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ECONOMIC DIPLOMACY AS A TOOL FOR ATTRACTING FOREIGN DIRECT INVESTMENT: EXPERIENCE OF UZBEKISTAN (2017–2025)

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Abstract. Economic diplomacy has become an increasingly important instrument for attracting foreign direct investment (FDI) to Uzbekistan during the period 2017–2025, a decade characterized by an unprecedented level of external openness following the country's post-2016 reform agenda. Drawing on institutional data from UNCTAD, the World Bank, and the Central Bank of Uzbekistan, together with a qualitative assessment of diplomatic instruments—including bilateral investment agreements, high-level state visits, and the Tashkent International Investment Forum—the analysis evaluates whether economic diplomacy has evolved into a structural determinant of FDI inflows or remains a largely symbolic policy instrument. A mixed-method research design combining descriptive trend analysis with comparative and event-based case evidence is employed to examine the relationship between diplomatic initiatives and investment flows across the principal recipient sectors. The results demonstrate that macroeconomic liberalization, particularly the 2017-currency reform, generated the most substantial initial increase in FDI, whereas subsequent diplomatic initiatives, especially investment forums and sector-specific bilateral agreements, contributed to a delayed but significant acceleration of investment inflows during 2024–2025, following a temporary decline in 2023. Nevertheless, institutional bottlenecks, uneven investor-protection mechanisms, and a persistent concentration of investment in the energy and extractive industries continue to limit Uzbekistan's investment potential relative to its regional peers. Sustainable growth in FDI therefore depends not only on effective economic diplomacy but also on continued institutional reforms, stronger investor protection, and a broader diversification of diplomatic engagement and investment-promotion mechanisms.

Keywords: economic diplomacy; foreign direct investment; Uzbekistan; investment promotion; bilateral investment agreements; Central Asia; institutional reform.

Annotatsiya. O'zbekistonning 2017–2025-yillardagi iqtisodiy diplomatiya siyosatining to'g'ridan to'g'ri xorijiy investitsiyalarni (FDI) jalb etishdagi o'rni tahlil qilinadi. Tadqiqot UNCTAD, Jahon banki va O'zbekiston Respublikasi Markaziy banki ma'lumotlari, shuningdek, ikki tomonlama investitsiya bitimlari, yuqori darajadagi davlat tashriflari hamda Toshkent xalqaro investitsiya forumi kabi iqtisodiy diplomatiya vositalarining sifat tahliliga asoslanadi. Deskriptiv trend tahlili, qiyosiy yondashuv va voqealarga asoslangan tahlil usullarini uyg'unlashtirgan aralash metodologiya yordamida diplomatik tashabbuslar bilan investitsiya oqimlari o'rtasidagi bog'liqlik baholanadi. Natijalar 2017-yildagi valyuta islohoti investitsiyalar o'sishining asosiy omili bo'lganini, investitsiya forumlari hamda tarmoqlarga yo'naltirilgan ikki tomonlama bitimlar esa 2023-yildagi vaqtinchalik pasayishdan so'ng 2024–2025-yillarda investitsiya oqimlarining sezilarli darajada jadallashishiga xizmat qilganini ko'rsatadi. Shu bilan birga, institutsional cheklovlar, investorlar huquqlarini himoya qilish mexanizmlarining yetarli darajada rivojlanmaganligi hamda investitsiyalarning energetika va qazib oluvchi tarmoqlarda yuqori darajada jamlangani mamlakatning investitsiyaviy salohiyatini cheklab qolmoqda. Barqaror investitsiya o'sishiga erishish iqtisodiy diplomatiya bilan bir qatorda institutsional islohotlarni chuqurlashtirish, investorlarni himoya qilish tizimini mustahkamlash hamda investitsiyalarni rag'batlantirish va diplomatik hamkorlik yo'nalishlarini diversifikatsiya qilishni talab etadi.

Kalit so'zlar: iqtisodiy diplomatiya; to'g'ridan to'g'ri xorijiy investitsiyalar; O'zbekiston; investitsiyalarni rag'batlantirish; ikki tomonlama investitsiya bitimlari; Markaziy Osiyo; institutsional islohotlar.

Аннотация. Исследуется роль экономической дипломатии в привлечении прямых иностранных инвестиций (ПИИ) в Узбекистан в 2017–2025 годах. Исследование основано на данных ЮНКТАД, Всемирного банка и Центрального банка Республики Узбекистан, а также на качественном анализе инструментов экономической дипломатии, включая двусторонние инвестиционные соглашения, визиты на высшем уровне и Ташкентский международный инвестиционный форум. На основе смешанной методологии, сочетающей анализ динамических тенденций,

сравнительный подход и анализ событий, оценивается взаимосвязь между дипломатическими инициативами и притоком инвестиций в основные отрасли экономики. Полученные результаты показывают, что макроэкономическая либерализация, прежде всего валютная реформа 2017-года, обеспечила наиболее значительный первоначальный рост ПИИ, тогда как последующие дипломатические инициативы, особенно инвестиционные форумы и отраслевые двусторонние соглашения, способствовали заметному ускорению инвестиционных потоков в 2024-2025 годах после временного снижения в 2023-году. Вместе с тем институциональные ограничения, недостаточная эффективность механизмов защиты инвесторов и высокая концентрация инвестиций в энергетическом и добывающем секторах продолжают ограничивать инвестиционный потенциал Узбекистана по сравнению с другими странами региона. Обеспечение устойчивого роста ПИИ требует не только эффективной экономической дипломатии, но и дальнейшего совершенствования институциональной среды, укрепления системы защиты инвесторов и диверсификации механизмов инвестиционного продвижения и международного сотрудничества.

Ключевые слова: экономическая дипломатия; прямые иностранные инвестиции; Узбекистан; продвижение инвестиций; двусторонние инвестиционные соглашения; Центральная Азия; институциональные реформы.

INTRODUCTION

For most of the two decades following independence, Uzbekistan pursued an inward-looking development model characterized by import substitution, the administrative allocation of foreign currency, and restrictive entry conditions for foreign capital. FDI inflows during this period remained among the lowest in Central Asia relative to GDP. The political transition that began in late-2016 marked a significant shift in this development trajectory. The government's Strategy of Actions for 2017-2021 reframed external economic engagement as a central pillar of national development, while diplomacy—traditionally organized around political and security relations—was explicitly redirected toward economic objectives.

This reorientation is conventionally dated to September-2017, when the Central Bank unified the exchange rate and introduced current-account convertibility.¹ In the years that followed, Uzbekistan resumed negotiations on accession to the World Trade Organization, obtained observer status in the Eurasian Economic Union, secured preferential trade access to the European Union, and began hosting large-scale investment forums, most notably the Tashkent International Investment Forum.³ Embassies were assigned explicit investment-promotion mandates, and presidential and prime-ministerial visits were increasingly structured around the signing of commercial agreements rather than solely political communiqués.

The research problem addressed here is that, notwithstanding the prominence of economic diplomacy in Uzbekistan's policy discourse, its specific contribution to FDI growth has not yet been systematically examined. The existing empirical literature on the diplomacy-investment nexus is concentrated primarily on advanced and larger emerging economies, leaving rapidly liberalizing and previously closed transition economies, such as Uzbekistan, comparatively underexplored. The study addresses this gap through five objectives: (i) to trace the evolution and principal instruments of Uzbekistan's economic diplomacy between 2017-2025; (ii) to document the trends and sectoral composition of FDI inflows over the same period; (iii) to assess the extent to which diplomatic milestones correspond with observed investment patterns; (iv) to identify the structural factors influencing the effectiveness of economic diplomacy; and (v) to propose policy measures aimed at further strengthening Uzbekistan's investment-promotion architecture.

The remainder of the paper is organized as follows. Section 2 reviews the theoretical and empirical literature on economic diplomacy and FDI. Section 3 outlines the research methodology. Section 4 presents the results, including trend and sectoral analyses. Section 5 discusses the findings in light of the existing literature, and Section 6 concludes with policy recommendations.

LITERATURE REVIEW

The concept of economic diplomacy has evolved considerably from its early treatment as a subordinate branch of political diplomacy. Okano-Heijmans [11] situates economic diplomacy at the intersection of international relations, economics, international political economy, and diplomatic studies, distinguishing it from the narrower, firm-oriented practice of commercial diplomacy.⁴ Kostecki and Naray [12] define commercial diplomacy as the range of activities—including information provision, matchmaking, advocacy, and dispute mediation—through which official representatives assist national firms and attract inward investment. In the Uzbek context, both dimensions are evident: state-to-state economic agreements coexist with increasingly professionalized investment-promotion services embedded within diplomatic missions.

A substantial body of empirical literature links diplomatic presence and activity to bilateral economic flows. Rose [5] finds that each additional foreign consulate increases a country's exports, providing an early quantitative

basis for understanding the trade-promoting effects of diplomatic infrastructure. Nitsch [6] demonstrates that state visits by heads of government are associated with measurable increases in bilateral trade in subsequent years, while Head and Ries [7] identify a more modest and short-lived effect of Canadian trade missions. Yakop and van Bergeijk [9] extend this line of research to developing countries, arguing that diplomatic representation assumes greater importance where market information is limited and institutional quality is relatively weak—a condition that closely characterized Uzbekistan prior to 2017. Moons and van Bergeijk's meta-analysis [8] synthesizes this literature and reports a positive, albeit heterogeneous, effect of economic diplomacy on trade and, to a lesser and less consistent extent, on FDI, with generally stronger effects observed in developing and transition economies than in advanced economies.

OECD investment policy assessments of transition economies indicate that such signaling effects are more likely to be sustained when accompanied by complementary reforms aimed at strengthening investor-protection and dispute-resolution frameworks [16].

Within the Central Asian context, Pomfret [19] documents the region's long-standing dependence on natural-resource exports and its historically cautious approach to foreign capital. Spechler and Spechler [18], together with Mogilevskii [21], characterize Uzbekistan's post-2016 trajectory as a case of diplomacy-led liberalization, in which external economic engagement was deliberately employed to signal a decisive transition from a relatively closed economic model toward a more open and internationally integrated economy. These studies are primarily descriptive; however, none explicitly isolates the marginal contribution of diplomatic instruments from the broader package of liberalization measures. This gap provides the basis for combining descriptive trend analysis with an event-based examination of Uzbekistan's diplomatic initiatives.

RESEARCH METHODOLOGY

This study employs a mixed-method research design that combines descriptive statistical trend analysis with qualitative, event-based comparative analysis. It does not attempt formal causal econometric identification, a limitation discussed below. Quantitative data on annual FDI inflows are drawn primarily from the World Bank's *World Development Indicators* series on net FDI inflows, BoP, current US\$ (indicator BX.KLT.DINV.CD.WD) [23], and are cross-checked against UNCTADstat, the *World Investment Report* series [1, 20], and the balance-of-payments releases of the Central Bank of Uzbekistan [13]. Data on sectoral composition are compiled from the Statistics Agency's foreign trade and investment bulletins [14] and reports of the Ministry of Investment, Industry and Trade [15], supplemented by country assessments published by the World Bank, the IMF, and the Asian Development Bank [2, 3, 4].

Diplomatic activity is captured through three proxy indicators commonly employed in the economic diplomacy literature: (i) the number and scope of bilateral investment and economic-cooperation agreements concluded each year; (ii) the frequency and commercial content of high-level inbound and outbound state visits; and (iii) the scale of investment forums, measured by the reported value of agreements signed during each edition of the Tashkent International Investment Forum. These indicators are compared with the FDI time series to identify the temporal correspondence between diplomatic milestones and changes in investment flows.

Sectoral distribution is analyzed through a cross-tabulation of FDI stock shares across eight broad sectors, allowing an assessment of whether diplomatic outreach has been associated with a diversified or a concentrated pattern of investment. Three limitations should be noted. First, the analysis is descriptive and correlational; therefore, it cannot fully rule out reverse causality or the influence of concurrent macroeconomic reforms. Second, official Uzbek statistics underwent methodological revisions during the period under study—most notably the adoption of BPM6 reporting standards—which complicate strict year-on-year comparability.² Third, the relatively short post-reform time series (fewer than a decade) limits the scope for robust statistical inference, and the figures reported for 2024–2025 should be regarded as preliminary, pending final revision by the national authorities.

ANALYSIS AND RESULTS

Figure 1 presents annual net FDI inflows into Uzbekistan for 2017–2025, based on the World Bank's balance-of-payments series (indicator BX.KLT.DINV.CD.WD). Inflows amounted to US\$1.8 billion in 2017, the year of currency liberalization, before declining to US\$0.6 billion in 2018, a change attributable largely to statistical reclassification rather than to a fundamental decline in investor demand.² A recovery to US\$2.3 billion followed in 2019, and inflows remained broadly within the US\$1.7–2.3 billion range throughout the pandemic period and its immediate aftermath (2020–2021). Growth resumed in 2022 (US\$2.7 billion), followed by a moderate adjustment to US\$2.2 billion in 2023, before increasing further to US\$3.0 billion in 2024 and US\$4.4 billion in 2025. The temporary moderation observed in 2023 coincided with the first edition of the Tashkent International

Investment Forum, while the more substantial increase in net FDI inflows became evident during 2024-2025, following the gradual implementation of initiatives associated with Uzbekistan's 2020 EAEU observer status and its 2021 accession to the EU GSP+ preferential trade scheme.⁵ Overall, FDI inflows in 2025 were approximately two-and-a-half times higher than the 2018 level and around 65% higher than those recorded in 2022.

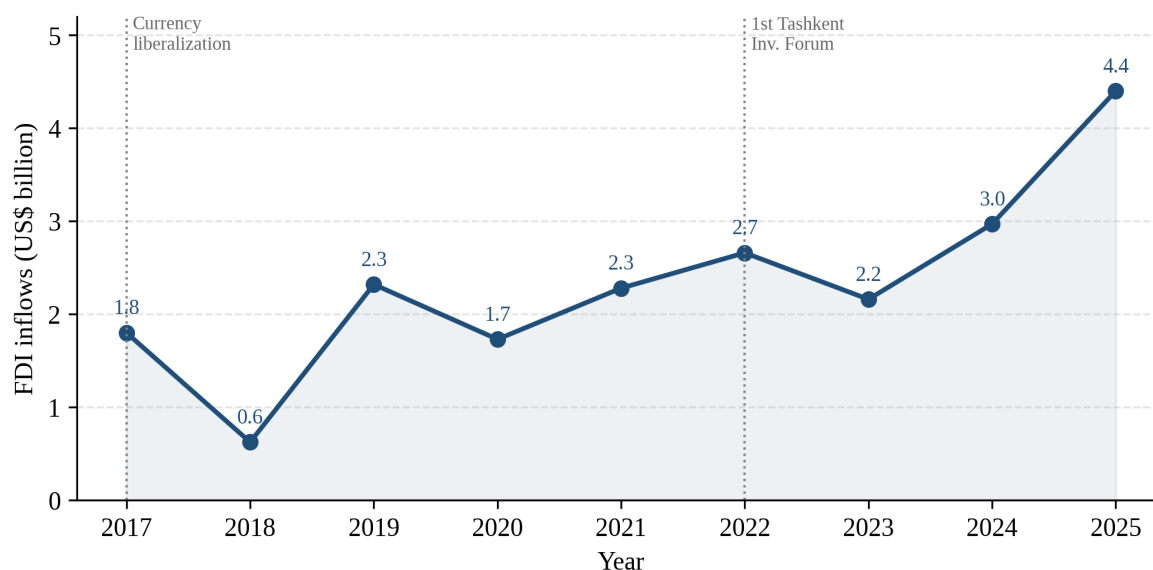


Figure 1. Annual Net FDI Inflows into Uzbekistan, 2017-2025 (US\$ billion)¹

This pattern is broadly consistent with the diplomacy-led liberalization narrative advanced in the literature, while also indicating a time lag between major diplomatic initiatives and their observable effects on investment inflows. The most pronounced single-year increase followed the **2017** currency reform, whereas the expansion of Uzbekistan's investment forums and bilateral economic agreements from **2020** onward was associated with a more noticeable acceleration of FDI during **2024-2025**, following the temporary moderation recorded in **2023**. Table 1 summarizes these developments alongside the principal diplomatic and policy milestones of the period.

Table 1. Key Milestones in Uzbekistan's Economic Diplomacy, 2017-2025²

Period	Key Economic-Diplomacy / Policy Milestone
2017	Exchange-rate unification and current-account convertibility; resumption of WTO accession negotiations
2018-2019	Adoption of a new investment law; establishment of investor-ombudsman functions; first wave of bilateral investment agreements
2020	Observer status granted in the Eurasian Economic Union
2021	Beneficiary status under the EU's GSP+ preferential trade scheme
2022	First Tashkent International Investment Forum; expansion of sector-specific bilateral agreements (energy and mining)
2023-2025	Successive editions of the Tashkent International Investment Forum; expanded cooperation with Gulf, Chinese, and East Asian investors; continued WTO accession process

Figure 2 presents the sectoral distribution of FDI stock across the principal recipient sectors, averaged over **2022-2025**. Energy and power generation account for the largest share (approximately **28%**), reflecting major state-supported renewable-energy agreements concluded with Gulf countries and other international investors. Mining and metallurgy account for **18%**, followed by chemicals and oil-and-gas processing (**15%**). Textiles and light industry (**10%**) and construction and real estate (**9%**) represent the next largest recipient sectors, while agro-processing, financial services, and information and communication technology together account for less than one-fifth of the total FDI stock.

1 Source: World Bank, World Development Indicators, Foreign Direct Investment, Net Inflows (BoP, Current US\$) – Uzbekistan, indicator BX.KLT.DINV.CD.WD [23], cross-referenced with UNCTADstat and the balance-of-payments data of the Central Bank of Uzbekistan [1, 13]. Figures for 2025 are preliminary.

2 Source: Compiled by the author based on documentation from the Ministry of Investment, Industry and Trade and the WTO [15, 22].

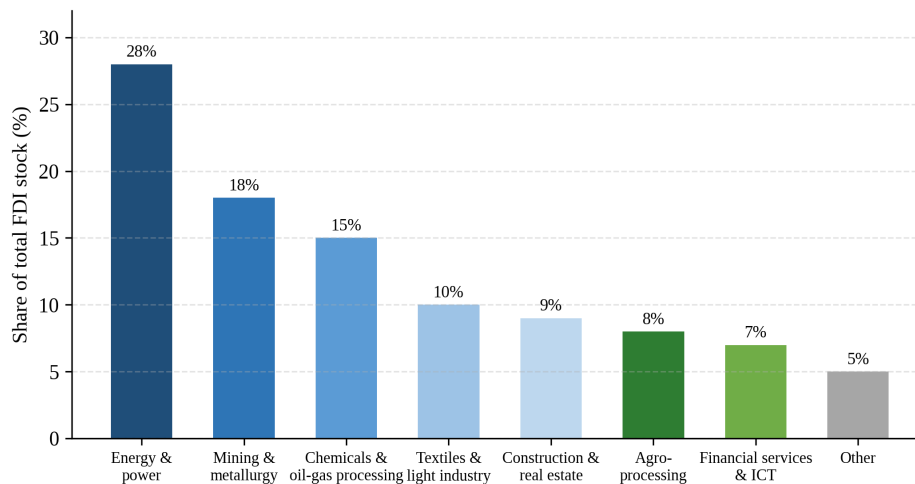


Figure 2. Sectoral Distribution of FDI Stock in Uzbekistan, Average 2022-2025 (%)³

The observed sectoral distribution indicates that economic diplomacy has been particularly effective in facilitating capital-intensive, state-supported investment projects in the energy and extractive industries. At the same time, opportunities remain to further broaden investment across manufacturing, services, and technology sectors, where investment decisions are influenced more strongly by firm-level commercial engagement alongside high-level diplomatic cooperation.

The evidence presented above supports the qualified hypothesis that economic diplomacy has become an important determinant of FDI growth in Uzbekistan. Two temporal patterns are particularly noteworthy. The first, concentrated in **2017-2019**, is best explained by macroeconomic liberalization, including exchange-rate unification, current-account convertibility, and the initial legal opening to foreign capital, during which diplomacy functioned primarily as a mechanism for communicating and reinforcing these reforms. The second pattern, observed mainly in **2024-2025**, indicates a delayed but increasingly evident association between major diplomatic milestones—including EAEU observer status, EU GSP+ accession, and successive investment forums—and the acceleration of FDI inflows. The temporary moderation recorded in **2023** further suggests that investment forums and the signing of agreements do not necessarily translate immediately into realized investment. Instead, a maturation period of approximately one to two years appears to separate diplomatic commitments from actual capital inflows, a pattern broadly consistent with the meta-analytic findings that the effectiveness of economic diplomacy becomes more pronounced once a foundation of macroeconomic credibility has been established and its effects accumulate over time [8].

This interpretation is also consistent with the broader literature, which suggests that diplomatic instruments function as a complement to, rather than a substitute for, domestic institutional reform. Where institutional reforms have progressed more gradually—particularly in the areas of investor-dispute resolution and secondary property rights—diplomatic engagement has assumed a more prominent supportive role. The sectoral evidence presented in Figure 2 indicates that these effects have varied across sectors. The concentration of FDI in energy, mining, and chemicals reflects the relative effectiveness of government-to-government diplomacy in facilitating large-scale, centrally negotiated investment projects. At the same time, this concentration underscores the importance of continuing efforts to broaden the sectoral distribution of investment. By contrast, sectors that depend on a well-developed ecosystem of firm-level services—including finance, information and communication technology (ICT), and export-oriented light manufacturing—have experienced comparatively more gradual growth despite receiving considerable attention in official strategic documents.

A second consideration relates to institutional capacity. Much of Uzbekistan's economic diplomacy continues to be organized around presidential and prime-ministerial visits and major investment forums, rather than through a permanent, professionalized investment-promotion agency with clearly defined and measurable performance objectives, as recommended in OECD assessments of transition economies [16]. This visit-centered approach can facilitate the conclusion of high-value investment agreements while also highlighting the importance of ensuring their effective implementation and conversion into realized investment, an issue discussed in several World Bank and IMF assessments of Uzbekistan's investment climate [2, 3]. Regional competition further emphasizes the need for continued institutional strengthening. Kazakhstan's comparatively well-established legal and tax framework continues to attract a significant share of FDI in Central Asia, suggesting

3 Source: Author's compilation based on data from the Statistics Agency and the Ministry of Investment, Industry and Trade [14, 15].

that Uzbekistan's diplomatic achievements have been substantial and that further progress in strengthening the domestic investment environment will support the country's growing competitiveness within the region.

CONCLUSION AND SUGGESTIONS

This paper set out to assess whether economic diplomacy has become one of the key determinants of FDI growth in Uzbekistan during **2017-2025**. The evidence suggests a nuanced conclusion: economic diplomacy has served as an important complement to domestic institutional and macroeconomic reforms, and its effects on overall FDI inflows appear to materialize with a lag of approximately one to two years rather than immediately. Its most evident contribution is observed during **2024-2025**, when investment forums, regional trade preferences, and an expanded network of bilateral agreements initiated several years earlier were accompanied by a marked acceleration in FDI inflows, particularly in the energy and extractive sectors, following the temporary moderation recorded in **2023**. At the same time, further opportunities remain to expand investment diversification toward manufacturing, services, and technology, while continued improvements in institutional arrangements—including investor-dispute resolution mechanisms, regional investment-promotion capacity, and permanent investment-promotion institutions alongside high-level diplomatic engagement—will further enhance the effectiveness of economic diplomacy relative to regional peers.

Several policy measures emerge from this analysis. First, Uzbekistan should further institutionalize a dedicated investment-promotion agency supported by transparent performance indicators, thereby complementing high-level diplomatic engagement with a permanent institutional framework. Second, diplomatic outreach should continue to expand toward manufacturing, green technology, ICT, and financial services in order to promote broader sectoral diversification. Third, the network of bilateral investment treaties should be further strengthened through enhanced dispute-resolution provisions to reinforce investor confidence throughout the investment process. Fourth, commercial diplomacy should be expanded to regional and provincial levels to complement activities coordinated at the national level. Finally, continued alignment of national statistical reporting with UNCTAD and OECD benchmark definitions would further improve the consistency and reliability of future evaluations.

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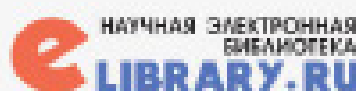
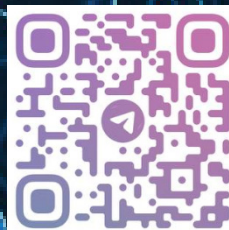
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