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FOREIGN DIRECT INVESTMENT (FDI) AND SUSTAINABLE ECONOMIC GROWTH: THE CASE OF UZBEKISTAN

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Abstract. The article examines the impact of foreign direct investment (FDI) on the sustainable growth of Uzbekistan's economy. Based on data from UNCTAD, the World Bank, the IMF, the OECD and national sources, the dynamics of FDI flows and stock, the structure by source and the sectoral directions were analyzed. According to the results, in 2020–2024 FDI inflows rose from USD 1.73 billion to USD 2.84 billion (+64.1%), and the FDI stock rose from USD 10.3 billion to USD 16.7 billion (+62.6%). In 2025 the total volume announced for "FDI and loans" reached USD 43.1 billion, but this indicator is about ten times higher than FDI according to the balance of payments, which is explained by differences in definitions. Investment sources are highly concentrated: China's share is 39.7%, the share of the eight largest partners is 76.1%, and the lower bound of the Herfindahl–Hirschman index is about 1,830. The article proposes a system of economic, social, external and environmental indicators for assessing the impact of FDI on sustainable growth, and gives recommendations on strengthening absorptive capacity, diversifying sources and unifying statistical methodology.

Keywords: foreign direct investment, sustainable economic growth, investment climate, concentration, absorptive capacity, Uzbekistan.

1. Introduction

The economic reforms begun in 2017, including the liberalization of the national currency and the reduction of trade barriers, significantly increased the inflow of foreign capital into Uzbekistan. According to the World Bank, real GDP grew by about 6% per year on average in 2017–2025 and by 7.7% in 2025; in the same year investment rose by 10.5% in real terms [9]. According to the President's address, the share of total investment in GDP reached 31.9% in 2025 [10].

In the past, the volume of FDI was low compared with neighboring countries in Central Asia; the OECD links this in part to regulatory restrictions on investment. In 2019 the Law "On Investments and Investment Activity" was adopted, clarifying the rights of domestic and foreign investors; the 2022–2026 Development Strategy set a target of USD 70 billion in inflows over five years [3].

However, growth in the volume of investment does not automatically ensure sustainable growth. The theoretical literature shows that the effect of FDI on growth depends on the host country's human capital [5], the development of its financial markets [6] and the ability of local firms to absorb technology [7]. Therefore, the question should be posed not only as "how much was attracted?" but as "where, from whom and of what quality was it attracted?"

The aim of the study is to assess the conformity of the flow and structure of FDI in Uzbekistan with sustainable growth. The tasks are: (1) to analyze the dynamics of FDI under different statistical definitions; (2) to measure the concentration of sources and sectors; (3) to propose a system of sustainable growth indicators; (4) to develop policy recommendations.

2. Theoretical framework and methods

The following were chosen as the theoretical basis of the study: Dunning's eclectic paradigm (OLI: ownership, location and internalization advantages) [8]; the Borensztein–De Gregorio–Lee

approach (FDI brings in technology but accelerates growth only when human capital is sufficient) [5]; the study by Alfaro and co-authors (financial market development is a condition for the effect of FDI) [6]; and the work of Blomström and Kokko (spillovers, that is, technology diffusion effects) [7].

Methods: (a) dynamic analysis – chain and base growth rates based on UNCTAD data; (b) calculating the ratio of different definitions (balance-of-payments FDI and the announced volume of "FDI and loans"); (c) concentration analysis – shares of partner countries and the Herfindahl–Hirschman index (HHI = Σ s_i², where s_i is the share in percent); (d) multidimensional assessment of sustainability using a scorecard system of qualitative indicators. An econometric model (for example, Granger causality between FDI and GDP growth) was not applied because a sufficiently long quarterly or annual series is not available; this is a limitation of the study.

3. Results

3.1. Dynamics of FDI flows and stock

Table 1. FDI inflows and stock in Uzbekistan (USD million)

Year	FDI inflows	Chain growth, %	FDI stock	Chain growth, %
2020	1,728	–	10,288	–
2021	2,275	+31.7	11,616	+12.9
2022	2,498	+9.8	13,845	+19.2
2023	2,156	−13.7	14,867	+7.4
2024	2,836	+31.5	16,728	+12.5

Source: UNCTAD, World Investment Report 2025 [1]; growth rates are the author's calculations.

In 2020–2024 FDI inflows rose by 64.1% and the stock by 62.6%. The ratio of the stock to GDP in this period was around 14.5–15.5%, and in 2024 it was 14.6% [1]. That is, although the absolute value increased, relative depth did not change sharply because GDP grew quickly. In 2023 inflows decreased by 13.7% and in 2024 recovered by 31.5%; this shows the sensitivity of the flow to the external environment.

3.2. Differences between indicators under different definitions

Table 2. Two different FDI indicators (USD billion)

Year	"FDI and loans" (announced)	FDI by balance of payments (UNCTAD)	Ratio (times)
2023	19.5	2.16	≈ 9.0
2024	31.9	2.84	≈ 11.2
2025	43.1	data not published	–

Source: "FDI and loans" – bne IntelliNews [2]; balance-of-payments FDI – UNCTAD [1]; ratio is the author's calculation.

In 2023–2025 the total announced volume of "FDI and loans" amounts to USD 94.5 billion (19.5 + 31.9 + 43.1), and the indicator has risen year after year (+35.1% in 2025 compared with 2024) [2]. However, this figure is 9–11 times higher than balance-of-payments FDI. The reason: as the name of the announced indicator makes clear, it also includes loans (possibly also project commitments), whereas balance-of-payments FDI covers equity capital, reinvested earnings and

other capital and rests on the criterion of ownership of at least 10% of the voting shares of an enterprise [4]. It is therefore essential to state clearly which definition is being used when assessing the achievement of targets such as "USD 70 billion".

3.3. Concentration of sources and sectors

Table 3. Main partner countries by "FDI and loans" in 2025

Country	Volume, USD billion	Share, %
China	17.1	39.7
Russia	4.8	11.1
Türkiye	2.9	6.7
Saudi Arabia	2.8	6.5
Germany	1.8	4.2
UAE	1.6	3.7
United Kingdom	1.0	2.3
Kazakhstan	0.8	1.9
Total for the eight countries listed	32.8	76.1

Source: bne IntelliNews [2]; shares are the author's calculations (total volume – USD 43.1 billion).

China's share is 39.7%, and the three largest partners (China, Russia, Türkiye) account for 57.5%. The sum of the squared shares of the eight countries is about 1,830; since the remaining 23.9% belongs to other sources, this is the lower bound of the HHI. According to the usual interpretation, the range of 1,500–2,500 indicates moderate concentration, that is, diversification of sources requires careful monitoring. By sector, the large volumes attracted were recorded in chemicals (USD 2.0 billion), oil and gas (USD 1.7 billion) and transport infrastructure (USD 1.1 billion) [2]; according to the international trade portal, too, a large part of FDI is directed to the energy and oil and gas sector, while the government is trying to expand into new sectors [12].

3.4. A system of sustainable growth indicators

Table 4. Indicators for assessing the conformity of FDI with sustainable growth (scorecard)

Dimension	Indicator	Available data
Economic	Real GDP growth; investment/GDP	7.7% (2025) [9]; 31.9% [10]
External	Current account deficit; export growth	3.3% of GDP (2025) [9]; +23% [10]
Social	Unemployment; poverty rate; Gini	4.8% [11]; 8.9% → 5.8%; 34.6 → 32.7 [9]
Structure	Share of greenfield; localization; export orientation	no published statistics available

Dimension	Indicator	Available data
Environmental	Share of FDI in green projects	no published statistics available

Source: system proposed by the author; values are taken from the sources indicated.

The scorecard shows a positive trend in the economic, external and social indicators: growth is high, unemployment and poverty are declining, and inequality has decreased slightly. However, there are no open data on indicators that characterize the quality of investment (share of greenfield, integration into local supply chains, export orientation, share of green projects), which limits conclusions about sustainability.

4. Discussion

The results confirm that the inflow of FDI into Uzbekistan is increasing, but its effect on sustainable growth is limited by four factors. First, the difference in statistical definitions. The large gap between the announced volume (USD 43.1 billion) and balance-of-payments FDI (USD 2.84 billion in 2024) complicates the assessment of policy goals and results. Second, the concentration of sources increases the risk of dependence on one partner and may lead to sharp changes in flows when geopolitical or credit conditions change. Third, because the sectoral structure is oriented more toward resources and energy, the effect of technology diffusion may be limited, since spillovers usually appear strongly in deep links with local firms in manufacturing and services [7]. Fourth, as Borensztein and others showed, if human capital is insufficient the effect of FDI on growth remains weak [5]; high youth unemployment in Uzbekistan (about 11% according to ILO estimates) and skills shortages make this threshold relevant [13].

Practical significance: FDI attraction policy should move from “quantity” to “quality.” It is advisable to link the incentives given to investors to outcome indicators such as local procurement, technology transfer, personnel training and export orientation. Limitations: the analysis is based on secondary data; balance-of-payments FDI data for 2025 are not available; and because there are no enterprise-level data, the spillover effect was not assessed directly.

5. Conclusion and recommendations

In Uzbekistan, FDI inflows and stock rose by about 1.6 times in 2020–2024, and announced investment commitments reached USD 43.1 billion in 2025. From the standpoint of sustainable growth, the main problems are the difference in statistical definitions, the concentration of sources, and the lack of openly published quality indicators. The following recommendations are made:

– Publish investment statistics on the basis of a uniform methodology: show balance-of-payments FDI, total commitments and loans separately; state clearly which definition each target refers to.

– Adopt a target indicator for diversification by partner countries and sectors (for example, not letting the HHI exceed a set level); expand links with other sources in Europe, the Middle East and Asia.

– Link incentives that direct FDI to manufacturing, services and green projects to results (localization, exports, jobs).

– Expand programs for developing human capital and integrating local contractors and suppliers into supply chains, which will strengthen technology acquisition from FDI.

– Keep an annual open report on the share of greenfield, local procurement, exports of FDI enterprises and the share of green investments.

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