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THE IMPORTANCE OF INFLOW OF FOREIGN DIRECT INVESTMENT IN UZBEKISTAN

Abstract: This article discusses the importance of inflow of Foreign Direct Investment (FDI) in Uzbekistan and proposals have been made for further supporting the development of inflow of FDI.

Key words: Foreign Direct Investment (FDI), economy, investment process, loan, income.

Language: English

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Introduction

It is obvious that foreign direct investment (FDI) has a key role for improving the growth of national economy in developing countries. Clearly understanding the role and importance of FDI in economy, the Government of Uzbekistan has been working on and trying to create better facilities for the FDI operations in our Republic. Exactly, the Government of Uzbekistan had declared attracting FDI one of its core policy priorities, acknowledging that greater private sector involvement is critical for economic growth and addressing social challenges caused by relatively high unemployment and poverty rates. In 2019, the Government of Uzbekistan launched a policy to improve the business environment through simplification of registration procedures for new businesses, combatting corruption, and increasing transparency. To attract more foreign investors, the government simplified entry visa procedures and extended residence permits for foreigners. The new Tax Code, which became effective on January 1, 2020, lowered corporate and individual income taxes by almost 50% and considerably simplified taxation procedures for private entrepreneurs. President Mirziyoyev challenged all regional governments to improve the

attractiveness of their territories to foreign investors and provide FDI progress reports on a quarterly basis. He also created a Supreme Economic Council, envisioned as a platform for coordination of further economic reforms with international businesses, expert communities, and development banks [1].

Materials and Methods

According to Grazia Ietto-Gillies [2] prior to Stephen Hymer's theory [3] regarding direct investment in the 1960s, the reasons behind foreign direct investment and multinational corporations were explained by neoclassical economics based on macro-economic principles. These theories were based on the classical theory of trade in which the motive behind trade was a result of the difference in the costs of production of goods between two countries, focusing on the low cost of production as a motive for a firm's foreign activity. For example, Joe S. Bain only explained the internationalization challenge through three main principles: absolute cost advantages, product differentiation advantages and economies of scale. Furthermore, the neoclassical theories were created under the assumption of the existence of perfect competition. Intrigued by the motivations behind large foreign investments made by

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corporations from the United States of America, Hymer developed a framework that went beyond the existing theories, explaining why this phenomenon occurred, since he considered that the previously mentioned theories could not explain foreign investment and its motivations. Facing the challenges of his predecessors, Hymer focused his theory on filling the gaps regarding international investment. The theory proposed by the author approaches international investment from a different and more firm-specific point of view. As opposed to traditional macroeconomics-based theories of investment, Hymer states that there is a difference between mere capital investment, otherwise known as portfolio investment, and direct investment. The difference between the two, which will become the cornerstone of his whole theoretical framework, is the issue of control, meaning that with direct investment firms are able to obtain a greater level of control than with portfolio investment. Furthermore, Hymer proceeds to criticize the neoclassical theories, stating that the theory of capital movements cannot explain international production. Moreover, he clarifies that FDI is not necessarily a movement of funds from a home country to a host country, and that it is concentrated on particular industries within many countries. In contrast, if interest rates were the main motive for international investment, FDI would include many industries within fewer countries. Another observation made by Hymer went against what was maintained by the neoclassical theories: foreign direct investment is not limited to investment of excess profits abroad. In fact, foreign direct investment can be financed through loans obtained in the host country, payments in exchange for equity (patents, technology, machinery etc.), and other methods. The main determinants of FDI is side as well as growth prospectus of the economy of the country when FDI is made. Hymer proposed some more determinants of FDI due to criticisms, along with assuming market and imperfections. These are as follows:

Firm-specific advantages: Once domestic investment was exhausted, a firm could exploit its advantages linked to market imperfections, which could provide the firm with market power and competitive advantage. Further studies attempted to explain how firms could monetize these advantages in the form of licenses.

Removal of conflicts: conflict arises if a firm is already operating in foreign market or looking to expand its operations within the same market. He proposes that the solution for this hurdle arose in the form of collusion, sharing the market with rivals or attempting to acquire a direct control of production. However, it must be taken into account that a reduction in conflict through acquisition of control of operations will increase the market imperfections. Propensity to formulate an internationalization

strategy to mitigate risk: According to his position, firms are characterized with 3 levels of decision making: the day to day supervision, management decision coordination and long term strategy planning and decision making. The extent to which a company can mitigate risk depends on how well a firm can formulate an internationalization strategy taking these levels of decision into account. Hymer's importance in the field of International Business and foreign direct investment stems from him being the first to theorize about the existence of multinational enterprises (MNE) and the reasons behind FDI beyond macroeconomic principles, his influence on later scholars and theories in international business, such as the OLI (Ownership, Location and Internationalization) theory by John Dunning and Christos Pitelis which focuses more on transaction costs. Moreover, "the efficiency-value creation component of FDI and MNE activity was further strengthened by two other major scholarly developments in the 1990s: the resource-based (RBV) and evolutionary theories"[4]. In addition, some of his predictions later materialized, for example the power of supranational bodies such as IMF or the World Bank that increases inequalities. Moreover, in the scientific work which was published by International Monetary Fund [5] FDI was noted as investment which happens when an individual or business owns 10% or more of a foreign company. A 10% ownership doesn't give the individual investor a controlling interest in the foreign company. However, it does allow influence over the company's management, operations, and policies. For this reason, governments track investments in their country's businesses.

Additionally, FDI defined as investment from a party in one country into a business or corporation in another country with the intention of establishing a lasting interest. Lasting interest differentiates FDI from foreign portfolio investments, where investors passively hold securities from a foreign country. A foreign direct investment can be made by obtaining a lasting interest or by expanding one's business into a foreign country. An investment into a foreign firm is considered an FDI if it establishes a lasting interest. A lasting interest is established when an investor obtains at least 10% of the voting power in a firm. The key to foreign direct investment is the element of control. Control represents the intent to actively manage and influence a foreign firm's operations. This is the major differentiating factor between FDI and a passive foreign portfolio investment. For this reason, a 10% stake in the foreign company's voting stock is necessary to define FDI. However, there are cases where this criterion is not always applied. For example, it is possible to exert control over more widely traded firms despite owning a smaller percentage of voting stock[6].

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Methodology of the Research

The methodology includes historical analyzes, systematic analyzes, and graphic methods. Statistics have been made by the help of official statistics of Uzbekistan and the world.

Results

A study carried based the data of www.stat.uz [7] and following results obtained. Achieving sustainable development, increasing incomes and improving the living conditions of the population, in general, the socio-economic development of the country, largely depends on the volume and structure of investments attracted to certain areas and sectors of the national economy. Consequently, the priority direction of the social and economic development of any state will be aimed at the formation of an attractive investment environment. In this connection, for Uzbekistan, which has planned to reach the average level of economic development of developing countries in the near future, consideration of the issue of improving the investment environment for attracting foreign capital and domestic investment has a special significance. Firstly, we have once again found it necessary to give a broader and deeper meaning of investment, both lexical and economic. What is an investment? Consider the meaning and essence of the concept of investment, which is an important element of investment activity. "Investment" from the English "Investments" means "capital investment". Investment (capital) is the investment of funds for a certain period in entrepreneurial and other types of activity (in objects) in order to obtain profit.

It should be noted that at the current stage of development of the world community, any country can achieve the corresponding (desired) level of socioeconomic development without investment. Countries that do not have the opportunity to attract investment resources in a timely manner to the national economy, face a shortage of money, which causes a backlog in socio-economic development from the world's average developed countries. It is clear that the solution to this problem is to attract capital investments in developing countries from developed countries, where there are free cash.

If it comes to the benefits of investment in any country, following main economical and financial advantages of investment can be derived:

First, with the help of investments, it is possible to build new enterprises for the production of goods, including, import substituting and create new jobs.

Secondly, it is possible to expand the production of operating firms and to replenish the private capital

of national enterprises that ensure their development prospects.

Third, to carry out technological renovation of the national economy and install modern equipment and new equipment at industrial enterprises, which will eventually allow the production of competitive goods.

Fourth, there will be an opportunity for national producers to implement promising projects at the expense of credit funds.

Fifth, it will allow integrate the national economy into the world economy.

Thus, if investments are an important factor in macroeconomic (national economic) growth and micro (enterprise level) growth, the question arises as to what national producers should do to attract them. To attract investment in the economic activities of national business entities, the following tasks are required. Initially, entrepreneur need to have a well-grounded, comprehensively considered developed prospective business plan. Investors are always willing to know the long-term results of capital investments in the project.

Secondly, investors finance investment projects in organizations, which they strictly trust. Investing in dubious and illegal organizations is tantamount to losing profits, which obliges national enterprises to maintain their economic rating on the basis of successful financial and economic activity.

Thirdly, the activities of national enterprises should be open and flawed. To this end, accounting documents must meet modern requirements, established by domestic regulatory documents. The documents of the final results of the financial and economic activities of enterprises should be publicly disclosed to the public in the mass media.

Along with the above, it should be noted that capital investments by investors in the national economy depend not only on the rating of enterprises and the results of financial and economic activities, but also on the domestic policy of the state and the geographical location of the country, etc. Investors choose the most stable countries in all aspects of the development of society for capital investment. Therefore, all countries in the world try to reduce investment risk as much as possible. In all countries of the world, including in Uzbekistan, measures are being implemented to increase the attractiveness of the investment environment. Clearly understanding both meaning and role of investmentarises whether there are conditions for attracting foreign investments to Uzbekistan?

The conditions for attracting foreign investments to Uzbekistan are the following:

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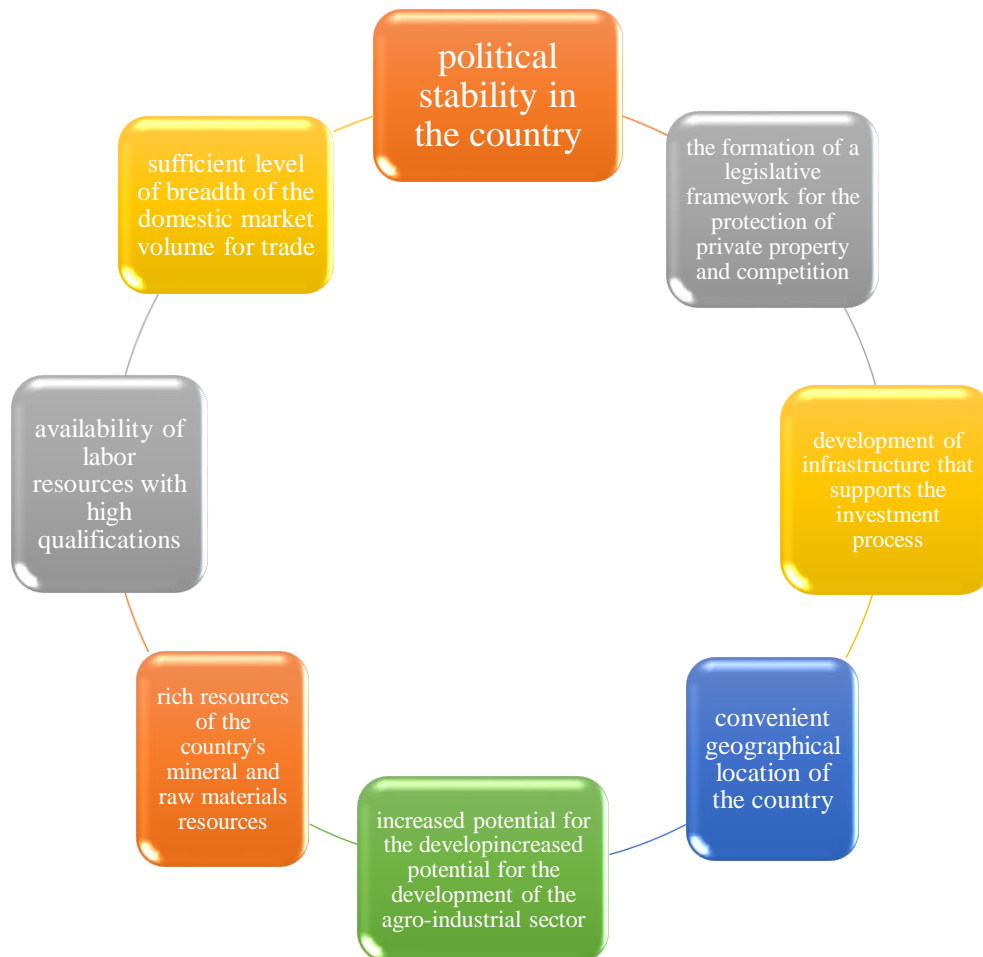


Fig. 2. The conditions for attracting foreign investments to Uzbekistan [7]

Given preferences and a system of financial and economic incentives for foreign capital, is an important factor in investment attractiveness. This provides an opportunity to direct foreign investment in the production sector, in particular, in industrial production, where there is a high export potential.

Along with this, one of the directions for attracting foreign investments into the national economy is the formation of special economic zones. In our country, Navoi, Jizzakh, Angren, Gijduvan, Kokand, Urgut, and Khazaraspi free economic zones have been formed and are efficiently operating.

Table 1. Disbursement of FDI and loans in the framework of regional investment projects [8]

№	Zones	2018 (in million USD)	2019 (in million USD)
1	City of Tashkent	425.2	1550.4
2	Tashkent Region	20.5	346.0
3	Khorezm Region	11.7	242.5
4	Fergana Region	73.2	346.9
5	Syrdarya Region	69.1	214.6
6	Surkhandarya	39.3	222.6
7	Samarkand	25.57	214.1
8	Namangan	60.4	277.2
9	Navoi	12.0	130.4
10	Kashkadarya	5.3	145.5
11	Jizzakh	45.3	367.9
12	Bukhara	100.1	310.6
13	Andijan	56.0	232.1
14	Republic of Karakalpakstan	107.5	189.9

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It should be noted that for the development of the country's economy a high proportion of foreign direct investment among foreign capital investments is a positive aspect. Since, the investor's capital investments in the country's economy without state guarantees means that they took on all the risks (liabilities) arising from the introduction of activities in the national economy. The fact that the share of foreign direct investment in the total volume of foreign capital investments and loans in 2017 was 76%, once again demonstrates the formation of a favorable investment climate in our country. At the same time, during the analyzed period, the share of funds of enterprises and the population in the total volume of investments decreased by 5.1% points. It

should be stated that the amount of savings generated in the domestic economy depends on the volume of consumption and GDP of the country, which indicates the limited growth. The practice of foreign countries, in particular the newly industrialized countries, Hong Kong, Singapore, South Korea and Taiwan, shows that with 10% economic growth, the share of investment in the economy of the country was 35-40% relative to the gross domestic product (GDP), where a significant part accounted for the share of domestic investment. In a word, in this period everything, beginning with the citizens of the country, including national economic entities, deemed it necessary to "tighten the belts a little", reduced consumption, which contributed to the growth of savings [9].

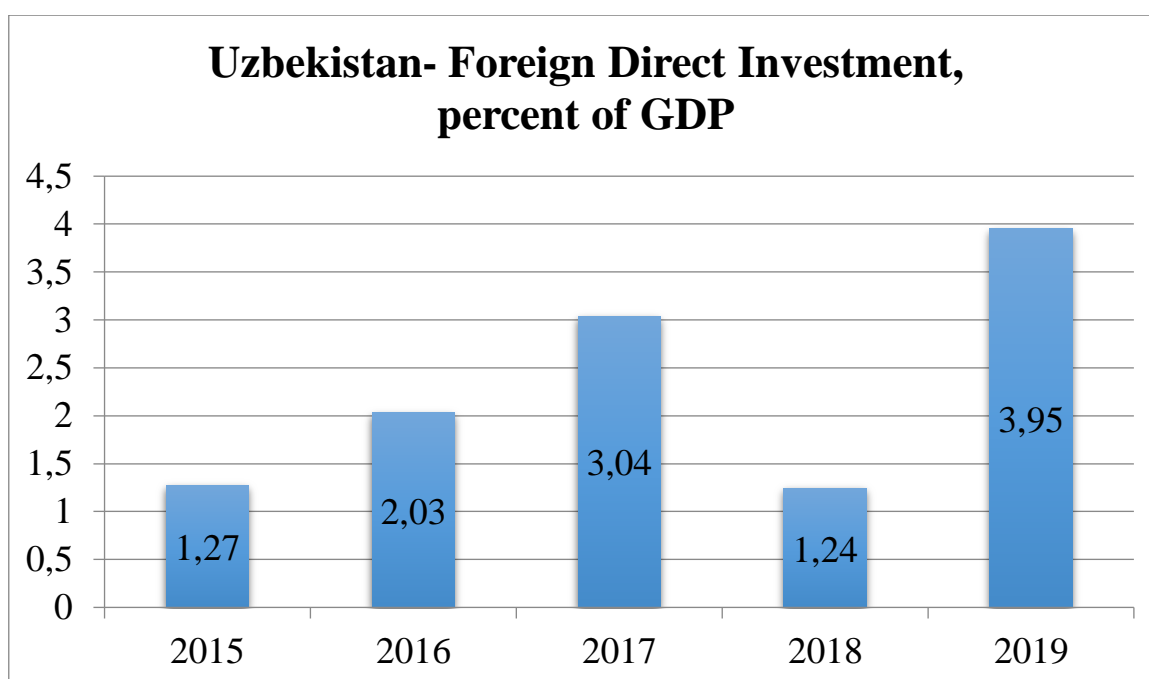


Fig. 2. Uzbekistan- Foreign Direct Investment, percent of GDP [10]

Conclusion

Summing up however, since our country has set strategic goals for socio-economic development at a moderately high level, it will be necessary to increase the amount of investments in the national economy. This can be done, firstly, by increasing the volume of domestic investment, and secondly, by attracting foreign capital investments in the national economy. As noted above, the amount of accumulation formed in the domestic economy is limited by consumption and GDP. To increase the volume of investments in the national economy on the basis of domestic investments, the following measures must be taken:

- the improvement of the existing mechanism in the national economy, the transformation of savings into investment;

- attraction by commercial banks in both national and foreign currency of the population's money resources, and their provision as loans to business entities;

- Involvement of funds accumulated from the population in the investment process through the stock exchange "Tashkent" and so on.

Obviously, attracting additional domestic investment in the national economy requires the development of a stimulating mechanism for converting savings into investment. However, this process is associated with a change in the consciousness of the population to participate in the economic activities of the country, which is associated with a certain time.

To increase the volume of capital investments in the national economy, foreign investment and loans

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are alternative to domestic investment. Therefore, it is necessary to study and analyze all existing reserves and resources related to attracting foreign investment in the national economy, and to improve the mechanism for attracting foreign capital to national enterprises.

In conclusion, it should be said that a positive solution to the above issues contributes to an increase in the volume of domestic and foreign investments directed to the national economy, ensuring sustainable economic growth and, ultimately, accelerating the development of the country and improving the well-being of the population of our Republic.

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