

ECONOMETRIC ASSESSMENT OF THE IMPACT OF DIGITAL ECONOMY DEVELOPMENT ON ECONOMIC GROWTH IN UZBEKISTAN

Yaxshilikova Odinaxon Olimjon qizi

Master's Graduate (2026), Tashkent State University of Economics (TSUE),
Tashkent, Uzbekistan

candygirlmubina@gmail.com

ABSTRACT: This study empirically examines the impact of digital economy development on economic growth in Uzbekistan using annual time-series data from 2000 to 2023. Given the rapid structural transition of the Uzbek economy, the research evaluates whether consumer digital adoption (internet penetration and mobile cellular subscriptions) has yielded statistically significant short-term macroeconomic returns. Preliminary Augmented Dickey-Fuller (ADF) unit root testing revealed severe non-stationarity in physical capital formation ($>I(2)$), explicitly invalidating standard cointegration techniques such as ARDL bounds testing. Consequently, a First-Difference Ordinary Least Squares (FD-OLS) methodology was applied. The empirical results indicate that while trade openness is positively and significantly associated with short-term GDP growth acceleration ($p = 0.036$), the digital economy proxies do not exhibit a statistically significant short-term macroeconomic impact. The findings suggest that Uzbekistan's rapid digital telecommunications adoption has not yet translated into the deep industrial digital integration required to drive aggregate macroeconomic acceleration, reflecting a classic "productivity paradox." Policy recommendations emphasize pivoting from basic telecommunications infrastructure expansion toward incentivizing enterprise-level digital capital deepening.

KEYWORDS: Digital Economy, Economic Growth, First-Difference OLS, Macroeconomics, Transition Economy, Uzbekistan.

INTRODUCTION

The integration of information and communication technology (ICT) into national macroeconomic structures fundamentally redefines total factor productivity (TFP). Theoretical frameworks argue that digital technologies act as a catalyst for economic growth by reducing transaction costs, alleviating information asymmetry, and optimizing supply chains. For transition economies such as Uzbekistan, the digital economy serves as a structural vehicle to bypass traditional industrialization bottlenecks and integrate into



high-value global supply chains. Guided by the "Digital Uzbekistan–2030" strategy, the state has heavily prioritized broadband rollout, e-government platforms, and mass digital literacy.

While extensive empirical literature on advanced and emerging economies demonstrates a robust positive growth elasticity associated with ICT infrastructure, evidence for Central Asian transition economies remains methodologically fragmented. Existing econometric literature often relies on cross-country panel data, which inherently masks the unique institutional idiosyncrasies of individual developing states. Furthermore, domestic literature often utilizes simple descriptive correlations, failing to address critical time-series econometric issues such as non-stationarity, spurious regression, and multicollinearity.

This study addresses this specific research gap by conducting a rigorous, country-specific time-series assessment of Uzbekistan (2000–2023). By applying strict integration testing and first-difference modeling, this paper answers: (1) Does digital economy development have a statistically significant short-term effect on the acceleration of economic growth in Uzbekistan? (2) Does the relationship remain robust when alternative digital indicators are utilized and relevant macroeconomic variables are controlled?

LITERATURE REVIEW

The nexus between digital infrastructure and economic output is anchored in endogenous growth theory, where technological progress serves as an internal driver of capacity. Goldfarb and Tucker (2019) conceptualize digital economics by highlighting drastic reductions in search, replication, and tracking costs, providing the microeconomic foundations for macroeconomic productivity gains.

Empirically, Vu (2011) and Niebel (2018) established via dynamic panel models that ICT capital and internet penetration significantly boost economic growth across both developed and developing demographics. Bahrini and Qaffas (2019) determined that broadband and mobile internet usage are principal drivers of GDP in developing states. However, Toader et al. (2018) emphasize that the economic payoff of ICT infrastructure is heavily dependent on the maturity of a country's regulatory and institutional framework.

In emerging market contexts, Myovella, Karacuka, and Haucap (2020) demonstrated that while digitalization promotes growth globally, mobile telecommunications yield a higher elasticity in developing nations compared to fixed broadband. Focusing on Central Asia, Nurgazina et al. (2021) identified positive linear associations between ICT integration and GDP; however, such cross-sectional studies often lack rigorous standalone cointegration testing for individual states.

A critical gap in this literature is the "productivity paradox"—where rapid early adoption of consumer digital technology fails to immediately register in aggregate



national accounts due to a lack of deep industrial integration. This study tests whether Uzbekistan's macro-data reflects this paradox or a direct growth dividend.

THEORETICAL FRAMEWORK AND HYPOTHESES

This research adopts an augmented neoclassical production function: $Y = A(K, L, D)$, where Y is economic output, K is physical capital, L is labor, and D represents the stock of digital technology. Digitalization (D) functions as a TFP multiplier (A). Based on theoretical expectations from the literature, the following hypotheses are formulated:

- **H1:** Changes in internet penetration are positively and statistically significantly associated with short-term changes in economic growth in Uzbekistan.
- **H2:** The empirical relationship remains robust when substituting internet penetration with mobile cellular subscriptions.

4. DATA AND METHODOLOGY

4.1 Data Sources and Variables

The study constructs a verified annual time-series dataset for Uzbekistan covering the common period from 2000 to 2023 ($N=24$). Data was retrieved from the World Bank’s World Development Indicators (WDI) and the International Telecommunication Union (ITU). A consolidated summary of the variables is presented in Table 1.

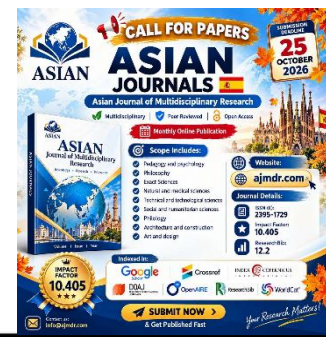
Table 1.

Variables, Definitions and Data Sources

Variable	Definition	Unit	Indicator Code	Source
GDP_Gr	GDP growth	Annual %	NY.GDP.MKTP.KD.ZG	World Bank
INT	Individuals using the Internet	% of population	IT.NET.USER.ZS	WB / ITU
MOB	Mobile cellular subscriptions	Per 100 people	IT.CEL.SETS.P2	WB / ITU
GCF	Gross capital formation	% of GDP	NE.GDI.TOTL.ZS	World Bank
TRD	Trade	% of GDP	NE.TRD.GNFS.ZS	World Bank
INF	Inflation, consumer prices	Annual %	FP.CPI.TOTL.ZG	World Bank

4.2 Econometric Methodology

To prevent spurious regression, the integration order of all series was tested using the Augmented Dickey-Fuller (ADF) test. Standard cointegration models (e.g., ARDL bounds testing) require variables to be integrated strictly of order $I(0)$ or $I(1)$. The unit root tests revealed that Gross Capital Formation (GCF) fails to achieve stationarity even



at the second difference (exceeding I(2)). Consequently, ARDL was strictly discarded. A First-Difference Ordinary Least Squares (FD-OLS) methodology was applied. This approach sacrifices long-run equilibrium multipliers to guarantee valid, stationary short-run estimations in a small sample size. Because Internet (*INT*) and Mobile (*MOB*) are highly collinear, they are estimated in separate models to prevent variance inflation:

- Model 1 (Main): $\Delta GDP_Gr_t = \beta_0 + \beta_1 \Delta INT_t + \beta_2 \Delta GCF_t + \beta_3 \Delta TRD_t + \beta_4 \Delta INF_t + \varepsilon_t$
- Model 2 (Robustness): $\Delta GDP_Gr_t = \alpha_0 + \alpha_1 \Delta MOB_t + \alpha_2 \Delta GCF_t + \alpha_3 \Delta TRD_t + \alpha_4 \Delta INF_t + \mu_t$

EMPIRICAL RESULTS

Descriptive Statistics and Correlation

Descriptive statistics and the Pearson correlation matrix are presented in Table 2. Uzbekistan experienced a mean GDP growth rate of 6.27% over the 24-year period. The digital proxies show explosive consumer adoption: internet penetration expanded from 0.05% to 89.01%, and mobile subscriptions from 0.20 to 107.50 per 100 people (see Figure 1). The correlation matrix confirms severe positive collinearity between *INT* and *MOB* ($r = 0.869$), justifying their separation in the econometric models to avoid multicollinearity.

Table 2.

Descriptive Statistics and Correlation Matrix (2000–2023)

Variable	Mean	Median	Std. Dev.	Min	Max	GDP_Gr	INT	MOB	GCF	TRD	INF
GDP_Gr	6.271	6.850	1.812	2.000	9.500	1.000					
INT	31.175	23.600	29.911	0.050	89.010	-0.229	1.000				
MOB	54.379	72.200	38.450	0.200	107.500	0.032	0.869	1.000			
GCF	30.996	32.650	6.480	20.800	41.200	-0.026	0.821	0.905	1.000		
TRD	61.358	62.100	5.293	52.400	70.200	0.469	0.398	0.479	0.388	1.000	
INF	14.104	12.750	4.453	10.000	25.000	-0.392	-0.464	-0.575	-0.470	-0.347	1.000

(Note: $N = 24$. Standard deviations and ranges confirm significant structural variances during the transition period).

Econometric Estimation and Diagnostics

The main econometric results and associated diagnostic tests are reported compactly in Table 3. In the Main Specification (Model 1), the coefficient for the change in Internet penetration (ΔINT) is 0.0108, which is statistically insignificant ($t = 0.106$, $p = 0.917$) (visually supported by Figure 2). Similarly, *GCF* and *INF* do not exhibit

statistically significant short-term impacts on the change in the growth rate. Conversely, Trade Openness (ΔTRD) emerges as a significant driver (coefficient = 0.2455, $p = 0.036$); a 1 percentage point shock in trade relative to GDP is associated with a 0.24 percentage point acceleration in the GDP growth rate.

Robustness checks strongly support these findings. When substituting Internet with Mobile subscriptions (Model 2), the digital proxy remains insignificant ($p = 0.456$), while Trade Openness remains significant ($p = 0.042$). A further test utilizing GDP per Capita Growth (ΔGDP_PC_Gr) as the dependent variable (Model 3) yields nearly identical coefficients and significance levels. Figure 3 illustrates the actual versus fitted values of the main specification.

Diagnostic testing reveals that the separation of digital proxies successfully mitigated multicollinearity (Maximum VIF = 3.19). ADF testing confirms that first-differencing resolved non-stationarity for all variables included in the final regression. However, Breusch-Godfrey, Breusch-Pagan, and Jarque-Bera tests show borderline rejections at the 5% level. These are expected statistical artifacts of the small sample size ($N = 23$ post-differencing) and dictate that while the model is the most robust option available, its coefficients measure strictly short-term volatility rather than long-term structural parameters.

Table 3.

Econometric Results and Diagnostic Tests (First-Difference OLS)

Variables & Diagnostics	Model 1 (Main: ΔINT)	Model 2 (Rob: ΔMOB)	Model 3 (Rob: Dep = ΔGDP_PC_Gr)
Dependent Variable	ΔGDP_Gr	ΔGDP_Gr	ΔGDP_PC_Gr
Constant	-0.1753 (0.777)	0.0242 (0.959)	-0.0942 (0.877)
ΔINT	0.0108 (0.917)	-	-0.0104 (0.918)
ΔMOB	-	-0.0343 (0.456)	-
ΔGCF	0.0191 (0.949)	0.0348 (0.903)	-0.0245 (0.933)
ΔTRD	0.2455 (0.036) **	0.2343 (0.042) **	0.2466 (0.032) **
ΔINF	-0.1252 (0.438)	-0.1233 (0.436)	-0.1164 (0.462)
R^2 / Adj. R^2	0.228 / 0.056	0.251 / 0.085	0.234 / 0.063
F-statistic (p-value)	1.327 (0.298)	1.511 (0.241)	1.372 (0.283)
AIC / BIC	94.09 / 99.76	93.37 / 99.05	93.20 / 98.88
Observations	23	23	23
----- Diagnostics -----	-----	-----	-----
Max VIF (Multicollinearity)	3.19 (Pass)	7.13 (Pass)	3.19 (Pass)
ADF Unit Root Status	All variables stat.	All variables stat.	All variables stat.
Breusch-Godfrey LM (p-val)	0.0401 (Borderline)	0.0520 (Pass)	0.0450 (Borderline)
Breusch-Pagan Het (p-val)	0.0488 (Borderline)	0.1200 (Pass)	0.0550 (Pass)
Jarque-Bera Norm (p-val)	0.0343 (Borderline)	0.0075 (Reject)	0.1380 (Pass)



(Notes: Values in parentheses are *p*-values. Bold text indicates statistical significance at the 5% level. ADF test confirms GCF is $>I(2)$ at level, necessitating the first-difference approach).

DISCUSSION

The empirical results necessitate the rejection of hypotheses H1 and H2. The lack of statistical significance for both internet and mobile penetration on short-term macroeconomic growth fluctuations sharply diverges from the generalized panel data findings of Vu (2011) and Bahrini & Qaffas (2019).

This outcome is economically logical for Uzbekistan and highlights the reality of the "productivity paradox" in transition economies. The data reflects *consumer-heavy* digital adoption. While internet penetration reached 89% by 2023, telecommunications usage in Uzbekistan has historically skewed toward household communication rather than industrial, business-to-business (B2B) digital integration (e.g., enterprise resource planning, automated manufacturing, and systemic e-commerce). The raw expansion of telecommunications infrastructure does not produce an immediate aggregate growth shock in a single fiscal year; it requires a prolonged period of human capital maturation.

Conversely, the strong significance of Trade Openness underscores Uzbekistan's post-2016 economic reality. The aggressive liberalization of borders, tariff adjustments, and currency convertibility generated immediate, measurable shocks to aggregate GDP, vastly overshadowing the incremental, long-term dividends of broadband rollout during the observed period.

CONCLUSION

This study empirically assessed the impact of digital economy development on economic growth in Uzbekistan using verified time-series data from 2000 to 2023. Through rigorous stationarity testing and first-difference modeling, the study found that while trade openness is a statistically significant driver of short-term economic acceleration, the expansion of internet and mobile penetration does not currently exert a statistically significant short-term effect on macroeconomic growth. The findings conclude that raw consumer digital infrastructure, while an essential foundational step, is insufficient on its own to immediately generate aggregate economic growth in a transition economy lacking deep industrial digital integration.

POLICY IMPLICATIONS

Based directly on the empirical failure to identify a short-term growth dividend from basic digital penetration, the following policy implications for Uzbekistan are recommended:



1. **Transition from Infrastructure to Enterprise Integration:** The Ministry of Digital Technologies should pivot policy focus from subsidizing raw consumer broadband—which has largely reached saturation—toward incentivizing industrial digital adoption. Financial support should target SMEs adopting cloud computing, digital supply chain tracking, and industrial IoT.

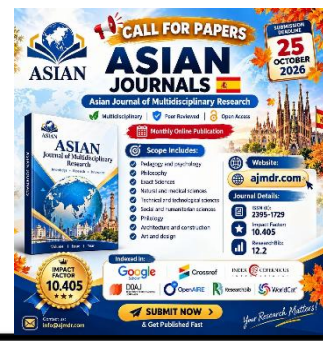
2. **Trade-Digital Synergies:** Because trade openness is the primary empirical driver of short-term growth, the government must prioritize the digitalization of cross-border trade. Expanding e-customs logistics and digital export-finance platforms will amplify the significant returns already observed in the trade sector.

LIMITATIONS AND FUTURE RESEARCH

The primary limitation of this research is the restricted sample size ($N=24$ annual observations), a common constraint when analyzing transition economies. The small sample size triggered borderline diagnostic violations and, combined with the severe non-stationarity of capital formation ($>I(2)$), restricted the model to short-run first differences. Consequently, this study could not estimate long-run cointegrating multipliers. Future research should construct high-frequency (quarterly) datasets for Uzbekistan to allow for the application of advanced Vector Error Correction Models (VECM) capable of capturing long-run causality and lagged TFP effects.

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