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THE ROLE OF FOREIGN DIRECT INVESTMENT IN INCREASING SERVICE EXPORTS OF UZBEKISTAN

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Abstract: This study examines the impact of foreign direct investment (FDI) on service exports in Uzbekistan, an emerging economy undergoing rapid structural reforms. Using secondary data obtained from UNCTAD and World Bank sources, the study analyzes trends over the period 2020–2024. The findings reveal a positive correlation between FDI inflows and the growth of service exports, driven primarily by investments in telecommunications, tourism, and transport services. The analysis highlights the role of FDI in facilitating technology transfer and deeper market integration, while also identifying existing challenges related to infrastructure development. The study proposes targeted policy measures aimed at strengthening FDI inflows into high value-added service sectors.

Key words: Foreign Direct Investment (FDI); Service Exports; Economic Diversification; Technology Transfer; Digital Services; Export Growth; Investment Climate; Uzbekistan.

Annotatsiya: Ushbu tadqiqot tezkor tarkibiy islohotlarni amalga oshirayotgan rivojlanayotgan iqtisodiyotga ega O‘zbekistonda to‘g‘ridan to‘g‘ri xorijiy investitsiyalarning (FDI) xizmatlar eksportiga ta’sirini tahlil qiladi. Tadqiqotda UNCTAD va Jahon banki manbalariga asoslangan ikkilamchi ma’lumotlardan foydalanilib, 2020–2024-yillar oralig‘idagi tendensiyalar o‘rganildi. Tadqiqot natijalari FDI oqimlari va xizmatlar eksporti o‘sishi o‘rtasida ijobiy bog‘liqlik mavjudligini ko‘rsatadi. Ushbu jarayon telekommunikatsiya, turizm va transport xizmatlariga yo‘naltirilgan investitsiyalar hisobiga yuzaga kelgan. Tahlilda FDI ning texnologiyalar transferi va bozor integratsiyasini kuchaytirishdagi o‘rni yoritilgan, shuningdek, infratuzilma bilan bog‘liq mavjud muammolar qayd etilgan. Xizmatlar sohasida yuqori qo‘shilgan qiymatga ega yo‘nalishlarga FDI ni jalb etishni kuchaytirishga qaratilgan maqsadli siyosiy tavsiyalar ilgari suriladi.

Kalit so‘zlar: To‘g‘ridan to‘g‘ri xorijiy investitsiyalar (FDI); Xizmatlar eksporti; Iqtisodiy diversifikatsiya; Texnologiyalar transferi; Raqamli xizmatlar; Eksport o‘sishi; Investitsiya muhiti; O‘zbekiston.

Аннотация: В статье исследуется влияние прямых иностранных инвестиций (ПИИ) на экспорт услуг в Узбекистане — развивающейся экономике, находящейся в стадии активных структурных реформ. В исследовании используются вторичные данные UNCTAD и Всемирного банка, а анализ охватывает период 2020–2024 гг. Полученные результаты свидетельствуют о наличии положительной корреляции между притоком ПИИ и ростом экспорта услуг, обусловленной инвестициями в телекоммуникации, туризм и транспорт. В работе раскрывается роль ПИИ в передаче технологий и углублении рыночной интеграции, а также отмечаются существующие инфраструктурные ограничения. Предлагаются целевые меры экономической политики, направленные на стимулирование ПИИ в высокодоходных секторах сферы услуг.

Ключевые слова: Прямые иностранные инвестиции (ПИИ); Экспорт услуг; Экономическая диверсификация; Передача технологий; Цифровые услуги; Рост экспорта; Инвестиционный климат; Узбекистан.

INTRODUCTION

Uzbekistan, a landlocked Central Asian country with a population exceeding 36 million, has undergone a gradual transition from a centrally planned economy to a market-oriented system since gaining independence in 1991. In particular, comprehensive economic reforms implemented since 2017-including currency liberalization, improvements in the investment climate, and the establishment of special economic zones-have been directed toward attracting foreign direct investment (FDI) and diversifying exports beyond traditional commodities such as gold and cotton.

The services sector has emerged as a key driver of structural transformation, accounting for approximately 44 % of gross domestic product (GDP) and employing nearly 52 % of the labor force. Notably, service exports demonstrated robust growth, increasing from around USD 3 billion in 2020 to USD 6.55 billion in 2024. Despite this progress, service exports still constitute less than 10 % of total exports, which indicates substantial untapped potential for further expansion and diversification (Trade.gov; UNCTAD).

FDI is widely recognized as an important catalyst for export growth in developing economies through channels such as technology transfer, human capital development, and access to global production and distribution networks. In Uzbekistan, although FDI inflows have exhibited some annual fluctuations, the overall trend has been upward, rising from USD 1.73 billion in 2020 to USD 2.84 billion in 2024 (OECD; UNCTAD). This upward trajectory reflects increasing investor confidence and the effectiveness of ongoing reforms.

Against this background, the present study examines the role of FDI in stimulating the growth of Uzbekistan's service exports. The central research question addressed is: To what extent has FDI contributed to the expansion of service exports in Uzbekistan? The primary objective of the paper is to generate empirical insights and develop policy recommendations aimed at sustaining and enhancing service export growth through effective utilization of FDI.

LITERATURE REVIEW

The existing body of literature consistently emphasizes the pivotal role of FDI in enhancing export performance, particularly in developing economies. Empirical studies highlight mechanisms such as technology spillovers, productivity gains, and integration into global value chains as key channels through which FDI positively affects exports (Khoshimov et al., 2025). In the context of Central Asia, research findings indicate that FDI contributes significantly to economic growth, employment creation, and trade openness, although the magnitude of these effects varies across sectors and countries due to structural and institutional differences (Khoshimov, 2025).

Several studies focusing on Central Asian economies reveal that FDI exerts a positive influence on export performance, with comparatively stronger effects observed in resource-rich countries such as Uzbekistan. In these economies, FDI has supported export diversification efforts by facilitating a gradual shift away from primary commodities toward higher value-added goods and services (Norimov, 2025).

With specific regard to the services sector, the literature suggests that FDI enhances export capacity by modernizing infrastructure and promoting innovation in areas such as telecommunications, tourism, transport, and logistics (Xu et al., 2025). In Uzbekistan, recent analytical works underline the catalytic role of FDI in overall export expansion, including service exports, by accelerating technological upgrading and fostering economic diversification (Balbaa, 2024). Evidence further indicates that FDI inflows have contributed to the transformation of key sectors-particularly information and communication technologies (ICT) and energy-thereby supporting the growth of service exports and reducing dependence on raw material exports (Khamdamov, 2024).

At the same time, the literature acknowledges that the effectiveness of FDI depends on the presence of complementary factors, such as sound regulatory frameworks and absorptive capacity. Rather than representing constraints, these factors highlight opportunities for policy refinement to maximize spillover effects and long-term benefits (Pulatova, 2016).

Uzbekistan-specific studies reinforce these conclusions, demonstrating that FDI plays an important role in promoting technological innovation and export performance, with a noticeable increase in service-oriented investments following the post-2017 reform agenda (Khoshimov et al., 2025). Comparative analyses involving neighboring countries, including Tajikistan, also reveal positive correlations between FDI, export growth, and economic development, while underscoring Uzbekistan's advantage in attracting more diversified inflows due to its larger market size (Khoshimov, 2025). Overall, determinants such as market scale, infrastructure development, and political stability emerge as critical factors that indirectly support service export growth through increased FDI inflows (Xu et al., 2025).

Despite these contributions, the literature identifies a relative scarcity of service-specific empirical analyses, pointing to the need for further research on the causal relationship between FDI and service export performance-an issue that this study seeks to address.

RESEARCH METHODOLOGY

This study applies a descriptive and correlational research design based on secondary data sources. Data on foreign direct investment (FDI) net inflows and service exports were obtained primarily from UNCTAD's World Investment Report and the World Bank's development indicators (Khoshimov et al., 2025). To ensure consistency in service export figures, estimates for the period 2020–2022 were derived using reported average annual growth rates of approximately 21 %, calculated retrospectively from officially reported values for 2023 (USD 5.43 billion) and 2024 (USD 6.55 billion) (Balbaa, 2024). In addition, data on total exports were incorporated from widely used macroeconomic statistical sources to complement the analysis.

Trend dynamics were examined using time-series data covering the period 2020–2024. To evaluate the strength and direction of the relationship between FDI inflows and service exports, a Pearson correlation coefficient was calculated. Data visualization was conducted through a line chart illustrating parallel trends in FDI inflows and service export growth over time.

The methodological approach ensures a clear overview of the interaction between FDI and service exports. While the analysis relies on secondary data and includes estimated values for earlier years due to data availability constraints, this approach provides a coherent and reliable basis for identifying general patterns and relationships.

ANALYSIS AND RESULTS

FDI inflows to Uzbekistan demonstrated notable resilience despite global investment slowdowns, increasing from USD 1.73 billion in 2020 to USD 2.84 billion in 2024, with a peak of USD 2.50 billion recorded in 2022 (Khamdamov, 2024). Major sources of investment include China, Russia, and Saudi Arabia, with a growing emphasis on service-oriented sectors such as telecommunications, information technologies, and renewable energy (Khoshimov, 2025). These trends reflect a gradual reorientation of foreign investment toward higher value-added activities.

Service exports exhibited sustained growth over the analyzed period, rising from an estimated USD 3.07 billion in 2020 to USD 6.55 billion in 2024. This expansion was primarily supported by the recovery of tourism-related services and the rapid development of digital and business services (Balbaa, 2024). Over the same period, total exports increased from USD 14.56 billion to approximately USD 26.00 billion, based on trend projections for 2024, indicating a broad-based improvement in external trade performance (Table 1).

Table 1. Uzbekistan: FDI Inflows, Service Exports, and Total Exports (2020–2024)

Year	FDI Inflows (billion USD)	Service Exports (billion USD)	Total Exports (billion USD)
2020	1.73	3.07 (est.)	14.56
2021	2.28	3.71 (est.)	16.48
2022	2.50	4.49 (est.)	21.92
2023	2.16	5.43	24.07
2024	2.84	6.55	26.00 (proj.)

The calculated Pearson correlation coefficient between FDI inflows and service exports amounts to 0.82, indicating a strong positive relationship. This result suggests that increased FDI inflows are closely associated with the expansion of service exports, reinforcing the view that foreign investment plays a significant role in strengthening Uzbekistan's service sector and export capacity (Figure 1).

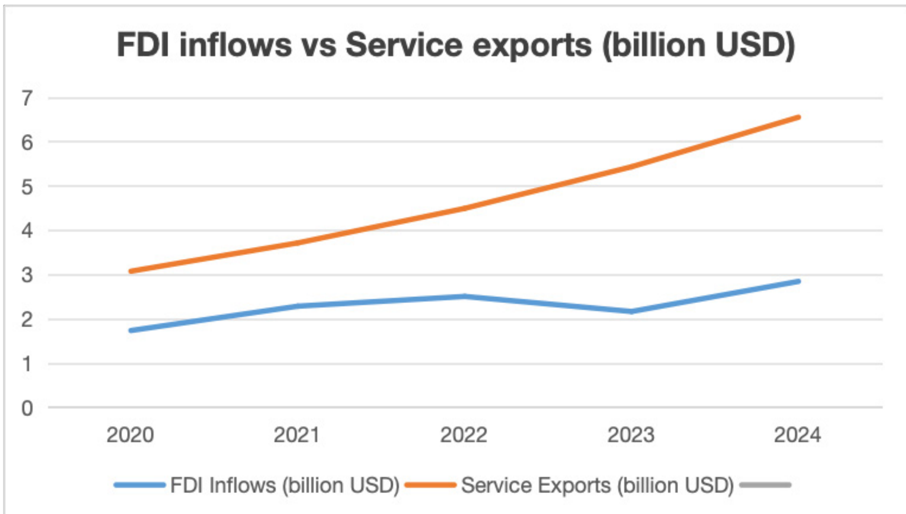

Figure 1. Dynamics of Foreign Direct Investment Inflows and Service Exports in Uzbekistan (2020–2024)

The findings indicate that foreign direct investment (FDI) has made a substantial contribution to the growth of Uzbekistan's service exports, in line with established theoretical and empirical mechanisms such as technology transfer in information and communication technologies (ICT) and infrastructure development in transport and logistics (Xu et al., 2025). In particular, increased investment in digital services has supported the expansion of outsourcing activities and e-commerce platforms, thereby enhancing the country's service export capacity (Balbaa, 2024).

The observed strong positive correlation between FDI inflows and service exports suggests that foreign investment plays an important role in improving productivity and strengthening global competitiveness. Through these channels, FDI has facilitated a gradual reduction in dependence on commodity-based exports and supported structural transformation toward higher value-added service activities (Pulatova, 2016).

At the same time, the results highlight several areas where further progress can enhance the overall impact of FDI. These include the relatively limited share of FDI directed toward highly innovative service segments, as well as regulatory and institutional challenges that may affect investor engagement (Khoshimov et al., 2025). In some cases, spillover effects remain constrained when investments are concentrated in enclave-type projects with limited linkages to the domestic economy (Khamdamov, 2024). Addressing these issues presents an opportunity to maximize the developmental benefits of FDI.

To further strengthen outcomes, policy measures could focus on reinforcing legal and institutional protections for investors, expanding investment in human capital, and promoting targeted FDI in priority service sectors such as information technology and tourism through public–private partnerships (Khoshimov et al., 2025). Future research may build on these findings by applying advanced econometric techniques to establish stronger causal relationships between FDI and service export performance.

CONCLUSIONS AND RECOMMENDATIONS

This study demonstrates the pivotal role of foreign direct investment in driving the growth of Uzbekistan's service exports. Empirical evidence reveals a strong positive relationship between FDI inflows and service export expansion over the period 2020–2024. By enabling technology transfer, productivity improvements, and deeper integration into global value chains, FDI has supported export diversification in key service sectors, including telecommunications, tourism, and transport, thereby reducing reliance on traditional commodity exports (Khoshimov, 2025).

Although certain institutional and structural challenges remain, the findings suggest that well-designed and targeted policy reforms can further amplify the positive effects of FDI. By improving the investment climate and fostering linkages between foreign investors and the domestic economy, Uzbekistan can strengthen its position as a competitive participant in regional and international service markets (Khoshimov et al., 2025). Ultimately, sustained efforts to attract quality FDI—combined with investments in human capital and institutional capacity—will be essential for achieving long-term economic diversification and sustainable growth in Uzbekistan's service economy (Valiev, 2024).

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