



ASSESSMENT AND COMPARATIVE ANALYSIS OF THE INVESTMENT POTENTIAL OF THE REPUBLIC OF BELARUS AND THE REPUBLIC OF UZBEKISTAN WITHIN THE EAEU

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Annotation: This article delves into an examination of the investment climates of both the Republic of Belarus and the Republic of Uzbekistan within EAEU countries by providing a comparative analysis of factors like political stability, infrastructural development, regulatory frameworks, macroeconomic indicators and FDI of these countries. It also provides insights into the trends and patterns of investment growth in these nations. The paper helps to understand the evolving investment narratives in the EAEU region and provides a roadmap for stakeholders looking to navigate the investment landscapes of Belarus and Uzbekistan.

Keywords: Investment, investment potential, inflow, outflow, mutual direct investment, FDI, EAEU, Belarusian economy, Uzbekistan economy, economic development

The dominant factor of competitiveness, the main source of sustainable economic growth in any national economic system is the growth of investment. The desire of states to create a favorable investment climate is due to a number of advantages: the creation of new jobs; increase in revenues to the state budget; transfer of innovative technologies and management methods, etc. The factors that shape investment attractiveness are the degree of institutional development, production and resource potential, and labor market capacity [1]. Assessing and comparing the investment potential of the Republic of Belarus and the Republic of Uzbekistan within the framework of the Eurasian Economic Union (EAEU) involves assessing various factors influencing investment attractiveness and opportunities in each country.

Uzbekistan is a densely populated, landlocked country in the heart of Central Asia with an emerging, lower-middle-income economy. As a country rich in natural resources, Uzbekistan has significant reserves of gold, uranium, copper, natural gas and other minerals. More than 2,800 deposits and promising mineral deposits have been discovered in the country, with the total value of mineral resource potential estimated at about \$3.5 trillion. Uzbekistan occupies outstanding positions in global rankings in various categories, including metallic and non-metallic minerals, as well as agricultural resources. For example, the country is in 11th place

in terms of copper reserves, 9th in gold production, 8th in uranium production, and 5th in cotton production [ii]. Agriculture, primarily cotton growing, also plays a significant role.

Table 1 - Macroeconomic indicators of the EAEU member countries and Uzbekistan

| Armenia | Belarus | Kazakhstan | Kyrgyzstan | Russia | Uzbekistan |
|--|-------------|------------|-------------|------------------|------------|
| <i>GDP (US billion, 2022)</i> | | | | | |
| 19,5 | 72,8 | 220,6 | 10,9 | 2 240,2 | 80,4 |
| <i>Average growth rate 2018-2022</i> | | | | | |
| 2,5 | 0,0 | 2,5 | 0,8 | -0,3 | 4,8 |
| <i>ВВП по ППС 2022</i> | | | | | |
| 18,9 | 22,6 | 30,8 | 6,1 | 36,5 | 9,5 |
| <i>Inflation rate 2022</i> | | | | | |
| 8,54 | 16,51 | 13,97 | 9,7 (2020) | 13,77 | 11,15 |
| <i>Debt to GDP Ratio 2022</i> | | | | | |
| 60,25 | 33,5 | 27,4 | 68,1 (2020) | 18,2 | 38 |
| <i>Unemployment rate (2022)</i> | | | | | |
| 12,6 | 4,2 | 5,0 | 4,6 | 4,7 (2021) | 6,0 |
| <i>Population in millions (2023)</i> | | | | | |
| 2,8 | 9,5 | 19,6 | 6,7 | 144,4 | 35,2 |
| <i>Gold and foreign exchange reserves (including gold), billion dollars (2022)</i> | | | | | |
| 4,11 | 8,42 (2021) | 35,08 | 2,98 (2021) | 632,24 (2021) | 35,77 |

(Source: Compiled by the author based on data [iii][iv][v][vi])

Russia and Kazakhstan are the largest economies in terms of GDP and GDP on a PPP basis. Uzbekistan stands out for its high average growth rate and relatively large population. Belarus has a comparatively lower debt-to-GDP ratio and unemployment rate, making its economy relatively stable. Armenia and Kyrgyzstan face challenges such as higher debt ratios and moderate growth rates. Overall, these countries demonstrate the diversity of economic performance and potential in the EAEU region [vii][viii] (Table 1).

Considering the investment potential of the EAEU member states, it should be noted that the volume of FDI varies significantly. Until 2021 inclusive, the main share of FDI came from two countries - Russia (85.8%) and Kazakhstan (9.6%). The picture changed dramatically in 2022. An increase in FDI flows was observed in two EAEU economies – Armenia (36.7%), Belarus (23.7%) and Kazakhstan (7.9%). In Kyrgyzstan, there is a decrease in investment inflows (51.7%), while in Russia there is a massive outflow of FDI caused by illegal unilateral restrictive measures of the United States and its affiliated countries (the so-called “sanctions”) and, as a result, business concerns regarding geopolitical situation [ix]. The Republic of Belarus is also an attractive market from a regulatory perspective. According to the legislation of the country, investors are exempt from certain categories of fees: land tax /

rent for land plots on which it is planned to build objects under an investment project; import customs duties and VAT on high-tech equipment, etc.

In addition, for 2015-2022, the total volume of accumulated mutual investments of the EAEU member countries increased by 5.8%, from 17 billion US dollars to 16.8 billion dollars. At the same time, an increase in the total volume of accumulated mutual investments (excluding Kyrgyzstan) was observed in all EAEU member countries compared to the same period in 2021. Kazakhstan has the largest indicator; accumulated mutual investments during the period under review increased by 15.4%. In Armenia and Russia this figure was 9.8% and 9.1%, respectively, in Belarus - 5.5% [x].

Mutual direct investment grew from \$18.4 billion in 2015 to \$24.5 billion in the first half of 2022. This is an increase of \$6.1 billion, or 33.2%, over a period of about 7 years. This shows increased economic cooperation and trust between the EAEU member states, which indicates the advancement of the union's goals for regional economic integration [8].

Russia leads the ranking of the largest investors with a capital of \$35.4 billion (79.2% is Russia's share in the structure of FDI exports). The five largest areas of FDI are associated with Russian investment - in Kazakhstan, Uzbekistan, Belarus, Azerbaijan and Armenia [xi][10][11]. This is not surprising given the size of the Russian economy and its role as a key player in both the CIS and the EAEU. Russia, despite being the largest investor, receives a relatively modest \$3.9 billion. Kazakhstan follows with investments worth \$4.2 billion. This shows that Kazakhstan, although a major beneficiary of FDI, is also an active investor in the CIS and EAEU region, reflecting its growing economic strength. Kazakhstan is followed by Uzbekistan (20.1%) and Belarus (12.6%). Belarus invested \$0.8 billion and attracted \$5.6 billion as an importer. The significant difference between the FDI that Belarus invests and receives indicates that the country is perceived as a lucrative investment destination. The inflow of \$5.6 billion indicates the confidence of other CIS countries in the Belarusian economy and strategic projects.

The largest upward movement was demonstrated by Uzbekistan (from 11.7% to 20.1%) amid improvements in the investment climate in the country. In recent years, Uzbekistan has been implementing important economic reforms, opening up its economy, improving the business environment and encouraging foreign investment. Uzbekistan ranks second with a huge inflow of \$9.0 billion. At the same time, Russian investors are actively increasing capital investments in Uzbekistan, compensating for their withdrawal from the Ukrainian market. Armenia and Uzbekistan, although smaller in terms of investment figures (\$0.094 billion and \$0.010 billion respectively), play a role in regional investment.

By mid-2022, the accumulated volume of mutual FDI of the EAEU countries amounted to \$26.3 billion, which is 7.3% more than by mid-2021. Most of this amount (\$20.9 billion) is accounted for by FDI from Russia to other countries of the Union. Kazakhstan is in second place in terms of FDI volume in the EAEU (\$3.6 billion), and Belarus is in third place (\$1.2 billion).

Among recipients of FDI from EAEU countries, Kazakhstan is the leader (\$10.8 billion), followed by Belarus (\$6.4 billion) and Armenia (\$4.5 billion). The most active investors from the EAEU without the participation of Russia are Kazakhstan and Belarus. They sent \$1.7 billion and \$1.2 billion, respectively, to other countries of the Union.

Table 2 – FDI inflows and outflows of the EAEU countries and Uzbekistan

| Country | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
|--|--------|--------|--------|--------|--------|---------|
| <i>FDI inflows (millions of dollars)</i> | | | | | | |
| Belarus | 1 279 | 1 421 | 1 293 | 1 398 | 1 238 | 1 603 |
| Uzbekistan | 1 797 | 625 | 2 316 | 1 728 | 2 276 | 2 531 |
| Russia | 25 954 | 13 228 | 32 076 | 10 410 | 38 639 | -18 681 |
| Kazakhstan | 4 714 | 3 898 | 3 284 | 3 670 | 3 337 | 6 108 |
| Armenia | 253 | 267 | 100 | 59 | 366 | 998 |
| Kyrgyzstan | -107 | 144 | 404 | -402 | 226 | 291 |
| <i>FDI outflow (millions of dollars)</i> | | | | | | |
| Belarus | 70 | 50 | 16 | 88 | -71 | 173 |
| Uzbekistan | 9 | 2 | 3 | 11 | 3 | 4 |
| Russia | 34 153 | 35 820 | 22 024 | 6 778 | 64 072 | 10 440 |
| Kazakhstan | 913 | -1 095 | -2 620 | -2 206 | 1 441 | -1 808 |
| Armenia | 29 | 7 | -133 | -27 | 25 | 50 |
| Kyrgyzstan | -29 | 5 | 5 | 2 | 2 | -458 |

(Source: Compiled by the author based on data [xii])

FDI inflows into Belarus have been relatively stable over the years, with minor fluctuations. From 2017 to 2022, FDI inflows increased by about 25%. Over 6 years, Belarus has seen an increase in FDI inflows with a noticeable peak in 2022 at \$1.603 billion. The lowest amount of FDI was recorded in 2021 at \$1.238 billion, while in 2018 it was \$1.421 billion. According to the UNCTAD World Investment Report 2022, FDI inflows into Belarus amounted to US\$1.2 billion in 2021, down 11.7% year-on-year; while total FDI was estimated at US\$15.1 billion (about 22.2% of the country's GDP).

On the other hand, the trend is more variable in Uzbekistan. FDI inflows to Uzbekistan show a more volatile trend. After falling to \$625 million in 2018, there was a significant increase in 2019 with inflows reaching \$2.316 billion. The growth continued until 2022, when FDI reached \$2.531 billion. FDI inflows increased by about 40% from 2017 to 2022.

If we analyze the FDI outflow trends, Belarus has a slightly different FDI outflow trend with a notable negative outflow in 2021, which recorded negative outflows (-USD 71 million), indicating more disinvestment than outward investment.

FDI outflows from Uzbekistan remain low and fairly stable, indicating a minimal trend in outflows, the highest of which was US\$11 million in 2020.



Belarus' net FDI (inflows minus outflows) remains generally positive, making it a net recipient of foreign investment. The difference between inflows and outflows for Uzbekistan is significantly higher, indicating a much larger net inflow of foreign investment.

Russia has the highest value of FDI flows, both in terms of inflows and outflows, of all the countries listed. Kyrgyzstan and Armenia have the lowest FDI inflows among the countries listed, reflecting their smaller economies and potentially less attractive investment environments. It is worth noting that Russia experienced negative FDI inflows in 2022 due to disinvestment and withdrawal of foreign capital due to political tensions and sanctions.

According to Belstat, the sectoral structure of mutual FDI is dominated by oil and gas production (\$9.8 billion), transport and communications (\$4.9 billion) and trade (\$3.8 billion). At the same time, there is an increase in investment in the service sector (\$2.6 billion), food production (\$1.9 billion) and energy (\$1.8 billion) [xiii].

The sectoral composition of mutual foreign direct investment in the EAEU countries is distributed as follows: metal ore mining accounts for 19.8% of total investment, followed by land and pipeline transport with 14%, and financial services account for 11.4%. Oil and gas production is in fourth place with a share of 9.5%. The primary interest in the metal ore mining sector is due to projects carried out by investors from Russia and Kazakhstan. This sector has played a key role in the growth of the total volume of mutual foreign direct investment in the EAEU over the past four years (by 2.2 billion out of 25 billion USD) [xiv].

For the development of the economy and social sphere of the Republic of Uzbekistan in January-June 2023, 139.1 trillion soums of investments in fixed assets were disbursed from all sources of financing, which is 107.9% of the corresponding period last year [xv]

In the first half of 2023, 41.7 trillion. sums of investments in fixed capital were financed from the own resources of enterprises and organizations, which amounts to 30.0% of the total investment. During the same period, 23.8 trillion were sold in Uzbekistan. sum through foreign direct investment, increasing by 17.1% or 1.8 percentage points compared to the same period last year and amounting to 121.3% of the 2022 level. Funds from non-guaranteed and other foreign investments and loans amounted to 28.3 trillion soums or 20.4% of the total, showing a decrease of 5.5 percentage points. comparing with the previous year.

The industries that occupy leading positions in terms of investment in the Republic of Uzbekistan include energy, metalworking, chemical industry, electronics, IT, construction, pharmaceuticals, light industry, and agriculture. In the structure of investments in fixed assets, the largest share is occupied by the manufacturing sector, to which 42.0 trillion was allocated. sum or 30.2% of the total investment in fixed capital. Investments in the amount of 11.1 trillion have been used in the mining industry. soum, which is 8% of the total investment in the country [11].

A significant part of foreign direct investment in fixed assets - 58.6% - falls on four investor countries: China - 22.3%, Russia - 21.5%, Turkey - 7.5% and Germany - 7.3%.

As of February 2023, there were 15,481 companies with foreign capital operating in Uzbekistan. (+ 2,088 companies compared to last year). In 2019, there were only 8,785

companies with foreign capital. Number of companies with foreign capital participation by country: Russia - 3,151, Turkey - 2,152, China - 2,104, Kazakhstan - 1,227, Korea – 903, USA – 350, Germany - 215 [9].

In 2021, investments in the amount of \$2.7 million were received from Uzbekistan into the Belarusian economy (a decrease of 24.8 percent compared to 2020), almost all investments were direct.

As of January 1, 2022, the volume of accumulated foreign investments received in Belarus from investors in Uzbekistan amounted to \$7.6 million. Belarusian investments in Uzbekistan amounted to \$18.9 million.

There are 103 companies in Uzbekistan founded by residents of the Republic of Belarus, and there are also representative offices of such companies as Avtopromsnab-spedition LLC, Softclub LLC, AmantisMed LLC and Belvitunifarm OJSC. 117 enterprises are registered on the territory of Belarus, in the founding of which Uzbek individuals and legal entities participate.

Conclusions

In conclusion, we can say that both Belarus and Uzbekistan have investment potential within the EAEU, each with its own set of advantages and problems. Belarus benefits from a stable economy, a skilled workforce and a strong industrial base. Uzbekistan's economic reforms, resource potential and strategic location contribute to its attractiveness.

Advantages for investors in Belarus:

- geostrategically advantageous location;
- direct access to the EAEU market, including Russia, Kazakhstan, Armenia and Kyrgyzstan;
- well-organized infrastructure in the fields of transport, logistics and communications;
- legislative protection of investors' rights;
- a concise and transparent tax system that creates a favorable investment climate;
- government guarantees and incentives for investors, including various benefits and preferences;
- options for privatization of enterprises;
- presence of 6 free economic zones;
- qualified labor potential.

Limitations

Many developed countries have imposed tough sanctions against Belarus. These sanctions include an embargo on a significant share of Belarusian exports and imports, bans and restrictions on the transportation of goods of Belarusian origin, restrictions and/or blocking of actions regarding financial transactions and settlements, freezing of part of Belarusian international reserves and numerous restrictive and blocking actions against banks and companies and individuals. Economic sanctions against Belarus by Western countries are

further complicating investment prospects by limiting market access and creating financial barriers. Such sanctions, combined with the new external environment, cause a powerful indirect effect in the form of foreign companies leaving the Belarusian market and refusing to do business with Belarusian counterparties. Therefore, while Belarus may offer some investment opportunities, they involve significant risks and challenges that require careful consideration and due diligence.

Advantages for investors in Uzbekistan

- Large domestic market with a population of about 36 million and convenient access to the markets of neighboring countries and the EAEU;
- Young and highly qualified labor force;
- Abundance and diversity of natural assets, including natural gas, gold and so on;
- Large-scale economic reforms and privatization programs aimed at creating an open and favorable investment environment;
- Stable and dynamically developing economy;
- Government measures to support investors, including guarantees, financial incentives and benefits.

Limitations

Investment in Uzbekistan offers potential benefits, but is accompanied by a number of barriers, including bureaucratic obstacles and a developing but still immature financial sector. In addition, investors may face logistical problems due to poor infrastructure and a local market that is still in the process of modernization. Thus, while Uzbekistan provides growing opportunities, particularly in sectors such as natural resources, textiles and tourism, it also requires careful due diligence and risk mitigation strategies.

At the current stage, the main goal of attracting foreign direct investment should be the development of industries that are both export-oriented and capable of replacing imports, as well as offering products or services with high added value. In addition, integration into international value chains and attracting long-term strategic investors, such as multinational companies, are extremely important for business development in Belarus and technological modernization of existing production.

The main efforts should be aimed at creating an innovation infrastructure and creating economic conditions conducive to the growth of industries based on new generation information technologies. The key direction for the implementation of joint investment projects should be the implementation of technological solutions of Industry 4.0 at enterprises [xvi]. It is necessary to jointly finance and develop transport and logistics infrastructure that provides easy communication between Belarus, Uzbekistan and other EAEU member states. Focus on digital infrastructure to ensure both countries are prepared for the challenges and opportunities of the digital age.

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