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EVALUATING POLICY INCENTIVES FOR ATTRACTING FDI INTO THE INDUSTRIAL SECTOR: AN EXTENDED COMPARATIVE REVIEW OF SELECTED CIS ECONOMIES

Boynazarov Behzod Sheraliyevich
Master's student of University of Economy and Diplomacy
E-mail: bboyanzarov96@gmail.com

Annotation: This comprehensive policy analysis investigates the effectiveness of foreign direct investment (FDI) incentive regimes across five post-Soviet economies—Uzbekistan, Kazakhstan, Belarus, Armenia, and Azerbaijan—between 2020 and 2024. The article adopts a hybrid theoretical lens that includes Dunning's OLI framework, strategic industrial policy theory, and cost–benefit logic to examine how fiscal, financial, regulatory, and spatial instruments shape investor behavior in the manufacturing sector. Using both quantitative data (from UNCTADstat and national sources) and qualitative evaluations (e.g., investor services efficiency, policy credibility), the authors trace the evolution of each country's incentive package and link specific policy shifts to measurable FDI outcomes such as sectoral diversification and SME integration.

Uzbekistan and Kazakhstan are identified as relative success cases, leveraging one-stop-shop services and performance-based tax holidays to boost non-extractive investment and job creation. Conversely, Azerbaijan and Belarus illustrate the limits of fiscal generosity in the absence of macro-stability or institutional coherence. The article underscores the importance of policy sequencing, after-care mechanisms, and embedding incentives in broader industrial strategies. It concludes with targeted recommendations for governments, investment promotion agencies, and researchers, emphasizing transparency, performance conditionality, and post-entry support. The work is a valuable resource for scholars and policymakers interested in investment policy design in emerging economies, particularly within the Eurasian context.

Key words: Foreign Direct Investment (FDI), Investment Incentives, Industrial Policy, Special Economic Zones (SEZs), Commonwealth of Independent States (CIS), Uzbekistan, Kazakhstan, Armenia, Azerbaijan, Belarus, Performance-Based Incentives, Investment Promotion Agencies, Manufacturing FDI, Fiscal Policy, Investment Climate, Technology Transfer, Global Value Chains (GVCs), One-Stop-Shop Services, After-Care Services, FDI Policy Evaluation.

Evaluating Policy Incentives for Attracting FDI into the Industrial Sector: An Extended Comparative Review of Selected CIS Economies:

THEORY AND ANALYSIS

Introduction

Foreign Direct Investment (FDI) has long been regarded as a critical lever for accelerating industrialization, technology upgrading, and global economic integration in developing and transition economies. For post-Soviet states, particularly those within the Commonwealth of Independent States (CIS), the quest to attract productive FDI is not only a matter of economic strategy but a structural imperative. Decades of over-reliance on extractive industries, inherited from the centrally planned era, have left many of these countries with underdeveloped manufacturing bases, weak private sectors, and limited exposure to international supply chains.

As these countries seek to diversify and modernize their economies, FDI emerges as a potential vector for capital accumulation, knowledge spillovers, and job creation.

In the CIS context, the post-2000 period witnessed a wave of investment policy liberalizations, followed by more targeted incentive schemes aimed at steering FDI into priority sectors such as light manufacturing, agro-processing, and high-tech assembly. While some countries have opted for broad tax holidays and regulatory fast-tracking mechanisms, others have adopted more nuanced performance-based instruments that link benefits to metrics such as export generation, employment levels, or local procurement. This evolving incentive architecture reflects both global trends—highlighted by the OECD and UNCTAD—and domestic experimentation with industrial policy tools.

Against this backdrop, the article aims to conduct a comparative evaluation of FDI incentive regimes in five selected CIS countries—Uzbekistan, Kazakhstan, Belarus, Armenia, and Azerbaijan—focusing on their effectiveness in attracting manufacturing-related investment between 2020 and 2024. The analysis is guided by a multi-dimensional framework that assesses incentive performance across three axes:

- Quantitative outcomes: FDI inflow volumes, manufacturing shares, and job creation metrics;
- Qualitative aspects: credibility, transparency, and administrative efficiency of incentive delivery;
- Cost-benefit considerations: fiscal expenditures incurred versus developmental spillovers achieved.

Methodology, Results and Policy Recommendations:

Drawing from the comparative analysis of investment incentive regimes in Uzbekistan, Kazakhstan, Belarus, Armenia, and Azerbaijan, this section presents strategic, operational, and institutional recommendations for CIS governments. These are designed to maximize the development impact of incentives, reduce fiscal inefficiencies, and foster sustainable industrial transformation.

Design Transparent and Rules-Based Incentive Frameworks

Move away from ad hoc, discretionary incentive allocation toward standardized and codified regimes.

Adopt legal frameworks (e.g., investment codes or laws) that clearly define eligibility criteria, application procedures, duration of benefits, and dispute resolution mechanisms.

Introduce “grandfathering” clauses to protect investors from regulatory uncertainty and policy reversals during the investment lifecycle.

Publish incentive schemes in centralized portals to increase investor awareness and minimize rent-seeking behavior.

Uzbekistan and Kazakhstan provide strong examples of codified and legally backed incentives that enhance investor confidence and reduce negotiation costs.

Prioritize Performance-Based Incentives (PBIs)

Condition fiscal and financial benefits on verifiable outputs rather than inputs or location alone.

Link tax holidays, grants, or subsidized loans to metrics such as:

- Export volume or ratio

- Local workforce development
- Use of domestic suppliers and SMEs
- Adoption of advanced technologies

Employ tiered incentive structures, where the magnitude of the benefit scales with investor performance (e.g., larger tax credits for higher R&D intensity).

Armenia's training-based grants and Kazakhstan's export-linked corporate income tax exemptions show the advantages of tying incentives to value-creating activities.

Strengthen Investor After-Care and Retention Mechanisms

Shift investment promotion efforts beyond attraction toward lifecycle support and reinvestment facilitation.

- Establish and expand Investor Service Centers that offer a single-window interface for post-establishment services, including licensing, customs facilitation, and grievance redressal.
- Develop reinvestment promotion strategies targeting existing investors with high job creation or export potential.
- Conduct periodic satisfaction surveys to identify bottlenecks in regulatory services and infrastructure access.

Uzbekistan's 2023 rollout of regional investor service units under UzIPA offers a replicable model for decentralized after-care.

Embed Incentives Within Industrial Policy Priorities

Ensure coherence between investment promotion and national economic transformation goals.

- Define priority sectors or value chains aligned with trade diversification, technological upgrading, and employment generation.
- Tailor incentive packages to fill value chain gaps (e.g., upstream components, industrial services) and build domestic production ecosystems.
- Use input–output modeling to identify sectors with high backward and forward linkages to the domestic economy.

Kazakhstan's cluster-based SEZ strategy is exemplary in aligning incentives with long-term sectoral development and spillover maximization.

Monitor, Evaluate, and Rationalize Incentive Portfolios

Introduce institutionalized mechanisms to measure the cost-effectiveness of incentives and adjust them over time.

- Set up independent evaluation units within ministries or investment agencies to track incentive performance using key indicators: FDI inflows, job creation, export growth, tax revenues foregone, etc.
- Conduct periodic cost–benefit analyses to identify low-impact or redundant schemes and reallocate fiscal space toward targeted, high-impact programs.
- Publish annual Incentive Effectiveness Reports to increase public accountability and support data-driven policy refinement.

Armenia's pilot monitoring dashboard for grants and tax exemptions offers an emerging example of incentive performance tracking.

Deepen Regional Cooperation and Peer Learning

Promote coordinated approaches and knowledge exchange on effective incentive practices among CIS countries.

Establish a CIS Investment Incentive Forum or platform under the auspices of organizations like the EDB, UNECE, or UNIDO to:

- Share templates for legal frameworks
- Pool data on investor needs and outcomes
- Harmonize certain regional standards for SEZs and PPPs

Coordinate on incentive-related provisions in regional trade agreements (e.g., Eurasian Economic Union) to minimize harmful competition or "race-to-the-bottom" dynamics.

Peer learning from Kazakhstan's SEZ management practices or Uzbekistan's investor servicing infrastructure can elevate the performance of lower-capacity systems in Azerbaijan or Belarus

Conclusion

The comparative evaluation of FDI incentive regimes across five selected CIS economies - Uzbekistan, Kazakhstan, Belarus, Armenia, and Azerbaijan—reveals a mixed but instructive landscape. While the use of fiscal, financial, regulatory, and spatial incentives has become a common feature of investment promotion strategies in the region, their actual effectiveness depends not on their generosity, but on the quality of their design, implementation, and alignment with broader development goals.

Uzbekistan and Kazakhstan stand out as positive examples of progressive incentive reform. Both countries have moved from fragmented, opaque incentive structures toward integrated and codified systems. Uzbekistan's introduction of investor service centers and performance monitoring tools has substantially reduced administrative barriers and enhanced investor satisfaction. Kazakhstan, with its industrially integrated SEZs and export-conditional benefits, demonstrates how incentives can be used to anchor foreign investment into industrial clusters with local linkages.

Conversely, the experience of Azerbaijan illustrates the limits of relying on generous incentives in the absence of institutional coordination and macroeconomic stability. Despite offering long tax holidays and favorable repatriation terms, Azerbaijan continues to struggle with low reinvestment rates and premature investor exits. Similarly, Belarus's ultra-long tax exemptions in the Great Stone Industrial Park attract attention, but fail to fully mitigate political risk and financing constraints. These cases highlight that incentives alone cannot override weaknesses in the investment climate, such as lack of transparency, geopolitical risk, or underdeveloped financial systems.

The study also reaffirms several overarching principles. First, credibility and predictability in policy frameworks are more important to investors than the absolute magnitude of incentives. Second, performance-based incentives that reward measurable outcomes—such as exports, local procurement, and job creation—tend to yield better development results than open-ended tax holidays. Third, after-care services and policy continuity are essential to maximize reinvestment, knowledge transfer, and integration into domestic supply chains.

In conclusion, investment incentives are not a silver bullet. They are a lever—one that works only when embedded within a stable, transparent, and strategically oriented policy environment. As CIS countries continue their journey of economic transformation, the goal should not merely be to attract capital, but to channel it into sectors and structures that can sustain long-term development. Achieving this requires a careful balancing act between generosity and governance, between flexibility and fiscal prudence, and between ambition and accountability.

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