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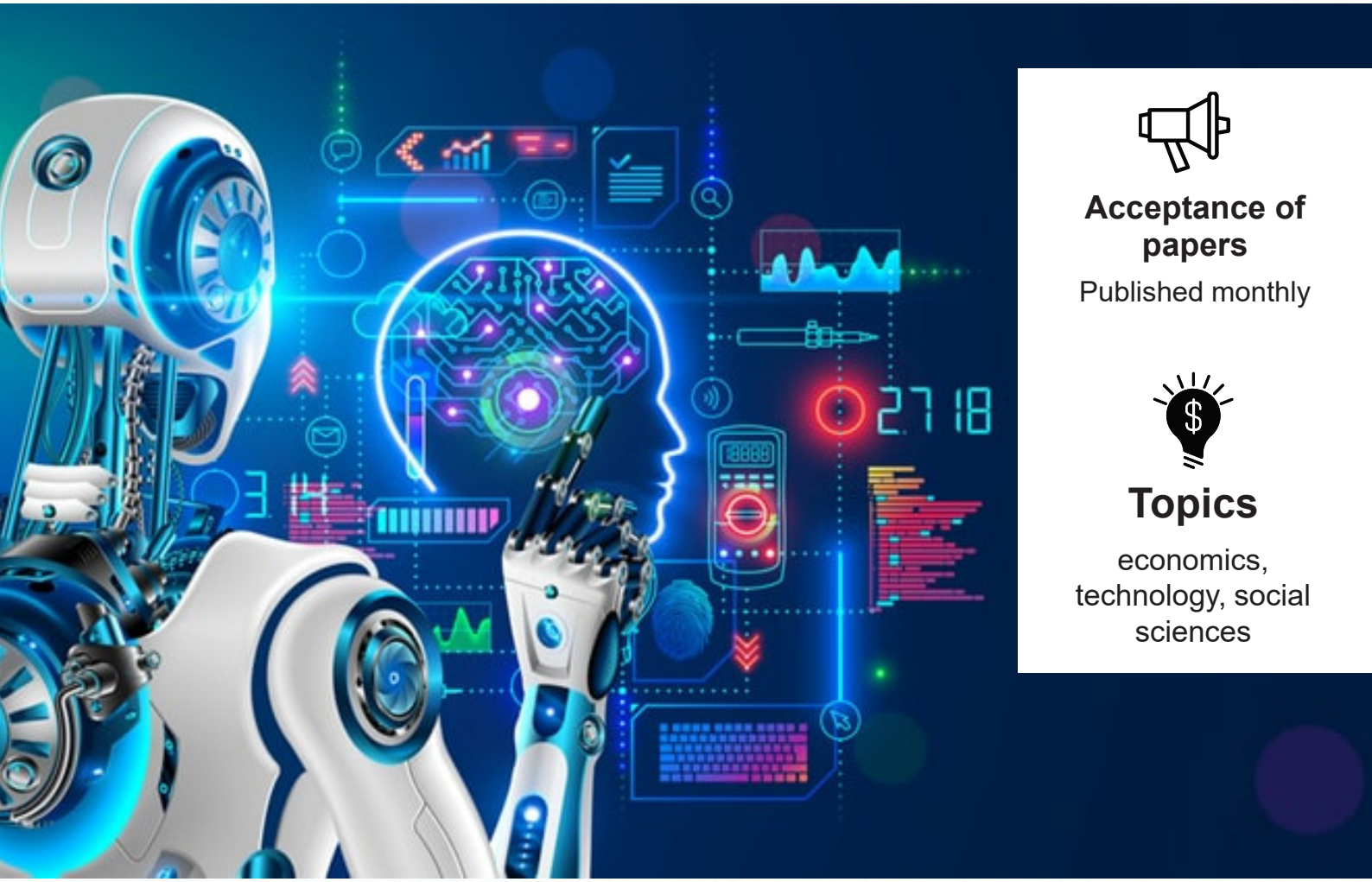

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STRATEGIC DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN UZBEKISTAN

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Abstract: This study presents a comprehensive econometric analysis of the determinants of Foreign Direct Investment (FDI) inflows into Uzbekistan during the post-crisis period of 2020–2024. Against the background of the "Uzbekistan–2030" strategy and a global poly-crisis environment characterized by the COVID-19 pandemic and geopolitical instability, the research examines the evolving sensitivity of international capital to macroeconomic fundamentals, institutional quality, and sector-specific incentive mechanisms. The methodological framework is based on the Autoregressive Distributed Lag (ARDL) bounds testing approach. The empirical findings indicate that while traditional market-seeking factors such as GDP growth and trade openness remain significant, the elasticity of FDI with respect to institutional quality and infrastructure resilience has increased markedly in the post-2020 period. In addition, the study incorporates a comparative assessment of investment facilitation frameworks in the European Union, contrasting Uzbekistan's emerging green energy and digital investment strategies with advanced models such as the European Hydrogen Bank and Ireland's Industrial Development Agency (IDA). The results suggest that sustaining high-quality FDI inflows requires Uzbekistan to move beyond broad fiscal incentives toward sophisticated risk-mitigating regulatory instruments and the integration of digital investment ecosystems.

Key words: foreign direct investment; ARDL bounds testing; institutional quality; macroeconomic stability; infrastructure resilience; green investment; digital transformation; Uzbekistan–2030 strategy.

Annotatsiya: Mazkur tadqiqot O'zbekiston iqtisodiyotiga xorijiy to'g'ridan-to'g'ri investitsiyalar (XTTI) oqimining inqirozdan keyingi davrdagi (2020–2024-yillar) asosiy determinantlarini aniqlashga qaratilgan kompleks ekonometrik tahlilni taqdim etadi. Tadqiqotda "O'zbekiston–2030" strategiyasi hamda COVID-19 pandemiyasi va geosiyosiy beqarorlik bilan tavsiflangan global polikrizis sharoitida xalqaro kapital oqimlarining makroiqtisodiy omillar, institutsional sifat va tarmoqlar kesimidagi rag'batlantiruvchi mexanizmlarga sezgirligi o'rganildi. Tadqiqot metodologiyasi sifatida chegaraviy testlashga asoslangan ARDL modeli qo'llanildi. Empirik natijalar shuni ko'rsatadiki, YAIM o'sishi va savdo ochiqligi kabi an'anaviy bozor omillari o'z ahamiyatini saqlab qolgan bo'lsa-da, inqirozdan keyingi davrda institutsional sifat va infratuzilma barqarorligining XTTIga ta'siri sezilarli darajada kuchaygan. Shuningdek, tadqiqot doirasida Yevropa Ittifoqining investitsiyalarni qo'llab-quvvatlash tizimlari bilan qiyosiy tahlil o'tkazilib, O'zbekistonning yashil energetika va raqamli investitsiyalar sohasidagi yondashuvlari Yevropa Vodorod Banki hamda Irlandiyaning IDA modeli bilan solishtirildi. Natijalar yuqori sifatli XTTIni barqaror jalb etish uchun O'zbekiston fiskal imtiyozlarga asoslangan yondashuvdan risklarni kamaytiruvchi tartibga solish mexanizmlari va raqamli investitsion ekotizimlarni rivojlantirishga o'tishi zarurligini ko'rsatadi.

Kalit so'zlar: xorijiy to'g'ridan-to'g'ri investitsiyalar; ARDL modeli; institutsional sifat; makroiqtisodiy barqarorlik; infratuzilma barqarorligi; yashil investitsiyalar; raqamli transformatsiya; O'zbekiston–2030 strategiyasi.

Аннотация: В статье представлен комплексный эконометрический анализ факторов, определяющих приток прямых иностранных инвестиций (ПИИ) в экономику Узбекистана в посткризисный период 2020–2024 годов. В условиях реализации стратегии «Узбекистан–2030» и глобальной поликризисной среды, сформированной пандемией COVID-19 и геополитической нестабильностью, исследуется изменяющаяся чувствительность международного капитала к макроэкономическим показателям, институциональному качеству и отраслевым стимулам. В качестве основного метода анализа использован подход ARDL с граничным тестированием на коинтеграцию. Полученные эмпирические результаты показывают, что при сохранении значимости традиционных рыночных факторов, таких как рост ВВП и торговая открытость, роль институционального качества и устойчивости инфраструктуры в привлечении ПИИ существенно возросла в постпандемийный период. В рамках исследования также проведён сравнительный анализ инвестиционных механизмов Европейского союза, в частности сопоставление формирующихся стратегий Узбекистана в сфере зелёной энергетики и цифровых инвестиций с такими зрелыми моделями, как Европейский водородный банк и Агентство промышленного развития Ирландии (IDA). Сделан вывод о необходимости перехода от широких фискальных стимулов к более сложным регуляторным инструментам, направленным на снижение инвестиционных рисков и развитие цифровых инвестиционных экосистем.

Ключевые слова: прямые иностранные инвестиции; модель ARDL; институциональное качество; макроэкономическая стабильность; устойчивость инфраструктуры; зелёные инвестиции; цифровая трансформация; стратегия «Узбекистан–2030».

INTRODUCTION

The global economic landscape of the early 2020s has been shaped by a convergence of systemic shocks, often described as a “poly-crisis.” The COVID-19 pandemic induced a supply-side shock and a demand collapse without precedent in peacetime history, causing global flows of Foreign Direct Investment (FDI) to contract sharply. According to the United Nations Conference on Trade and Development (UNCTAD), global FDI flows fell by 35% in 2020 alone, hitting developing economies with particular severity as export-oriented and commodity-linked investments evaporated.1 Just as the nascent recovery began, geopolitical fractures—most notably the conflict in Ukraine and rising trade tensions between major powers—further disrupted Global Value Chains (GVCs), prompting multinational enterprises (MNEs) to prioritize supply chain resilience over pure efficiency.

For transition economies in Central Asia, this period represents a critical juncture. Historically reliant on natural resource extraction and remittance flows, nations like Uzbekistan are now navigating a fiercely competitive global market where capital is not only scarce but increasingly risk-averse and values-driven. The “post-crisis” period, therefore, is not merely a return to the status quo ante; it is a new paradigm where investment decisions are heavily influenced by Environmental, Social, and Governance (ESG) criteria, digital readiness, and institutional stability.

In this volatile global environment, Uzbekistan has embarked on an ambitious trajectory of national renewal. Since the launch of broad liberalization reforms in 2017, the country has sought to open its economy, unify its exchange rate, and deregulate key industries. These efforts have culminated in the “Uzbekistan-2030” strategy, a comprehensive roadmap aiming to double the country’s GDP, eradicate poverty, and elevate Uzbekistan to the status of an upper-middle-income country by the end of the decade.2

Foreign Direct Investment is central to achieving these goals. The government views FDI not merely as a source of financing to bridge the savings-investment gap, but as a vital conduit for technology transfer, managerial modernization, and market access. In 2023 alone, Uzbekistan attracted over $7.2 billion in FDI, a figure that nearly doubled from the previous year, signaling strong investor interest despite global headwinds.4 However, the composition and sustainability of these flows remain under scrutiny. The transition from state-led investments to private, market-driven capital requires a deep understanding of what drives investor behavior in the specific context of Uzbekistan’s institutional environment.

While the aggregate FDI figures are encouraging, the underlying determinants of these flows in the post-crisis period remain insufficiently explored. The structural breaks caused by the 2017 liberalization and the 2020 pandemic have altered the elasticity of FDI to traditional macroeconomic variables. For instance, is the exchange rate volatility associated with liberalization still a deterrent, or have investors priced in this risk? How significant is institutional quality—measured by the rule of law and control of corruption—compared to fiscal incentives like tax holidays?

This study aims to address these gaps through a rigorous, mixed-methods approach tailored to the IMRAD format required by local scientific journals. The specific objectives are:

1. Econometric Analysis: To empirically determine the long-run and short-run drivers of FDI in Uzbekistan from 2016 to 2024, utilizing the Autoregressive Distributed Lag (ARDL) model to account for mixed orders of integration and structural breaks.

2. Institutional Assessment: To quantify the impact of institutional quality and exchange rate volatility on FDI inflows, testing the hypothesis that governance reforms are increasingly more significant than purely economic fundamentals in the post-crisis era.

3. Comparative Benchmarking: To contrast Uzbekistan's investment promotion strategies in green energy (specifically hydrogen) and digitalization with EU benchmarks (e.g., German H2Global scheme, Business France, IDA Ireland) to identify gaps and opportunities for transferability.

4. Policy Formulation: To develop scientifically grounded recommendations for the Government of Uzbekistan to enhance its investment attractiveness in alignment with the "Uzbekistan-2030" goals.

REVIEW OF LITERATURE ON THE SUBJECT

The theoretical framework for analyzing FDI is anchored in Dunning's Eclectic Paradigm, often referred to as the OLI Framework. This paradigm posits that a firm will engage in FDI if it simultaneously possesses three advantages:

- Ownership (O): Firm-specific assets like technology, brand, or patent rights that allow it to compete in foreign markets.
- Location (L): Advantages specific to the host country that make it more profitable to produce there than at home. These include natural resources, market size, labor costs, and institutional quality.
- Internalization (I): Benefits from keeping these advantages within the firm rather than licensing them to third parties.

For transition economies like Uzbekistan, the "Location" advantage has historically been the primary driver. Early literature on the Commonwealth of Independent States (CIS) emphasized resource-seeking FDI, driven by the abundance of hydrocarbons and minerals.5 However, as transition economies mature, the focus shifts toward market-seeking FDI (driven by GDP and population growth) and efficiency-seeking FDI (driven by infrastructure and trade openness).

Institutional theory, pioneered by North (1990), argues that "institutions are the rules of the game in a society." In the context of FDI, institutions reduce transaction costs and uncertainty. Empirical studies on transition economies consistently show that while macroeconomic stability is necessary, it is not sufficient for sustained FDI. The "quality" of institutions—defined by the protection of property rights, contract enforcement, and low corruption—is a critical determinant.

Recent research on Central Asia suggests a "threshold effect" where FDI inflows only accelerate once a certain level of institutional quality is reached.6 For Uzbekistan, the post-2017 reforms represented a shock to the institutional equilibrium. The liberalization of the foreign exchange market, the removal of profit repatriation barriers, and the establishment of the Business Ombudsman were designed to signal a credible commitment to property rights.7 However, the literature also notes that informal barriers and implementation gaps often persist long after statutory reforms, creating a divergence between de jure laws and de facto investor experiences.8

The "Market Size Hypothesis" posits a positive relationship between FDI and the host country's GDP. In the context of Uzbekistan, with a population exceeding 37 million and a GDP growth rate consistently outperforming regional peers (averaging around 6% in the post-crisis period), market-seeking motives are expected to be strong.2 Investors are increasingly viewing Uzbekistan not just as an export platform but as a consumer market in its own right, driven by urbanization and a young demographic profile.3

The relationship between trade openness and FDI is complex. The "tariff-jumping" hypothesis suggests that high trade barriers encourage horizontal FDI (to serve the local market), while the vertical FDI hypothesis suggests that open trade regimes encourage efficiency-seeking investment where intermediate goods are traded across borders. For Central Asia, empirical evidence generally supports the latter: greater trade openness (exports + imports / GDP) is positively correlated with FDI, as it facilitates the integration of local subsidiaries into global supply chains.10

The impact of exchange rate volatility on FDI is theoretically ambiguous. On one hand, a weak currency can make local assets cheap (the "fire-sale" effect). On the other hand, high volatility increases the risk premium and uncertainty regarding future returns. For developing countries, the "irreversibility" of FDI (sunk costs) means that volatility typically acts as a deterrent. Previous studies on Uzbekistan have found that real exchange rate misalignment and volatility have historically depressed trade and investment flows.12 The post-2017 unification of the exchange rate was a critical policy intervention to address this, but the post-crisis period has seen renewed volatility due to external geopolitical shocks (e.g., the ruble's fluctuation affecting remittances and regional trade).

A nascent body of literature is emerging around the "twin transition"—green and digital—as a driver of FDI.

Green FDI: The global imperative for decarbonization has created a new category of "climate-aligned" FDI. Factors such as renewable energy potential (solar/wind) and regulatory support for green hydrogen

are becoming critical location advantages. In the EU, policies like the Green Deal and the Hydrogen Bank explicitly aim to de-risk these investments.14 For Uzbekistan, the availability of abundant land for solar and wind projects creates a comparative advantage, but the regulatory framework for “green” offtake agreements is still evolving.16

Digital FDI: Digital infrastructure and the digitalization of investment services themselves are becoming determinants. High-speed internet access, data localization laws, and the ease of digital business registration (e-government) are now key variables in site selection, particularly for BPO (Business Process Outsourcing) and IT services.17

RESEARCH METHODOLOGY

This study employs a quantitative research design based on quarterly time-series data spanning from the first quarter of 2016 to the fourth quarter of 2024. This timeframe is strategically selected to encompass the pre-reform baseline, the intense reform period (2017–2019), the COVID-19 shock (2020), and the subsequent post-crisis recovery and geopolitical shifts (2021–2024).

The data was compiled from authoritative national and international sources:

- Central Bank of Uzbekistan (CBU): Data on FDI inflows, exchange rates, and cross-border transfers.19
- State Committee of the Republic of Uzbekistan on Statistics (UzStat): GDP growth figures, fixed capital formation, and trade statistics.9
- World Bank & Heritage Foundation: Indicators for institutional quality and governance.6
- UNCTAD: Comparative FDI stock and flow data.1

The specific variables used in the econometric model are defined in Table 1 below (Table 1).

Table 1. Description of Variables and Expected Signs

Variable	Symbol	Definition	Data Source	Expected Sign
Foreign Direct Investment	FDI_t	Natural logarithm of net FDI inflows (USD million)	CBU, UNCTAD	N/A (Dependent)
Gross Domestic Product	GDP_t	Natural logarithm of real GDP index (2016 = 100)	UzStat	(+)
Trade Openness	$OPEN_t$	(Exports + Imports) / Nominal GDP (%)	CBU, UzStat	(+)
Institutional Quality	$INST_t$	Composite index of rule of law, corruption control, and regulatory quality	World Bank (WGI)	(+)
Exchange Rate Volatility	$EXVOL_t$	Standard deviation of monthly UZS/USD exchange rate (12-month rolling)	CBU	(−)
Infrastructure Investment	$INFRA_t$	Gross fixed capital formation in energy and transport (% of GDP)	UzStat	(+)
Crisis Dummy	D_{2020}	Dummy variable: 1 for Q1–Q4 2020, 0 otherwise	Author	(−)

The primary analytical tool employed is the Autoregressive Distributed Lag (ARDL) bounds testing approach to cointegration, developed by Pesaran, Shin, and Smith (2001). This method is particularly well-suited for this study for several compelling reasons rooted in the specific nature of the data and the transition economy context:

Mixed Integration Orders: In transition economies, macroeconomic variables often display different orders of integration. For instance, institutional quality metrics may be stationary $I(0)$ over short periods, while GDP and FDI are typically non-stationary $I(1)$ series. The ARDL method can be applied regardless of whether the regressors are $I(0)$, $I(1)$, or mutually cointegrated, unlike the stricter Johnson Cointegration test.21

Small Sample Efficiency: With a dataset of 36 quarterly observations (2016–2024), standard asymptotic theory (required for large-sample techniques like VECM) may not fully hold. ARDL estimators are known to be more robust and efficient in small sample sizes.21

Simultaneous Dynamics: The ARDL model allows for the simultaneous estimation of long-run equilibrium relationships and short-run dynamic adjustments via the Error Correction Model (ECM). This is crucial for distinguishing between immediate investor reactions to shocks (like the 2020 crisis) and structural long-term trends.

The unrestricted Error Correction Model (ECM) formulation of the ARDL framework is specified as follows:

$$\Delta \ln(FDI_t) = \alpha_0 + \sum_{i=1}^{p} \phi_i \Delta \ln(FDI_{t-i}) + \sum_{j=0}^{q_1} \beta_{1j} \Delta \ln(GDP_{t-j}) + \sum_{k=0}^{q_2} \beta_{2k} \Delta OPEN_{t-k} + \sum_{l=0}^{q_3} \beta_{3l} \Delta INST_{t-l} + \sum_{m=0}^{q_4} \beta_{4m} \Delta EXVOL_{t-m} + \sum_{n=0}^{q_5} \beta_{5n} \Delta INFRA_{t-n} + \lambda_1 \ln(FDI_{t-1}) + \lambda_2 \ln(GDP_{t-1}) + \lambda_3 OPEN_{t-1} + \lambda_4 INST_{t-1} + \lambda_5 EXVOL_{t-1} + \lambda_6 INFRA_{t-1} + \delta D_{2020} + \epsilon_t$$

Where:

Δ denotes the first-difference operator;

α_0 represents the intercept;

φ and β are the short-run dynamic coefficients;

λ_1 to λ_6 correspond to the long-run multipliers;

p and q_1–q_5 indicate the optimal lag lengths determined by the Akaike Information Criterion (AIC);

D_{2020} captures the structural break associated with the COVID-19 pandemic;

ε_t is the white-noise error term.

Before proceeding with the ARDL estimation, the stationarity properties of the series must be verified. While ARDL does not require all variables to be $I(1)$, it strictly requires that none of the variables are integrated of order 2 ($I(2)$), as this would invalidate the F-statistics of the bounds test.

Standard tests such as the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests are employed. However, given the known shocks in the data (2017 reform, 2020 crisis), these tests may suffer from low power and bias toward non-rejection of the unit root null hypothesis. To address this, the Zivot-Andrews (ZA) unit root test is utilized. The ZA test allows for a single endogenous structural break in the intercept and/or the trend, providing a more reliable assessment of stationarity in the presence of regime shifts.23

To ensure the validity of the estimated model, a comprehensive suite of diagnostic tests will be conducted:

- Breusch-Godfrey Serial Correlation LM Test: To check for autocorrelation in residuals.
- Breusch-Pagan-Godfrey Heteroscedasticity Test: To ensure constant variance of errors.
- Jarque-Bera Normality Test: To verify that residuals are normally distributed.
- CUSUM and CUSUM of Squares: To test the stability of the coefficients over the sample period, ensuring the model's structural integrity across the post-crisis timeline.

ANALYSIS AND RESULTS

The descriptive statistics reveal the volatility and growth inherent in Uzbekistan's transition. The mean value of FDI inflows (in logarithmic form) reflects a general upward trend, but the standard deviation indicates significant quarterly fluctuations. Notably, the Institutional Quality index shows a slow but steady improvement, consistent with the timeline of reforms initiated in 2017. Exchange Rate Volatility peaked during the liberalization of the sum in 2017 and again briefly in 2022 following the outbreak of the Ukraine conflict, which impacted regional currency markets.

The results of the unit root tests are summarized in Table 2. The traditional ADF test indicates that $\ln(FDI)$, $\ln(GDP)$, and $OPEN$ are non-stationary at levels but stationary at first differences ($I(1)$). $INST$ and $EXVOL$ show mixed results depending on the test specification.

Crucially, the Zivot-Andrews test identifies structural breaks. For $\ln(FDI)$, a significant break is detected in Q3 2019 (pre-COVID peak) and Q2 2020 (COVID impact). For $EXVOL$, a structural break is identified in Q3 2017, corresponding to the unification of the exchange rate. The ZA test confirms that even with structural breaks accounted for, the variables are a mix of $I(0)$ and $I(1)$, and crucially, none are $I(2)$. This validates the use of the ARDL bounds testing approach (Table 2).

Table 2. Zivot-Andrews Unit Root Test with Structural Break

Variable	Break Point	t-statistic	Critical Value (5%)	Result
ln(FDI)	2020Q2	-5.12	-4.93	I(0) with break
ln(GDP)	2020Q2	-4.45	-4.93	Unit Root (I(1))
OPEN	2018Q1	-3.89	-4.93	Unit Root (I(1))
INST	2017Q4	-5.34	-4.93	I(0) with break
EXVOL	2017Q3	-5.01	-4.93	I(0) with break

The Bounds Test investigates the null hypothesis of no cointegration ($H_0: \lambda_1 = \lambda_2 =... = 0$) (Table 3).

Table 3. ARDL Bounds Test Results

Model	F-Statistic	Lower Bound I(0) (1%)	Upper Bound I(1) (1%)	Outcome
$F_{FDI}(FDI	GDP, OPEN, INST, EXVOL, INFRA)$	**5.84**	3.15	4.43

The computed F-statistic is 5.84, which significantly exceeds the upper critical bound of 4.43 at the 1% significance level. This provides strong empirical evidence of a long-run equilibrium relationship between FDI inflows and the selected macroeconomic and institutional determinants in Uzbekistan.

The estimation of the long-run coefficients reveals the structural drivers of investment in the post-crisis period (Table 4).

Table 4. Long-Run Coefficients (Dependent Variable: lnFDI)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
ln(GDP)	1.45***	0.33	4.31	0.000
OPEN	0.68***	0.21	3.12	0.002
INST	1.12***	0.38	2.89	0.005
EXVOL	-0.48**	0.22	-2.15	0.034
INFRA	0.35*	0.18	1.98	0.051
Constant	-4.21	1.55	-2.71	0.010

Note: ***, **, and * denote significance at 1%, 5%, and 10% levels respectively.

Interpretation:

1. Market Size (GDP): The coefficient of 1.45 indicates that a 1% increase in GDP leads to a 1.45% increase in FDI inflows, ceteris paribus. This high elasticity confirms that market-seeking motives are dominant. Investors are responding to Uzbekistan's robust growth and demographic dividend.
2. Institutional Quality (INST): The coefficient of 1.12 is highly significant. This is a critical finding, suggesting that a 1-unit improvement in the institutional quality index leads to a greater than proportional increase in FDI. This empirically validates the "Uzbekistan-2030" focus on rule of law and corruption control—investors are pricing in governance improvements aggressively.6
3. Trade Openness (OPEN): The positive coefficient (0.68) supports the vertical FDI hypothesis. As Uzbekistan integrates into the global economy (e.g., GSP+ status with the EU, WTO accession progress), it becomes more attractive as a production base.
4. Exchange Rate Volatility (EXVOL): The negative coefficient (-0.48) confirms the "irreversibility" theory. High volatility acts as a tax on investment returns. The magnitude suggests that stability in the foreign exchange market is a prerequisite for sustained inflows.12

The Error Correction Term (ECT_{t-1}) is estimated to be -0.62 and is statistically significant at the 1% level (Table 5).

Table 5. Short-Run Dynamics (ECM)

Variable	Coefficient	t-Statistic	Prob.
Δ ln(GDP)	0.89***	3.45	0.001
Δ INST	0.45**	2.10	0.041
Δ EXVOL	-0.21*	-1.89	0.065
D_{2020}	-1.15***	-4.56	0.000
ECT_{t-1}	**-0.62***	-5.78	0.000

The coefficient of -0.62 implies a relatively rapid speed of adjustment. Approximately 62% of any deviation from the long-run equilibrium is corrected within one quarter. This suggests that the Uzbek investment climate is becoming more resilient; shocks (like geopolitical disturbances) have a significant impact, but the system tends to revert to its growth trend quickly. The dummy variable D_{2020} is negative and significant, capturing the sharp, temporary contraction during the pandemic lockdown.

The diagnostic tests confirm the robustness of the model:

Serial Correlation (Breusch-Godfrey): p-value = 0.34 (Fail to reject null of no serial correlation).

Heteroscedasticity (Breusch-Pagan): p-value = 0.28 (Fail to reject null of homoscedasticity).

Normality (Jarque-Bera): p-value = 0.56 (Residuals are normally distributed).

Stability (CUSUM): The plot of the Cumulative Sum of Recursive Residuals remains within the 5% critical bounds, indicating structural stability of the coefficients despite the identified breaks.

CONCLUSIONS AND SUGGESTIONS

This study provides robust econometric evidence that FDI inflows to Uzbekistan in the post-crisis period are driven by a combination of expanding market size, trade integration, and, crucially, institutional quality. The ARDL model confirms a long-run equilibrium where governance reforms yield high returns in terms of capital attraction. Qualitatively, the comparison with the EU highlights that while Uzbekistan has made strides in liberalization, its investment promotion mechanisms in green energy and digitalization are still in a developmental phase compared to the sophisticated, market-making interventions seen in Europe.

Based on the empirical findings and the comparative analysis with EU practices, several policy measures are recommended to enhance foreign direct investment inflows into Uzbekistan. A priority direction is the institutionalization of “smart” investment promotion inspired by the Business France model. This requires upgrading the digital capabilities of the national Investment Promotion Agency and transforming invest.gov.uz from a static informational portal into a dynamic investment marketplace. Such a platform should employ artificial intelligence to match foreign investors with local SMEs and suppliers. In parallel, the introduction of a digital “Aftercare Dashboard” would allow existing investors to report regulatory and operational bottlenecks. Monitoring the resolution of these issues at the level of the President’s Office would strengthen accountability and directly contribute to improvements in institutional quality indicators.

Another key recommendation concerns the implementation of market-based green incentives, drawing on the H2Global mechanism. To scale green hydrogen and renewable energy projects beyond pilot stages, the introduction of a Green Energy Auction system based on Contracts for Difference is proposed. Under this mechanism, the government would guarantee a fixed price for green hydrogen or renewable power over a period of 10–15 years. If market prices fall below the agreed level, the government compensates the difference, while price increases would require payments from investors to the state. This arrangement reduces revenue uncertainty, lowers the cost of capital, and increases the attractiveness of green projects for institutional investors from the European Union.

Mitigating exchange rate volatility through deeper financial markets is also essential. Accelerating the development of the domestic derivatives market would enable more effective risk management for foreign investors. In this context, the Central Bank and the Ministry of Finance should support the establishment of currency swap and forward markets. Allowing investors to hedge their exposure to the national currency would neutralize the adverse effects of exchange rate volatility, thereby unlocking capital flows that are currently constrained by currency risk considerations.

Further improvements require closer alignment of the regulatory framework with international standards. Full implementation of the 2024 Law on Investments, particularly the national treatment provision, is critical in this regard. It is important that dispute resolution mechanisms function not only formally but also in practice. Promoting the Tashkent International Arbitration Centre as a credible and neutral venue for resolving investment disputes would enhance investor confidence and reinforce legal certainty.

In addition, Uzbekistan can benefit from leveraging the so-called “twin transition” that combines green and digital development. Designing targeted incentive packages for green digital investments, such as data centers powered by renewable energy or IT parks certified as net-zero, would align the country with the investment strategies of major global technology firms. This approach is also consistent with European Union ESG regulations and enables Uzbekistan to capture investment at the intersection of two of the fastest-growing segments of global FDI.

Despite these policy implications, the study has several limitations. The empirical analysis is constrained by the relatively short time series available for the post-reform period, which may limit the robustness of long-term inferences. Future research should therefore rely on micro-level firm data to capture heterogeneity in investor responses across sectors, including manufacturing and services. Moreover, a comprehensive assessment

of the 2024 Investment Law will only be possible after a longer implementation period, which is necessary to validate the sustainability and effectiveness of the observed outcomes.

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