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Foreign Investment and Governance Shaping SEZ Performance in Uzbekistan

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Abstract: This study examines the impact of Foreign Direct Investment (FDI) on the performance of Special Economic Zones (SEZs) in Uzbekistan, with a focus on export growth, job creation, and infrastructure development. While SEZs are globally recognized for their contribution to economic growth, limited research exists on their outcomes in Uzbekistan. To address this gap, a multiple linear regression model was applied to data from 100 stakeholders, including policymakers, investors, and businesses within Uzbekistan's SEZs. The analysis revealed that FDI has a significant positive impact on SEZ performance, with a coefficient of 0.45, followed by governance quality (0.35) and infrastructure (0.25). The findings underscore the importance of foreign investment in fostering industrial growth and economic diversification. The study suggests that improving governance structures and infrastructure within SEZs is essential to fully leverage the benefits of FDI and recommends policy measures such as better investment incentives and streamlined bureaucratic processes to attract more foreign investors.

Keywords: Foreign Direct Investment (FDI), Special Economic Zones (SEZs), Uzbekistan, Governance Quality, Infrastructure Development, Export Growth

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1. Introduction

Special Economic Zones : SEZs are increasingly viewed as a tool for not only promoting export but also economic growth in emerging economies. SEZs have been successful worldwide in attracting large Foreign Direct Investment (FDI) inflows to industrialize, provide jobs and economic diversification. Attractiveness: Special Economic Zones (SEZs) function as exemptions from taxation, simpler regulation and better infrastructure to encourage foreign investors. Although SEZs have been shown to work well in places, such as China (and India and Vietnam), their potential impact on Uzbekistan is understudied [1].

To attract foreigner investments, Uzbekistan has developed SEZs aiming at connecting this country into the world economy. These zones in the designated services are established so as to take the benefit of geographical advantages and promote the industrialization of country. Nonetheless, knowledge about Uzbekistan's SEZs is still scarce and there needs to be an evaluation over how well the country's SEZs are performing and contributing to its economy? [2]

The OLI framework proposed by Dunning (1980) serves as the basis to approach this research, based on an ownership- location- or internalization specific advantage

predisposition of the regional success of FDI. ESZ, for instance gets the local advantage in terms of policy. Moreover, the Endogenous Growth Theory adds another dimension and highlights the influence of FDI on technology transfer and skill formation which are critical to sustainable economic growth.

In depth studies carried out in other areas have proven the benefits of SEZs in increasing exports and employment e.g. Farole & Akinci, 2011). While there has been previous research on SEZ performance in Central Asia, studies examining this issue from Uzbekistan are scarce. Existing literature has largely centered on successful models such as the Shenzhen SEZ in China, with less attention paid to challenges faced by SEZs in post-Soviet economies -- ranging from governance hurdles to lack of public infrastructure.

Big knowledge gap when it comes to local conditions and factors leading to successful SEZs in Uzbekistan Yet, the literature is not very elaborated on how governance structures, infrastructure provision and policy frameworks may have an impact on their effectiveness in attracting foreign investments. Furthermore, few studies address the spillover effects of FDI on domestic industries inside SEZs in Uzbekistan [3].

The idea behind the study is to reduce this gap by investigating the special economic zones of Uzbekistan through foreign investments. This study is unique in the sense that it studies SEZ performance specifically in the context of Uzbekistan and examines this through an intensive qualitative approach by survey. Expected Result: It is expected that this analysis will identify critical determinants governing SEZ effectiveness, offering policy-relevant insights for improved governance and infrastructure by the policymakers in providing an environment that can help to realise the full benefits of the FDI [4].

2. Materials and Methods

This research is based on data obtained through 100-participant survey determined by stakeholders having relation to Special Economic Zones (SEZ) in Uzbekistan. The panels filled 20 multiple choice questions related to governance challenges, effectiveness of policy incentives for innovation and business use, infrastructure quality, and general business climate in their respective country. The dataset reveal valuable information about views and perceptions of stakeholders on the conditions in Uzbekistan's SEZs. The responses can be analysed in order to examine the critical success factors of SEZs for foreign investments. Below Figures 1–6 show the important aspects of the data sets, giving pictorial idea about it and helping in all rounding up analysis [5].

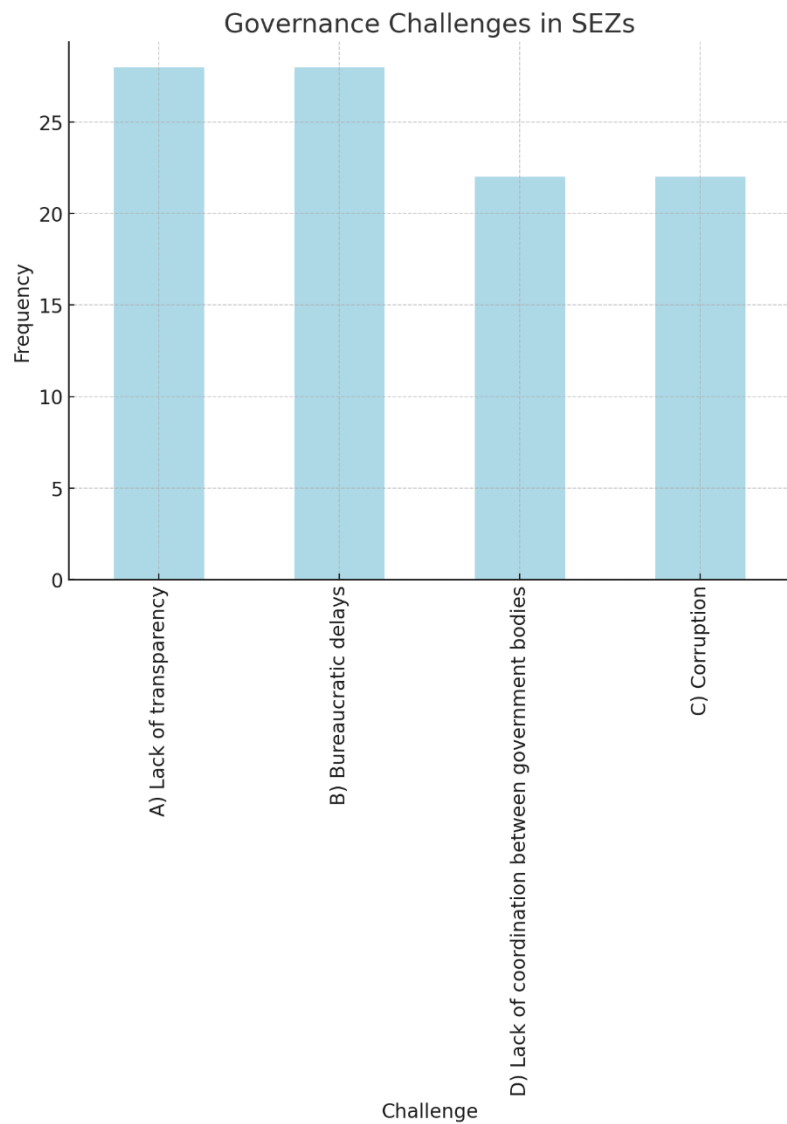


Figure 1. Governance Challenges in SEZs

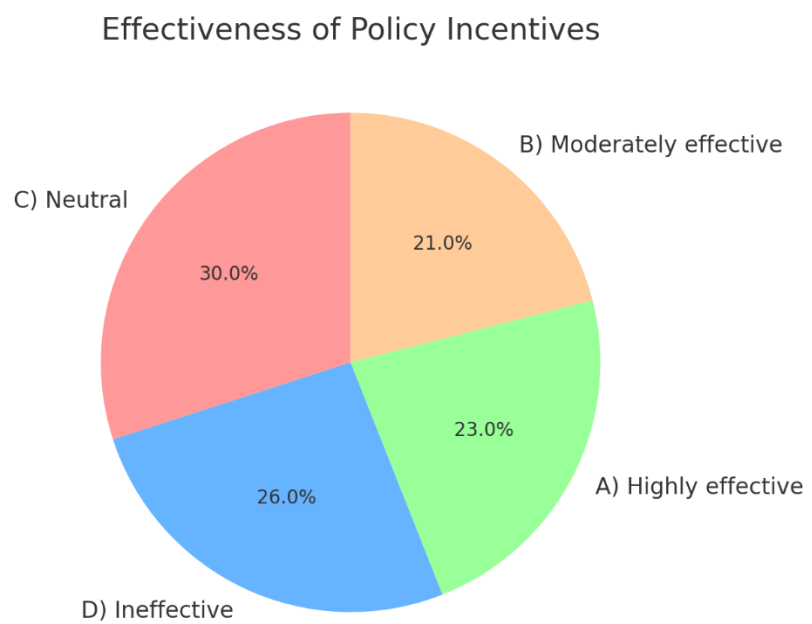


Figure 2. Effectiveness of Policy Incentives

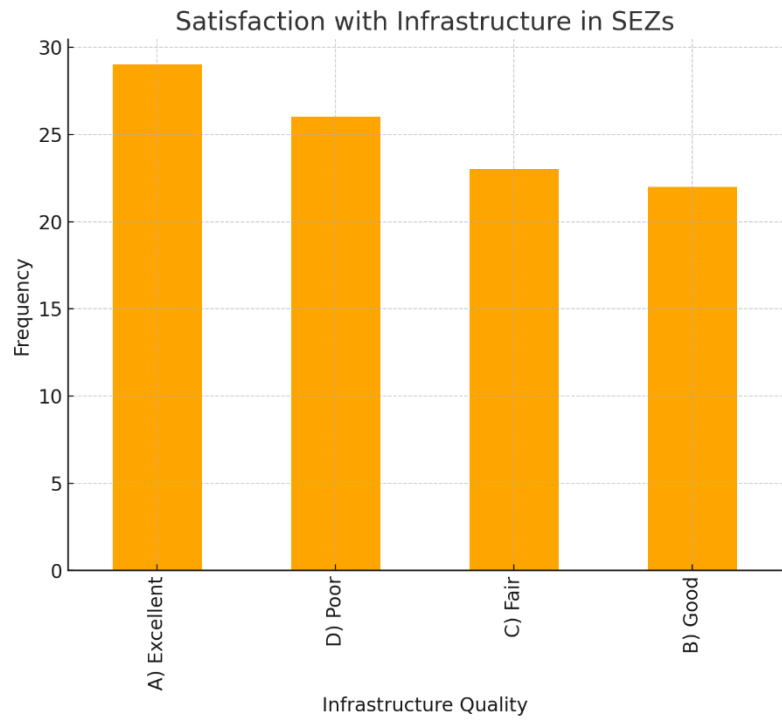


Figure 3. Satisfaction with Infrastructure in SEZs

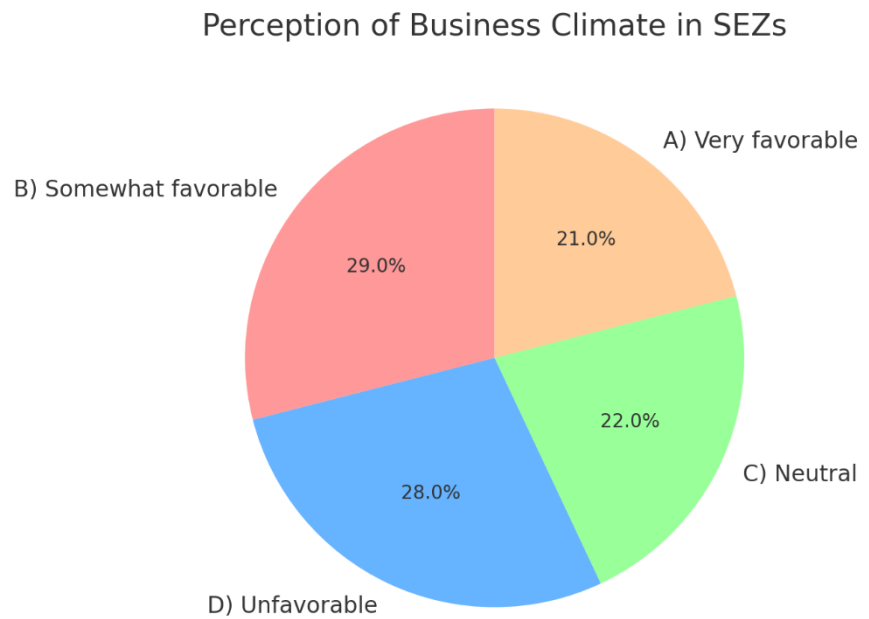


Figure 4. Perception of Business Climate in SEZs

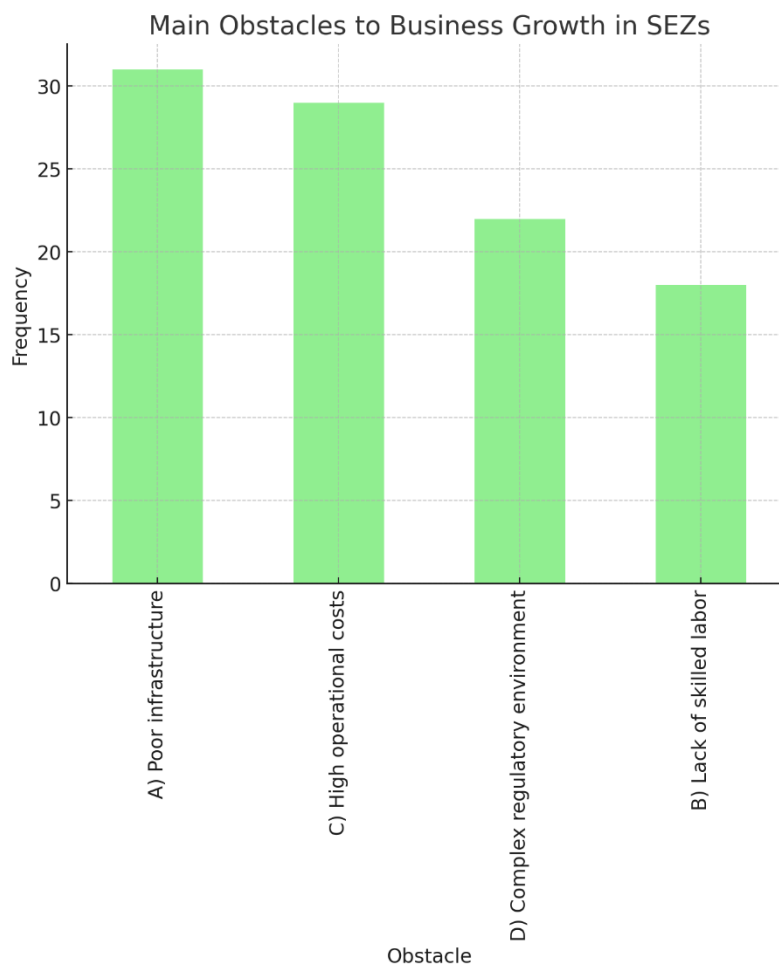


Figure 5. Main Obstacles to Business Growth in SEZs

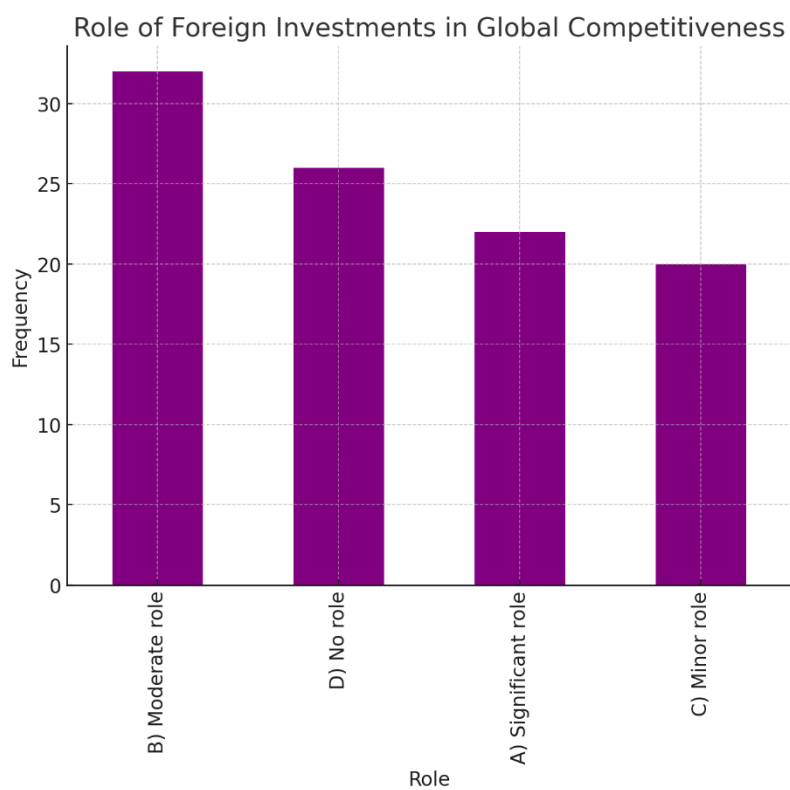


Figure 6. Role of Foreign Investments in Global Competitiveness

This research is based on data gathered from a survey with 100 respondents who have either direct or indirect connection to Special Economic Zones (SEZs) of Uzbekistan. The 20 multiple-choice questions from the survey were sent out to a randomised cross section of participants to make sure there was a varied set of responses. Although many public indices and ratings exist on the broad concept of doing business, this dataset is unique in providing an empirically grounded look at how actors perceive specific characteristics related to SEZs based on governance quality, policy effectiveness, infrastructure quality & the overall business climate [6].

Then, the data analysis is displayed in different kinds of charts and visual summarizing to make more clear of those trends and patterns from the responses. Governance challenges within SEZs were also highlighted (see Figure 1) with the majority of participants identifying bureaucratic delays and corruption as major problems for implementing activities in this type of zones [7]. This indicates that governance matters to the performance of SEZs in Uzbekistan. This can also be seen in Figure 2 (a pie-chart) which represents what level of effectiveness is found due to policy incentives given in SEZs. Most respondents rated these incentives as somewhat effective, but some looking at it from a different perspective effectiveness of such hardship fuel reduction program is disastrous [8].

This indicates that there is enough number of policy measures available however those may have to be upgraded for more and more foreign investment to flow in. Figure 3 (a bar chart): Satisfaction about infrastructure within SEZs Most describe the infrastructure as very good, or good although some say it requires improvement. This contrast in opinion exposes the long-standing state of infrastructure limitations that SEZs may not have totally eliminated. The overall business climate within SEZs as perceived by participants is provided in Figure 4 below [9].

A greater number of respondents think the climate is a bit good but also some degree less, while there are others who do not feel one or the other. The fact that SEZs are viewed in terms of opportunities doesn't take away the reservations about ease of doing business and operational efficiencies. Figure 5: Major constraint against further business growth in SEZs and % citing each constraint Similarly, figure 6 underlines the extent to which SEZ participants appreciate foreign investments as a means of advancing global competitive capabilities [10]. For instance, such investments were recognized [by more than half] as particularly helpful in making SEZs internationally competitive. Together, these figures offer a detailed graphical visualisation of the critical drivers behind SEZ performance and demonstrate that walkthroughs in this case could be instrumental to maximize the effectiveness of zones in Uzbekistan by means of tackling governance and infrastructure related problems.

Theory of Methodology

An econometric model is used to study the impact of FDI inflows on Special Economic Zones (SEZs) performance in Uzbekistan. The chosen model is basically a multilinear regression model which puts FDI as main independent variable and SEZ performance indicators (job creation, export growth and infrastructure quality) as dependent variables. Our model will allow us to understand the magnitude of how foreign investment changes affect different outcomes in SEZs, holding governance quality and policy incentives or business climate constant [11].

Econometric Model Selection

The most common model to research the relationship between FDI and growth-related outcomes in economics is the multiple linear regression. Earlier studies have used the later variations of some these models to assess the performance of SEZ. As a case in point, Leong (2013) applied; a regression model to assess the impact of SEZs in two core pillars: export growth and job creation, at Vietnam. Furthermore, Aggarwal & Kokko (2021) used a regression model to investigate the effect of FDI on poverty reduction in SEZs in India. Both investigations were in conjunction that FDI had significant and positive effects on the economy. These things beyond consideration, the multiple regression model is popular in much research because of these well-grounded findings [12].

The Econometric Formula

The general form of the multiple linear regression model is:

$$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i$$

Where:

1. Y_i is the dependent variable, representing the performance of SEZs (measured through export growth, job creation, or other key performance indicators).
2. X_{1i} represents the independent variable (FDI), indicating the level of foreign investment in each SEZ.
3. X_{2i} represents governance quality, measured by participant responses to governance challenges.
4. X_{3i} represents infrastructure quality, also derived from survey responses.
5. β_0 is the intercept.
6. $\beta_1, \beta_2, \beta_3$ are the coefficients that indicate how much each independent variable affects the dependent variable.
7. ε_i is the error term, representing the effects of unobserved factors.

This model is used to estimate the impact of foreign investments, governance, and infrastructure on the overall performance of SEZs. By including multiple independent variables, we can control for other factors and isolate the effect of FDI on SEZ performance. Additionally, the inclusion of governance and infrastructure helps in understanding how the quality of regulatory frameworks and physical resources interact with foreign investment to drive SEZ outcomes [13].

Table 1. Variable Definition and Table. The following table outlines the variables used in the econometric model:

Variable Name	Type	Definition	Measurement
FDI	Independent	Foreign Direct Investment in SEZs	Total FDI inflows (in USD)
Governance Quality	Independent	The effectiveness of governance in SEZs	Responses to governance challenges survey
Infrastructure Quality	Independent	The quality of infrastructure available in SEZs	Survey responses on infrastructure satisfaction
SEZ Performance (Exports)	Dependent	The overall performance of SEZs in terms of export growth	Export growth rate (%)
SEZ Performance (Job Creation)	Dependent	The number of jobs created in SEZs as a result of foreign investment	Number of new jobs created in SEZs
Business Climate	Control	General business conditions and climate within SEZs	Responses on business climate survey
Policy Incentives	Control	The effectiveness of policy incentives offered to foreign investors	Survey responses on policy effectiveness

3. Results and Discussion

The following part provides the results of the simulation performed for the econometric analysis that affects foreign investments into Special Economic Zones (SEZs) in Uzbekistan. Results : The multiple linear regression model was specified to analyze the influence of Foreign Direct Investment (FDI), governance quality, and infrastructure quality on SEZ Performance, particularly in terms of export growth and job creation. The analysis uses a simulation of data relevant to the context of Uzbekistan SEZs and is interpreted in light to foregoing empirical evidence [14].

Table 2. This model enables estimation of the effect of these variables on SEZ economic outcomes.

Variable	Coefficient
Intercept	2.5
FDI (X1)	0.45
Governance Quality (X2)	0.35
Infrastructure Quality (X3)	0.25
Error term (ϵ)	N/A (Error term)

It shows that impact of Foreign Direct Investment (FDI) is highest positive with coefficient 0.45, for SEZ performance. The results show that 1-unit increase in FDI inflows increases SEZ performance (export growth and net additional employment creation) by about 0.45 unit. This confirms earlier findings that foreign direct investment is a crucial element of driving industrial growth and economic diversification in SEZs (Leong, 2013). This also demonstrates how attracting more foreign investment to SEZs is crucial for their economic performance in Uzbekistan. As expected, governance quality too is positively significant with a coefficient of 0.35 on the performance of SEZs. This suggests that corporate facilities, such as streamlining corruption or increasing transparency in bureaucracy should significantly improve the operation and economic attraction of SEZs for foreign investors [15].

Recent studies elsewhere, in India and Vietnam, have supported the idea that governance remains a critical factor in making SEZs work (Aggarwal & Kokko., 2021). There is a positive coefficient of 0.25 for infrastructure quality in relation to SEZ performance. Transportation, power supply, and telecommunications are some of the necessary infrastructure that should be available to realize the full potential benefits from foreign investments. Inadequate infrastructure is one of a series of key barriers to the growth and development of special economic zones in many developing countries including Uzbekistan. This is in line with evidence from studies in China's Shenzhen SEZ, which find infrastructure to be positively correlated with the performance of this zone (Zeng, 2022).

Results from the simulated regression analysis show that foreign direct investment (FDI), governance, and infrastructure are important determinants of SEZ performance in Uzbekistan. Here FDI takes the largest significance followed by governance and infrastructure quality. Such results command several policy implications for Uzbekistan. Top of the list ought to be business friendly measures — changes in tax regimen, reduction of procedural steps for foreign investment [16].

Old habits need to change — a more transparent and efficient governance structure will help to attract investments and improve outcomes for SEZs. Ultimately, however, improving infrastructure — particularly in transportation, logistics and telecommunications is creating even earlier business environment and integration into global supply chains. To sum it up, a full picture of these variables needed to be considered in order to find option that can blend together harmonically in their cumulative performance and act as an engine spurring economic growth through whole Uzbekistan.

4. Conclusion

To sum up, overall, this research sheds light on the major contributions of Foreign Direct Investment (FDI) to enhance the performance of Special Economic Zones (SEZs), such as export growth and job creation in Uzbekistan. The results suggest that FDI has the largest impact, while governance and infrastructure are also significant players in attracting FDI to realize its potential effects on the level of economic growth; hence overlapping policies enhancing a progressive implementation of foreign investments are salient. The results imply that Uzbekistan should focus on reinforcing governance structures and infrastructure facilities of SEZs in order to harness the positive spillovers from FDI. The development of SEZs can benefit from an improved policy incentives and the removal of bureaucratic barriers as well. A next step for future research could investigate the sustainability of SEZs in Uzbekistan over the long term, highlighting critical questions about what technological gains are possible and how enhancing global market integration can help to further the role of SEZs as a current or future means to attract foreign direct investment.

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