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ECONOMIC MECHANISMS OF INVESTMENT ACTIVITY IN ENSURING THE COMPETITIVE DEVELOPMENT OF LIGHT INDUSTRY ENTERPRISES

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Abstract: This paper examines the economic mechanisms through which investment activity is directed toward the competitive development of Uzbekistan's light industry — textiles, knitwear, footwear, leather, and silk-weaving — during the period 2024–2026. Drawing on presidential decrees, Tax Code provisions, official export statistics, and enterprise-level case evidence, the paper maps three families of mechanisms — concessional credit, targeted tax incentives, and special economic zone infrastructure — established under Presidential Decree No. DP-174 of September 2025 and Presidential Decree No. DP-4 of January 2026, and evaluates their association with the sector's competitiveness outcomes. Between 2024 and 2025, the textile industry's exports were estimated at USD 3.0 billion in 2024 and USD 2.5–2.6 billion in finished and semi-finished products in 2025 (sources differ on the precise 2025 figure), foreign direct investment into the sector reached USD 2.1 billion in 2025, and the number of exporting enterprises grew to 1,409, of which 502 were new entrants generating USD 203.0 million in first-year exports. Enterprises supplying international brands such as LC Waikiki, Inditex, and The North Face exported 42 percent of their 2024 output by value, a substantially higher export-orientation ratio than the sector average, and generated more than 37,500 jobs. The paper argues that the sector's post-2025 institutional architecture — a dedicated development agency, an off-budget support fund, a temporary 2 percent corporate income tax regime for qualifying manufacturers, and free economic zone incentives requiring as little as USD 3 million in qualifying investment — represents a coherent and evolving application of location-advantage and cluster-based competitiveness theory to a specific industrial sector, and identifies the government's USD 7 billion export target for 2028 as the benchmark against which the effectiveness of these mechanisms should next be assessed.

Keywords: investment activity, light industry, competitiveness, textile industry, tax incentives, special economic zones, foreign direct investment, industrial policy, Uzbekistan, export development.

Аннотация: В данной статье рассматриваются экономические механизмы, посредством которых инвестиционная деятельность направляется на конкурентное развитие легкой промышленности Узбекистана — текстильной, трикотажной, обувной, кожевенной и шелкоткацкой отраслей — в период 2024–2026 годов. На основе указов Президента, положений Налогового кодекса, официальной экспортной статистики и данных на уровне предприятий в статье анализируются три основные группы механизмов — льготное кредитование, целевые налоговые стимулы и инфраструктура специальных экономических зон, сформированные в рамках **Указа Президента № УП-174 от сентября 2025 года** и **Указа Президента № УП-4 от января 2026 года**, а также оценивается их связь с показателями конкурентоспособности отрасли. В 2024–2025 годах экспорт текстильной промышленности оценивался примерно в 3,0 млрд долларов США в 2024 году и в 2,5–2,6 млрд долларов США по готовой и полуготовой продукции в 2025 году (источники несколько различаются в оценке точного показателя за 2025 год). Объем прямых иностранных инвестиций в отрасль в 2025 году достиг 2,1 млрд долларов США, а число предприятий-экспортеров увеличилось до 1 409, из которых 502 являлись новыми участниками экспортной деятельности и обеспечили 203,0 млн долларов США экспорта в первый год работы. Предприятия, поставляющие продукцию международным брендам, таким как LC Waikiki, Inditex и The North Face, экспортировали 42 процента своей продукции 2024 года в стоимостном выражении, что свидетельствует о существенно более высокой экспортной ориентации по сравнению

со средним уровнем по отрасли, а также способствовали созданию более 37 500 рабочих мест. В статье обосновывается, что институциональная архитектура отрасли, сформированная после 2025 года, — специализированное агентство развития, внебюджетный фонд поддержки, временный режим налога на прибыль по ставке 2 процента для производителей, соответствующих установленным требованиям, а также льготы свободных экономических зон при минимальном объеме соответствующих инвестиций в размере 3 млн долларов США — представляет собой последовательное и развивающееся практическое применение теории преимуществ размещения и кластерной конкурентоспособности в конкретной отрасли промышленности. Кроме того, установленный правительством целевой показатель экспорта в размере 7 млрд долларов США к 2028 году рассматривается в качестве ключевого ориентира для последующей оценки эффективности данных механизмов.

Ключевые слова: инвестиционная деятельность, легкая промышленность, конкурентоспособность, текстильная промышленность, налоговые льготы, специальные экономические зоны, прямые иностранные инвестиции, промышленная политика, Узбекистан, развитие экспорта.

1. INTRODUCTION

Light industry — textiles, knitwear, leather, footwear, and silk-weaving — occupies a distinctive place in Uzbekistan's industrial development agenda, transforming the country's long-standing comparative advantages in raw cotton and raw silk into higher-value, labour-intensive manufacturing capable of competing in international consumer markets [10], [11]. Since 2017, national textile exports have increased from approximately USD 1.1 billion to an estimated USD 3.0 billion by 2024. The government has also set a target of increasing textile exports to USD 7 billion by 2027, including USD 500 million in finished-product exports to the European and United States markets [11].

Achieving this trajectory is closely associated with the design and implementation of effective investment mechanisms alongside the availability of raw materials. Two decrees form an important part of the sector's current investment framework: Decree of the President No. DP-174 of 19 September 2025, "On Creating Additional Conditions for the Production of High Value-Added Goods and Increasing Export Volumes in the Light Industry Sector," which established a dedicated Agency for the Development of Light Industry, an off-budget support fund, and a package of concessional credit and compensation instruments effective from 1 October 2025 [12], [13], [14]; and Decree of the President No. DP-4 of 12 January 2026, "On Measures to Expand the Participation of Local Light Industry Enterprises in International Supply Chains and Strengthen Their Positions in Foreign Markets" [9]. Alongside these sector-specific instruments, light-industry enterprises may also benefit from Uzbekistan's general special economic zone (SEZ) and corporate tax incentive framework, including a temporary 2 percent corporate income tax rate applicable during 2025–2027 to qualifying manufacturers in the knitwear, footwear, and leather goods industries [15], [16].

The specific objectives of this paper are: (i) to review competitiveness and investment location theories relevant to evaluating sector-targeted investment mechanisms; (ii) to classify the principal economic mechanisms currently directing investment into Uzbekistan's light industry; (iii) to examine the sector's recent investment, export, and employment outcomes; (iv) to analyse enterprise-level evidence, particularly from manufacturers linked to international brands, regarding the relationship between these mechanisms and competitiveness; and (v) to develop recommendations for strengthening the sector's investment architecture in support of the USD 7 billion export target for 2027.

2. LITERATURE REVIEW

2.1 Competitive Advantage and the Diamond Model

Porter's diamond model of national competitive advantage identifies four interacting determinants of an industry's international competitiveness — factor conditions, demand conditions, related and supporting industries, and firm strategy, structure, and rivalry — and argues that sustained competitiveness in a given industry typically requires coordinated strength across several of these determinants rather than reliance on a single natural-resource advantage [1]. Porter's later work on industrial clusters extended this logic to geographically concentrated groups of interconnected firms and supporting institutions, arguing that cluster-based development — including shared infrastructure, specialised labour pools, and co-located suppliers — can raise the productivity and innovation capacity of member firms beyond what isolated firms may achieve [2]. Uzbekistan's special industrial zone approach to textile and leather-footwear development, discussed in Section 2.3, can be considered within this cluster-based framework [12].

2.2 The Eclectic (OLI) Paradigm of Investment Location

Dunning's eclectic paradigm explains a firm's decision to invest in a particular location as the joint outcome of ownership advantages (firm-specific assets such as brands or technology), location advantages (host-country-specific conditions such as factor costs, market access, or fiscal treatment), and internalisation advantages (the benefits of controlling production directly rather than licensing it) [3]. Within this framework, the tax, credit, and infrastructure instruments examined in Section 4 function as location advantages that a host country can influence through policy, while their specific design and implementation determine the extent to which they may attract investment relative to competing manufacturing locations.

2.3 The Effectiveness of Tax and Non-Tax Investment Incentives

A substantial body of evaluation literature, synthesised in the World Bank's review of investment-incentive evidence, indicates that tax incentives are generally more effective in attracting mobile, export-oriented manufacturing investment when they are time-limited, linked to measurable performance conditions such as employment or export share, and combined with non-tax improvements in the investment climate rather than offered as blanket exemptions [4]. Uzbekistan's recent incentive design — including a temporary, performance-conditional corporate income tax rate rather than an indefinite exemption [15], as well as investment-size thresholds governing the duration of SEZ tax relief [5] — is broadly consistent with this evidence-based design approach. This issue is examined further in Section 5.

2.4 Uzbekistan-Specific Policy and Investment-Climate Literature

Uzbekistan's Special Economic Zones, regulated under the Law on Special Economic Zones (No. LRU-604 of 17 February 2020) [6], have expanded to comprise 22 SEZs, alongside 507 small industrial zones, 201 youth industrial and entrepreneurial zones, and several specialised and technology zones. According to the OECD's investment policy assessment, these zones constitute an important instrument for enhancing industrial competitiveness and attracting foreign direct investment [5]. The 2024 U.S. Department of State Investment Climate Statement also notes that tax incentives available to foreign investors in Uzbekistan are generally aligned with those available to domestic enterprises participating in comparable regional development or industrialisation programmes, while additional incentives may apply to businesses registered in free economic and special industrial zones [7].

2.5 Research Gap

Existing assessments of Uzbekistan's investment-incentive framework are, to date, either economy-wide in scope [4], [5], [7] or limited to descriptive analyses of individual decrees [12], [13], [14]. Published research applying competitiveness and investment-location theory specifically to the relatively recent institutional architecture of the light-industry sector during 2024–2026 remains limited, particularly research that considers this institutional framework alongside the sector's observed investment, export, and employment outcomes over the same period. Addressing this gap constitutes the focus of Sections 3 and 4 of this paper.

3. RESEARCH METHODOLOGY

3.1 Data Sources

The analysis draws on four categories of sources. First, it uses the primary legal texts of Decree of the President No. DP-174 [12] and Decree of the President No. DP-4 [9], as well as secondary legal and tax-advisory sources concerning Uzbekistan's SEZ legislation and corporate tax incentive regime [5], [6], [15], [16]. Second, it draws on the OECD's 2025 investment policy assessment of Uzbekistan's tax incentive framework [4], [5] and the U.S. Department of State's 2024 Investment Climate Statement for Uzbekistan [7]. Third, the analysis uses official and industry reports on the textile and light-industry sector's investment, export, and employment performance during 2024–2026 [10], [11], [17]. Fourth, enterprise-level case evidence concerning textile manufacturers in Uzbekistan supplying international brands is examined [17].

3.2 Analytical Approach

The paper applies a mechanism-classification and outcome-benchmarking approach. The economic mechanisms established under the decrees and tax provisions reviewed in Sections 2.3–2.4 are first classified by type — concessional credit, tax incentives, zone-based infrastructure, and non-financial support — following the location-advantage categories implied by the eclectic paradigm [3]. These mechanisms are then considered alongside the sector's reported investment, export, and export-orientation outcomes for the most recent available years, in line with the investment-incentive effectiveness literature reviewed in Section 2.3 [4].

3.3 Limitations

Three limitations apply. First, because the principal mechanisms examined under DP-174 and DP-4 took effect only in October 2025 and January 2026, respectively, much of the outcome data reviewed in Section 4 predates their full implementation. Therefore, the paper examines the emerging institutional

architecture alongside recent outcome trends rather than attributing the observed outcomes directly to these mechanisms.

Second, official sources report slightly different figures for the sector's 2025 exports — USD 2.5 billion and USD 2.6 billion. This cross-source difference is explicitly acknowledged in the analysis rather than reconciled without sufficient supporting evidence.

Third, the enterprise-level evidence presented in Section 4.4 is drawn from a limited number of reported case enterprises rather than a comprehensive sectoral census. Accordingly, these cases are used to illustrate export-orientation patterns among manufacturers supplying international brands and are not treated as fully representative of the light-industry sector as a whole.

Artificial intelligence tools were used for up to 10 percent of the preparation of this article.

4. ANALYSIS AND RESULTS

4.1 Classification of Current Investment Mechanisms

Table 1 classifies the principal economic mechanisms currently directing investment into Uzbekistan's light industry, distinguishing among concessional credit instruments, tax incentives, zone-based infrastructure, and institutional support mechanisms.

Table 1. Classification of Current Investment Mechanisms in Uzbekistan's Light Industry

Mechanism type	Instrument	Key parameters
Concessional credit	Reconstruction and Development Fund allocation to the Light Industry Support Fund	USD 200 million, 2025–2026, at 4% annual interest, repayable by 1 January 2030 [12]
Concessional credit (regional)	Remote-district branch credit	Up to 10 billion soums, 5-year term, at the Central Bank base rate, for branches creating 200 jobs at $\geq 2.5\times$ minimum wage in category 3–5 districts [12]
Tax incentive	Temporary sectoral CIT regime	2% corporate income tax and 1% social tax, 2025–2028, for qualifying textile, knitwear, footwear and leather manufacturers [15]
Tax incentive (zone-based)	SEZ corporate tax exemption	Full CIT exemption for qualifying investors; duration up to 10 years for investment >USD 15 million (minimum qualifying investment USD 3 million) [4], [5]
Non-financial support	Agency for Light Industry Development	Compensation for international-brand attraction, standardisation/certification, and IFRS transition costs, effective from 1 October 2025 [12], [13], [14]
Institutional / R&D	Sector associations and training institute	Uztukimachilik sanoat, Uzcharmsanoat and Uzbekipaksanoat associations, and the Tashkent Institute of Textile and Light Industry, mandated to support Agency implementation and workforce training [12]

Source: Compiled by the author from Decree No. UP-174 [12] and related official reporting [13], [14]; OECD [4], [5].

4.2 Recent Investment and Export Outcomes

In 2025, the textile sector produced goods valued at 134 trillion soums, attracted USD 2.1 billion in foreign direct investment, and recorded exports of approximately USD 2.5 billion according to one official source and USD 2.6 billion according to another. As noted in Section 3.3, this paper reports the discrepancy without attempting to reconcile the two figures [10], [11]. Sector employment reached 623,000 workers in 2025, with a target of 650,000 for 2026 [11]. Exports of finished textile products increased by 18.5 percent in 2025 compared with 2024, while the number of exporting enterprises rose to 1,409. Of these, 502 were new entrants to export activity, generating USD 203.0 million in exports during their first year [10]. Table 2 summarises these indicators.

Table 2. Uzbekistan’s Textile and Light Industry: Investment and Export Indicators, 2024–2026

Indicator	Value	Year
Textile export value	~USD 3.0 billion	2024
Textile export value	USD 2.5–2.6 billion (sources differ)	2025
Growth in finished-product exports	+18.5%	2025 vs. 2024
Foreign direct investment attracted	USD 2.1 billion	2025
Sector output value	134 trillion soums	2025
Sector employment	623,000 (target 650,000)	2025 (2026 target)
Exporting enterprises	1,409 (of which 502 new)	2025
Export value from new exporting enterprises	USD 203.0 million	2025
National export target	USD 7 billion (USD 500 million to EU/US)	By 2028

Source: Compiled by the author from gov.uz/MIIT reporting [10], [11]; USDA Cotton and Products Update [11].

4.3 Special Economic Zone and Fiscal Architecture

Beyond sector-specific instruments, light-industry enterprises operate within Uzbekistan’s broader SEZ and fiscal architecture. As of late 2024, the country maintained 22 special economic zones, alongside 507 small industrial zones, 201 youth industrial and entrepreneurial zones, 3 technology parks, and 4 specialised industrial zones [5]. Decree of the President No. DP-71 of 1 May 2024 provided for the development of textile-specialised small industrial zones in Andijan, Namangan, and Kashkadarya regions, as well as an industrial technopark specialising in the deep processing of textile products in Tashkent Region. The Decree also provided for the development of production facilities and water-treatment infrastructure required for textile manufacturing and dyeing operations [12]. Within Uzbekistan’s broader SEZ framework, qualifying investors may benefit from full corporate income tax exemptions for periods of up to ten years, depending on the volume of investment, with a minimum qualifying investment of USD 3 million [4], [8]. The standard national corporate income tax and value-added tax rates are 15 percent and 12 percent, respectively.

4.4 Enterprise-Level Evidence: Foreign-Brand-Linked Manufacturers

Enterprise-level reporting on garment manufacturers supplying international brands — including LC Waikiki, The North Face, and Inditex — provides illustrative evidence of the relationship between investment and export orientation. In 2024, these enterprises produced 273,000 tonnes of goods valued at 12.9 trillion soums, of which 40,100 tonnes, worth USD 435.4 million, were exported. Exports accounted for 42 percent of total production value, representing more than twice the approximately 18–20 percent finished-product export orientation implied by the sector-wide indicators presented in Table 2 [17]. These enterprises employed more than 37,500 workers, while a further 20 production lines were scheduled for launch under the 2025 investment programme [17].

One representative enterprise, Global Textile LLC in Fergana Region, reported annual knitwear production of 62,000 tonnes for the French retail chain Kiabi [17]. This case illustrates how integration with international brand supply chains can support higher export orientation and strengthen the role of local manufacturers in global production networks.

Table 3. Foreign-Brand-Linked Manufacturers: Export Orientation Compared with the Sector Average, 2024

Indicator	Value
Production value (brand-linked enterprises)	12.9 trillion soums (273,000 t)
Export value (brand-linked enterprises)	USD 435.4 million (40,100 t)
Export share of production value	42%
Employment generated	>37,500 jobs
Planned new production lines (2025 programme)	20

Source: Compiled by the author from gov.uz/MIIT enterprise reporting [17].

4.5 Mechanism Design Consistent with Investment-Location Theory

The mechanisms classified in Table 1 correspond closely to the location-advantage component of Dunning's eclectic paradigm [3]. Concessional credit and the temporary 2 percent corporate income tax regime reduce financing and taxation costs for qualifying manufacturers, while compensation for costs associated with attracting international brands, obtaining certification, and accessing foreign markets may reduce transaction costs related to participation in international supply chains. The corporate income tax incentive applies from 1 January 2025 to 1 January 2028 and is subject to specified employment, wage, and revenue-composition criteria rather than being provided as an indefinite exemption [15]. This design can be examined in relation to the investment-incentive principles discussed in the World Bank literature reviewed in Section 2.3 [4].

4.6 Cluster Policy and Brand-Linked Export Orientation

The 42 percent export share observed among foreign-brand-linked manufacturers in Section 4.4 is higher than the approximate sector-wide finished-product export orientation implied by the indicators presented in Table 2, although the two measures are not strictly identical and should therefore be compared with caution. The observed pattern is broadly consistent with Porter's cluster-based competitiveness framework [1], [2], under which firms integrated into international supply chains operate within networks characterised by common quality, delivery, certification, and sourcing requirements.

The industrial-zone and cluster measures introduced under Decree of the President No. DP-71 of 1 May 2024 and Resolution of the President No. RP-181 of 20 May 2024 provide an institutional framework for examining whether geographically concentrated infrastructure, financing, and market-access support are associated with stronger export-oriented performance as additional enterprise-level data become available [12].

4.7 An Institutional Architecture with Further Development Potential

Because the Agency for Light Industry Development and its associated support fund became operational only from late 2025, while Decree of the President No. DP-4 was adopted in January 2026, much of the investment and export evidence reviewed in Section 4 predates the full implementation of these mechanisms. The sector nevertheless provides a substantial pre-implementation baseline: textile and light-industry exports increased from approximately USD 1.1 billion in 2017 to around USD 2.9–3.0 billion in 2024 [11].

Under DP-4, the official near-term export targets are USD 4.0 billion for 2026 and USD 4.5 billion for 2027, alongside targets for foreign investment, employment creation, e-commerce exports, and cooperation with international brands [9]. Longer-term sector reporting also cites a USD 7 billion export benchmark for 2028 [11]. These benchmarks provide reference points against which the performance of the institutional and financial mechanisms introduced during 2025–2026 may be assessed as more comprehensive post-implementation data become available.

4.8 Methodological Limitations

The limitations identified in Section 3.3 directly affect the interpretation of these findings. First, the paper examines an emerging institutional architecture alongside recent sectoral outcomes rather than isolating a causal effect attributable exclusively to the mechanisms presented in Table 1. Second, the difference between the reported 2025 export figures of USD 2.5 billion and USD 2.6 billion is explicitly acknowledged rather than resolved without sufficient supporting evidence. Third, the enterprise-level evidence discussed in Section 4.4 relates to a limited group of prominent manufacturers linked to international brands and should therefore be interpreted as illustrative rather than representative of the light-industry sector as a whole.

Once sufficiently comparable post-implementation data for 2026–2027 become available, a before-and-after analytical framework could be used to examine changes in investment, exports, employment, and export orientation alongside the sector's pre-existing development trend. Such an approach would allow the contribution associated with the DP-174 and DP-4 mechanisms to be assessed more systematically.

5. CONCLUSION AND SUGGESTIONS

This paper classified the principal economic mechanisms currently directing investment into Uzbekistan's light industry — concessional credit, temporary sectoral tax incentives, special economic zone fiscal relief, and non-financial support related to international brands and certification — established primarily under Decree of the President No. DP-174 and Decree of the President No. DP-4. These mechanisms were considered alongside the sector's investment, export, and employment outcomes during 2024–2026. In 2025, the sector attracted USD 2.1 billion in foreign direct investment, while official sources reported textile exports of approximately USD 2.5–2.6 billion. Enterprise-level evidence from manufacturers supplying international brands indicates an export share of 42 percent among the observed enterprises, which is higher than the sector-wide export orientation reflected in the available aggregate indicators. These findings suggest that internationally integrated and

cluster-based production structures may provide an important basis for further assessment of competitiveness-enhancing investment mechanisms.

Based on the findings, four areas may be considered for further development and evaluation:

— **Strengthening the assessment of cluster and brand-linkage support:** Greater analytical attention may be given to the effectiveness of concessional credit, certification support, and related instruments for enterprises operating within specialised industrial clusters or participating in international brand supply chains. The relatively high export orientation observed among the enterprises examined in this paper provides a basis for further empirical assessment of this relationship [1], [2], [17].

— **Maintaining transparent and performance-linked evaluation of temporary tax incentives:** The temporary 2 percent corporate income tax regime applicable from 1 January 2025 to 1 January 2028 is linked to specified eligibility and performance conditions. Its effectiveness may therefore be assessed before determining the appropriate design of subsequent support instruments, in line with the investment-incentive literature reviewed in this paper [4], [15].

— **Further improving regional and enterprise-level data availability:** More disaggregated and periodically updated information on the use of investment-support mechanisms — including credit disbursement, participation in preferential tax regimes, and SEZ resident activity — by region, district, and enterprise size would strengthen the empirical basis for the before-and-after evaluation framework discussed in Section 4.8.

— **Assessing the effectiveness of remote-district credit parameters:** Existing arrangements provide eligible textile and garment-knitwear enterprises opening production branches in category 3–5 districts with loans of up to 10 billion soums for five years, subject to the creation of at least 200 jobs and specified wage conditions [12]. As implementation data accumulate, the relationship between financing limits, employment creation, enterprise performance, and the geographic distribution of investment may be evaluated to determine whether differentiated financing parameters would improve the effectiveness of this mechanism.

The mechanism-classification and outcome-benchmarking approach developed in this paper — combining competitive-advantage and investment-location theory with a structured assessment of sector-specific credit, tax, infrastructure, and institutional instruments — provides a methodological framework that may also be applied to the analysis of other sector-targeted industrial development programmes in Uzbekistan.

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