

**TRANSFORMATIVE INVESTMENT: THE IMPACT OF SOUTH KOREAN FDI ON  
UZBEKISTAN'S INDUSTRIAL POLICY AND EXPORT DIVERSIFICATION****Shokhinur Gayratjonkizi Ergasheva**Teacher at the Department of International Economics,  
University of World Economy and Diplomacy, Uzbekistan

**Abstract:** This article analyzes the impact of South Korean foreign direct investment (FDI) on Uzbekistan's industrial transformation and export diversification. Focusing on key joint ventures in automotive manufacturing, petrochemicals, and electrical equipment, the study shows that Korean FDI has been a major driver of technological upgrading, managerial modernization, and the creation of domestic supplier networks. While highlighting constraints such as limited local content and institutional challenges, the research demonstrates that Korean-led industrial projects have significantly expanded Uzbekistan's non-primary export structure and strengthened its integration into global value chains. The article concludes by emphasizing the importance of FDI quality – particularly technology transfer and capacity building – in shaping long-term industrial policy outcomes.

**Key words:** industrial policy, transformative investment, technology transfer, joint ventures, export diversification, global value chains, industrial upgrading, economic reform.

**Introduction:** Over the past three decades, Uzbekistan has pursued an ambitious agenda of economic modernization aimed at reducing its dependence on raw-material exports and building the foundations of a diversified, competitive industrial economy. Within this broader transformation, foreign direct investment (FDI) has played a pivotal role, not only as a source of capital but also as a mechanism for technological upgrading, institutional reform, and integration into global value chains. Among Uzbekistan's foreign economic partners, South Korea stands out as one of the most influential and enduring. Since the establishment of diplomatic relations in 1992, the Korea-Uzbekistan economic partnership has expanded steadily, driven by strategic complementarities, long-term political cooperation, and the establishment of large-scale joint ventures in priority sectors.

South Korean firms – particularly those in automotive manufacturing, petrochemicals, electronics, and textiles – have emerged as key actors in Uzbekistan's industrial landscape. Their investments have introduced advanced production technologies, modern management practices, and high standards of industrial organization, thereby shaping the contours of the country's evolving industrial policy. At the same time, Korean-led projects have contributed to the gradual diversification of Uzbekistan's export structure, helping the country move beyond primary commodities toward higher value-added manufactured goods. These developments are especially significant in the context of Uzbekistan's efforts to link domestic industrialization with outward-oriented growth and to participate more actively in regional and global production networks.

Despite these positive dynamics, important questions remain regarding the depth and sustainability of the transformative effects generated by South Korean FDI. Challenges such as limited local supplier capacity, technological dependence, regional disparities in investment distribution, and uneven institutional reform continue to constrain the full developmental impact of foreign investment. Moreover, the qualitative characteristics of FDI – rather than its

sheer volume – have become increasingly central to policy debates, highlighting the need to understand how foreign investment can support long-term industrial upgrading and export diversification.

This article seeks to address these issues by examining the extent to which South Korean FDI has contributed to transformative change within Uzbekistan’s industrial policy framework and export profile. By combining historical-institutional analysis with sectoral case studies, the research evaluates both the opportunities and limitations of Korean investment as a driver of structural economic transformation. In doing so, the study contributes to broader discussions on developmental FDI, industrial strategy, and the role of strategic partnerships in reshaping the trajectories of emerging economies.

**Literature Review:** Research on foreign direct investment (FDI) and its developmental impacts has grown substantially over the past several decades, providing a diverse set of theoretical and empirical perspectives relevant to understanding the South Korea – Uzbekistan investment relationship. Classic developmental state literature emphasizes the role of strategic industrial policy, technology acquisition, and state – business coordination in achieving rapid industrialization (Amsden, 1989; Johnson, 1982). These works highlight how targeted FDI can complement state-led strategies by accelerating technological learning and promoting value-added production – an idea that resonates strongly with South Korea’s own industrial experience and the motivations behind its overseas investment strategies.

In parallel, the global value chain (GVC) framework offers an important lens for analyzing the qualitative characteristics of FDI. Scholars such as Gereffi (1999) argue that participation in GVCs enables developing economies to upgrade technologically, but only when foreign investment is paired with domestic capabilities and supportive institutions. Research specifically focused on East Asian FDI suggests that firms from advanced Asian economies tend to bring not only capital but also production know-how, managerial practices, and strong supplier development models (Wong & Ng, 2018). This literature underscores the transformative potential of FDI when it generates backward linkages, nurtures local suppliers, and diffuses innovation.

Studies on Central Asia, however, present a mixed picture. Several authors highlight that while FDI in the region has grown, much of it remains resource-seeking or concentrated in enclave-style operations that generate limited technological spillovers (Pomfret, 2019). In the case of Uzbekistan, earlier research often emphasized the dominance of extractive industries and the structural constraints imposed by state-led economic models (Spechler, 2008). More recent scholarship acknowledges that market reforms launched after 2016 have accelerated diversification and improved conditions for productive investment, yet notes that sustained technological upgrading remains uneven and sector-specific (Mogilevskii, 2021).

Only a limited number of studies have examined the role of South Korean FDI in Uzbekistan specifically. Existing works tend to focus on flagship joint ventures –such as UzDaewoo (later GM Uzbekistan), Korea–Uzbekistan textile clusters, and chemical industry partnerships – highlighting their contributions to employment, technology transfer, and export capacity (Kim, 2017; Lee & Park, 2020). However, this literature often lacks a comparative or policy-oriented perspective, focusing instead on descriptive accounts of bilateral cooperation. Few studies evaluate the broader implications of Korean FDI for industrial policy formation, institutional reform, or diversification of the export basket.

Furthermore, gaps remain in understanding the transformative characteristics of Korean investment – namely how it affects industrial upgrading, domestic supplier networks, innovation ecosystems, and long-term structural change. Most prior analyses also overlook

regional disparities in investment distribution and the variance in technological spillovers across sectors. Importantly, there is limited research linking Korean FDI to Uzbekistan's evolving strategies of export diversification and integration into global value chains. This study seeks to fill these gaps by synthesizing insights from developmental state theory, GVC literature, and empirical research on Central Asian industrialization. By examining South Korean FDI through the lens of transformative investment, the article contributes to a more nuanced understanding of how foreign capital shapes industrial policy outcomes and export structures in an emerging economy undergoing systemic reform.

**Material and methods:** The present study employs a mixed-methods research design to examine the transformative impact of South Korean foreign direct investment on Uzbekistan's industrial policy and export diversification. By integrating both qualitative and quantitative approaches, the research captures the multifaceted nature of foreign investment and its developmental outcomes. The empirical material is drawn from four main sources: official statistical data, government policy documents, corporate information on major joint ventures, and the existing body of academic literature. Statistical indicators from the State Committee of Uzbekistan on Statistics, the Ministry of Investment, Industry and Trade, UNCTAD, the World Bank, and Korea Eximbank provide time-series data on FDI inflows, sectoral investment patterns, industrial output, and export structures from 1995 to 2023. These are complemented by presidential decrees, industrial development strategies, investment agreements, and bilateral cooperation protocols that reveal how state policy has evolved in parallel with the growth of Korean investment.

Publicly available information from major Korean–Uzbek joint ventures –particularly in automotive manufacturing, petrochemicals, electrical equipment, and textiles – serves as an important basis for evaluating technology transfer processes, managerial upgrading, and the formation of domestic supplier networks. In addition, the theoretical and conceptual foundations of the study are supported by scholarly research on FDI, industrial policy, global value chains, and economic reforms in Central Asia.

Methodologically, the study makes use of historical-institutional analysis to trace policy evolution, sector-specific case studies to explore investment impacts in depth, descriptive and comparative statistical analysis to evaluate long-term trends, and qualitative content analysis to interpret policy documents and corporate materials. The selected sectors were chosen due to the scale of South Korean investment, their technological complexity, and their relevance to Uzbekistan's non-primary export growth. Although the research benefits from extensive publicly accessible data, certain firm-level financial and technological indicators remain unavailable, which required triangulation across multiple data sources to ensure analytical reliability. Despite these limitations, the diversity and depth of the collected material provide a robust foundation for assessing the transformative role of South Korean FDI in Uzbekistan's industrial development.

**Result and discussion:** The findings of this study indicate that South Korean foreign direct investment has played a decisive and multidimensional role in shaping Uzbekistan's industrial transformation during the post-independence period. Quantitative analysis of FDI inflows reveals that Korea has consistently ranked among the top five investors in Uzbekistan, particularly after the mid-2000s, with significant concentrations in manufacturing sectors that require medium- to high-level technological capabilities. These inflows closely correlate with periods of major industrial policy reforms, suggesting that Korean investment has not only responded to policy signals but has also influenced the strategic direction of state-led modernization programs.

The automotive sector provides one of the clearest examples of transformative impact. The establishment and subsequent evolution of the Korean–Uzbek automotive joint venture introduced advanced manufacturing technologies, quality control systems, and managerial practices previously unfamiliar in the domestic industrial environment. The data show a substantial increase in local value-added components over time, alongside the emergence of a network of domestic supplier firms that benefited from Korea-led training, standardization programs, and process upgrading. These outcomes reflect the ability of Korean FDI to generate backward linkages and stimulate broader industrial capability development – an effect extensively discussed in the global value chain literature.

Similarly, Korean investment in the petrochemical and electrical equipment industries contributed to increased processing depth and a reduction in Uzbekistan’s dependence on raw-material exports. Case evidence shows that joint ventures in these sectors enabled the production of higher value-added intermediate and finished goods, which subsequently expanded the range of products included in Uzbekistan’s non-primary export basket. Export statistics from the period after 2010 demonstrate a gradual shift toward more diversified manufactured goods, suggesting that Korean FDI has helped enhance the country’s resilience to global commodity price fluctuations.

Nevertheless, the analysis also highlights several persistent constraints that limit the full realization of transformative effects. Despite improvements in local supplier capacity, technological dependence on Korean partners remains significant in several sectors, particularly in areas requiring advanced engineering and R&D functions. Regional disparities in investment distribution are also evident: the majority of Korean-led projects remain concentrated in specific industrial zones, resulting in uneven developmental impacts across the country. In addition, institutional reforms – although progressing since 2016 – have not always kept pace with the demands of technologically intensive industries, affecting regulatory efficiency, contract enforcement, and innovation system development.

These findings align with broader debates on developmental FDI, which emphasize that the long-term benefits of foreign investment depend heavily on domestic absorptive capacity and institutional quality. In Uzbekistan’s case, the transformative influence of Korean FDI is undeniable, yet highly contingent on ongoing reforms aimed at strengthening industrial competitiveness, improving vocational and technical education, and creating incentives for local firms to move up the value chain. The evidence suggests that while Korean investment has contributed substantially to export diversification, the sustainability of these gains requires deeper integration into global production networks and continued policy commitment to technological upgrading.

Overall, the results underscore that South Korean FDI has operated not merely as a source of capital, but as a catalyst for broader structural change. Its impact can be observed in technological diffusion, industrial upgrading, policy reformulation, and gradual diversification of the export structure. However, the discussion also makes clear that transformative investment is an evolving process, shaped by the interaction between foreign investors, government policy, and domestic industrial capabilities. The extent to which Uzbekistan can continue to leverage such investment will depend on its ability to consolidate reforms and foster an innovation-driven industrial ecosystem.

**Conclusion:** The analysis presented in this study demonstrates that South Korean foreign direct investment has served as a significant catalyst for Uzbekistan’s industrial transformation and gradual export diversification. Beyond the provision of capital, Korean investment has

introduced advanced manufacturing technologies, modern managerial practices, and internationally recognized production standards, all of which have contributed to the strengthening of Uzbekistan's industrial capabilities. Sectoral evidence, particularly from the automotive, petrochemical, electrical equipment, and textile industries, shows that Korean-led projects have facilitated technological upgrading, fostered the development of domestic supply chains, and expanded the range of value-added goods entering foreign markets.

At the same time, the findings reveal that the transformative potential of Korean FDI remains conditional on the broader institutional environment. Limited local content ratios, regional disparities in investment flows, and the continuing dependence on foreign partners for high-technology inputs underscore the need for deeper institutional reforms and stronger domestic absorptive capacity. Although export diversification has advanced – reflected in the rising share of processed and manufactured goods – the sustainability of this progress will depend on Uzbekistan's ability to consolidate reforms, enhance human capital, and encourage innovation-driven industrial growth.

Overall, the study concludes that South Korean FDI has played an important and multidimensional role in Uzbekistan's shift toward a more diversified and technologically capable economy. However, transformative investment should not be viewed as an automatic outcome of foreign capital inflows; rather, it is the result of continuous interaction between investor capabilities, government policy, and domestic economic structures. For Uzbekistan to fully leverage such investment in the future, it will be essential to strengthen institutional governance, broaden industrial linkages, and align national development strategies with long-term technological upgrading and integration into global value chains.

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