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CHINESE STATE INVESTMENT IN UZBEKISTAN: DRIVERS, PROJECTS AND RISKS

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Abstract. This article analyzes Chinese investment in Uzbekistan under the Belt and Road Initiative, focusing on its mechanisms, sectoral distribution, and key projects. It shows that investment is concentrated in energy, transport, and manufacturing, driven by China's strategic interests and Uzbekistan's development needs. While it accelerates infrastructure growth, it also raises concerns about dependency and long-term debt sustainability.

***Keywords*:** Chinese investment; Uzbekistan; Belt and Road Initiative; foreign direct investment (FDI); state-backed loans; infrastructure development; energy sector; transport and logistics; industrialization; economic dependency; debt sustainability; geoeconomics; policy banks; development finance

Аннотация. Данная статья анализирует китайские инвестиции в Узбекистан в рамках инициативы «Пояс и путь», уделяя внимание механизмам, отраслевой структуре и ключевым проектам. Показано, что инвестиции сосредоточены в энергетике, транспорте и промышленности и обусловлены стратегическими интересами Китая и потребностями развития Узбекистана. Несмотря на ускорение инфраструктурного роста, возникают риски зависимости и долгосрочной долговой устойчивости.

***Ключевые слова*:** китайские инвестиции; Узбекистан; инициатива «Пояс и путь»; прямые иностранные инвестиции (ПИИ); государственные кредиты; развитие инфраструктуры; энергетический сектор; транспорт и логистика;

индустриализация; экономическая зависимость; долговая устойчивость; геоэкономика; политические банки; финансирование развития.

Annotatsiya. Ushbu maqola “Bir kamar, bir yo‘l” tashabbusi doirasida Xitoyning O‘zbekistondagi investitsiyalarini tahlil qiladi, bunda investitsiya mexanizmlari, tarmoqlar bo‘yicha taqsimoti va asosiy loyihalarga e’tibor qaratiladi. Tadqiqot shuni ko‘rsatadiki, investitsiyalar asosan energetika, transport va sanoat sohalarida jamlangan bo‘lib, bu Xitoyning strategik manfaatlari hamda O‘zbekistonning rivojlanish ehtiyojlari bilan bog‘liq. Ushbu jarayon infratuzilma rivojlanishini tezlashtirsa-da, iqtisodiy qaramlik va uzoq muddatli qarz barqarorligi bilan bog‘liq xavflarni ham yuzaga keltiradi.

***Kalit so‘zlar*:** Xitoy investitsiyalari; O‘zbekiston; “Bir kamar, bir yo‘l” tashabbusi; to‘g‘ridan-to‘g‘ri xorijiy investitsiyalar (TXI); davlat tomonidan qo‘llab-quvvatlanadigan kreditlar; infratuzilma rivoji; energetika sektori; transport va logistika; sanoatlashtirish; iqtisodiy qaramlik; qarz barqarorligi; geoiqtisodiyot; siyosiy banklar; rivojlanish moliyalashtiruvi.

INTRODUCTION

Over the past decade, Uzbekistan has emerged as one of the key destinations for Chinese capital in Central Asia. This trend accelerated after 2016, when Uzbekistan began liberalizing its economy and actively seeking foreign investment to modernize infrastructure, expand industrial capacity, and integrate into global markets. At the center of this relationship is China’s Belt and Road Initiative (BRI), launched in 2013, which aims to build transcontinental trade and infrastructure networks linking Asia with Europe, the Middle East, and beyond.

Chinese investment in Uzbekistan is not random or purely market-driven. It is structured, policy-backed, and strategically aligned with China’s broader geopolitical and economic objectives. At the same time, Uzbekistan views Chinese financing as a practical tool to address its development needs. This creates a mutually reinforcing relationship, characterized by recurring loans, infrastructure projects, and industrial cooperation.

As of 2025, there are 3,357 enterprises operating in Uzbekistan with Chinese capital participation. Chinese companies are undertaking projects in various regions of the country across multiple sectors, including energy, light industry, infrastructure development, food production, geological exploration, among others[1]. Over the past five years, the volume of direct Chinese investment has increased fivefold relative to 2017, and the number of joint ventures has tripled, surpassing 3,700[2].

WHY CHINA KEEPS LENDING

China's continued lending to Uzbekistan can be explained through several interconnected motivations.

First, from a geoeconomic perspective, Uzbekistan occupies a strategic position in Central Asia. As a double-landlocked country located between major regional players, it is a natural transit hub for overland trade routes. By financing railways, roads, and logistics infrastructure in Uzbekistan, China strengthens alternative trade corridors that connect Chinese markets to Europe and the Middle East. These routes reduce reliance on maritime shipping lanes, which are vulnerable to geopolitical disruptions.

Second, Chinese lending helps address domestic economic challenges, particularly industrial overcapacity. China has excess production in sectors such as steel, cement, and construction services. By financing infrastructure projects abroad - on the condition that Chinese firms execute them -China effectively exports this excess capacity. This sustains employment and industrial output within China while expanding its global economic footprint.

Third, Chinese policy banks lend internationally to generate stable long-term returns and deploy large foreign exchange reserves. Rather than keeping capital idle, China channels it into infrastructure projects that yield interest income while simultaneously advancing strategic objectives**.**

KEY CHINESE FINANCIAL INSTITUTIONS

Two major state-backed financial institutions dominate Chinese lending to Uzbekistan.

[1] https://invest-in-uzbekistan.org/en/novosti-uzbekistana/v-tashkente-proshyol-uzbeksko-kitajskij-biznes-forum/
[2] https://invest-in-uzbekistan.org/en/novosti-uzbekistana/v-samarkande-proshyol-vtoroj-uzbeksko-kitajskij-mezhregionalnyj-forum/

The Export-Import Bank of China primarily provides concessional loans and export credits. Its financing is typically directed toward infrastructure and energy projects. These loans often come with relatively favorable terms, including lower interest rates and longer maturities, but are tied to the use of Chinese contractors and equipment.

The China Development Bank plays a complementary role, focusing on large-scale strategic investments. Its lending is generally more commercial in nature, with interest rates closer to market levels. It finances major projects in energy, transport, and industrial sectors, often involving substantial capital outlays.

Both institutions operate as policy banks. This means their activities are guided not only by financial considerations but also by national strategic priorities.

WHY UZBEKISTAN ACCEPTS CHINESE LOANS

Uzbekistan's willingness to engage with Chinese lenders is driven by structural economic needs.

The country faces a significant infrastructure gap. Much of its transport and energy infrastructure dates back to the Soviet era and requires modernization. Meeting these needs requires billions of dollars in investment annually - levels that cannot be fully financed domestically.

Compared to multilateral institutions such as the World Bank or the International Monetary Fund, Chinese financing offers several advantages. It is typically faster to approve, involves fewer policy conditions, and can be tailored to specific projects. While Western institutions often require governance reforms or regulatory changes, Chinese lenders focus primarily on project viability and repayment capacity.

Uzbekistan's broader development strategy also aligns with Chinese financing. The government aims to industrialize the economy, expand exports, and improve regional connectivity. Chinese loans directly support these goals by funding infrastructure and enabling industrial projects.

However, an important feature of these loans is that they are tied. Uzbekistan is usually required to use Chinese firms - such as engineering contractors or energy

companies - to implement projects. This limits local participation but ensures project execution.

MECHANISMS OF INVESTMENTS

Chinese investment in Uzbekistan operates through several mechanisms.

State-backed loans are the most prominent. These loans finance infrastructure, energy, and industrial projects and are often repaid over long periods, typically 10 to 20 years. They form the backbone of the bilateral financial relationship.

Foreign direct investment (FDI) is another channel. Chinese firms invest equity into Uzbek projects, either through joint ventures with local enterprises or through wholly owned subsidiaries in industrial zones. These investments are especially common in manufacturing and resource extraction.

A third mechanism is the engineering, procurement, and construction (EPC) model. Under this arrangement, Chinese companies design and build projects financed by Chinese loans. This creates a vertically integrated system in which financing, construction, and technology provision are all controlled by Chinese entities.

SECTORAL DISTRIBUTION OF INVESTMENT

Chinese investment in Uzbekistan is highly concentrated in a few key sectors.

The energy sector accounts for approximately 40 - 45% of total Chinese involvement. This includes natural gas extraction, pipeline infrastructure, thermal power plants, and an increasing number of renewable energy projects. Energy investments are central to China’s strategy of securing reliable overland energy supplies.

Transport and logistics represent around 20 - 25% of investment. Projects in this sector include railways, highways, and logistics hubs. These investments aim to transform Uzbekistan into a transit hub within Eurasian trade networks.

Industrial manufacturing comprises roughly 15 - 20% of Chinese investment. Chinese firms have established production facilities in sectors such as textiles, cement, chemicals, and automotive components. This reflects a broader trend of relocating labor-intensive industries to lower-cost countries.

Telecommunications and digital infrastructure account for about 5 - 10%. Chinese companies are involved in developing mobile networks, fiber-optic systems, and smart city technologies. While smaller in scale, this sector has significant long-term strategic implications.

Other sectors, such as mining, agriculture, and finance, receive comparatively limited investment but are gradually expanding.

KEY PROJECTS

Several flagship projects illustrate the nature and scale of Chinese involvement in Uzbekistan.

The Central Asia - China Gas Pipeline is one of the most important energy projects in the region. With a total capacity of approximately 55 billion cubic meters per year, it transports natural gas from Turkmenistan through Uzbekistan and Kazakhstan to China. Uzbekistan's role as a transit country provides both economic benefits and strategic relevance.

The China - Kyrgyzstan - Uzbekistan railway is a major infrastructure initiative currently under development. With an estimated cost of $4.5 - 6 billion, it aims to create a shorter overland route between China and Europe. The project is expected to significantly reduce transit times and enhance Uzbekistan's position as a regional logistics hub.

The Angren - Pap railway, financed and developed with Chinese support, connects the Fergana Valley to the rest of Uzbekistan. This project improves domestic connectivity and facilitates internal trade.

The Pengsheng Industrial Park in the Jizzakh region represents the industrial dimension of Chinese investment. It hosts multiple manufacturing enterprises and serves as a model for industrial cooperation and technology transfer.

Together, these projects demonstrate the integrated nature of Chinese investment, combining financing, construction, and long-term economic planning.

CONCLUSION

Chinese investment in Uzbekistan reflects a clear alignment of interests. For China, it provides a means to secure energy resources, expand trade routes, and utilize excess

industrial capacity. For Uzbekistan, it offers access to capital, infrastructure development, and opportunities for industrial growth.

However, this relationship is not without trade-offs. The reliance on Chinese financing and contractors can limit domestic economic spillovers and increase dependency. Additionally, the accumulation of external debt requires careful management to ensure long-term sustainability.

Ultimately, the impact of Chinese investment will depend on how effectively Uzbekistan leverages these projects to build a diversified and resilient economy. If managed strategically, the partnership can support sustained development. If not, it risks reinforcing structural dependencies that may constrain future economic autonomy.

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