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ASSESS THE IMPACT OF FOREIGN DIRECT INVESTMENT ON LOCAL INVESTMENT

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ОЦЕНКА ВЛИЯНИЯ ПРЯМЫХ ИНОСТРАННЫХ ИНВЕСТИЦИЙ НА МЕСТНЫЕ ИНВЕСТИЦИИ

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Abstract. The article presents an overview of research on the essence of foreign direct investment. At the same time, the impact of foreign direct investment on economic growth in developing countries and countries with economies in transition is analyzed optimistically in the study. Based on the analysis and research, scientific conclusions were formed on the effective use of foreign direct investment in Uzbekistan. Based on these findings, relevant suggestions and recommendations were made.

Аннотация. В статье представлен обзор проведенных исследований сущности прямых иностранных инвестиций. В то же время влияние прямых иностранных инвестиций на экономический рост в развивающихся странах и странах с переходной экономикой с оптимистической точки зрения анализируется в исследовании. На основе проведенных анализов и исследований были сформированы научные выводы по эффективному использованию прямых иностранных инвестиций в условиях Узбекистана. На основе этих выводов были выдвинуты соответствующие предложения и рекомендации.

Keywords: developing countries and countries with economies in transition, source of finance, foreign investment, local investment.

Ключевые слова: развивающиеся страны и страны с переходной экономикой, источник финансирования, иностранные инвестиции, местные инвестиции.

Introduction

Special importance and meaning are the expansion of sources of production Finance in the economy and the active attraction of foreign investment, in particular foreign direct investment. Because direct foreign investment, along with the involvement of modern technologies in production, allows to find an additional source of financing. Therefore, by Presidential decree from 17th of January 2019 (decree-5635) approved “Year of active investment and social development” as part of the implementation of the action strategy for five priority areas of development of the Republic of Uzbekistan for 2017–2021”. The state program sets out a wide range of tasks on investment reforms. For example, the development of the “investment policy strategy” for the medium term, the establishment of the “Fund of direct foreign investments of the Republic”, in cooperation with the Abu Dhabi Development Fund, measures such as the establishment of the “Uzbekistan-Emirates Investment Company” are expected to be implemented. Through this, more efficient use of foreign capital, which is involved in the economy, is envisaged. Large amount of foreign capital entering the economy of the country has an impact on both local enterprises and their investment activities, and it is important to study the experience of the countries of developing and transition economies [1].

Foreign Direct Investment (FDI) and SME for developing countries it is important because of the set of tools that start-up with their own investments. Most of these instruments are in the form of intangible assets, and especially in developing countries, these assets are considered to be deficient. They include advanced technology, management skills, ways to bring the tokens to international markets, product design, quality characteristics, brand names, etc. When calculating the impact of FDI on development, the main issue is the study of the extent to which investment activities carried out by SME's effect on local investment.

Material and methods

Many economists on the impact of direct foreign investment on the economy of the country have conducted studies. Within the subject of this article, A. O. Hirschman, I. Adelman and C. T. Morris, A. Inkeles, V. N. Balasubramanyam, D. Sapsford and M. A. Salisu, E. Borensztein, J. De Gregorio and J. Lee, L. R. De Mello scientific research conducted [2–7].

As well as, the views and scientific approaches of these scholars on the subject area were analyzed comparatively and systematically.

Results and discussion

Theoretically, FDI can have either positive or negative effects on local investments and this will depend on the current situation in the economy, the direction of activities of both local and foreign firms. FDI can stimulate local investment in a country's economy through production relationships between foreign and local firms, the introduction of new products or services, and the dissemination of technology and knowledge. On the other hand, it can have a negative impact on local investment either by increasing Real local interest rates or by increasing the value of Real local exchange rates (United Nations conference on trade and development, 1999) [8–9].

Many scientific studies that have studied urban investment and economic growth suggest that high growth rates in the country correlate with high growth rates of local investments [10]. Since endemic investment is an important driver of economic growth, if FDI has a negative impact on local investment, then those who set economic policies in countries should review their investment initiatives in various forms in order to attract more FDI.

Impact of FDI investment on local investment in developing countries and countries with economies in transition can be seen in the Table below.

A. Razin conducted his research on the example of 64 developing countries and found that FDI has a more positive impact on local investment and economic growth than other types of capital flows [11]. Wang use a large amount of panel data in the study of the effects of FDI on local investment as well as describe its results by comparing different estimates in the "absolute" and "relative" models. They do not identify significant positive or negative impacts of FDI in China on the economy on the country's scale. But an additional analysis of the study demonstrates significant regional differences: if the negative impacts in eastern China prevail, the positive effects in middle China will be determined. In western China, it is determined that the FDI has no significant impact on economic growth [12]. E. Mileva analyzes the impact of FDI, portfolio investment and long-term bank debt on local investment in 22 transition economies considering financial markets and institutional development [13]. The results show that the FDI in the amount of one US dollar will increase the domestic investment to more additional dollars in one US dollar [14–17].

Having studied the experience of the countries of the world, to make effective use of FDI in Uzbekistan and to create a positive impact on local investments:

–creation of equal opportunities for local enterprises in direct foreign investments;

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–to ensure compliance of the development strategies of foreign enterprises with the investment development strategy of the country;

–oration of links between enterprises that bring in foreign direct investment and local enterprises;

–placing foreign direct investment based on the characteristics of the regions and thereby ensuring sustainable and comprehensive economic growth;

–reflecting the existing investment opportunities for both domestic and foreign investors in order to run a business, it will be necessary to set up a portal activity that includes surveys dedicated to studying the problems they face.

Table.

REVIEW OF SCIENTIFIC RESEARCH ON THE IMPACT OF FDI ON TERRITORIAL INVESTMENT

Scientific work	*Positive influence*	*Negative influence*	*Having no effect*
Borensztein, De Gregorio and Lee [6]	69 developing countries	—	—
Bosworth, Collins [18]	58 developing countries (FDI)	—	58 developing countries (portfolio investments)
De Mello [7]	Non-OECD countries	—	—
Razin [11]	64 developing countries	—	—
Wang [12]	Central region of China	East China	The whole of China is on the scale of the country, western China
Agosin and Machado [19]	Asia	Latin America	Africa
Mallick and Moore [20]	60 developing countries	—	—
Mileva [13]	22 transition economies	—	

Foreign direct investment (FDI) has been praised by developing countries for the bundle of assets that multinational enterprises (MNEs) deploy with their investments. Most of these assets are intangible in nature and are particularly scarce in developing countries. They include technology, management skills, channels for marketing the products internationally, product design, quality characteristics, brand names, etc. In evaluating the impact of FDI on development, however, a key question is whether MNEs crowd in domestic investment (as, for example, when their presence stimulates new downstream or upstream investment that would not have taken place in their absence) or whether they have the opposite effect of displacing domestic producers or pre-empting their investment opportunities.

An economic growth literature in the previous chapter has demonstrated that domestic investment is one of the most robust determinants of economic growth, as also has been supported by [16–17]. The empirical literature also has stated that foreign capital inflow positively affects domestic investment in the host countries rather than crowding it out [10]. A number of studies in this area of research have provided evidence that foreign capital flow has a positive impact on domestic investment. If FDI has to crowd out domestic investment or fail to contribute to capital formation, there would be good reason to question its benefit for recipient developing countries. Moreover, given the scarcity of domestic entrepreneurship and the need to nurture existing entrepreneurial talent, a finding that MNEs displace domestic firms would also cast doubt on the development effects of FDI. These questions become all the more important when one considers that FDI is far from marginal. As can be seen in Table, FDI contributes a significant and growing share of total gross capital formation in developing economies. In fact, FDI is much larger proportion of investment in developing economies than in developed countries, especially in Latin America in recent years.

As the most empirical studies, those presented in this thesis have their own limitations. The limitation that we have encountered during this research is mostly related to the lack of existing reliable data on some of the sample developing economies, and this was the reason of having slightly different number of sample size in those three empirical chapters. It would be interesting to assess the effect of some of the control variables which are studied in the thesis with different measurements, such as using different proxies to measure human capital, infrastructure development, degree of trade openness of host economy, financial development and institutional quality, but limited data sources for some of Asian, African, Latin American and especially CIS (Commonwealth of Independent States or Former Soviet Union) countries did not allow us to accomplish this task. Also, lack of data availability can be seen on sectoral and industrial composition of FDI which are left for future research as such data may be available in the future. It is also another interesting field of study to distinguish between FDI flowing to the primary sector, the manufacturing sector and the service sector. Further, it would be more useful to examine the determinants of and effect of FDI flows based on industries within a sector.

Regarding the determinants of FDI location, it can be expected that the sensitivity of FDI to the non-classical factors vary according to the nature of FDI. For instance, we would not expect that the sensitivity of small business such as fast food franchises is the same as a firm investing in a mining industry. Additionally, in terms of the effect of FDI on host country's economic activities, it can be expected that sectors have different effects on domestic investment. For example, FDI in the manufacturing sector may create backward and forward production linkages while FDI in the primary sector cannot do so. Even in the manufacturing sector, the degree of linkages may vary between industries. With the availability of those kinds of data in future, it would be necessary to differentiate FDI based on sectors and industries.

Conclusion

Due to lack of data on private investment, the thesis has used a total gross domestic investment, which is the sum of private and public investment. It is vital to state that according [3], the problem with using this gross domestic investment variable is that it may lead to biased coefficient estimates and the biasness may be in either direction. Since public investment may play a positive role in increasing the productivity of private firms through investment in physical and human infrastructure, the estimated effects of FDI on total domestic investment would be biased upward. That is, if private investment has increased because of an increase in public investment, then the effects of FDI would be overestimated. On the other hand, when public investment is replaced by FDI through privatization of state-owned firms, this would cause a reduction in the level of domestic investment rate since part of public investment has been sold to foreign investors. Thus, if FDI crowds in private investment, the crowding-in effects would be biased downward. However, taking into account this limitation of the estimation, data for domestic investment has been obtained from World Bank Indicators.

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