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Article

Analysis Of Key Challenges In Attracting And Utilizing Foreign Investments In Uzbekistan's Textile Industry

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Abstract: This study explores the challenges associated with attracting and utilizing foreign investments in Uzbekistan's textile industry. Using official statistical data and sectoral reports from recent years, the research identifies key obstacles including unequal regional distribution of investments, insufficient growth of export potential, shortage of skilled workforce, slow pace of technological modernization, and certain bureaucratic barriers in the investment environment. Findings show that, although foreign investments have a vital part in the sectors development, and yet, these issues impede on their full use and on the industry´s integration to the global markets. The study proposes related approach to reflect existing challenges in the development of Uzbek textile industry including strengthening regional participation in investment, development of dual education system, integration into the international certification system and national brand, attraction of investments for production of export-oriented goods and determining incentives of foreign investors to increase.

Keywords: textile industry, foreign direct investment, unequal regional distribution, technological modernization, skilled workforce, energy efficiency, dual education, the national brand, certification, integration

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1. Introduction

In recent years, the textile industry has emerged as one of the fastest-growing sectors in the economy of Uzbekistan. This development, in turn, significantly enhances the country's export potential and international trade relations. As one of the world's largest cotton-producing countries, Uzbekistan views this sector not only as a driver of economic growth but also as strategically important in terms of environmental sustainability and the efficient use of resources.

It should also be noted that, as a result of the openness and stable economic reforms implemented in our country in recent years, interest from both local and foreign investors in directing capital into the economy has sharply increased. In particular, the textile industry which is one of the core production branches of manufacturing ranks among the leading sectors in attracting foreign investment. Specifically, in 2024, the volume of investments in fixed capital from direct foreign investments and loans reached 27.2 billion USD, of which 1.87 billion USD was channeled into the textile industry alone. These funds are being utilized to introduce modern technologies in textile enterprises and optimize production processes.

Despite drawing attention for the above-mentioned accomplishments, the process of bringing foreign investments to the textiles sector and benefitting properly from them is still facing a number of systemic issues and limitations. In particular, the large regional imbalance in the volumes of investments, an inadequate expansion of export capacity, the lack of qualified specialists, low rates of technological modernization, and some administrative barriers in the investment climate inhibit the development of foreign capital in this sphere. These factors contribute to increased risks for foreign investors, prolonged implementation timelines for investment projects, and failure of the volume of capital attracted to the sector to grow at the expected rate. Therefore, this article aims to comprehensively examine and analyze the key challenges hindering the attraction and efficient utilization of foreign investments in the textile sector, and to develop scientifically grounded proposals and recommendations to improve the current situation.

Literature Review

The issue of attracting foreign investments and ensuring their effective utilization has been widely studied by many researchers as an important factor in the development of the textile industry. Existing academic literature identifies a number of systemic, economic, institutional, and infrastructural constraints that hinder this process.

Yong-Jeong Kim and Jaehun Park [1] identified the most effective strategies for developing Uzbekistan's textile industry using the SWOT-AHP model. The results showed that the strategy is "Weakness–Opportunity" (WO), which indicates that special attention should be paid to this strategic direction in order to develop the textile sector. The research also pointed to the introduction of old technologies, the problem of expensive imported raw materials, low qualification of labor, and the need to scale up gradual transition from the export of raw cotton to the export of finished textile products with high added value.

In their research, Maxmudov and Avazov marked the topicality of further strengthening of investment climate in Uzbekistan, creating favorable business environment and conducting socio-economic reforms related to attraction of investments [2]. The same applies to the measures aimed at rationalizing the use of investments by economic sectors, the possibilities for attracting new investment, and the investment development strategy by branches and industries based on the rational use of investment resources.

The World Bank's (2021) report titled "Uzbekistan Country Economic Memorandum: Unleashing the Potential of the Textile and Apparel Sector" [3] provides a broader discussion of these issues, identifying six major constraints: disruptions in energy supply, monopoly over raw cotton, high cost of bank credit, corruption, legal uncertainty, and export-related customs barriers. The report also outlines reform proposals for 2020–2025 aimed at attracting FDI, suggesting that measures such as making tax incentives permanent and introducing a digital customs system could potentially double the sector's export volume.

In her article, another researcher Alimbayeva, studied the state of practice of attraction of foreign investments to a national economy, put forward practical offers and recommendations on development of the economy of the Republic of Kazakhstan on the basis of attraction of foreign investments [4].

A different researcher Mamadiev also analyzed the strengths and weaknesses of Uzbekistan's textile industry; however, he outlined more profound data from this sector and employed descriptive analysis for every factor [5]. He concluded that several issues hinder the development of the textile industry, including outdated technologies, low capacity utilization, high tax burdens, unstable financial conditions of enterprises, the absence of financial incentives between farmers and cotton fiber producers, and insufficient levels of foreign direct investment [6].

2. Materials and Methods

In this study, the laws of the Republic of Uzbekistan related to the textile industry and the attraction and utilization of foreign investments, resolutions of the Cabinet of Ministers of the Republic of Uzbekistan, presidential decrees, as well as scientific works of prominent scholars in the fields of economics, social sciences, and political studies were examined. In addition, the research employed methods such as logical reasoning, scientific reflection, systematic approach, statistical analysis, and comparative analysis when studying relevant data and theoretical frameworks. Furthermore, scientific and technical information sources including textbooks, study guides, foreign literature, periodicals, proceedings of scientific-practical conferences, and internet resources were utilized to support the study.

3. Results and Discussion

According to our observations, the production volume of textile products in Uzbekistan has recorded significant growth over the past periods:

Figure 1. Production volume of textile products in Uzbekistan, 2015–2024 (in billion UZS)

As can be seen from the above graph, the sector possesses long-term development potential (Figure 1). While growth was stable but relatively slow between 2015 and 2018, the growth rate declined between 2019 and 2021 due to the impact of the global pandemic and economic shocks. At the same time, a significant increase in production volume has been observed since 2022, which has been achieved as a result of the sector's modernization, the introduction of new technologies, and the attraction of foreign investments [7].

First of all, attracting foreign investments to the textile industry provides a number of important benefits:

1. Attracting foreign investors creates a competitive environment, encouraging the sector's integration and effective competition;
2. It promotes the application of foreign management expertise and advanced management methods, thereby enhancing the management efficiency of enterprises;
3. Investments require a high level of investment activity from enterprises, thus contributing to the development of new projects and production capacities;
4. It encourages the introduction of new equipment, machinery, modern technology, and advanced technologies, modernizing the production process;
5. It expands opportunities for producing new products based on new techniques and technologies and capturing new export markets;
6. It necessitates the improvement of the investment climate and the creation of more favorable conditions;
7. The production processes and product quality of textile enterprises are modernized and aligned with international standards.

Recognizing the above advantages, the government has implemented a series of reforms in recent years to attract foreign investments to the textile sector [8]. The positive results of these reforms can be observed in the dynamics of foreign investments directed to the textile industry over the past five years:

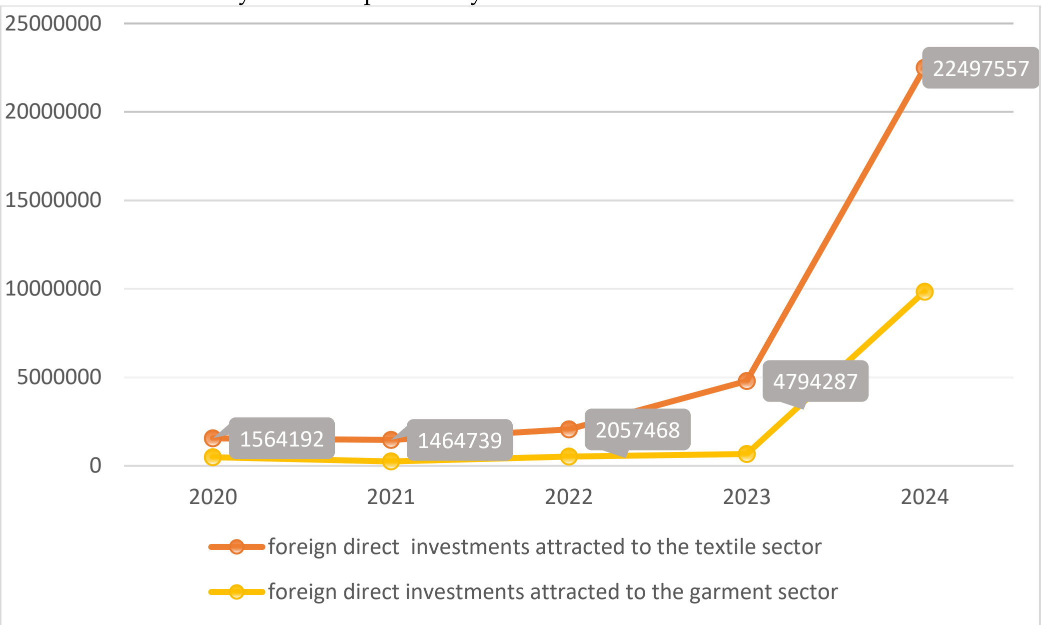

Figure 2. Volume of foreign direct investments (FDI) attracted to the production of textile products and garments (in million UZS)

According to the data in the above figure, the volume of foreign direct investments attracted to the textile and garment sectors during 2020-2024 has demonstrated a consistent upward trend (Figure 2). In 2020, investments directed to the textile sector amounted to 15.6 million sum, while by 2024 this figure reached 22.5 million sum, representing an increase of nearly 1.5 times [9]. A positive dynamic has also been achieved in the garment sector, with the investment volume rising from 485.4 thousand sum in 2020 to 9.8 million sum in 2024.

The above data clearly indicate that the sector possesses long-term development potential, production volumes are increasing, and more foreign investments are being attracted year by year [10]. At the same time, a number of challenges still persist in the country's textile industry, which may hinder its further sustainable and rapid development (Figure 3).

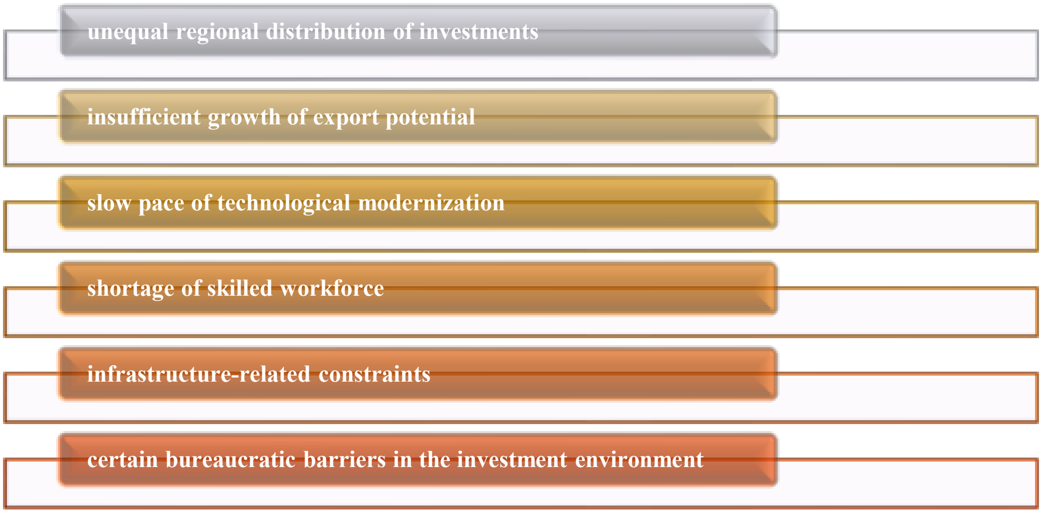

Figure 3. Certain challenges in the country's textile industry

According to our analysis, the first major issue in attracting foreign investments and ensuring their effective utilization is the uneven distribution of investments across regions.

Table 1. Foreign investments in textile and garment manufacturing in the Republic of Uzbekistan (in million UZS, 2024)

Regions	Garment manufacturing	Textile production
Republic of Uzbekistan	**9045698.9**	**20956676.7**
Republic of Karakalpakstan	23704.2	382663.0
Andijan	1812221.8	3425711.4
Bukhara	671.5	1558220.2
Jizzakh	440487.1	705979.6
Kashkadarya	208693.6	1050426.5
Navoi	269192.0	38276.2
Namangan	5354128.3	5923269.8
Samarkand	25200.0	119725.2
Surkhandarya	-	412229.5
Syrdarya	6335.0	1128177.6
Tashkent	443863.7	1936629.8
Fergana	307646.5	1731149.0
Khorezm	153186.4	2232933.6
Tashkent city	368.8	311285.3

According to the statistical data for 2024, foreign investments in the textile and garment manufacturing sectors across the Republic of Uzbekistan are unevenly distributed among the regions (Table 1). The distribution of investments in textile manufacturing by regions is shown in figure 2 8 the largest share of investments is realised in Namangan, Andijan, Khorezm and Tashkent region [11] These regions with developed infrastructure, cluster system, labor resources, and export potential are more attractive for a foreign investor. The amount of investment in Samarkand, Bukhara, the Republic of Karakalpakstan and a number of other regions, on the contrary, is very small. This can be explained by the insufficient development of the production base, limited logistics capabilities, or the lack of adequate economic incentives for investors.

It is particularly noteworthy that no foreign investments in garment manufacturing were recorded in Surkhandarya region during the period under review, indicating the region's weak involvement in the textile industry [12].

Overall, the uneven distribution of investments across regions indicates the presence of a regional imbalance in the development of the textile industry. This situation highlights the need to ensure the sector's sustainable development by expanding infrastructure and logistics opportunities in low-investment regions and balancing regional investment attractiveness.

The second issue is that export indicators are not increasing sufficiently relative to the volume of foreign investments [13]. This can be observed in the following Figure 4:

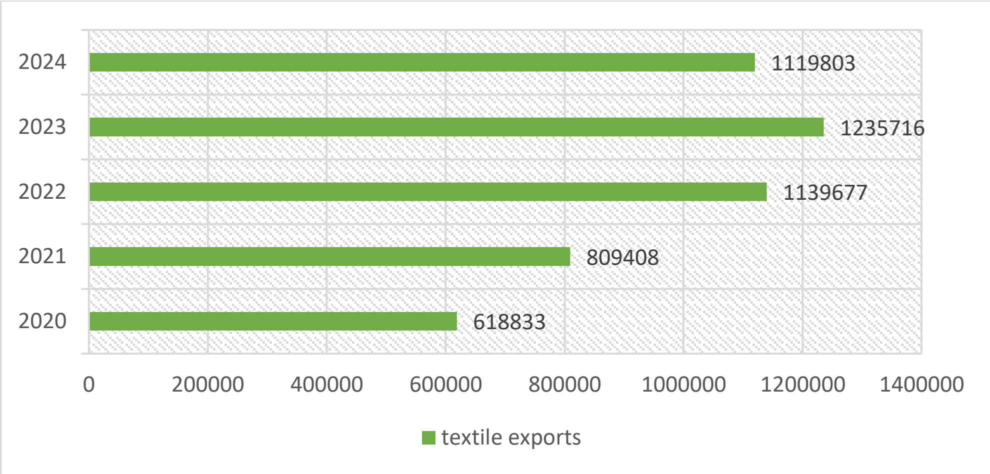

Figure exports of the Republic of Uzbekistan (in thousand USD)

In 2020, the export volume amounted to 618,833 thousand USD, and it increased steadily each year, reaching its peak in 2023 at 1,235,716 thousand USD. This indicates that export volumes nearly doubled during this period.

In 2024, the export volume slightly decreased to 1,119,803 thousand USD. Although the inflow of investments increased during these years, the fact that exports did not always grow proportionally may indicate certain limitations in the industry's internal efficiency or technological modernization [14].

Third — the production processes are complex and process-intensive, use sophisticated technologies and equipment — therefore highly trained personnel engineer-technologists and designers as well as quality control personnel, marketing, and export specialists. Nonetheless, it has been argued against by existing statistics and empirical studies, as there is shortage for qualified, highly talent personnel within many regions. These pose enormous obstacles for non-local investors in terms of the speed of production launch, operational efficiency of modern cargo and plant equipment, and product quality congruency with international standards [15]. As a result, regions that have less capacity to supply skilled workers, become riskier for investment.

Fourth, settlements related to the textile industry are heavily reliant on the stability of electric supply, water, logistics, warehousing and transport corridor development. In many parts of the world, a lack of infrastructure inflates production costs and disrupts technology and logistics processes. This is why many investors pay attention to infrastructure in some regions of the country like Namangan, Andijan, Fergana and just Tashkent region. On the other hand, regions become uncompetitive to draws investment when they have infrastructural barriers.

Furthermore, with the fierce global competition in textile and garment production, the emergence of new technologies is urgent. At the same time, modernization in certain areas is slow, old equipment is still used, and the introduction of energy-saving technologies is low. Consequently, production costs are higher, product quality is inconsistent, and competitiveness in export markets is compromised. Technological renewal is also slow and this adds extra risk and cost for foreign investors.

Last of all, one other challenge also belongs to the bureaucratic barriers found in the investment environment. An important factor for foreign investors, the administrative procedures should be fairly simple, with licenses and permits being the least and fastest to obtain, as well as the customs and payment system clear and stable.

In practice, excessive bureaucratic steps persist in some regions related to land allocation, infrastructure connection, customs clearance, and access to credit. Such obstacles reduce the attractiveness of **4.** Textile

the investment climate, prolong project implementation timelines, and negatively affect investor decision-making processes.

4. Conclusion

However, the results of the study allow for concrete and realistic conclusions to be drawn in advising policies aimed at attracting foreign investment and making such investment more productive in the textile and garment manufactai ring industries. It should draft unambiguous and data driven investment profiles, and publish them on open digital platforms for enhanced transparency and visibility, which foreign Investors may perceive. Targeted tax, customs and social infrastructure incentives need to be utilized to make entry into poorly active investment areas attractive. Special industrial zones as well as small industrial areas are particularly critical in the under or un-clustered regions of the textile.

Developing human capital must be a strategic priority. Universities and vocational training centers need expanding practice-oriented education programs, with the implementation of dual education models together with manufacturing enterprises. Quality of workforce can be further improved by short term training programs on joint training centers and professional development courses in partnership with foreign companies as well. The long term sustainability of the sector can be obtained by establishing a pool of textile experts at regional level together with improved grant and scholarship provisions for young professionals.

Infrastructure improvements are equally critical. Government should ensure priority supply of electricity, water, gas etc. to textile clusters and invest in logistics infrastructure, warehouses, and cold store. Transport Infrastructure Linking Regions to Export Corridors Needs to be Upgraded Financing instruments should primarily be concessional loans, leasing, and grants for energy efficient and digital production technologies. Last but not least, enhancing investor support systems through digitalization of procedures, transparency in project evaluation, and tools for promotion of exports will lead to higher value added production and better integration in global markets.

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