

## DIRECT FOREIGN INVESTMENTS - AN IMPORTANT FACTOR IN ECONOMIC PROGRESS

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### Abstract

This article reveals the role and significance of foreign direct investment in the economy. The flows and dynamics of foreign direct investment in the Eurasian region have been studied. The sources of financing investments in fixed assets in the economy of Uzbekistan and their share in the country's gross domestic product are analyzed. Based on the results of the study, proposals were developed to improve the attraction of foreign direct investment.

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### Introduction

As the experience of countries around the world shows, actively attracting foreign investment into a country's economy is one of the most important factors in ensuring economic progress. In the world, priority attention is paid to research work aimed at studying the importance of a favorable investment climate and investment activity for ensuring sustainable economic growth, creating jobs and increasing incomes, diversifying sources of financing investments in fixed assets and increasing the efficiency of using investments, assessing the determinants of attracting foreign direct investment, assessment of the effectiveness of mechanisms, instruments of fiscal and financial incentives for attracting investment. The UNCTAD report notes that «global foreign direct investment fell by 12% in 2022, mainly due to lower financial flows and transactions in developed countries» [1]. Real investment trends were more positive, with an increase in new investment project announcements in most regions and sectors. Regarding the inflow of foreign direct investment into developing countries, in the largest countries a slight increase in this indicator could be observed, while in smaller countries it remained at the same level. In turn, investment inflows to least developed countries have declined.

Industry trends have shown an increase in the number of projects in industries where there is a need to restructure supply chains, including electronics, automotive and mechanical engineering. «In the digital space, investment has slowed after the boom of 2020 and 2021. The number of projects in the energy industry remained stable» [2]. This trend has dispelled concerns about the downward trend in investment in fossil fuels due to the energy crisis. The report notes that oil majors are gradually selling off fossil fuel assets to private equity firms as well as smaller operators, calling for new deal models to ensure responsible asset management.

Further increasing the investment attractiveness of the economy of Uzbekistan, achieving sustainable growth in the volume of investments in fixed capital, ensuring the effectiveness of investment projects, and implementing economic mechanisms for attracting foreign direct investment are given priority.

The Uzbekistan 2030 strategy outlines priority tasks for «developing \$250 billion of investment in our country, in particular, attracting \$110 billion of foreign investment and \$30 billion of investment within the framework of public-private partnerships» [3]. The fulfillment of these tasks determines the need to develop proposals and recommendations to improve the economic mechanism for attracting foreign direct investment.

### **Analysis of literature on the topic.**

Attracting foreign direct investment and various aspects of the activities of joint ventures created with their participation are reflected in the scientific works of a number of foreign and domestic economists. In the formation of the theoretical foundations for attracting and effectively using foreign direct investment, the great merit of such leading scientists from far abroad countries as M. Friedman, P. Fisher [4], R. Vernon [5], H. Lankes [6].

In the scientific works of scientists from the near abroad, such as K. Kozlov [7], D. Manaenkov, M. Vernikov [8], the features of attracting foreign direct investment into the national economy of countries with emerging market relations are revealed, in the studies of I.M. Drapkin, S.A.Lukyanova [9], T.N.Mamedov [10] considered factors of investment attractiveness, the influence of foreign direct investment on domestic investment and economic integration.

Among the scientists of Uzbekistan, A.V. Vahabov [11], U.S. Nadyrkhanov [12], N.G. Karimov [13] in their scientific works studied and analyzed the problems of attracting foreign investment into the national economy, the activities of free economic zones, financial mechanisms for attracting foreign investment, increasing the efficiency of foreign investment, they have developed scientifically based conclusions, proposals and recommendations.

### **Research methodology**

Methods of grouping, comparative and economic analysis, induction and deduction, economic and statistical methods and expert assessment were widely used in the research.

### **Analysis and results**

In world practice, direct investment is usually understood as capital investment in real assets (production) in other countries, in the management of which the investor participates. Investments can be considered direct if a foreign investor owns at least 10% of the company's shares or their controlling stake, the value of which can vary widely depending on the distribution of shares among shareholders. «According to the IMF definition, foreign direct investment is the case when a foreign owner owns at least 25% of the authorized capital of a joint stock company, according to American law - at least 10%, in the countries of the European Community - 20-25%» [14]. In different countries, the scope of this concept is established by the legislator in accordance with his investment policy.

The current legislation gives the following definition to foreign direct investment: «Foreign direct investment is an investment made at the expense of a foreign investor's own or borrowed funds on the terms of bearing the risk, without government guarantees». [15]. In our opinion, «foreign direct investment is a category of international investment that reflects financial, tangible and intangible benefits and rights to them invested by foreign investors in business and other activities in the national economy with the aim of generating profit (income) or long-term benefit», which more fully reveals the essence and content of foreign direct investment.

There is a significant decline in global foreign direct investment in 2022, down 12% to US\$1.3 trillion (UNCTAD, 2023b). This was caused by global geopolitical tensions, high food and energy prices, and

debt pressure. International project finance and cross-border mergers and acquisitions have been particularly affected by tightening financing conditions, rising interest rates and uncertainty in capital markets. The decline in global foreign direct investment flows in 2022 was driven primarily by financial transactions of multinational enterprises in developed countries, where foreign direct investment fell by 37% to \$378 billion. In developing countries, foreign direct investment increased by 4% to \$916 billion, accounting for 70% of global foreign direct investment flows, a record high. The number of new investment projects increased by 37%. However, such dynamics are not uniform everywhere. Most of the growth was concentrated in a few large developing countries, such as South America (from US\$92.8 billion to US\$160.1 billion) and India (from US\$44.8 billion to US\$49.4 billion). The Commonwealth of Independent States generally reflected the global trend, with the largest impact on the decline in foreign direct investment recorded in Russia, where net inflows of foreign direct investment in 2022 decreased from \$39 billion to minus \$19 billion. This happened due to the departure of international corporations from the Russian market and the sale of subsidiaries to local management. Central Asia is a target direction for the concentration of investment flows. Net inflows of foreign direct investment into the region increased by 39% to \$10 billion. In particular, the net inflow of foreign direct investment into Kazakhstan increased from 3.3 billion to 6.1 billion US dollars (by 83%) over the year. The main sources of investment are transnational mining companies from the Netherlands and the USA. Uzbekistan also attracted a record amount of foreign investment, importing US\$2.5 billion in net foreign direct investment by the end of 2022.

By 2023, Russia has strengthened its status as the main exporter of foreign direct investment in the CIS, with a share of 79% of total foreign direct investment in the region. Kazakhstan ranks second in terms of the volume of accumulated exported foreign direct investment - its share is 9.5%, which corresponds to the second largest economy in the region. Azerbaijan took third place, becoming the source of 7.3% of total investments (Table 1).

**Table 1. Country structure of accumulated mutual foreign direct investment in the Eurasian region, billion US dollars [16]**

A country	Countries that export mutual foreign direct investment (end of period)				Recipient countries of mutual foreign direct investment (end of period)			
	2016	2018	2020	1.07.2023	2016	2018	2020	1.07.2023
Azerbaijan	1,92	2,05	3,11	3,56	2,48	2,67	2,76	4,23
Armenia	0,04	0,04	0,06	0,92	2,91	2,85	2,93	3,30
Belarus	1,81	1,90	1,78	0,74	3,55	4,23	5,41	5,86
Georgia	0,11	0,11	0,20	0,22	2,81	3,04	3,22	2,97
Kazakhstan	3,45	3,80	3,35	4,66	8,44	9,53	11,49	13,29
Kyrgyzstan	0,00	0,00	0,00	0,00	1,35	1,58	1,57	1,63
Moldova	0,01	0,01	0,01	0,00	0,44	0,49	0,59	0,61
Russia	28,37	33,30	35,96	38,54	4,32	4,63	3,96	4,80
Tajikistan	0,00	0,00	0,00	0,00	0,77	0,65	0,67	0,68
Turkmenistan	0,00	0,00	0,00	0,00	0,00	0,00	0,00	0,00
Uzbekistan	0,01	0,01	0,03	0,15	4,39	7,82	9,13	9,66
Ukraine	0,11	0,12	0,05	0,04	4,37	3,86	2,81	1,79
<b>Total</b>	<b>35,84</b>	<b>41,35</b>	<b>44,55</b>	<b>48,82</b>	<b>35,84</b>	<b>41,35</b>	<b>44,55</b>	<b>48,82</b>

Within the framework of the Eurasian Economic Union, similar dynamics are observed, due to the presence in the Union of the two largest exporters of foreign direct investment from the countries of the Commonwealth of Independent States - Russia and Kazakhstan. Among the 28 investment projects implemented within the framework of the Eurasian Economic Union since 2022, 23 are directed to Kazakhstan, four to Russia and one to Kyrgyzstan. Two projects in Russia were implemented by the

Belarusian company Amkodor, which built two factories for the production of agricultural machinery in the Leningrad region and in the city of Ufa. In total, the company has implemented four projects in the country with accumulated investments of more than \$100 million, which indicates a trend towards deepening industrial cooperation between Russia and Belarus. The investment project of Kazakhstan for the construction of a solar power plant in Kyrgyzstan in the amount of \$34 million is of a pilot nature and helps to strengthen investment interaction in the region. Among importing countries, accumulated investments are distributed more evenly: Kazakhstan occupies a leading position with 27.2% of their total volume, ahead of Uzbekistan with a share of 19.8% and Belarus with 12.0%. Russia follows with a total share of 9.8%, while Azerbaijan is in fifth place with 8.7% of total accumulated foreign direct investment. It is important to note that this indicator for Azerbaijan is supported by 24 investment projects from the countries of the Commonwealth of Independent States. Moreover, only one of them, namely the investment of the Russian company LUKOIL in the Shah Deniz gas condensate field, brought approximately \$3 billion into the country's economy. Armenia, Georgia and Ukraine close the list with 6.8%, 6.1% and 3.7% respectively.

Turkmenistan demonstrates weak investment ties with other countries of the Eurasian space. The country is participating in only two regional foreign direct investment import projects: the construction of the Belarusian-Turkmen trading house, which united clothing manufacturers in 2020, and the modernization of the «Maryazot» chemical plant with the involvement of engineering companies Research and Design Institute of the Nitrogen Industry and Organic Synthesis Products From Russia. It is important to note that Turkmenistan is a recipient of investments from the Commonwealth of Independent States and does not make its own investments outside the country.

Over the past 20 years in Uzbekistan, the share of investment financing in relation to gross domestic product has shown a growing trend. In turn, the share of the non-state sector, including the own funds of enterprises, households and foreign investors in financing investments in fixed assets has also increased sharply. In particular, the share of foreign direct investment in the financing of total investment increased from an average of 3.1 percent in 1996-2000, from an average of 5.6 percent in 2001-2005 to 13.5 percent in 2011-2015, the share of foreign investments and loans in 2016 amounted to 20.7 percent, in 2022 they increased to 42.3 percent (Table 2). This trend indicates that in recent years the importance of external investments in financing investments in fixed capital and ensuring economic growth has been increasing in the economy of our country.

**Table 2. Sources of financing investments in fixed assets in the economy of Uzbekistan, as a percentage of gross domestic product [17]**

Sources of investment	1996-2000	2001-2005	2011-2015	2016-2020	2021	2022
<b>I. External investments</b>	<b>5,8</b>	<b>5,2</b>	<b>4,8</b>	<b>9,2</b>	<b>13,7</b>	<b>12,8</b>
Direct investments	0,8	1,2	2,3	3,9	4,1	4,5
Foreign loans	5,0	4,0	2,5	2,4	7,2	6,7
Loans guaranteed by the Government	4,6	3,3	1,0	3,16	2,5	1,7
<b>II. Domestic investment</b>	<b>20,2</b>	<b>16,5</b>	<b>18,9</b>	<b>19,7</b>	<b>18,3</b>	<b>16,8</b>
Budget resources	7,0	3,9	1,3	1,8	3,0	2,4
Centralized bank loans	1,5	0,3	-	-	-	-
Extra-budgetary funds	0,3	0,3	1,3	1,2	0,0	0,0
Reconstruction and Development Fund	-	-	0,9	1,3	0,4	0,3
Enterprise funds	7,9	8,7	8,0	8,1	9,3	9,1
Commercial bank loans and other borrowed funds	0,4	0,8	2,6	3,6	2,6	2,0
Public funds	3,0	2,5	4,7	3,7	3,1	3,1
<b>Investments in fixed assets in relation to GDP, %</b>	<b>26,0</b>	<b>21,7</b>	<b>23,7</b>	<b>28,7</b>	<b>32,4</b>	<b>30,0</b>

It can be noted that the state of attracting foreign direct investment is lower compared to Central Asia. According to the World Bank, “the ratio of the cumulative volume of attracted foreign direct investment to GDP is significantly higher in the economies of Turkmenistan (73.5 percent) and Kazakhstan (68.4 percent), in neighboring Kyrgyzstan and Tajikistan it exceeds 30 percent, and in Uzbekistan it is close to 20 percent». [18]. These figures indicate that the volume of foreign direct investment attracted to date does not meet the requirements for ensuring high rates of economic growth established in the Uzbekistan-2030 strategy.

It should be noted that the III International Investment Forum successfully completed its work in Uzbekistan. The event brought together more than 2.5 thousand participants from 93 countries, providing a platform for global dialogue and exchange of best practices in the investment field. The forum attracted the attention of international media, covered by more than 110 foreign publications from 30 countries, including the world's leading media: CNN, Euronews, London Post and Associated Press. «As a result of the international forum, agreements totaling \$26.6 billion were signed, which indicates the high investment attractiveness of Uzbekistan and the success of the forum. For comparison, in 2022, 167 documents worth \$11 billion were signed at TMIF, which demonstrates a significant increase in investment interest in the country» [19].

In particular, agreements were reached on the implementation of the following major investment projects:

- The Data Volt company from Saudi Arabia will build urban infrastructure in «New Tashkent» worth \$1 billion, and will also create a «data center» based on green technologies worth \$3 billion;
- The company «Acwa Power» from Saudi Arabia is implementing projects for the construction of a wind power plant with a capacity of 5 GW in the Republic of Karakalpakstan and the creation of electricity storage devices with a capacity of 2 GW for a total amount of 6.2 billion US dollars;
- The Amea Power company from the UAE will implement a project to construct a 1000 MW wind power plant in the Republic of Karakalpakstan worth \$1.1 billion;
- The Saudi Tabrid company will begin modernizing the heat supply system in Nukus, Fergana and Kuvasay in the amount of US\$750 million;
- The Nil Shugar company from Egypt will be engaged in the cultivation of sugar beets and sugar production in the Jizzakh region in the amount of 500 million US dollars;
- The Chinese company Shanghai Knud International is implementing a project for the production of textile and clothing products in the Namangan region worth 205 million US dollars;
- Wilmar International (Singapore) will produce food products and confectionery products in the Tashkent region worth \$200 million.

In addition, at the forum agreements were reached with a number of the world's largest companies, such as Orascom Investment (Egypt), Bonafarm Grup (Hungary), Sayar (USA), Goldwind, Sinoma (China), «Sam Yapi» (Turkey), «Pasha Development» (Azerbaijan), «Lasselsberger» (Austria), «Petrosat Chexelsoton» (Iran) on the implementation of new investment projects worth \$6.6 billion.

Thus, the role of foreign direct investment, like any investment, is that they are drivers for accelerating the process of modernizing production, improving management methods, improving the skills of workers and the quality of life of the population of any country.

## Conclusion

The role of foreign direct investment in the economy of most developing countries is very significant. Foreign direct investment not only provides an influx of financial resources, but with it, direct investment enterprises often receive new technologies and knowledge in the field of production and

management. Direct investments are usually made for long periods, which strengthens the economic sustainability of recipient countries. Large transnational corporations with developed commodity markets often act as direct investors, and under their patronage it is easier to gain access to international commodity markets. The influx of private foreign investment is reflected in the increase in the number of enterprises created with the participation of foreign investment, growth in capitalization and production indicators.

Achieving the goals outlined in the Uzbekistan-2030 Strategy to ensure economic growth, increase incomes of the population and attract foreign direct investment requires an increase in the average annual volume of attracted foreign direct investment in the national economy to 5.0-6.0 billion US dollars. This, in turn, will serve to increase the importance of foreign direct investment in ensuring sustainable economic growth in the national economy.

To improve the attraction of foreign direct investment, the following measures can be taken:

1. Creating an attractive investment climate: ensuring political and economic stability, transparency and the rule of law, as well as reducing bureaucratic barriers and corruption.
2. Conducting an active international marketing campaign: advertising Uzbekistan as an attractive destination for foreign direct investment, holding investment forums and exhibitions at the international level.
3. Improving infrastructure: investing in the development of transport, energy, communications and other infrastructure to create favorable conditions for doing business.
4. Providing tax and other benefits: offering tax benefits, exemptions and other financial incentives to foreign investors in priority sectors.
5. Protecting Investor Rights: Ensuring that investors' rights are protected, including an effective legal system, impartial dispute resolution, and protection from expropriation.
6. Promote human capital development: Invest in education and training to ensure the availability of a skilled workforce for potential investors.
7. Development of clusters and industrial parks: creation of industrial parks and clusters with developed infrastructure and support for foreign investors.
8. Use of free trade agreements: entering into free trade agreements with other countries to increase the attractiveness of Uzbekistan to foreign investors.
9. Simplification of licensing and permitting procedures: speeding up and simplifying the procedures for obtaining licenses and permits necessary to start a business.
10. Transparency and Accountability: Ensure transparency and accountability in the management of foreign direct investment, including timely reporting and disclosure.

The implementation of these measures will help increase the attractiveness of Uzbekistan for foreign investors and increase the influx of foreign direct investment into the country.

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