

## Foreign Capital Attraction Strategies in OIC Transition Economies: A Comparative Study of Kyrgyzstan and Uzbekistan

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### ABSTRACT

The aim of this study was to analyse possible measures for enhancing the attraction of foreign capital to the economies of the Kyrgyz Republic and the Republic of Uzbekistan. For both countries, foreign capital is not merely a necessity but also plays a supporting role for the inevitable structural reorganization of their economies. The development of the proposed strategy was based on the analysis of statistical data reflecting the performance of the Kyrgyz and Uzbek economies. Through this examination, it was determined that the most promising sectors for further development are agriculture in Kyrgyzstan, due to its significant share of employment, and the service sector in Uzbekistan, which holds the largest proportion in the national economy. To improve the functioning of these sectors, it is important to attract foreign capital to stimulate research and development. The determining factor in attractiveness in this case is a highly skilled labour force.

### ملخص

تهدف هذه الدراسة إلى تحليل السبل الممكنة لتعزيز جذب رؤوس الأموال الأجنبية إلى اقتصادي جمهورية قيرغيزستان وجمهورية أوزبكستان. إذ يعد رأس المال الأجنبي ليس فقط ضرورة اقتصادية، بل أيضا محفزا لإعادة الهيكلة الاقتصادية في كلا البلدين. استند

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تطوير الاستراتيجية المقترحة إلى تحليل البيانات الإحصائية التي تعكس أداء الاقتصاديين القيرغيزي والأوزبكي، حيث تبين أن قطاع الزراعة في قيرغيزستان يعد من أكثر القطاعات الواعدة نظرا لنسبة التوظيف المرتفعة فيه، بينما يعد قطاع الخدمات في أوزبكستان القطاع الأكبر من حيث المساهمة في الناتج المحلي الإجمالي. ومن أجل تحسين أداء هذين القطاعين، تعد جاذبية رأس المال الأجنبي ذات أهمية بالغة، لا سيما في تمويل البحث والتطوير. وتبرز الكفاءة العالية للقوى العاملة كعامل حاسم في زيادة جاذبية الاستثمار الأجنبي. بناء على ذلك، توصي الدراسة بتبني سياسات تعزز تأهيل رأس المال البشري وتحسين بيئة الاستثمار بما يخدم أهداف التنمية الهيكلية في البلدين.

## RÉSUMÉ

L'objectif de cette étude était d'analyser les mesures possibles pour renforcer l'attractivité des économies de la République du Kirghizistan et de la République d'Ouzbékistan auprès des capitaux étrangers. Pour ces deux pays, les capitaux étrangers ne sont pas seulement une nécessité, ils jouent également un rôle de soutien dans la restructuration inévitable de leurs économies. L'élaboration de la stratégie proposée s'est appuyée sur l'analyse de données statistiques reflétant les performances économiques du Kirghizistan et de l'Ouzbékistan. Cet examen a permis de déterminer que les secteurs les plus prometteurs pour la poursuite du développement sont l'agriculture au Kirghizistan, en raison de sa part importante dans l'emploi, et le secteur des services en Ouzbékistan, qui représente la plus grande part de l'économie nationale. Afin d'améliorer les performances de ces secteurs, il est important d'attirer des capitaux étrangers afin de stimuler la recherche et le développement. Le facteur déterminant de l'attractivité dans ce cas est une main-d'œuvre hautement qualifiée.

**Keywords:** Investment inflow, Foreign investment, National economy, Agriculture, Services sector

**JEL Classification:** F21, P33

## 1. Introduction

In the global economy, attracting foreign capital is vital for economic development, especially for emerging and transitioning economies. Globalisation has accelerated the transnational flow of capital, making investment decisions more sensitive to host country circumstances like macroeconomic stability, institutional quality, sectoral development, and labour market efficiency. International financial institutions, multinational firms, and academic academics are becoming interested in Central Asia, which has hitherto been peripheral to global investment

flows (Sikandar et al., 2021). Kyrgyz Republic and Uzbekistan are particularly intriguing cases due to their post-Soviet reform paths, diverse resource bases, and different approaches to economic liberalisation and state intervention.

Due to domestic structural weaknesses and global competition, studying foreign capital attraction in Kyrgyzstan and Uzbekistan is important. Both countries have seen major political and economic changes since 1991. Hyperinflation and economic contraction plagued them in the early post-independence years. Both governments implemented economic reforms to stabilise and revive their economies. Kyrgyzstan prioritised tax incentives, trade liberalisation, and foreign direct investment (FDI), while Uzbekistan prioritised controlled liberalisation, including selective pricing reforms and tax cuts (Ziyodilloev et al., 2019). Despite these efforts, both economies still struggle to absorb and exploit foreign capital due to structural issues such as insufficient infrastructure, underdeveloped human capital, and low productivity in critical sectors (Lee and Mah, 2020).

Economic literature explains why foreign investment should be a policy lever. Positive externalities of FDI include knowledge transfer, job creation, and export diversification. Yakubovskiy et al. (2019) claim that foreign capital improves trade balances and macroeconomic stability in recipient nations. In an empirical study of the Jordanian economy, Al-Mihyawi (2019) found a statistically significant positive association between FDI and GDP, demonstrating that capital inflows boost output. Ganiev et al. (2020) examined Kyrgyzstan's simultaneous use of foreign debt and FDI to make up for savings shortages and found that FDI outperforms external borrowing in long-term growth. However, literature is not always positive. Yeboua (2019) warns that foreign capital's effects on development depend on local institutional quality and can be ambiguous in poorly regulated situations. Magdalena and Suhatman (2020) found that sectoral dynamics and policy frameworks attenuate the impact of foreign capital on the primary sector.

Kyrgyzstan is very complicated. Political instability, limited institutional capability, and insufficient infrastructure hinder foreign investment in the country, which has enormous natural resources and a growing labour force (Statista, 2024d). Foreign capital absorption and productivity are hindered by these issues. Cohen and Grant (2020) found that political

unrest, such as Kyrgyzstan's revolutions, institutional fragility, and the COVID-19 pandemic have severely harmed investor confidence in Central Asia. They thought Uzbekistan's regulated reforms offered a more stable and appealing investment climate, notwithstanding its limits.

Recent studies show that financial system structure influences how capital inflows affect economic growth. In Muslim-majority countries like Kyrgyzstan and Uzbekistan, Islamic finance plays a key role in capital allocation. Minhaj-Ud-din et al. (2022) found that Shariah-compliant financing and financial deepening, measured by Islamic banking assets, positively impacted economic growth in 12 OIC countries. They argue Islamic finance is a core part of national systems. Similarly, Hassan et al. (2022), using dynamic panel analysis and propensity score matching, confirmed a strong positive link between Islamic finance and GDP growth in OIC and global contexts, applying Markov Chain Monte Carlo methods to reduce bias. These findings suggest aligning capital attraction strategies with Islamic financial instruments could benefit countries like Kyrgyzstan and Uzbekistan.

Despite growing literature, there is limited research on long-term foreign capital flows in Central Asia. Most studies focus on short-term FDI or individual policy tools, lacking integrative frameworks that link investment attraction to national development, sectoral goals, and financial system design. Fernandez et al. (2020) emphasized FDI's role in bridging capital gaps where domestic resources fall short. Gherghina et al. (2019) found that investment in Central and Eastern Europe is driven by functional factors like productivity and infrastructure, not institutional stability. This suggests that sector-based strategies are more effective than broad macroeconomic reforms. However, cohesive foreign investment strategies for Kyrgyzstan and Uzbekistan remain underdeveloped. While literature explores capital inflows and institutional factors, few studies address how sectors like Kyrgyzstan's agriculture or Uzbekistan's services could anchor sustainable, long-term development.

The study's combined macroeconomic analysis, sectoral appraisal, and policy benchmarking make it theoretically significant. The study shows that customised financial incentive systems can attract targeted foreign investment by synthesising the experiences of Ireland and Spain, who have implemented diverse R&D investment plans. The Irish model emphasises foreign-led R&D investment with flexible incentives, while

the Spanish approach uses a combination of domestic and international finance (Dinh et al., 2019). Based on empirical evidence and theoretical logic, this comparative viewpoint allows for context-sensitive policy recommendations for Kyrgyzstan and Uzbekistan.

The purpose of the study is to determine the strategy of attracting foreign capital through the prism of experience of other countries. In the course of the research, the following tasks are important:

- analysing the main statistical data characterizing the investment attractiveness of Kyrgyzstan and Uzbekistan for foreign investors;
- analysing strategies for attracting foreign capital from other countries;
- formation of a strategy for attracting foreign capital to the economies of Kyrgyzstan and Uzbekistan, taking into account the peculiarities of the functioning of the economy of each country.

## **2. Materials and Methods**

The paper used a combination of methods to achieve better performance within the synergy of their effect, namely qualitative and quantitative methods. The qualitative method consisted in theoretical analysis of the topic based on previously conducted research, and the quantitative method consisted in analysing the most important statistical data. Based on the objectives of the research, in order to achieve the goal, the study was conducted in three stages.

At the first stage of the study, statistical data were analysed in order to understand the current state of the economies and the opportunities and prospects for attracting foreign investment, as well as to identify the most acute problems that may hinder such a process. In order to develop a development strategy, relevant statistical data were analysed for the last five years of the functioning of the national economy of Kyrgyzstan, namely for the period 2018-2023: GDP in current prices, i.e., the value as of the estimated period without inflation (Statista, 2024a), inflation rate (Statista, 2024b), GDP structure by sector (Statista, 2023, 2024c), dynamics of the country's deficit and/or surplus (Ministry of Finance of the Kyrgyz Republic, 2022; National Statistical Committee of the Kyrgyz

Republic, 2023b, 2023d, 2023g), external and internal public debt (National Statistical Committee of the Kyrgyz Republic, 2023e; Ministry of Justice of the Kyrgyz Republic, 2019), Kyrgyz budget deficit % of GDP (National Statistical Committee of the Kyrgyz Republic, 2023e), tax rate (Global Economy, 2024), trade openness (World Integrated Trade Solution, 2023), unemployment rate (National Statistical Committee of the Kyrgyz Republic, 2024b), employment by sector (National Statistical Committee of the Kyrgyz Republic, 2024a), investment flows into the economy (National Statistical Committee of the Kyrgyz Republic, 2023f), migration and labour migration (United Nation, 2020; International Organization for Migration, 2023), level of economic development of the country (World Bank Group, 2024). Actual statistical data for the last five years of the functioning of the national economy of Uzbekistan was analysed, namely for the period 2018-2023: in current prices (World Bank Group, 2023), the dynamics of the budget deficit (World Bank Group, 2024), investment receipts in the economy of the country (Statistics Agency, 2022).

To analyse the indicators in dynamics, formula 1 of the growth rate was used:

$$GRR = I_c/I_b \times 100\% - 100\% \quad (1)$$

where  $I_c$  – indicators of values of the current period,  $I_b$  – indicators of values of the base period.

After analysing the development potential of the Kyrgyz economy, the second stage of the analysis involved the analysis of the main ways that may be appropriate for the country in the process of attracting foreign capital and the study of the main components of a prospective strategy for attracting foreign investment in order to develop the Kyrgyz economy. The second task of the research was studied by analysing earlier studies and other theoretical sources of information based on the experience of other countries.

At the third stage, the development of the strategy was carried out based on the most important measures to attract foreign capital to the economies of Kyrgyzstan and Uzbekistan.

### 3. Results

Foreign investors evaluate specific factors before investing in another country. Kyrgyzstan promotes six key advantages: its geographic role as a trade hub, bilateral investment agreements with over 20 countries, free economic zones exempting export-import taxes (Balayev et al., 2025), a visa-free regime, cheap labour supported by a growing working-age population (Investment Portal Kyrgyz Republic, 2024), and its democratic stance. Despite these strengths, investment growth has slowed, indicating the need for new capital attraction strategies (National Statistical Committee of the Kyrgyz Republic, 2023f).

Uzbekistan emphasizes low input costs, a large domestic market, duty-free access to CIS markets, and modernization of industrial enterprises (Kaparbekov et al., 2024). Broadly, factors influencing foreign investment in developing countries include GDP, labour force, trade openness, tax rates, infrastructure, and macroeconomic indicators (Sabir et al., 2019; Haudi et al., 2020; Thanh, 2023).

Since Kyrgyzstan is an emerging economy, the main above-mentioned indicators of investment attractiveness of the Kyrgyz economy are analysed below to understand the potential and opportunities to attract investment. Over the period 2018-2023, Kyrgyzstan's GDP growth rate in current prices, i.e., the value as of the estimated period excluding inflation, increased by 54.5% (from USD 8.3 billion in 2018 to USD 12.7 billion in 2023). According to the researchers' calculations, the growth rate of Kyrgyzstan's GDP in current prices will increase to 42.6 per cent by 2029 (from USD 12.7 billion in 2023 to USD 18.2 billion in 2029) compared to 2023 (Statista, 2024a). It is relevant to consider the fact that the country's inflation rate reached 13.9% as of 2022, the highest level since the 16.6% rate in 2011. In 2023, this rate decreased by 9.1%. Kyrgyzstan's inflation rate is expected to decline continuously by 6.8% until 2029 compared to 2023 (Statista, 2024b). In Uzbekistan, over the period 2018-2023, Kyrgyzstan's GDP growth rate in current prices has increased by 71.9% (from USD 52.9 billion in 2018 to USD 90.9 billion in 2023) (World Bank Group, 2023).

When discussing the share of economic sectors in Kyrgyzstan's GDP structure, it is important to note that this structure remained unchanged from 2018 to 2022 and is distributed as follows: 2/3 of the country's GDP

is occupied by the service sector, 1/3 by industry. Agriculture accounts for slightly more than 1/10 of the country's GDP (Statista, 2024c) (Table 1).

**Table 1:** Share of Economic Sectors in Kyrgyzstan's GDP for the Period 2018-2022, %

Year	Industry	Annual change	Services sector	Annual change	Agriculture	Annual change
2018	27.5	-	49.8	-	11.7	-
2019	26.6	-3.2	50.3	+1.0	10.4	-11.1
2020	26.9	+1.1	50.7	+0.8	12.1	+16.4
2021	23.8	-11.5	51.0	+0.6	12.4	+2.5
2022	22.3	-6.3	52.4	+2.8	10.4	-16.1

Source: compiled by the authors based on data from Statista (2024c)

Analysing the data shown in Table 1, we can conclude that the industrial sector in Kyrgyzstan has weakened in recent years. The indicators of the agriculture and services sectors have fluctuated over the analysed period.

If talking about the share of economic sectors in the GDP structure of Uzbekistan, then during 2018-2022 the structure is unchanged and remains in the form of an even distribution of the contribution of industry, agriculture, and services to GDP (Table 2).

**Table 2:** Share of Economic Sectors in GDP of Uzbekistan for the Period 2018-2022, %

Year	Industry	Annual change	Services sector	Annual change	Agriculture	Annual change
2018	30.5	-	39.8	-	29.7	-
2019	33.8	+10.81	39.6	-0.5	26.6	-10.4
2020	33.5	-0.9	39.7	+0.3	26.8	+0.8
2021	33.9	+1.2	39.6	-0.3	26.5	-1.1
2022	33.4	-1.5	41.5	+4.8	25.1	-5.3

Source: compiled by the authors based on data from Statista (2023)

Analysing the data depicted in Table 2, we can conclude that the agriculture sector in Uzbekistan has weakened in recent years. The performance of industry has fluctuated over the analysed period, while



the services sector is increasing its influence on the formation of Uzbekistan's GDP structure with the highest growth rate for the period 2018-2023. Consequently, we can conclude about the development of the services sector and possible challenges relative to the industrial and agricultural sectors.

If talking about the deficit and/or surplus of the state budget, the dynamics of the country's revenues for the period 2019-2023 is characterized by an annual increase. The growth rate of budget revenues for the same period was 134.3%. The expenditure growth rate for 2019-2023 was 126.2%. Calculations have shown that during the analysed period there is an outpacing of the growth rate of budget expenditures over the growth of its revenue part. Consequently, for the period 2019-2022 in Kyrgyzstan there was a deficit of the state budget except for 2023, when the indicator amounted to USD 141.8 million (Ministry of Finance of the Kyrgyz Republic). The budget deficit was USD 141.8 million (Ministry of Finance of the Kyrgyz Republic, 2022; National Statistical Committee of the Kyrgyz Republic, 2023b, 2023d, 2023g). The country's budget deficit can be covered by borrowing, both external and internal. State loans are less dangerous than emission of money in the country, so the Kyrgyz government prefers to use this option. Looking at the dynamics of external and internal public debt of Kyrgyzstan, we can note a tendency to its increase for the period 2020-2023, which is a negative trend. The growth rate of public debt for the period under study was 75.1% (National Statistical Committee of the Kyrgyz Republic, 2023e; Ministry of Justice of the Kyrgyz Republic, 2019). Analysing the structure of public debt by domestic and foreign loans, we can conclude that 80% of public debt is external debt. Consequently, 20% of public debt is internal debt in the budget of Kyrgyzstan (Ministry of Finance of the Kyrgyz Republic, 2022).

Budget deficit is not considered by researchers as a catastrophically negative financial indicator, as many states function at the expense of external debt (Sablík, 2019). This practice is considered as a normal practice today. But it is important that the amount of the state's debt is not exceeded annually and does not become a problem for taxpayers. A budget deficit can occur as a "normal figure" if it is 2-3% of the country's GDP. The state budget deficit as a % of GDP in Kyrgyzstan for the period 2019-2023 is presented in Table 3.

**Table 3:** Budget Deficit of Kyrgyzstan, % of GDP

Year	Kyrgyzstan
2019	0.07
2020	3.3
2021	0.2
2022	1.13
2023	-

Source: compiled by the authors on basis of data from the National Statistical Committee of the Kyrgyz Republic of the Kyrgyz Republic (2023b, 2023c, 2023f)

Analysing the above data in Table 2, it can be concluded that as of 2019-2023, Kyrgyzstan's debts fluctuated, but the situation improved significantly in 2023 as the deficit changed to a surplus (National Statistical Committee of the Kyrgyz Republic, 2023e). As for Uzbekistan, the country still had a budget deficit as of 2023. However, the budget deficit increased from 4.1 per cent in 2022 to 5.8% of GDP in 2023 due to extraordinary spending on energy infrastructure maintenance, higher spending on wages and social benefits, energy subsidies and subsidized lending to state-owned enterprises by state-owned banks (World Bank Group, 2024).

Kyrgyzstan taxes commercial gains at 29% for entrepreneurship in 2024. This metric has not increased since 2019 (Global Economy, 2024). Comparing exports and imports to GDP determines trade openness. Kyrgyzstan exported 37.8% of its GDP in 2023 and imported 67.9% (World Integrated Trade Solution).

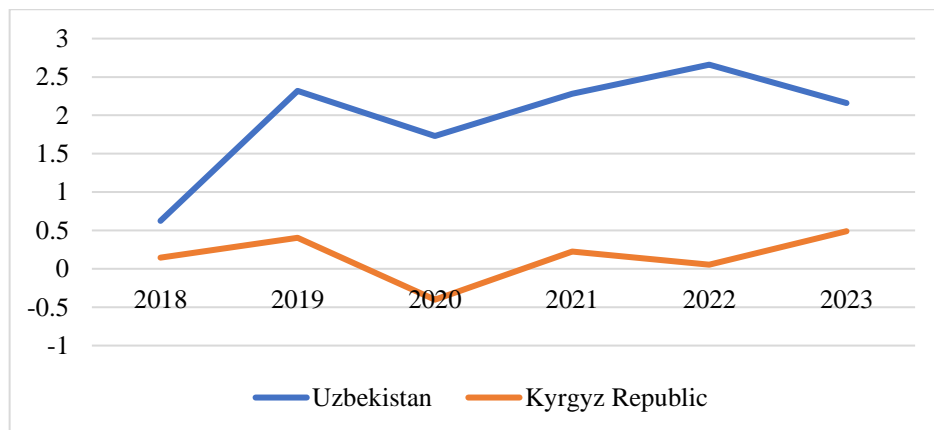
Other Kyrgyzstan economic indicators are rising. Kyrgyzstan's unemployment rate dropped from 6.2% in 2018 to 4.9% in 2022 (National Statistical Committee, 2024b). The employed population climbed 11.5% from 2382.5 thousand in 2018 to 2656.2 thousand in 2023. Employment structure by economic activity was stable during 2018-2023. Agriculture, forestry, and fish farming employed 482.7 thousand people in 2018, 20.1% of the workforce. In 2023, 17.1% of workers (454.3 thousand) chose this industry. In 2018, wholesale and retail commerce employed 15.7% of the workforce, or 373.9 thousand. This industry was the second most popular in 2023 (15.8% of the workforce, or 419.3 thousand). Private household activities were least popular in 2018 (0.2% of working

population, 4.7 thousand). In 2023, 0.1% of workers (4.0 thousand) liked this industry the least (National Statistical Committee of the Kyrgyz Republic, 2024a).

Kyrgyzstan needs major infrastructure investment by 2022. Government prioritises hydropower and public transit infrastructure (Kerimkhulle et al., 2022a). The country's electricity trade justified hydropower development. Due to the Kyrgyz government's limited Soviet legacy growth after independence, public transit must be developed (Jakubik et al., 2017). International financing supported the two infrastructure enhancements due to a budget deficit and high external debt (Spytska, 2023). Foreign investors are not drawn to the country's infrastructure development.

Active investment promotion efforts contribute to attracting foreign capital into a country's economy. Investment promotion agencies are most effective in this process (Crescenzi et al., 2021). Kyrgyzstan and Uzbekistan also have such agencies: in Kyrgyzstan under the name of Investment Promotion and Protection Agency under the Ministry of Economy and Commerce of the Kyrgyz Republic (Investment Portal Kyrgyz Republic, 2024), in Uzbekistan – the Investment Promotion Agency under the Ministry of Investment, Industry, and Trade (2024). Their establishment has been positive for the development of the international business environment in the country, as both Kyrgyz and Uzbek agencies are interested in promoting investment projects and assisting existing and potential investors. This is a significant advantage, as such an agency increases the inflow of FDI and increases the number of jobs in those sectors where the Agency's investment attraction policy is directly targeted (Crescenzi et al., 2021). The Figure 1 illustrates the trends in foreign direct investment inflows to Uzbekistan and the Kyrgyz Republic over the period 2018-2023. The data reveals significant fluctuations in both countries' FDI reception, reflecting their respective economic and policy dynamics.

**Figure 1:** Foreign Direct Investment Trends in Uzbekistan and Kyrgyz Republic (2018-2023), \$ Billion



Source: compiled by the authors based on data from Statistics Agency (2022) and World Bank Group (2024)

From 2018 to 2023, Uzbekistan experienced a steady increase in foreign direct investment (FDI), with the inflows rising from 0.625 billion in 2018 to a peak of 2.66 billion in 2022. Although there was a slight decrease to 2.16 billion in 2023, the overall trend demonstrates a positive trajectory, reflecting the success of Uzbekistan's economic reforms and investment-friendly policies. These factors, alongside its strategic location and growing service sector, likely contributed to the country's increasing appeal to foreign investors. In contrast, the Kyrgyz Republic saw more pronounced volatility in its FDI inflows. While the country's FDI increased from 0.144 billion in 2018 to 0.404 billion in 2019, it experienced a significant decline in 2020, with negative FDI of -0.402 billion. This drop can likely be attributed to the global disruptions caused by the COVID-19 pandemic and domestic political instability. Following this, Kyrgyzstan's FDI inflows remained unstable, with modest increases in 2021 and 2023, but the overall trend reflects a more erratic investment climate compared to Uzbekistan.

The numbers show Kyrgyzstan and Uzbekistan have economic promise but constraints. Kyrgyz and Uzbek governments are taking different approaches to attract foreign investments for socioeconomic development (Uzenbaev et al., 2019). Each country recognises the importance of this field for economic development and wants foreign investment to boost the economy. To attract foreign investment, measures are scattered or

incomplete. FDI's main drivers in the countries under examination are uncertain. Investors face increased risks in Kyrgyzstan and Uzbekistan, developing countries with growing economies. Therefore, the government should expressly limit foreign investment. Regulation should be based on a rational investor and national interest policy. Each country can grow economically through investment, but it needs the right approach to attract foreign capital. Examining other countries' strategies and whether Kyrgyzstan and Uzbekistan can apply them to their economies is intriguing. Since the majority of the population is employed in agriculture, Kyrgyzstan should choose an approach to develop this particular sector. Developing the agricultural sector is important to improve the level of human capital in the country, but investing in the service sector is important because the development of this sector directly affects the GDP of the country (Bulgakov et al., 2017; Shahini et al., 2024). For Uzbekistan, the best option is to develop the services sector, as the contribution of this sector to the country's GDP has the most positive dynamics.

To attract investment in agriculture and services, Kyrgyzstan and Uzbekistan should prioritize research and development (R&D). Drawing on the experiences of Spain and Ireland can be instructive. Both countries emphasize R&D investment but differ in approach: Ireland focuses on foreign R&D investment with flexible financial incentives, while Spain encourages both domestic and foreign R&D, offering tax benefits (Guimón, 2009; Voloshina et al., 2021). Since Kyrgyzstan and Uzbekistan already provide tax incentives but still face declining investment rates, adopting a more adaptable incentive system for foreign investors is essential. Improving competition is also crucial, allowing diverse investors fair access to markets dominated by existing players (Pîrvu et al., 2008). In addition, the process of evaluating and selecting investment proposals should be simplified and more accessible, taking cues from Romania's experience (Guimón, 2009; Pîrvu et al., 2008).

Rather than focusing solely on attracting new projects, which is costly, both countries should prioritize support for current investors. Ireland, for instance, assigns managers to existing companies, a practice that, while expensive, enhances investor retention. A similar, cost-effective adaptation of this model could benefit Kyrgyzstan and Uzbekistan. Lastly, as investment becomes increasingly tied to innovation, it is essential to upskill agency staff. Ireland's dedicated departments for investor relations

serve as a useful model (Guimón, 2009; Panchenko et al., 2021; Shumka et al., 2021).

The consequences of introducing foreign capital into R&D for agriculture and service industries can be: optimization of production processes, improved product quality, less negative impact on the environment and increased socio-economic development, job creation. Quite often, in practice, agricultural investment fails (Kerimkhulle et al., 2021; 2023). Based on the experience of Ethiopia, it is possible to identify the main factors appropriate for Kyrgyzstan and Uzbekistan, determining the reduction of the risk of failure in attracting foreign investment in the agricultural sector. Firstly, unsuccessful institutional planning can lead to high costs (Shahini et al., 2023). Also, successful investment projects in the analysed sectors require highly qualified specialists. From the Ethiopian experience, it is clear that in rural and remote areas, the availability of highly skilled labour can be a problem (Cochrane et al., 2024). It is possible that such a problem may also exist in Kyrgyzstan and Uzbekistan. Therefore, it is important for the two governments to focus on skills' development in the agricultural and service sectors. Given that investments should be directed towards R&D in the rural sector, it is important to improve the digital skills of employees, namely digital literacy (Kerimkhulle et al., 2022b). Digital literacy is not an identical concept to computer literacy. Digital literacy implies that a person can use digital technologies confidently and responsibly for the right purposes, and is critical and cautious about information security. The concept of digital literacy also includes information literacy, media literacy, effective communication and collaboration, safety (including digital wellbeing and cybersecurity skills) (Kharchenko et al., 2017; Ketners and Petersone, 2021). It can be defined that, on the one hand, digital competence in a broad sense is the acquisition of skills needed to master the process of digital transformation (Rolf, 2022). On the other hand, digital literacy, or in other words, digital competence in a broader sense, is the habitual but critical use of information society technologies in work, leisure, and communication. In other words, digital literacy acts as a certain ability of an individual to use digital technologies to search, analyse, evaluate, transfer and preserve information, communicate on account of selected information with the help of digital tools in various forms and formats (Nikou et al., 2022; Nekrasov et al., 2022).

To attract foreign investment, promotional activities are essential. Their effectiveness has been demonstrated in Romania (Pîrvu et al., 2008). For Kyrgyzstan and Uzbekistan, such efforts are particularly important in agricultural and service R&D. Marketing plays a crucial role in economic development, as shown in China's western regions (Tien et al., 2019; Chen et al., 2021), making it vital for both governments to shape a favourable international image.

Their investment strategies should focus on four key areas: financial incentives, international-level business environment development, continuous foreign capital improvement, and investment stimulation. Implementing this strategy requires qualified personnel. However, Kyrgyzstan faces a labour shortage due to high migration rates. Sixteen percent of the population was absent in 2022, with 80 percent of them working abroad. In some regions like Talas and Batken, 40 percent of residents are labour migrants (International Organization for Migration, 2023; United Nation, 2020). Key drivers include low wages, lack of jobs, financial difficulties, and limited well-being (International Organization for Migration, 2023). Addressing this requires policies to encourage the return of skilled workers.

The strategy must also be sustainable. While earlier models emphasised replacing used resources, current thinking focuses on weak sustainability, balancing resource use with technology and human capital. Sustainable development now relies on achieving environmental, social, and economic goals together (Younis and Chaudhary, 2017). Economically, foreign capital boosts national growth; environmentally, it promotes low-impact R&D in agriculture and services (Buribayev et al., 2020; Yeraliyeva et al., 2016); socially, it enhances digital literacy and human capital. Thus, the strategy should integrate all three sustainability components.

#### **4. Discussion**

The analysis of economic indicators for Kyrgyzstan and Uzbekistan (2018-2023) revealed GDP growth in both countries, alongside reduced unemployment and inflation in Kyrgyzstan, which also achieved a budget surplus. Despite these improvements, issues persist, particularly the decline in investment dynamics, even though Kyrgyzstan and Uzbekistan have agencies dedicated to attracting foreign investment. Cohen and

Grant (2020) argue that political instability, the COVID-19 pandemic, weak infrastructure, and corruption have reduced Kyrgyzstan's investment appeal.

Nonetheless, the study found that both countries possess the resources and potential to attract foreign investment. Strategic planning is necessary to leverage these advantages effectively. Khyareh and Amini (2021) demonstrated that economic growth in OIC nations is closely linked to entrepreneurship, employment, and income equality, suggesting that investment strategies should incorporate human capital development and support for entrepreneurship. Al Mustofa et al. (2021) stressed the importance of macroeconomic stability and institutional quality for attracting FDI, reinforcing the need for improved governance and regulatory environments in Kyrgyzstan and Uzbekistan.

Sectoral analysis identified agriculture in Kyrgyzstan and the service sector in Uzbekistan as promising for foreign investment, based on employment concentration and GDP contribution, respectively. However, Kusumastuti and Alhempri (2020) emphasized the importance of tailoring investment approaches to regional specifics. Zaman et al. (2021) further suggested that competitiveness is enhanced by trade openness, capital accumulation, and IT exports, implying that these sectors are critical for sustainable growth and foreign investment. This challenges the industry-based approach identified in this study.

However, other authors do not share this view. For example, in exploring the possibility of economic development in Kyrgyzstan, Kadyraliev et al. (2022) focus on the importance of investing in one industry – transport infrastructure in Kyrgyzstan, despite the fact that this industry is not the most significant for the economy and does not have an important part of the country's employed population. The researchers are inclined to the idea that by attracting foreign investment in the transport infrastructure of Kyrgyzstan to improve the infrastructure, and therefore to increase productivity by improving production and distribution. Such actions can lead to improved business opportunities and profitability. That is, overall economic growth is achieved through the impact on private capital and labour productivity (Petersone et al., 2016). However, it is important to note that the transport industry has not been given due attention in this study, as this industry is not the leading sector of the national economy of either Kyrgyzstan or Uzbekistan. Consequently, it can be assumed that



although there may be positive effects, their impact on the national economy will be less than the introduction of foreign capital into those sectors of the economy that occupy a larger place in its structure, which was analysed in this study.

When talking about attracting investment in the agricultural and service sectors, we are talking firstly about the development of R&D. This is considered to be the most important area for Kyrgyzstan and Uzbekistan in 2024 and will be most effective for the development of the country's economy. Other researchers have also investigated the determinants that investors focus on when deciding whether to invest their own capital in R&D. For instance, Alam et al. (2019), as a result of their study of institutional determinants of R&D investment in emerging markets, determined that the most important determinant is government effectiveness, rule of law and quality of regularity have a positive impact, while corruption and corruption and political instability have a negative impact on R&D investment in emerging markets (Kalaganov et al., 2018). These findings suggest that attracting investment in this area is not an easy and difficult goal for the governments of Kyrgyzstan and Uzbekistan to realize. As this study has identified corruption and political instability as the main challenges for the country in generating investor interest.

Hallam (2011) concluded that investing in agriculture in developing countries is challenging, and its positive impacts such as economic development, job creation, and technology adoption are not guaranteed. These effects require a favorable investment climate and government-led financial incentives. This aligns with the findings of the present study, which recommends enhancing and flexibilizing financial incentives for investors in Kyrgyzstan and Uzbekistan, based on the experiences of Ireland and Spain.

Wardhani and Haryanto (2020) also emphasize that FDI in agriculture significantly affects food security in host countries, aside from food imports. If the proposed strategy is properly implemented, it could improve not only the economic situation in Kyrgyzstan and Uzbekistan but also social and environmental conditions. Socially, it would enhance workforce skills in targeted sectors; environmentally, R&D investment could lead to innovations that reduce ecological harm.

The strategy thus supports all three pillars of sustainable development. Aust et al. (2020) similarly concluded that FDI can positively contribute to the UN Sustainable Development Goals, especially in improving basic infrastructure. While not exhaustive, this study highlights key directions relevant to attracting foreign capital and fostering development in Kyrgyzstan and Uzbekistan.

## **5. Conclusion**

The study found that Kyrgyzstan and Uzbekistan have significant potential and resources for economic development. The GDP indicators of the two countries have significantly improved over the period 2018-2023. In Kyrgyzstan, unemployment and inflation rates have also decreased, the tax rate for entrepreneurs remains stable and in 2023 the country experienced its first budget surplus in a long time. Uzbekistan still has a budget deficit. Kyrgyzstan also has significant problems in the form of poor infrastructure development and political instability.

To identify possible ways of attracting foreign capital, the successful experience of other countries in attracting investment into the country and its subsequent development was analysed. It was found that the most promising sectors for attracting foreign capital are agriculture for Kyrgyzstan and the service sector for Uzbekistan. At the same time, investments are important in R&D of these industries. Having analysed the experience of Ireland and Spain, it can be argued that more attention should be paid to foreign rather than domestic investors in the process of attracting capital for R&D. Firstly, it is important to improve the system of evaluation and selection of investment projects. Second, the skills of the staff of the Investment Promotion and Protection Agency under the Ministry of Economy and Commerce of the Kyrgyz Republic and the Investment Attraction Agency under the Ministry of Investment, Industry, and Trade of the Republic of Uzbekistan should be improved. Having analysed the experience of Ethiopia, it was noted that it is important to develop and improve the skills of the employed population in those areas of the economy that need foreign investment. Having analysed the experience of China, it became clear that in addition to the direct implementation of the strategy to attract foreign capital into the economy of each country, it is also important to implement in parallel advertising activities aimed at raising awareness of investors and increasing their interest in future investments in the Kyrgyz and Uzbek economies.

Consequently, the strategy for attracting foreign investment should focus on four groups of factors, namely the formation of a flexible system of financial incentives, the development of the business environment at the international level, the continuous improvement of conditions for foreign capital and the stimulation of foreign investment attraction. In order to successfully implement a strategy to attract foreign investment in the selected industries, it is important for the Kyrgyz government to address the problem of labour emigration and for the two governments to improve the digital literacy of the population employed in these industries.

This study has several limitations. The analysis focuses on two countries, Kyrgyzstan and Uzbekistan, which are characterized by certain features of functioning, e.g., environment, human capital, peculiarities of the economy and macroeconomic indicators, etc. It cannot be claimed that the strategy developed can be applied to other countries, even if they are countries in Central Asia and have similar or similar functioning conditions to Kyrgyzstan and Uzbekistan. The analysis consists of only a few countries and their experience in attracting investment, such as Ireland, Spain, Ethiopia, China, which may also limit the results of the study. It is advisable to further research on this topic to improve the results of the study. This study focused on the whole country at a time, but in future research it is important to refine and finalize the strategy of attracting foreign capital by detailing it with a focus on the specifics of each region.

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