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COMPARATIVE ANALYSIS OF FOREIGN DIRECT INVESTMENT BETWEEN HUNGARY AND UZBEKISTAN

Венгрия ва Ўзбекистонда тўғридан-тўғри хорижий инвестициялар (FDI)нинг таққосламали таҳлили

Сравнительный анализ прямых иностранных инвестиций между Венгрией и Узбекистаном

Abstract This paper compares Foreign Direct Investment (FDI) in Hungary and Uzbekistan—two transition economies with contrasting paths and geopolitical contexts. Hungary, an EU member since 2004, has become a mature FDI hub with over $100 billion in accumulated stock, mainly in automotive, electronics, and business services. Uzbekistan, after major reforms launched in 2017, is a fast-liberalizing emerging market that has improved its investment climate through currency and legal reforms. Using data from UNCTAD, the World Bank, and national sources, the study analyses inflows, sectors, policy frameworks, and institutional quality. Results show Hungary as an innovation-driven, EU-integrated economy, while Uzbekistan is a resource-rich, cost-competitive destination with strong growth prospects. The paper highlights institutional differences, learning opportunities, and policy needs—innovation for Hungary, institutional consolidation for Uzbekistan, and greater transparency and sustainability for both.

Keywords: Foreign Direct Investment, Hungary, Uzbekistan, Transition Economies, Economic Development, FDI Policy, OLI Paradigm

Аннотация В данной статье проводится сравнительный анализ прямых иностранных инвестиций (ПИИ) в Венгрии и Узбекистане — двух переходных экономиках с различными траекториями развития и геополитическим контекстом. Венгрия, являющаяся членом ЕС с 2004 года, превратилась в зрелый центр ПИИ с накопленным объёмом свыше 100 миллиардов долларов, преимущественно в сферах автомобилестроения, электроники и бизнес-услуг. Узбекистан, после начала масштабных реформ в 2017 году, стал быстро либерализующейся развивающейся экономикой, улучшившей инвестиционный климат за счёт валютных и правовых преобразований. На основе данных ЮНКТАД, Всемирного банка и национальных источников исследуются потоки инвестиций, отраслевые направления, государственная политика и институциональная среда. Результаты показывают, что Венгрия представляет собой инновационно ориентированную экономику, интегрированную в ЕС, в то время как

Узбекистан — это богатое ресурсами, конкурентоспособное по издержкам направление с высокими темпами роста. В статье подчеркиваются институциональные различия, возможности для обмена опытом и потребности в политике: инновации для Венгрии, институциональное укрепление для Узбекистана, а также повышение прозрачности и устойчивости для обеих стран.

Ключевые слова: *прямые иностранные инвестиции, Венгрия, Узбекистан, переходные экономики, экономическое развитие, инвестиционная политика, парадигма OLI*

Annotatsiya Ushbu maqolada O‘zbekiston va Vengriya misolida to‘g‘ridan-to‘g‘ri xorijiy investitsiyalar (TXXI) solishtiriladi. Har ikki mamlakat o‘tish iqtisodiyotiga ega bo‘lsa-da, ularning rivojlanish yo‘li va geosiyosiy konteksti keskin farq qiladi. Vengriya 2004 yildan beri Yevropa Ittifoqi a’zosi bo‘lib, avtomobilsozlik, elektronika va biznes xizmatlari sohalarida $100 milliarddan ortiq investitsiyalarni jalb qilgan yetuk TXXI markaziga aylangan. O‘zbekiston esa 2017 yildan boshlab jadal islohotlarni boshlagan, valyuta va huquqiy sohalardagi o‘zgarishlar orqali investitsiya muhitini sezilarli darajada yaxshilagan rivojlanayotgan bozor hisoblanadi. Tadqiqot UNCTAD, Jahon banki va milliy manbalar ma’lumotlari asosida investitsiya oqimlari, sohalar, siyosiy yondashuvlar va institutsional sifatni tahlil qiladi. Natijalar shuni ko‘rsatadiki, Vengriya YI integratsiyalashgan, innovatsiyaga asoslangan iqtisodiyot bo‘lsa, O‘zbekiston resurslarga boy, raqobatbardosh va yuqori o‘sish salohiyatiga ega yo‘nalish hisoblanadi. Maqolada institutsional farqlar, tajriba almashish imkoniyatlari va siyosiy ehtiyojlar ko‘rsatib o‘tiladi — Vengriya uchun innovatsiyalar, O‘zbekiston uchun institutsional mustahkamlash, va har ikkisi uchun oshkoralik va barqarorlikni kuchaytirish.

Kalit so‘zlar: To‘g‘ridan-to‘g‘ri xorijiy investitsiyalar, Vengriya, O‘zbekiston, o‘tish iqtisodiyotlari, iqtisodiy rivojlanish, TXXI siyosati, OLI paradigmasi

1. Introduction

Foreign Direct Investment has emerged as a pivotal mechanism for economic integration, technological diffusion, and industrial upgrading in the contemporary global economy. According to UNCTAD (2023), global FDI flows reached $1.3 trillion in 2022, representing a partial recovery from pandemic-induced contractions but remaining below pre-COVID-19 peaks. The geographical and sectoral composition of FDI has undergone substantial transformation, with developing Asia attracting the largest share of inflows while traditional destinations in North America and Europe experience relative stagnation (UNCTAD, 2023). Dunning and Lundan (2008) argue that contemporary FDI patterns reflect multinational enterprises’ strategic responses to globalization, technological change, and evolving institutional frameworks across host economies.

The post-pandemic FDI landscape exhibits several distinctive characteristics that differentiate it from previous periods. First, digital economy investments have accelerated dramatically, with technology sectors attracting disproportionate investor attention relative to traditional manufacturing or resource extraction (World Bank, 2022). Second, sustainability considerations have become increasingly central to investment decisions, as environmental, social, and governance (ESG) criteria shape capital allocation patterns (OECD, 2021). Third, geopolitical tensions and supply chain vulnerabilities have prompted investors to reassess location strategies, with nearshoring and friend-shoring trends partially reversing earlier globalization dynamics (IMF, 2022).

Hungary and Uzbekistan represent compelling cases for comparative FDI analysis due to their contrasting yet interconnected characteristics as transition economies. Both countries share historical legacies of centrally planned economic systems, state ownership of productive assets, and integration within socialist trade frameworks (Meyer, 1998). However, their transition trajectories have diverged substantially. Hungary initiated comprehensive liberalization in 1990, implemented extensive privatization programs, and ultimately acceded to the European Union in 2004, thereby anchoring itself within European institutional and economic frameworks (Hunya, 2000). Uzbekistan, conversely, maintained restrictive economic policies until 2017, when

leadership transition catalyzed dramatic reforms encompassing currency liberalization, administrative simplification, and investment climate enhancement (Pomfret, 2019).

The distinct geopolitical positions of these countries further amplify the analytical value of comparison. Hungary's EU membership provides unrestricted access to European markets, regulatory harmonization with European standards, and integration into sophisticated production networks centered on Germany and other advanced economies (Sass, 2017). Uzbekistan occupies a strategic position in Central Asia, serving as a bridge between European, Russian, Chinese, and South Asian markets, with Belt and Road Initiative investments significantly shaping its economic trajectory (Cheng et al., 2018). These geopolitical differences influence investor motivations, sectoral targeting, and development outcomes in fundamental ways.

This study pursues three interconnected research objectives. First, it seeks to identify and analyze similarities and differences in FDI structures, sectoral compositions, investor origins, and investment volumes between Hungary and Uzbekistan. This descriptive analysis provides foundational understanding of how transition economies at different development stages attract and utilize foreign capital. Second, the research examines policy environments, institutional frameworks, and regulatory mechanisms that shape FDI attractiveness, drawing on institutional theory and policy analysis frameworks (Bevan and Estrin, 2004). Third, the study evaluates economic impacts of FDI on host economies, including technology transfer, employment generation, export diversification, and regional development effects, while also addressing challenges such as profit repatriation, limited local linkages, and sustainability concerns.

2. Theoretical Background

Foreign Direct Investment is conventionally defined as cross-border investment involving a lasting interest and significant degree of influence in an enterprise operating in an economy other than that of the investor (IMF, 2009). The operational threshold typically employed by international organizations defines FDI as ownership of 10% or more of voting stock, distinguishing it from portfolio investment characterized by more passive financial participation (OECD, 2008). This definitional boundary reflects the fundamental characteristic of FDI as involving not merely capital transfer but also managerial control, technological knowledge, and organizational capabilities (Dunning and Lundan, 2008).

The motivations for FDI have evolved considerably from early theoretical formulations emphasizing capital arbitrage and comparative cost advantages. Contemporary understanding recognizes multiple, often simultaneous, motivations including market seeking (accessing large or growing markets), resource seeking (securing natural resources or specialized inputs), efficiency seeking (optimizing cost structures across value chains), and strategic asset seeking (acquiring technological capabilities, brands, or market positions) (Dunning, 1993). These different motivations generate distinct sectoral patterns, entry modes, and developmental implications for host economies (Meyer and Peng, 2016).

Dunning's (1980, 1988) eclectic paradigm, commonly known as the OLI framework, provides the most comprehensive theoretical foundation for analyzing FDI determinants and patterns. The framework posits that firms engage in foreign direct investment when three conditions are simultaneously satisfied. First, firms must possess ownership advantages (O) comprising firm-specific assets such as proprietary technology, brand recognition, managerial capabilities, or economies of scale that provide competitive advantages over local firms in host markets (Dunning, 1993). Second, location advantages (L) must exist in host countries, including market size, resource endowments, infrastructure quality, institutional frameworks, or agglomeration economies that make production or sales in that location attractive (Dunning and Lundan, 2008). Third, internalization advantages (I) must favor direct investment over alternative market entry modes such as exporting or licensing, typically arising from transaction cost economies, knowledge protection requirements, or quality control necessities (Rugman, 1986).

The OLI paradigm has proven particularly valuable for analyzing FDI in transition economies, where location advantages have undergone dramatic transformations through liberalization, privatization, and institutional reforms (Meyer, 1998). In the Hungarian context, EU accession

substantially enhanced location advantages through market access guarantees, regulatory predictability, and risk reduction (Sass, 2017). Uzbekistan's recent reforms similarly aim to strengthen location advantages by removing currency restrictions, simplifying administrative procedures, and enhancing legal protections (Eshov, 2020). The framework helps explain why similar firms make different location choices and why countries at different development stages attract different types of investors.

Internalization theory, developed by Buckley and Casson (1976) and extended by Rugman (1986), complements the OLI paradigm by emphasizing why firms choose FDI over alternative internationalization modes. The theory argues that multinational enterprises internalize cross-border transactions within firm hierarchies when market-based transactions involve excessive costs arising from information asymmetries, contract enforcement challenges, or knowledge appropriability concerns (Buckley and Casson, 2009). These transaction costs are particularly pronounced for intangible assets such as technological knowledge, managerial capabilities, or brand reputation, where arm's-length market transactions face severe impediments (Hennart, 1982).

In transition economy contexts, internalization theory illuminates why foreign investors frequently prefer wholly-owned subsidiaries or majority joint ventures over licensing or minority partnerships. The institutional weaknesses characteristic of transition economies, including underdeveloped legal systems, limited contract enforcement capacity, and intellectual property protection challenges, substantially elevate transaction costs for market-based arrangements (Meyer, 2001). Consequently, investors in both Hungary and Uzbekistan have predominantly employed greenfield investments or acquisitions providing full operational control rather than contractual relationships with independent local partners.

The unique characteristics of transition economies have prompted theoretical extensions beyond standard FDI frameworks. Meyer and Peng (2016) emphasize institutional voids and organizational learning as central considerations in emerging and transition markets. Institutional voids—the absence or underdevelopment of market-supporting institutions taken for granted in advanced economies—create both challenges and opportunities for foreign investors (Khanna and Palepu, 2010). Investors must develop capabilities for navigating uncertain regulatory environments, managing relationships with government officials, and operating amid inadequate market infrastructure (Meyer et al., 2009).

Additionally, the privatization context characteristic of transition economies creates distinctive entry opportunities unavailable in established market economies. Estrin et al. (2009) document how privatization programs in Central and Eastern Europe provided large-scale acquisition opportunities for foreign investors, fundamentally shaping FDI patterns in the region. Hungary's extensive privatization in the 1990s, encompassing banking, telecommunications, utilities, and manufacturing, generated substantial FDI inflows and high foreign ownership shares across strategic sectors (Hunya, 2000). Uzbekistan's ongoing privatization program similarly creates entry opportunities, though the sectoral scope and pace differ from Hungary's earlier experience (Pomfret, 2019).

3. FDI in the Global Economy

The COVID-19 pandemic triggered the steepest global FDI contraction since 2008, with flows dropping 35% to USD 1 trillion in 2020 (UNCTAD, 2021). Investment projects were delayed, corporate financing tightened, and uncertainty surged. Yet, sectoral impacts diverged—digital economy, healthcare, and technology maintained growth, whereas tourism, retail, and extractive industries suffered sharp declines (OECD, 2021). Recovery patterns have been uneven, led by developing Asia (UNCTAD, 2023).

Structural shifts intensified during this period: greenfield investments fell more sharply than mergers and acquisitions, indicating reorganization rather than new capacity (World Bank, 2022). Infrastructure project finance contracted due to tighter credit and risk reassessment (IMF, 2022), while profit repatriation stayed high, offsetting inflows (UNCTAD, 2023). FDI remains concentrated, with the top 20 host economies accounting for 80% of global inflows. Developing

Asia now captures over 40% (World Bank, 2022), while Central and Eastern Europe, including Hungary, retain competitiveness despite rising wages (Sass, 2017).

Central Asia—including Uzbekistan—historically attracted little FDI due to restrictive policies and institutional weaknesses (Pomfret, 2019). However, China's Belt and Road Initiative and Uzbekistan's post-2017 reforms revived investor interest (Cheng et al., 2018; EBRD, 2020). The region's strategic position and resource wealth provide strong potential if reforms persist.

The digital economy has emerged as the most dynamic FDI segment, spanning data centers, e-commerce, and cloud infrastructure (UNCTAD, 2023). Pandemic-driven digitalization boosted multinational investments, though mainly in advanced and leading developing economies (OECD, 2021). Manufacturing FDI, long dominant in transition economies, has slowed due to automation and supply-chain regionalization (World Bank, 2022). Nonetheless, high-tech sectors such as electric vehicles and renewables remain active (IMF, 2022). Uzbekistan's manufacturing FDI, still limited, is expanding in resource-processing industries (Eshov, 2020).

FDI in transition economies follows common patterns: liberalization, privatization, and institutional restructuring. Liberalization speed shapes FDI outcomes—early reformers like Hungary attracted substantial inflows, while late liberalizers like Uzbekistan lagged until 2017 (Meyer, 1998; Bevan and Estrin, 2004; Hunya, 2000; Pomfret, 2019). Privatization opened large-scale acquisition opportunities, particularly in banking, utilities, and manufacturing, producing one-time surges in inflows (Estrin et al., 2009). Hungary's extensive privatization yielded high foreign ownership, while Uzbekistan retained stronger state roles (Sass, 2017; Eshov, 2020).

Institutional quality is the dominant long-term determinant of FDI (Bevan and Estrin, 2004). EU accession anchored Hungary's institutional convergence through harmonized commercial law, competition policy, and legal protection, reducing political risk (Meyer, 2001; Sass, 2017). Uzbekistan's reforms—arbitration access, profit repatriation rights, and streamlined procedures—signal progress, though enforcement gaps persist (Pomfret, 2019; Eshov, 2020).

Integration into global production networks remains a key FDI-driven growth channel. Multinational enterprises fragment production internationally, assigning tasks based on costs, skills, and institutions (Baldwin, 2016; Gereffi et al., 2005). Hungary has achieved deep integration in European automotive and electronics networks, generating exports and technology transfer but limited innovation autonomy (Sass, 2017; Pavlínek, 2018). Uzbekistan's integration is still resource-based and labor-intensive, with upgrading dependent on capability and infrastructure development (Pomfret, 2019).

5. Hungarian FDI Profile

Hungary was a pioneer in FDI attraction among Central and Eastern European transition economies, launching comprehensive liberalization and privatization ahead of regional peers. The 1990 privatization program opened major entry opportunities for foreign investors who acquired key state-owned enterprises across multiple sectors (Hunya, 2000). By the mid-1990s, Hungary had attracted more FDI per capita than any other transition economy, becoming the regional leader in foreign investment (Antalóczy and Éltető, 2003). Early landmark deals, such as General Electric's acquisition of Tungsram, were followed by privatizations in banking, telecommunications, and energy involving major Western firms, creating one-time inflows and establishing foreign control over strategic sectors (Hunya, 2000).

EU accession in 2004 marked a decisive turning point in Hungary's FDI trajectory. Membership provided unrestricted access to the single market, regulatory harmonization, and reduced political risk (Bevan and Estrin, 2004; Sass, 2017). The automotive sector illustrates these effects: Audi's Győr plant, launched in 1993, expanded massively post-accession to become the company's largest global engine site (Pavlínek, 2018); Mercedes-Benz established production in Kecskemét, and Suzuki expanded existing operations. Together, these developments positioned Hungary as a key automotive hub, with the sector generating over 20% of manufacturing output and exports (Sass, 2017).

Manufacturing dominates Hungary's FDI structure, accounting for about 40% of total stock, primarily in automotive and electronics (NBH, 2022; Pavlínek, 2018). Services represent roughly

45%, led by finance, telecommunications, and business services. Foreign banks control most assets, reflecting earlier privatization, while shared service and IT centers have grown rapidly since 2010, diversifying Hungary's FDI base (Sass, 2017).

Germany remains the largest investor, reflecting deep integration into German-led production networks (NBH, 2022). Major German firms—Audi, Mercedes-Benz, Deutsche Telekom, Allianz—play pivotal roles, generating technology transfer but also dependency risks linked to external strategic decisions (Sass, 2017). The Netherlands ranks second, largely due to holding structures, while Austria invests heavily in banking and retail. Asian investors, notably South Korea (Samsung, Hankook) and Japan (Suzuki), have strong manufacturing presences, and the United States invests mainly in pharmaceuticals and services (Antalóczy and Éltető, 2003).

Hungary's incentive framework combines cash grants, tax benefits, and infrastructure support targeting automotive, electronics, business services, and R&D (Sass, 2017). Large manufacturing projects may receive grants covering up to half of eligible costs, depending on size, region, and job creation, though constrained by EU state aid rules (Antalóczy and Éltető, 2003). Tax measures include R&D deductions and training subsidies, while the 9% corporate tax—the lowest in the EU—acts as a general incentive (NBH, 2022). Critics cite transparency issues and discretionary allocation favoring selected investors (Sass, 2017). Research suggests fundamentals such as market access and infrastructure remain stronger determinants than incentives, which mainly influence project scale or site choice (Pavlínek, 2018).

6. Uzbek FDI Profile

Before 2017, Uzbekistan operated one of the world's most restrictive foreign investment regimes, featuring severe currency and capital controls, profit repatriation limits, and complex administrative procedures (Pomfret, 2019). The fixed exchange rate system created distortions, with parallel market rates diverging over 100%, while mandatory conversions discouraged investors (Eshov, 2020). Bureaucratic licensing, import restrictions, and limited sectoral access placed Uzbekistan near the bottom of global investment climate rankings (EBRD, 2018; Pomfret, 2019).

The 2016 leadership transition initiated transformative reforms. Currency liberalization in September 2017 unified exchange rates, enabled profit repatriation, and signaled serious commitment to openness (Eshov, 2020). Administrative modernization simplified business registration, reduced import licensing, and lowered tax burdens (World Bank, 2020). A new investment code guaranteed protection against expropriation and allowed international arbitration (Pomfret, 2019). These reforms rapidly improved investor confidence, though implementation capacity remains uneven.

Uzbekistan's FDI strategy prioritizes sectors aligned with natural resources and industrial goals. Energy remains central—oil, gas, and renewables attract major interest given over 1 trillion cubic meters of gas reserves (Pomfret, 2019; World Bank, 2021). Textiles leverage Uzbekistan's cotton base, shifting toward higher value-added processing and garment exports (Eshov, 2020). Infrastructure modernization—transport, logistics, telecommunications, and urban projects—supports diversification and connectivity (World Bank, 2021).

Russia maintains a strong presence in energy, mining, and telecommunications (Pomfret, 2019), though sanctions have created uncertainty. China has become the most dynamic investor, leading Belt and Road infrastructure and manufacturing projects, particularly in energy and textiles (Cheng et al., 2018). While Chinese capital has transformed logistics and industry, concerns about debt and dependence persist (Pomfret, 2019). South Korea invests in gas chemicals and finance, Turkey in construction and consumer goods, and Gulf states in agriculture and halal food production (Eshov, 2020). European investors remain cautious, focusing on banking, telecom, and niche manufacturing, often with EBRD and IFC participation (World Bank, 2021).

Despite strong progress, challenges persist. Institutional quality and governance remain weaker than EU standards, with judicial independence and corruption concerns (Transparency International, 2022; Pomfret, 2019). Infrastructure gaps in transport and telecommunications continue to constrain competitiveness (World Bank, 2021). Skills mismatches hinder productivity

despite low labor costs (ILO, 2020). Administrative discretion and uneven transparency affect investor confidence (EBRD, 2020), while the banking system still faces credit risk and product sophistication challenges (IMF, 2021).

7. Conclusions and Policy Recommendations

The comparative assessment of Foreign Direct Investment (FDI) dynamics between Hungary and Uzbekistan highlights substantial structural, institutional, and policy contrasts that define their respective trajectories as host economies. While Hungary represents a mature EU-integrated FDI hub, Uzbekistan remains a reform-driven emerging economy striving to expand and diversify its foreign investment base.

Over the past three decades, Hungary has achieved high FDI penetration—stock exceeding USD 100 billion, or about 75% of GDP—supported by privatization, EU accession, and consistent industrial policies (UNCTAD, 2023; NBH, 2022). In contrast, Uzbekistan's cumulative stock, estimated at USD 15–20 billion or 25% of GDP, reflects its later liberalization phase and larger population (World Bank, 2023; Eshov, 2020). The sectoral composition also diverges: Hungary's inflows are concentrated in manufacturing and services—particularly automotive, electronics, and business services—while Uzbekistan exhibits greater balance across energy, manufacturing, and agriculture, reflecting resource endowments and earlier development stages (Sass, 2017; World Bank, 2021).

Institutional and regional disparities reinforce these structural differences. Hungary's FDI clusters around Budapest and western industrial regions such as Győr and Kecskemét, benefiting from advanced infrastructure and proximity to German supply chains (Pavlínek, 2018). Uzbekistan's investments remain more geographically dispersed, with concentration in Tashkent and resource-based zones such as Navoi, Angren, and Jizzakh, where special economic zones foster industrial and logistics development (Eshov, 2020; World Bank, 2021).

Policy frameworks exhibit contrasting logics. Hungary operates within EU constraints emphasizing transparent, rules-based incentives such as R&D tax credits and targeted regional grants (Antalóczy and Éltető, 2003; Sass, 2017). Uzbekistan employs broader discretionary incentives—tax holidays, customs exemptions, and land preferences—intended to offset its still-developing institutional environment (Eshov, 2020; World Bank, 2021). While Hungary's system provides predictability, Uzbekistan's offers flexibility and rapid adaptation but risks opacity.

Institutional quality remains the decisive differentiator. Hungary retains relatively strong legal infrastructure through EU harmonization, but concerns over judicial independence and corruption have grown in recent years (Freedom House, 2022; Transparency International, 2022). Uzbekistan's reforms since 2017 have introduced constitutional guarantees for investor protection and dispute resolution improvements, yet enforcement gaps and limited administrative capacity constrain outcomes (EBRD, 2020; Pomfret, 2019).

Both countries face distinct policy imperatives. For **Hungary**, future competitiveness requires innovation-driven FDI strategies, stronger transparency in incentive allocation, and institutional renewal to maintain investor confidence (Sass, 2017; Hunya, 2022). For **Uzbekistan**, sustained reform momentum should prioritize regulatory predictability, judicial strengthening, and diversification beyond resource-based investments (Eshov, 2020; World Bank, 2023).

At the bilateral level, cooperation opportunities exist in manufacturing supply chains, renewable energy, and education-linked investment programs. Both economies would benefit from institutional convergence around transparency, sustainable investment frameworks, and regional value chain integration to mitigate external shocks and attract long-term, high-quality FDI.

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