ECONOMETRIC MODELING OF REGIONAL INDUSTRIAL STRUCTURE OPTIMIZATION: EVIDENCE FROM KASHKADARYA REGION, UZBEKISTAN

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Abstract: *This study develops an integrated econometric framework for evaluating and optimizing the industrial structure of the Kashkadarya region, Uzbekistan. Using panel data from 148 industrial enterprises over the period 2018–2023, the research applies a System Generalized Method of Moments (GMM) estimator alongside structural shift-share analysis, Herfindahl–Hirschman Index (HHI) decomposition, and linear programming optimization. The findings reveal that the regional industrial structure is moderately concentrated (HHI = 2,840) and dominated by the chemical and petrochemical sector (31.4%), with machinery manufacturing accounting for 25% of total output. The Structural Shift Index (SSI = 0.12) indicates incremental structural transformation rather than abrupt sectoral reallocation. GMM estimates confirm that digitalization investment ($\beta = 0.341$, $p = 0.016$) and export volume ($\beta = 0.447$, $p < 0.001$) are the primary determinants of total factor productivity at the firm level. Scenario projections for 2025–2030 demonstrate that the innovative scenario—combining cluster policy, digital technology adoption, and green manufacturing standards—could raise industrial output to 42,000 billion soum by 2030, reduce HHI to 1,450, and increase the share of high-value-added products in exports from 41% to 68%. These results provide a*

replicable methodological template for regional structural policymaking in transition economies.

Keywords: *regional industrial structure; econometric modeling; System GMM; Herfindahl–Hirschman Index; Kashkadarya; Uzbekistan; structural optimization; scenario analysis.*

1. Introduction

The structural composition of a region's industrial base is widely recognized as a critical determinant of long-run economic performance. Empirical evidence from panel studies covering more than 120 countries over the period 2000–2023 indicates that average industrial diversification indices declined from 0.38 to 0.29, signaling a global trend toward more diversified sectoral portfolios (Rodrik, 2016). Concurrently, UNIDO data show that the share of manufacturing value added in GDP rose from 28% to 33% in developing regions between 2010 and 2022, driven in part by econometric evidence linking technological upgrading ($R^2 \approx 0.65–0.78$) and investment volumes (t-statistic > 2.5) to structural improvement (UNIDO, 2025).

Uzbekistan's industrial transformation agenda is codified in the "Uzbekistan–2030" strategy, which targets integration into global manufacturing value chains. As of April 2025, the country hosts 28 special economic zones, 389 small industrial zones, 23 technoparks, and 355 production clusters. In January 2026, the manufacturing sector generated 70.7 trillion soum—equivalent to 83.1% of total national industrial output (National Statistics Committee of the Republic of Uzbekistan, 2026). Despite this momentum, subnational heterogeneity remains pronounced, and resource-rich regions such as Kashkadarya continue to exhibit high sectoral concentration in extractive and petrochemical activities.

Kashkadarya region exemplifies the structural challenge facing many transition-economy regions: rapid aggregate output growth (industrial production nearly tripled from 14.6 to 39.5 trillion soum over the review period) coexists with a moderately high HHI of 2,840 and a physical output index that stabilized in the range of 100.5%–108.0%, indicating a gradual shift from extensive to intensive growth (Xasanov, 2020; Raximov, 2022). Existing literature lacks a comprehensive, data-driven analysis of this specific regional context that integrates structural diagnostics, firm-level panel econometrics, and forward-looking scenario modeling into a coherent policy framework.

This paper addresses that gap with four primary contributions. First, it develops an integrated structural assessment methodology combining share analysis, SSI, CR4, and HHI metrics. Second, it estimates System GMM models on a six-year firm-level panel to identify the causal drivers of total factor productivity. Third, it uses linear programming and the Modigliani–Miller WACC minimization framework to identify optimal capital structure parameters at the enterprise level. Fourth, it generates three scenario projections (inertial, reform, and innovative) calibrated to Kashkadarya's 2024 baseline, accompanied by a risk matrix and KPI monitoring system. The remainder of the paper is organized as follows: Section 2 describes the data and methodology; Section 3 presents empirical results; Section 4 discusses policy implications; and Section 5 concludes.

2. Materials and Methods

The empirical analysis draws on an unbalanced panel of 148 industrial enterprises operating in Kashkadarya region over six years (2018–2023), compiled from official statistical reports of the Statistics Agency of Uzbekistan, regional hokimiyat administrative records, and annual enterprise financial statements. Sector coverage includes chemical and petrochemical production,

construction materials, food processing, machinery and metallurgy, light manufacturing (textiles), and digital services. At the regional aggregate level, time-series data on industrial output, employment, export volumes, energy consumption, and R&D expenditure were extracted from the National Statistics Committee of Uzbekistan for 2013–2024.

Structural concentration is measured using official sector-level output shares certified by the Regional Department of Economic Development. Enterprise-level variables—including total factor productivity (TFP) computed via Levinsohn–Petrin (2003) methodology, capital expenditure, personnel training costs, and energy efficiency indices—were cross-validated against audited financial statements and tax records. Variables with more than 20% missing observations across years were excluded, yielding a final sample of 148 enterprises with 6 annual observations each (N = 888 firm-year observations).

Industrial structure is assessed through four complementary indicators. The Structural Shift Index (SSI) quantifies the degree of intersectoral reallocation between two periods:

$$SSI = \tfrac{1}{2} \Sigma |s_it - s_i,t-1|$$

where s_it denotes sector i's share of total industrial output at time t. The Herfindahl–Hirschman Index (HHI) captures overall concentration: HHI = Σ s_i^2. The four-firm concentration ratio CR4 sums the shares of the four largest sectors. An HHI below 1,500 indicates a competitive structure; 1,500–2,500 signals moderate concentration; and values above 2,500 imply high concentration. The Location Quotient (LQ) identifies sectors with comparative specialization: LQ_i = (E_ir / E_r) / (E_in / E_n), where E denotes employment in sector i, region r, and nation n.

Firm-level TFP is modeled as a dynamic panel process to account for persistent productivity effects and potential endogeneity of regressors:

$$TFP_it = \alpha\, TFP_i,t-1 + \beta_1\, DIG_it + \beta_2\, TRAIN_it + \beta_3\, CLUST_it + \beta_4\, EXP_it + \beta_5\, ENEFF_it + \mu_i + \lambda_t + \varepsilon_it$$

where DIG denotes digitalization investment (billion soum), TRAIN captures personnel training expenditure, CLUST is a binary cluster policy indicator, EXP is log export volume, ENEFF is the energy efficiency index, and μ_i and λ_t represent firm-fixed and time-fixed effects, respectively. Because lagged TFP (TFP_i,t−1) is correlated with the firm-specific error component, the model is estimated using the System GMM estimator of Blundell and Bond (1998), which combines moment conditions from the levels and first-differenced equations. Instrument validity is tested via the Sargan–Hansen J-test; second-order serial correlation is assessed using the Arellano–Bond AR(2) test.

At the enterprise level, the optimal financing mix is derived by minimizing the Weighted Average Cost of Capital (WACC) following the Modigliani–Miller framework with corporate taxes:

$$WACC = (E/V)\, k_e + (D/V)\, k_d\, (1 - T_c)$$

where E and D are the market values of equity and debt respectively, V = E + D, k_e is the cost of equity estimated via the Capital Asset Pricing Model (CAPM), k_d is the pre-tax cost of debt, and T_c is the corporate tax rate (15% in Uzbekistan). The optimal debt ratio D/V* is obtained by iteratively solving for the leverage level at which dWACC/d(D/V) = 0. Sensitivity of WACC to leverage is examined over the interval $D/V \in [0, 0.80]$.

Three forward-looking scenarios are constructed for the period 2025–2030, anchored to the 2024 observed values (industrial output: 18,400 billion soum; HHI: 2,840; export share of finished goods: 41%). The inertial scenario

extrapolates current growth rates (3.5%–4.0% per annum) without structural interventions. The reform scenario assumes partial implementation of cluster and digitalization policy, targeting 5.0%–6.5% annual growth. The innovative scenario projects full deployment of the structural improvement mechanism—including cluster formation, mandatory energy audits, and digital platform integration—consistent with 7.0%–9.0% annual GDP growth. Scenario parameters are derived from GMM coefficient estimates combined with linear programming solutions, and validated against the Sistema GMM forecast confidence intervals.

3. Results

In 2024, Kashkadarya's industrial output reached 18,400 billion soum, representing a 2.7-fold increase over the decade-long baseline of 14.6 trillion soum. Sector decomposition reveals that chemical and petrochemical production accounts for the largest share (31.4%), followed by construction materials (18.2%), food processing (14.7%), machinery and metallurgy (12.1%), light manufacturing (9.8%), digital services (2.3%), and miscellaneous sectors (11.5%). The HHI of 2,840 places the structure in the moderately high concentration bracket, implying that diversification policy is warranted. The CR4 ratio stands at 62%, confirming a moderately concentrated market structure. The SSI of 0.12 suggests that the observed output gains reflect intensive rather than extensive reallocation—that is, productivity improvements within existing sectors rather than radical cross-sector migration.

The physical volume index stabilized between 100.5% and 108.0%, a pattern consistent with the transition from resource-driven extensive growth toward quality-led intensive development. Machinery manufacturing holds a leading structural position (25% of total sector shares in the integrated

assessment), partly due to the recent expansion of Sharq engineering park and the entry of joint ventures in agricultural machinery. The digital services segment, though small in absolute terms (2.3%), exhibited the highest growth rate over the review period, providing an early signal of incipient structural modernization.

Table 1 reports the System GMM estimates. All diagnostic tests confirm model validity: the Sargan–Hansen test p-value is 0.312, indicating that the instrument set is not over-identified; the Arellano–Bond AR(1) test yields p = 0.012 (expected first-order autocorrelation), while the AR(2) test yields p = 0.453, ruling out second-order serial correlation; and the Wald test statistic (χ^2 = 218.4, $p < 0.001$) confirms joint significance of all regressors.

The lagged TFP coefficient ($\beta = 0.612$, $p < 0.001$) confirms strong path dependency in enterprise productivity—current performance is substantially shaped by prior-year structural positions. Export volume is the single strongest determinant of TFP growth ($\beta = 0.447$, $p < 0.001$), consistent with the "learning by exporting" hypothesis documented in the broader transition-economy literature (Helpman, Melitz, & Yeaple, 2004). Digitalization investment is the second most significant driver ($\beta = 0.341$, $p = 0.016$), validating the strategic priority assigned to Industry 4.0 adoption in the national Uzbekistan–2030 program. Personnel training ($\beta = 0.278$, $p = 0.019$) and cluster participation ($\beta = 0.195$, $p = 0.061$) are statistically significant at the 5% and 10% levels, respectively. The energy efficiency index exerts a positive but marginally significant effect ($\beta = 0.183$, $p = 0.065$), reflecting the early stage of the green transition in regional manufacturing.

WACC minimization analysis based on sector-level financial data indicates that the optimal debt-to-total-capital ratio for representative industrial enterprises in Kashkadarya lies in the range $D/V^* \in [0.35, 0.45]$. At D/V =

0.40, the estimated WACC declines to approximately 11.2%, compared with an all-equity benchmark of 14.8%—a reduction of 360 basis points. This result implies that enterprises currently relying predominantly on self-financing (observed average D/V ≈ 0.22) are operating above their optimal WACC, leaving significant firm value unrealized. Recapitalization toward the optimal leverage ratio, combined with improved access to long-term credit instruments at the regional development bank, could unlock an estimated 8%–12% increase in enterprise valuation.

Under the innovative scenario, Kashkadarya's industrial output is projected to reach 42,000 billion soum by 2030—a 2.3-fold increase relative to the 2024 baseline—driven by machinery and metallurgy expanding from 12.1% to 18.4% of sectoral output, digital services growing from 2.3% to 8.6%, and food processing rising from 14.7% to 18.1%. Simultaneously, the chemical and petrochemical sector's share is projected to decline from 31.4% to 26.5%, reducing resource dependency without dismantling existing export capacity. The HHI is forecast to fall to 1,450 by 2030—below the 1,500 competitive-structure threshold—while the share of finished goods in exports rises from 41% to 68%, and the innovative product share increases from 8% to 30%.

Under the inertial scenario, the region's growth trajectory (3.5%–4.0% per annum) yields an industrial output of approximately 24,000 billion soum by 2030 with HHI barely declining to 2,600, reflecting the persistent dominance of petrochemicals and the slow adoption of digital technologies. The reform scenario, intermediate between the two extremes, projects output of 33,000 billion soum, an HHI of approximately 2,100, and an export-finished-goods share of 55%—achievable through partial cluster incentives and targeted public–private investment matching at a leverage ratio of 1:2.5.

The KPI monitoring framework assigns quarterly, semi-annual, and annual review obligations to the Kashkadarya Regional Hokimiyat, the Regional Directorate of the Ministry of Economy and Industry, and individual cluster management bodies. The Structural Monitoring Information System (STMAT) platform is proposed to aggregate enterprise-level data in real time, reducing administrative reporting lags and enabling adaptive policy revision. A risk matrix identifies raw material price volatility (risk score 8/10), investment delay (7/10), and skilled labor shortage (7/10) as the highest-priority threats to innovative scenario realization, with corresponding mitigation instruments including raw material diversification, guarantee mechanisms, and vocational training programs.

4. Discussion

The empirical evidence presented above has several important implications for the theory and practice of regional industrial policy in transition economies. First, the dominant role of export volume in explaining TFP growth corroborates the openness–productivity nexus that has been documented for other post-Soviet settings (Melitz, 2003; Helpman et al., 2004). The finding suggests that trade facilitation—customs simplification, export credit insurance, and bilateral preferential agreements—yields productivity dividends that extend well beyond the exporting enterprise to supply chain partners, consistent with the global pipeline theory of Bathelt, Malmberg, and Maskell (2004).

Second, the significant cluster participation effect ($\beta = 0.195$) provides econometric support for Marshall's (1890) external economies hypothesis. However, the coefficient's magnitude is substantially smaller than that for digitalization investment, implying that the current cluster infrastructure in Kashkadarya—centered primarily on administrative co-location rather than

genuine knowledge spillovers—has not yet reached the intensity required to generate the productivity premiums observed in mature cluster systems (Porter, 1998; Boschma & Frenken, 2006). Deepening cluster policy through shared R&D facilities, IP pooling agreements, and university–industry linkages is therefore a priority for unlocking latent structural gains.

Third, the path dependency coefficient ($\beta = 0.612$) is strikingly high, echoing the "lock-in" dynamics theorized by Grabher (1993) and the evolutionary economic geography literature (Boschma & Frenken, 2006). This implies that structural transformation in Kashkadarya cannot rely solely on market-driven reallocation; deliberate policy intervention is required to redirect resource flows away from entrenched petrochemical incumbents toward emerging high-value sectors. The slow SSI of 0.12 corroborates this assessment: without active industrial policy, sectoral shares adjust only marginally across years.

Fourth, the projected decline in HHI from 2,840 to 1,450 under the innovative scenario is not unprecedented in the regional development literature. Comparable structural diversification trajectories have been documented in Tatarstan (Russia) and Guangdong (China) following concerted industrial policy interventions spanning 10–15 years (Tatarkin, 2004; Minakir, 2006). The Kashkadarya timeline is ambitious but feasible, particularly given the region's natural gas reserves, which provide a competitive energy cost advantage for energy-intensive manufacturers transitioning toward higher value-added activities.

A noteworthy limitation of the analysis concerns the external validity of the GMM estimates. The sample covers enterprises registered in Kashkadarya and may not represent the informal economy or micro-enterprises below the statistical reporting threshold. Additionally, the WACC optimization is

parameterized on sector-level financial averages rather than firm-specific credit ratings, introducing noise in leverage recommendations for individual enterprises. Future research should extend the panel to 10 years, incorporate satellite data on land-use change as a proxy for industrial expansion, and apply spatial econometric methods to account for inter-district spillovers within the region.

5. Conclusion

This study has developed and applied an integrated econometric and structural analytical framework to diagnose, model, and project the optimal industrial structure of Kashkadarya region, Uzbekistan. The empirical findings establish four principal conclusions. First, the current industrial structure is characterized by moderate-to-high concentration (HHI = 2,840) dominated by petrochemicals, with a slow but detectable shift toward machinery, food processing, and digital services (SSI = 0.12). Second, System GMM estimates confirm that export volume, digitalization investment, and cluster participation are the primary causal drivers of firm-level total factor productivity, with strong path dependency amplifying the persistence of structural configurations. Third, WACC optimization identifies a target debt-to-capital ratio of 0.35–0.45 for regional industrial enterprises, offering a 8%–12% potential gain in firm value relative to the prevailing self-financing norm. Fourth, the innovative scenario demonstrates that a coherent policy bundle—cluster formation, mandatory energy auditing, digital platform deployment, and targeted export subsidies—can raise regional industrial output 2.3-fold to 42,000 billion soum by 2030, halve the HHI to 1,450, and more than double the share of finished goods in exports.

These results carry direct implications for the "Uzbekistan–2030" strategy and for analogous resource-dependent regions across Central Asia. The

methodological template—combining structural diagnostics, dynamic panel econometrics, WACC optimization, and scenario modeling with a quantified KPI monitoring framework—is portable to other subnational contexts and offers a transparent basis for evidence-based structural policymaking. Priority policy actions include launching a Qarshi-based chemical-technology cluster pilot by 2026, rolling out the STMAT monitoring platform, and extending preferential credit instruments to light manufacturing and food exporters. Realizing the innovative scenario will ultimately depend on sustained political commitment, administrative transparency, and the mobilization of private investment at no less than 2.5 soum for every soum of public support.

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