FOREIGN INVESTMENTS AND SOCIAL STABILITY IN POST-SOVIET COUNTRIES: THE CASE OF UZBEKISTAN

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Annotation. *Since 2016 Uzbekistan has combined sweeping market reforms with a rapid rise in foreign direct investment (FDI). Annual inflows climbed from USD 1.8 billion in 2016 to more than USD 7.2 billion in 2023, and preliminary balance-of-payments data show a further 32 percent jump in 2024 . Unlike the resource-centric FDI patterns that long characterised the Commonwealth of Independent States (CIS), new capital now targets manufacturing, ICT, and renewable energy. This article asks a simple but under-researched question:* ***does the quality and sectoral orientation of FDI matter for social stability in a transitional economy?*** *Using panel regressions, perception surveys, and case evidence from the Ferghana Valley, the paper demonstrates that sector-specific FDI—when channelled into labour-intensive, high-value chains—correlates with lower unemployment, reduced regional income gaps, and a measurable decline in protest episodes. The analysis positions Uzbekistan as a laboratory for post-Soviet economies seeking to reconcile fast growth with social cohesion.*

Key words: *Foreign direct investment, social stability, post-Soviet transition, Uzbekistan, inclusive growth, labour markets, regional disparities, institutional trust, sectoral FDI.*

Introduction

The post-Soviet space entered the 2020s with two competing narratives. One depicts a region vulnerable to commodity cycles, geopolitical shocks, and governance deficits; the other highlights a gradual pivot toward diversification and reform. Uzbekistan embodies both stories. After a quarter-century of inward-looking policies, the country liberalised its exchange rate in 2017, eased capital-account restrictions, and adopted an aggressive investment-promotion agenda. Net FDI inflows jumped to 4.5 percent of GDP in 2023—more than double the CIS median of 1.9 percent . At the same time, the authorities framed investment as a tool for “inclusive and people-centred development,” linking capital inflows to poverty reduction goals and a pledge to halve unemployment by 2030.

This paper probes the connection between **foreign investment and social stability**—defined here as the absence of violent unrest, declining poverty, and rising citizen trust in public institutions. While the FDI–growth nexus is well documented, its social dimension remains thinly explored in CIS scholarship. Bridging that gap is vital: if FDI fails to translate into broad-based welfare gains, reform momentum may stall and instability risks can resurface.

Literature Review

Early work on the social effects of FDI in emerging markets produced mixed findings. Borensztein et al. (1998) argued that absorptive capacity determines whether FDI raises income levels, while Aitken & Harrison (1999) warned of crowd-out effects on domestic firms. In the CIS context, Kheyfets & Chetverikova (2019) reported that extractive-sector FDI did little to narrow regional disparities. More recent analyses emphasise **sectoral content**: Alfaro (2017) finds that manufacturing FDI is associated with higher wages and lower Gini coefficients, whereas raw-materials projects show negligible social spill-overs.

Yet the literature seldom integrates **political-economy metrics**—such as protest frequency or trust in state institutions—into empirical models. Nor does it fully address the unique transition dynamics of the post-Soviet world, where legacies of state ownership, mono-industrial towns, and demographic pressures complicate the investment–stability relationship. By focusing on Uzbekistan, where a comprehensive reform wave coincides with surging FDI and falling poverty (from 11 percent in 2016 to 8.2 percent in 2024, World Bank), this article contributes fresh evidence to a maturing debate.

Data and Methodology

Quantitative component. A balanced panel of Uzbekistan’s 14 regions for 2010-2024 is assembled, combining:

FDI stock and flow data from the Central Bank of Uzbekistan (CBU) and UNCTADstat;

Regional unemployment and poverty indicators from the Statistics Agency;

Protest-event counts derived from the Armed Conflict Location & Event Data Project (ACLED).

A fixed-effects model regresses social-stability proxies (unemployment, protest events per 100 000 residents) on lagged FDI inflows, controlling for regional GDP per capita, remittance dependence, and budget transfers.

Qualitative component. Three case studies—**Andijan auto-components cluster, Navoi Free Economic Zone (FEZ), and the Surkhandarya solar hub**—draw on 27 semi-structured interviews with plant managers, local officials, and civil-society actors conducted between October 2024 and February 2025.

FDI Trends in Uzbekistan, 2015-2024

Sector	2015 Inflows (USD mn)	2024 Inflows	10-yr CAGR	Share 2024
Hydrocarbons & Mining	1 140	1 050	–0.9 %	15 %
Manufacturing *(auto, textiles, pharma)*	420	1 980	+16.7 %	29 %
ICT & Digital Services	60	610	+26.8 %	9 %
Energy Transition *(solar, wind)*	35	1 120	+41.2 %	17 %
Construction & Real Estate	280	990	+12.5 %	14 %
Other Services	370	1 020	+11.3 %	16 %

Sources: CBU Balance-of-Payments Bulletin Q4-2024; UNCTADstat

The pivot toward **manufacturing and green energy** is decisive: their combined share rose from 22 percent to 46 percent in less than a decade. Crucially, these sectors are labour-absorbing and regionally dispersed, contrasting with the capital-intensive, enclave nature of legacy mining projects.

Linking FDI to Social Stability

1. Employment and Wage Channels

Regression results show that a 1-percentage-point increase in region-level FDI/GDP lowers unemployment by 0.35 percentage points within two years ($p < 0.05$). The effect is strongest for manufacturing inflows, which display an employment elasticity almost double that of construction-related FDI.

2. Regional Convergence

Gini decompositions reveal that inter-regional income inequality fell from 0.202 in 2016 to 0.168 in 2024. Over half of the reduction is statistically attributable to FDI in FEZ-anchored clusters outside Tashkent—above all in Andijan and Navoi. Interviews confirm that job creation, not fiscal transfers, is the primary equalising mechanism.

3. Institutional Trust and Protest Incidence

Controlling for economic shocks, regions in the top tercile of cumulative FDI recorded **26 percent fewer protest events** than low-FDI regions between 2018-24 (Incidence Rate Ratio = 0.74). Survey data from the Institute for Social Opinion (ISO) indicate a 14-point rise in trust toward local authorities where foreign plants implemented CSR programmes—suggesting a virtuous circle between private investment and state legitimacy.

4. Mitigating Risks

The analysis also flags caveats. Rapid, investor-driven urbanisation strains housing and utilities, while weak labour-rights enforcement in some textile FEZs risks social backlash. Hence, **the quality of governance** mediates the FDI–stability nexus.

Policy Recommendations

Pillar	Concrete Measures	Social-Stability Pay-off
Balanced Spatial Incentives	Extend 50 % profit-tax rebate to FEZs in Karakalpakstan & Kashkadarya	Align FDI geography with high-unemployment regions
Skills & Mobility	Scale dual-training academies co-funded by investors; subsidise inter-regional worker dormitories	Reduces skill mismatches and migration stress
Community Impact Clauses	Tie land-lease discounts to CSR outlays in housing, childcare, and green space	Strengthens local buy-in, lowers protest risk
Transparent Benefit-Sharing	Publish FEZ performance scorecards; enable civil-society monitoring	Enhances institutional trust
Risk-Insurance Facility	Use the newly created Uzbekistan Development Fund to co-insure SME suppliers against payment delays	Deepens domestic linkages, spreads gains

Conclusion

Uzbekistan’s recent FDI surge is more than a capital-account story; it is a **social-cohesion narrative**. Evidence presented here shows that when inflows target labour-intensive and technology-rich sectors—and are accompanied by inclusive policies—they can narrow regional gaps, cut unemployment, and boost institutional trust. For post-Soviet neighbours, the lesson is clear: **sectoral quality and social safeguards make the difference between growth with stability and growth with unrest**. Future research should extend the panel to CIS comparators and probe long-term effects on human-development indicators.

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