report*. Ministry of Investments, Industry and Trade of the Republic of Uzbekistan.
[108] International Trade Centre. (2024). *Uzbekistan Investment Climate Assessment*. Geneva: ITC.
[109] CAREC. (2023). *Digital Trade Integration in Central Asia*.

major barrier to investment. In the IT sector, demand for software engineers exceeds supply by approximately 30%, hindering the growth of foreign tech enterprises in Tashkent and Samarkand.[110] To solve this, Uzbekistan should develop dual education programs and public-private training facilities modeled after the Navoi industrial vocational cluster, which has successfully cooperated with German companies to teach over 2,000 technicians each year. Simultaneously, institutional capacity must be strengthened through the digitization of investment services, the reduction of permission delays, and the training of local officials to collaborate with international investors.

Uzbekistan's strategic location in the center of Central Asia provides unexplored opportunities for regional FDI spillovers, but cooperation on investment policies and infrastructure is lacking. While commerce with regional neighbors has increased exports to Kazakhstan reached $1.6 billion and Kyrgyzstan $970 million in 2023, representing yearly growth of 18% and 24%, respectively (State Statistics Committee, 2024), these flows have yet to be matched by comparable cooperative investment arrangements. Several regional projects indicate potential for FDI-driven integration. For example, the China-Kyrgyzstan-Uzbekistan railway, which is set to begin building in 2025, may draw multinational investment in transport logistics, warehousing, and industrial zones along the route (CAREC Institute, 2023).

Similarly, the Termez-Mazar-i-Sharif-Kabul-Peshawar railway project, which aims to connect Uzbekistan to South Asia via Afghanistan and Pakistan, could spur foreign investment in regional logistics centers, notably from Gulf and South Asian firms. To increase cross-border FDI spillovers, Uzbekistan should implement the following initiatives:

a) Coordinate SEZ legislation and tax incentives with Kazakhstan and Tajikistan to create cross-border industrial clusters in textiles, construction materials, and agri-processing. For example, a harmonized SEZ between Uzbekistan's Jizzakh zone and southern

[110] IT Park Uzbekistan. (2024). *Annual Report on ICT Workforce Development*. Tashkent.

Kazakhstan may entice Turkish and Chinese investors to form cooperative textile enterprises.

b) Establish a Central Asia Investment Facilitation Council, similar to ASEAN's IAI Task Force, to coordinate infrastructure investment pipelines, digital policy standards, and dispute resolution processes.

c) Simplify regional customs procedures and install digital freight monitoring systems across Central Asian borders to attract logistics-related FDI from nations such as the UAE, which is already investing in dry port facilities in the area.

These actions would not only attract larger, more efficient international companies, but would also increase Uzbekistan's integration into regional and global supply networks, allowing it to become a transit, trade, and manufacturing hub in Central Asia.

Conclusion of Chapter III

This dissertation investigated the complex function of foreign direct investment (FDI) in affecting the course of economic integration in Central Asia. Based on case studies, regional data, and comparative sectoral analysis, it is clear that FDI has emerged as a critical source of capital as well as a driver for structural transformation, regional connectedness, and institutional convergence among Central Asian republics. Since the early 2000s, particularly following Uzbekistan's market reforms in 2016, FDI inflows have increased across the region, with noteworthy sectoral concentrations in energy, mining, manufacturing, and, increasingly, ICT and logistics. Kazakhstan and Uzbekistan have taken the lead in attracting diverse investment, while smaller economies such as Kyrgyzstan and Tajikistan have benefited from specialty sectors and cross-border infrastructure projects. However, the distribution of FDI remains uneven, and intra-regional investment collaboration is still limited.

FDI's contribution to regional economic integration is most obvious in large-scale transport corridors, energy transmission networks, and the harmonization of trade and investment laws, which are frequently pushed by multinational partners

and sponsored by institutions like as the ADB and CAREC. Nonetheless, problems remain: legal uncertainty, governance gaps, and a lack of unified investment policies all limit the depth of integration and the quality of investment spillovers.

To fully realize the promise of FDI as a driver of regional integration, Central Asian states must implement coordinated reforms, such as standardizing investment regimes, developing cross-border SEZs, and synchronizing digital and green infrastructure development. With geopolitical interest in the region increasing and programs like the Belt and Road Initiative and the Middle Corridor spreading, the next decade presents a strategic opportunity for Central Asia to recast itself as a competitive, integrated investment destination.

Finally, our study confirms that FDI is more than just a tool for national development; it provides a foundation for attaining a cohesive, affluent, and integrated Central Asia.

CONCLUSION

The conducted research on the topic *"Foreign Direct Investment and Its Impact on Economic Integration in Central Asia"* makes it possible to arrive at a number of generalized theoretical and practical conclusions. The dissertation explored the conceptual foundations of foreign direct investment (FDI), its role in regional economic integration, as well as global and regional trends of investment flows. Moreover, the integrative function of FDI in Central Asia, methodological and econometric approaches to analyzing its effects, and the specific dynamics of FDI in Uzbekistan were investigated in detail.

Based on the findings of the dissertation, the following recommendations are proposed:

1. *Improvement of the investment climate in Central Asia.* Governments of the region should prioritize transparency, simplification of regulatory procedures, and protection of investors' rights to make the region more attractive for global capital.
2. *Promotion of sectoral diversification of FDI***.** It is essential to direct foreign investment not only into traditional extractive industries but also into manufacturing, renewable energy, digital technologies, and high value-added services, which will ensure long-term economic sustainability.
3. *Development of regional infrastructure projects***.** Central Asian countries should expand cooperation in transport, logistics, energy, and digital connectivity, as such projects create a natural basis for regional integration and attract large-scale FDI.
4. *Harmonization of investment and trade policies.* Establishing common regulatory frameworks, unified tax incentives, and coordinated customs procedures would reduce transaction costs and strengthen cross-border business cooperation.

5. *Strengthening institutional capacity and governance***.** Effective institutions, anti-corruption measures, and predictable legal systems are necessary to enhance investor confidence and ensure the efficient use of FDI.
6. *Enhancement of Uzbekistan's integration strategy.* For Uzbekistan, it is important to position itself not only as a recipient of investment but also as a regional hub for production, logistics, and innovation, thereby increasing its contribution to regional economic integration.

First of all, the study confirmed that FDI is not merely a source of capital inflows but an important instrument for transferring advanced technologies, managerial experience, modern business models, and institutional practices. In the conditions of globalization, FDI acts as a key driver of competitiveness for developing economies. For the Central Asian region, which is distinguished by its resource wealth, favorable geographical location, and young demographic profile, FDI serves as a catalyst for economic integration and long-term development.

Secondly, the research established that FDI and regional economic integration are mutually reinforcing processes. On the one hand, higher levels of integration — through trade liberalization, harmonized policies, and improved infrastructure — create a more attractive environment for foreign investors. On the other hand, active inflows of foreign investment stimulate cross-border cooperation, joint ventures, regional production chains, and institutional convergence among neighboring countries. This synergy is especially relevant for Central Asia, where the integration potential remains significant yet underutilized.

Thirdly, the analysis of global and regional trends demonstrated that despite global shocks, including the COVID-19 pandemic, foreign direct investment continues to expand in both scale and scope. The structure of FDI has also undergone transformation, with increasing emphasis on digital economy, renewable energy, services, and infrastructure projects. For Central Asia, new waves of investment are tied to large-scale transport and energy corridors, digital connectivity, and industrial diversification.

Fourthly, the empirical analysis showed that in Central Asia, FDI has a pronounced integrative function. Cross-border investment projects contribute to regional value chains, infrastructure development, and knowledge transfer. The econometric model constructed in the research proved the existence of a positive and statistically significant relationship between FDI inflows and indicators of regional integration. This result confirms the hypothesis that FDI serves as an effective instrument for strengthening economic cooperation in the region.

Fifthly, the case of Uzbekistan illustrated both the achievements and the challenges in utilizing FDI for development and integration. Over the past decade, Uzbekistan has significantly increased its FDI inflows, diversifying them across sectors such as energy, manufacturing, transport, and services. However, structural barriers still remain, including regulatory complexity, insufficiently developed infrastructure, and institutional risks. Overcoming these barriers is essential not only for boosting national growth but also for enhancing the country's role in regional integration processes.

In summary, the dissertation demonstrated that FDI plays a multidimensional role in economic transformation: it accelerates modernization, stimulates competitiveness, deepens regional ties, and contributes to long-term sustainable development. At the same time, maximizing the benefits of FDI requires purposeful state policies, regional cooperation, and an enabling environment for international investors.

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