



THE ISSUES OF ATTRACTING FOREIGN INVESTMENTS IN THE NATIONAL ECONOMY

N.A. Kholyarov¹, A.A. Ismailov²

¹*Doctor of Economics (DSc), Associate Professor*

²*Doctor of Economics (DSc), Associate Professor
Armed Forces Academy*

ABSTRACT

DOI No: 10.36713/epra14929

Article DOI: <https://doi.org/10.36713/epra14929>

This article analyzes foreign direct investments, investments in sectors and branches of the national economy, and existing problems in the Commonwealth of Independent States and Central Asian countries. Proposals and recommendations were also developed to improve the investment environment in Uzbekistan and increase the efficiency of attracting foreign direct investments.

KEYWORDS: *investment, investment environment, investment projects, stagnation, political conflicts, economy driver, socio-economic efficiency.*

According to CEBR, the British Center for Economic and Business Research, the gross domestic product of the world economy exceeded 100 trillion US dollars in 2022 for the first time. According to the London-based think tank, global GDP will continue to grow due to the ongoing recovery after the pandemic¹.

One of the main factors that have a positive effect on the growth of the gross domestic product is investment. The global flow of foreign direct investment into the economy will be 1.6 trillion in 2021. dollars, which was 64% more than in 2020. The increase in the volume of foreign direct investments was observed in all regions, and in developed countries this indicator was 134 percent. The flow of financial resources to the economies of developing countries increased by 30% and reached a record 837 billion dollars - this was mainly the share of Asian countries. The largest flow of foreign direct

investments was recorded in Russia, China and the USA².

As a result of the Russian-Ukrainian war, which began on February 24, 2022, the world situation has changed dramatically, that is, the world has faced a triple crisis: a food crisis, rising fuel prices, and increased fiscal policy (restrictions on Russia). According to experts of the UN UNCTAD body, due to the consequences of the pandemic, the growth of the discount rate in the economy of the leading countries, the negative mood in the financial markets and the prospects of recession, the volume of the investment flow and the global economic growth are expected to decrease in 2023.

The Russian Federation is the main cross-border investor within the Commonwealth of Independent States (CIS). During the first half of 2022, the share of Russia in mutual foreign direct investment in the CIS

¹ <https://yuz.uz/ru/news/vsochayshaya-stepen-otkrstosti-ekonomiki-dlya-pryamx-inostrannx-investitsiy-sredi-stran->

[tsentralnoy-azii--v-uzbekistane?view=uzbekistan-i-oae-rasshiryayut-investitsionnoe-sotrudnichestvo.](https://news.un.org/ru/story/2022/06/1425482#:~:text=tentralnoy-azii--v-uzbekistane?view=uzbekistan-i-oae-rasshiryayut-investitsionnoe-sotrudnichestvo.)

² <https://news.un.org/ru/story/2022/06/1425482#:~:text=>

was 79.2 percent. The next places were occupied by Kazakhstan and Azerbaijan. Kazakhstan is leading among the CIS countries in attracting foreign direct investments. Uzbekistan,

Belarus and other countries are in the next places (Fig. 1)



Figure 1. The state of mutual investment and attraction between the CIS countries¹

The volume of mutual investments of the CIS countries with China, Iran and Arab countries is growing year by year. The volume of Chinese investments in the countries of Central Asia is increasing every year, and China has given 67.5 billion worth of dollars to the countries of the former union, including 12.5 billion. dollar investments in the Russian economy.

If we analyze the volume of investments attracted to the economy in the Central Asian region, the following results can be seen.

According to experts, in recent years the gross domestic product (GDP) of the countries of the Central

Asian region has been increasing year by year, and in 2022 it will reach amount to more than 350 billion dollars². The growth of the gross domestic product of the countries of the region was primarily influenced by direct foreign investments in the economy, good neighborly relations, economic interests of developed countries, and the deepening of integration processes.

The following factors can be cited as the reasons for the increase in the volume of direct foreign investments in Central Asian countries in recent years (Figure 2).

¹ eabr.org //h ttps://e-cis.info/news/566/105694/#:~:text

² https://uz.sputniknews.ru/20221214/vvp-stran-tsentralnoy-azii-prevysil-350-mlrd--ekspert-21784012.html

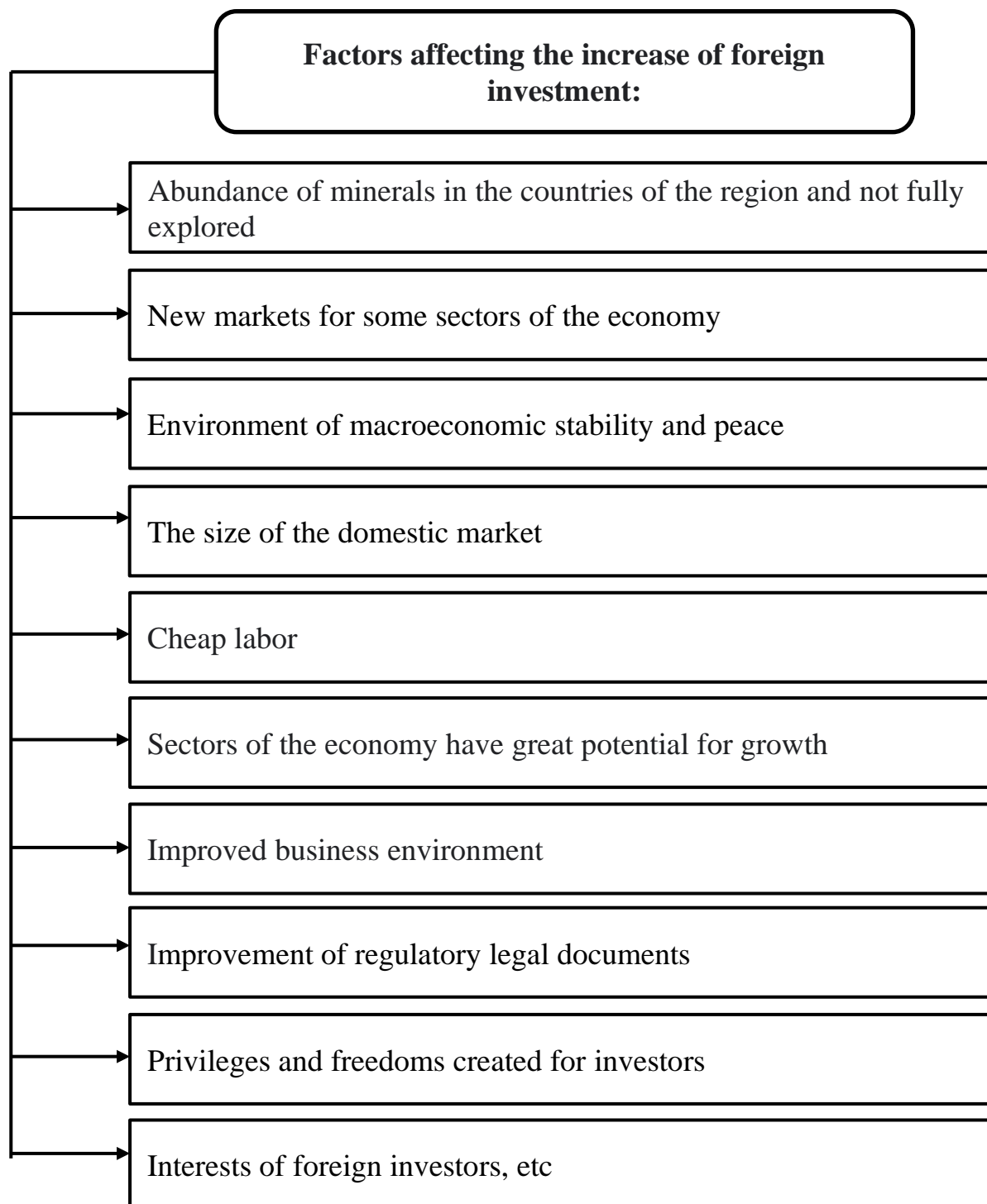


Figure 2. Factors that positively influenced the increase in the volume of foreign direct investments in the countries of Central Asia

If we look at the first factor, the total volume of oil reserves in Central Asian countries is 15-31 billion barrels, and the total volume of natural gas is 230-360 trillion. cubic meter, which is 7.2% of world oil resources and 7% of gas resources. In addition, the

countries of the region have large reserves of ferrous, non-ferrous and rare metals and occupy the 9th place in terms of total gold production (Uzbekistan - 90 t, Kyrgyzstan - 24, Kazakhstan - 18.9)¹.

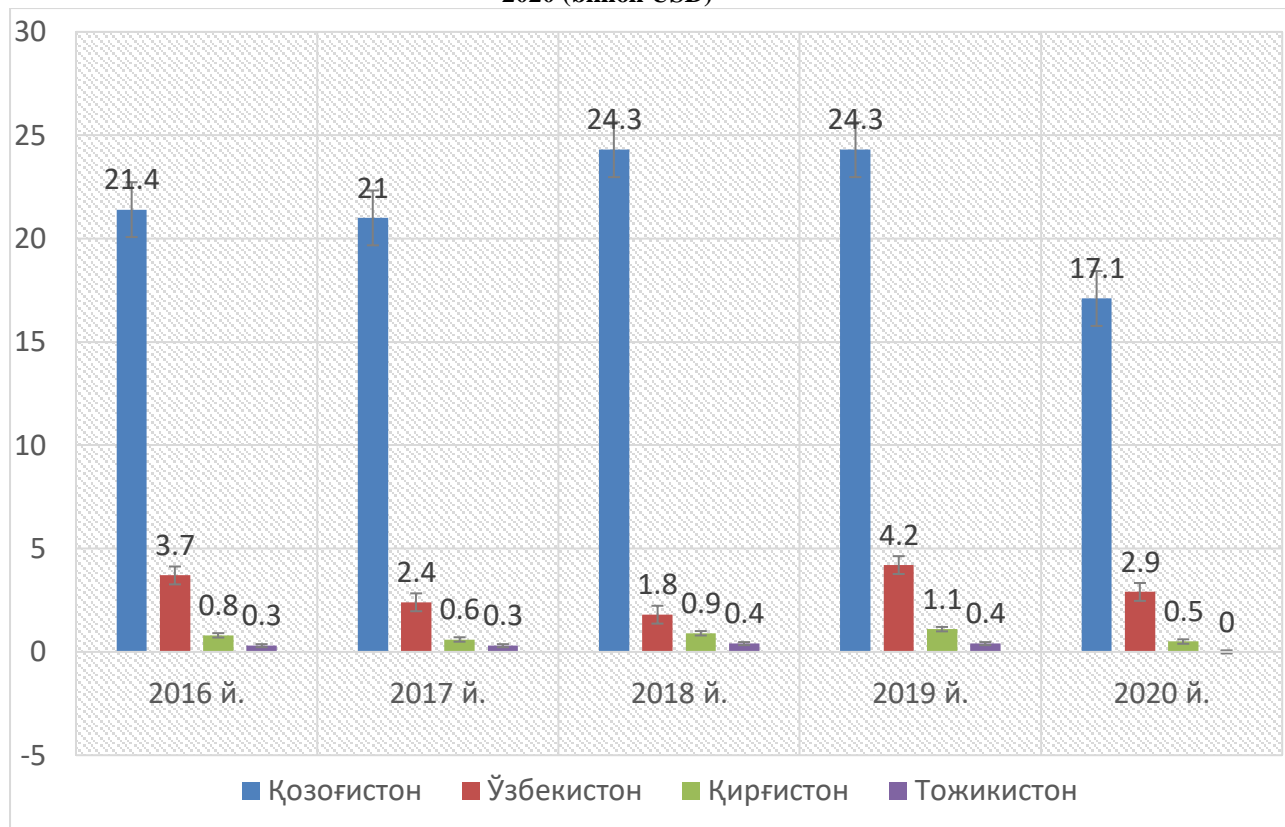
¹ <https://www.brif.kz/ekonomika-centralnoj-azii>.

Today, most of the national companies in the region are not equipped with modern geological exploration techniques and technologies, so a large amount of underground resources are not fully identified. As countries in the region have made the leap from feudalism to socialism, the level of industrialization is low, thus creating new markets for certain sectors of the economy. Also, macroeconomic stability in the region, availability of cheap labor force, great

potential for economic growth, improving business environment, investment attractiveness and other factors increase the possibilities of attracting foreign direct investments.

If we analyze the direct foreign investments attracted to their economies in Central Asian countries during 2016-2020, their growth level was not uniform in the countries of the region (Table 1).

Table 1.
The volume of direct foreign investments attracted to the economy of Central Asian countries in 2016-2020 (billion USD)¹



It can be seen from these figures that in recent years, Kazakhstan has been leading among the countries of the Central Asian region in terms of attracting foreign investments. In 2021, 23.7 billion foreign direct investments of more than USD to the economy of Kazakhstan have been attracted. The amount of investment in the fields of agriculture, forestry and fisheries has increased by 2.8 times, in scientific and technical activities by 2.6 times, 80.1 percent of funds

have been invested in the information and communication sector, and 68.3 percent in electricity supply. Also, the amount of investment in the processing industry has increased significantly². In recent years, the Netherlands, the USA and Switzerland have been leading the way in foreign direct investment in Kazakhstan (Figure 3).

¹ <https://review.uz/post/stran-centralnoy-azii>.

² <https://kapital.kz/economic/104293/v-2021-godu-ob-yem-inostrannykh-investitsiy-v-rk-prevysil-23-mlrd.html>

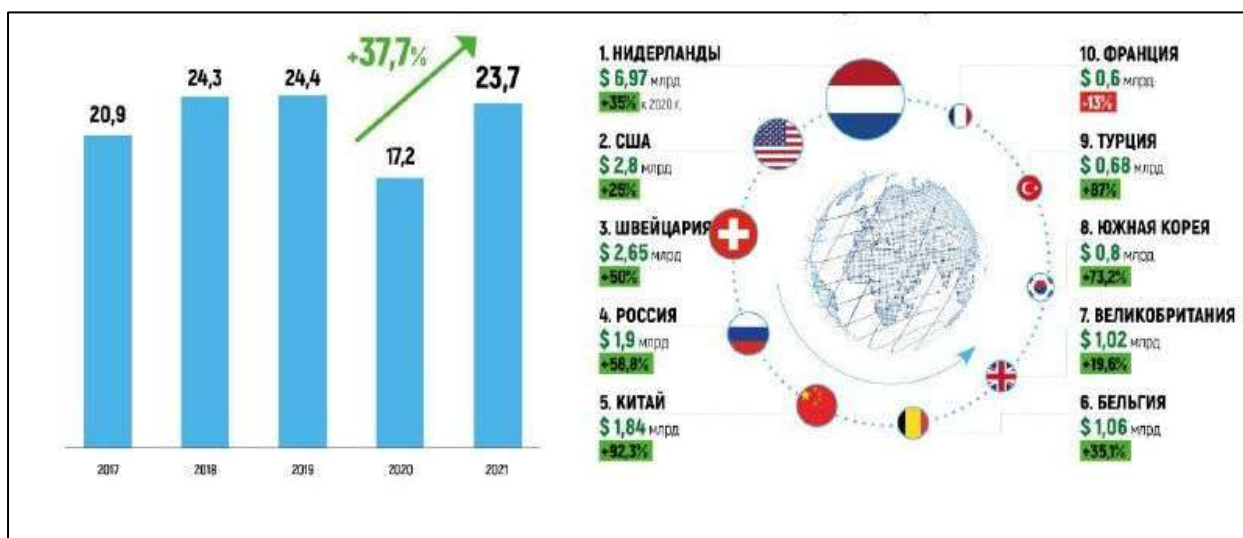


Figure 3. Gross foreign direct investment in Kazakhstan

According to UNCTAD, in 2021, the rate of attracting foreign direct investments to the countries of Central Asia was 8-10 percent on average. China, Russia and Germany are the main investors. Investments are made mainly in the electrical engineering, metallurgy, textile, oil and gas, and leather industries.

Today, significant measures are being taken to improve the investment environment and attract more foreign direct investment in Uzbekistan. In the Doing Business index published by the World Bank Group and the International Finance Corporation, Uzbekistan rose seven places in 2021 and took the 69th place. In this rating, Kazakhstan rose from 28th to 25th place.

By the end of 2021, 11.1 billion dollars of foreign investments have been absorbed in Uzbekistan, of which 9 billion. foreign direct investments and loans. The value of investments in fixed assets reached 8.2 billion dollars, an increase of 124 percent compared to 2020.

More than 50 countries have invested in the economy of Uzbekistan. The following countries can be cited as the five countries that made the most investments: China - 2.2 billion. dollars; Russia - 2.1 billion dollars; Turkey - 1.18 billion. dollars; Germany - 800.7 mln. dollars; South Korea - 137.4 million dollars¹.

In 2022, the volume of foreign investments and loans to the republic will be 9.8 billion amounted to a dollar. Today, the number of enterprises and organizations operating with the participation of foreign capital is 15,800 (of which 6,400 are joint ventures, and 9,300 are foreign enterprises). 30.5% of them are in trade,

27.5% in industry, 8.0% in construction, 4.8% in agriculture, 4.8% in information and communication, and the rest are working in other sectors².

Investments play an important role in the growth of the economy of any country. For this reason, our government has decided to increase the effectiveness of attracting investments, especially foreign direct investments, to inform foreign investors about the opportunities and potential of our country, to improve the coordination of the activities of state and economic management bodies, local executive authorities in the field of attracting and developing foreign investments. Reforms are being implemented and a number of legal documents are being adopted.

As a result of large-scale reforms in the investment and economic spheres and effective measures taken by relevant ministries and agencies within the framework of improving the business and investment environment, Uzbekistan ranked 43rd among 83 countries in the ranking on reducing restrictions on the activities of foreign investors, and its closest neighbors - Kazakhstan (56th place), ahead of Tajikistan (58th place) and Kyrgyzstan (62nd place).

Also, according to the rating, in Uzbekistan Poland (44th place), Switzerland (49th place), USA (52nd place), South Korea (61st place), Canada (66th place) and Russia (77th place) restrictions on the activities of foreign investors have been significantly reduced. The first place in this ranking is taken by Luxembourg, followed by Slovenia, Portugal, Romania and the Czech Republic, and the last places are occupied by the Philippines, Palestine, Algeria and Libya³.

¹ <https://www.spot.uz/ru/2022/03/10/ivestments/>

² Information from the Ministry of Investments, Industry and Trade of the Republic of Uzbekistan.

³ Information from the Ministry of Investments, Industry and Trade of the Republic of Uzbekistan.

In 2021, Uzbekistan was included for the first time in the Index of Regulatory Restrictions for Foreign Direct Investments of the Organization for Economic Cooperation and Development (OECD). The index is an indicator of the level of openness of the economy of different countries to foreign investors. The position of one or another country in the Index is determined based on the absence of current restrictions on the participation of foreign investors in the authorized funds of enterprises, the need to obtain additional permits, restrictions on the employment of key employees and other factors that may prevent the attraction of foreign investments in the country's economy.

According to the decree of the President of the Republic of Uzbekistan dated January 28, 2022 "On the development strategy of New Uzbekistan for 2022-2026" No. , and by 2030, it is planned to raise the per capita income to 4000 US dollars and create a foundation for entering the ranks of "countries with an income above the average". The timely implementation of these tasks defined in the development strategy is directly related to the attraction of internal and external investments to the national economy.

It can be seen that the raw materials and processing industry in Uzbekistan have been given incentives and concessions for attracting foreign direct investment. One of the urgent tasks is to develop measures to attract foreign direct investments not only in the raw materials and processing industry, but also in the fields of tourism, financial services, information technologies, health care and telecommunications.

In order to increase the competitiveness of the country's economy in the field of investment, the following reforms should be implemented systematically:

1. Improving the investment environment in the country's industries and sectors.
2. Strengthening of investment activities, including the procedures, mechanisms and organizational measures included in it.
3. Using the potential of privatization and public-private partnership to attract foreign direct investment.

Reforms are being carried out to increase the rate of attracting foreign direct investments to the economy of Uzbekistan. In order to further improve the investment environment, it will be possible to deepen economic development, industrialization and diversification in

the future by studying the experience of developed countries and putting it into practice. Reforms and measures implemented in all sectors of the country should be aimed at strengthening export potential, increasing investments and production efficiency. In addition, reforms should cover the investment system in all areas of the country, including the political sphere, improved laws and regulations.

It is necessary to increase the effectiveness of investment promotion measures in our country in order to strengthen the activity of investing in industries and sectors. Competitiveness, attractiveness, favorable investment climate, ability to demonstrate available opportunities, advertising and other factors are required to attract direct investment in industries with high added value. It also requires highly targeted investment promotion efforts and strong and proactive efforts to promote investment growth.

Acceleration of privatization of state property and the use of direct foreign investment in the development of public-private partnership (PPP) activities create a great opportunity to diversify the national economy. If public-private partnership projects are successfully implemented, the country's transport, tourism, energy, communal services, construction and social infrastructures will develop rapidly.

Public-private partnerships create more opportunities for private sector participation in the Republic of Uzbekistan, including direct investment in sectors currently dominated by state-owned enterprises.

A country's political landscape is an important factor for investors and plays a key role in attracting and retaining investment. The current political context in Uzbekistan and the main obstacles to investments reduce the possibility of increasing investment competitiveness. For this reason, it will be necessary to support the attraction of foreign direct investments, to deepen reforms to improve the investment environment, to strengthen the environment of competition, to direct the private sector to the production of export products on a large scale, to conduct systematic analysis and monitoring of investment¹.

By the end of 2020, the volume of foreign direct investments decreased by 32.7% (excluding unguaranteed foreign loans) to \$2.9 billion (a decrease of 33.8% in dollar terms), of which 22.1% went to natural gas production. 22.5% were directed to the

¹ «Towards a Prosperous and Inclusive Future: The Second Systematic Country Diagnostic for Uzbekistan» (in English). Washington, DC, World

Bank Group, 2022.6. Information from the World Bank.

production of mineral products, 9.3% to construction works¹.

In addition, today the level of direct investments for the formation of fixed capital in the industries with high export potential - mechanical engineering, electrical engineering, metallurgy, chemistry and pharmaceuticals - remains low. World practice and experience show that it is not possible to solve the problems that hinder the investment and innovative activities of business by simple means, that is, by giving incentives or developing new declarative norms.

Liberalization of business activities is required to activate private investments. Constant dialogue with business, development of practical measures to prevent obstacles to the development of certain sectors is necessary.

Also, the lack of active direct foreign investment in high-tech and human capital jeopardizes the process of achieving the goals of achieving a high level of inclusive growth and reducing poverty in the country. For this reason, the main step in the field of improving the investment environment in the country should be the formation of a complete and effective institutional framework through efforts aimed at creating conditions for attracting private and direct foreign investments².

Today, the share of Russia is high among the countries making direct investments in the economy of Uzbekistan. The value of Russia's direct investments in the economy of Uzbekistan is 9 billion. is estimated at USD 8 billion, including the investment volume of "LUKOIL" PJSC in the field of gas exploration and production. dollars (2019)³. Also, Gazprom PAO and «Zarubezhneft» JSC for oil exploration are making direct investments in Uzbekistan for hydrocarbon exploration and production. The number of companies operating in the republic with Russian capital is more than 2 thousand. On the one hand, this situation has a positive effect on the development of the national economy, but on the other hand, it can be interpreted as a negative situation that Russian companies invest only in raw materials and their processing industry, that is, in the oil and gas sector. If the existing oil and gas products in our country are processed and exported as finished products, it can bring 2-3 times additional income to the national economy.

For this reason, in order to further develop the national economy, it is necessary to pay special attention to attracting direct foreign investments as well as increasing the volume of indirect investments.

In order to further increase the effectiveness of attracting investments, including direct foreign and local investments, to the sectors and branches of the national economy of Uzbekistan, it is appropriate to implement the following measures:

- 1) establishing control over the direction of investments in the areas of production of ready-to-consumer products that cover themselves financially and meet world standards;
- 2) complete elimination of bureaucratic obstacles and restrictions in the implementation of investment projects through digitalization and remote provision of public services;
- 3) conducting scientific seminars, roundtable discussions and presentations on the benefits and opportunities given to investors in the diplomatic missions of Uzbekistan abroad;
- 4) timely improvement of relevant legal documents to increase investment attractiveness;
- 5) studying the mechanisms of bureaucratic obstacles in attracting investments to the sectors and the mechanisms of crimes and crimes being committed;
- 6) carrying out in-depth analysis and monitoring work by the relevant bodies regarding the extent to which the investments made in the sectors during the last five years have justified themselves and how much more investment in which sector will bring more income to the national economy;
- 7) to ensure the assessment of feasibility, priority and socio-economic efficiency of project implementation for the development of the national economy in branches and sectors;
- 8) conducting investment and business forums, presentations ("Road Show") and strengthening promotional activities by rationally using the opportunities of marketing companies;
- 9) Ensuring maximum transparency in the investment environment, etc.

In conclusion, it can be said that in the stable development of the country's economy, it is desirable to increase the attractiveness of investments, to develop projects based on a deep study of the possibilities of the involved sectors and industries, to forecast and monitor the effectiveness of investments, to start the production of export-oriented products

¹ Information of the State Statistics Committee of the Republic of Uzbekistan.

² <https://www.gazeta.uz/uz/2021/02/26/investments/>

³ EAES in Uzbekistan: prospective and potentially effective economic integration. Reports and working papers. Center for Integration Studies. - Moscow, 2021. Eurasian Development Bank.

based on the marketing of the market of the Central Asian region.

REFERENCES

1. Decree of the President of the Republic of Uzbekistan dated January 28, 2022 No. PF-60 "On the Development Strategy of New Uzbekistan for 2022-2026".
2. EAES in Uzbekistan: prospective and potentially effective economic integration. Reports and working papers. Center for Integration Studies. - Moscow, 2021. Eurasian Development Bank.
3. Information from the Ministry of Investments, Industry and Trade of the Republic of Uzbekistan.
4. Information of the State Statistics Committee of the Republic of Uzbekistan.
5. «Towards a Prosperous and Inclusive Future: The Second Systematic Country Diagnostic for Uzbekistan» (in English). Washington, DC, World Bank Group, 2022.6. Information from the World Bank.
6. <https://yuz.uz/ru/news/vsochayshaya-stepen-otkrivosti-ekonomiki-dlya-priamx-inostrannx-investitsiy-sredi-stran-tsentralnoy-azii-v-uzbekistane?view=uzbekistan-i-oe-rasshiryayut-investitsionnoe-sotrudnichestvo>.
7. Source: EABR Source: eabr.org // <https://e-cis.info/news/566/105694/#:~:text=>
8. <https://uz.sputniknews.ru/20221214/vop-stran-tsentralnoy-azii-prevysil-350-mlrd--ekspert-21784012.html>.
9. <https://kapital.kz/economic/104293/v-2021-godu-ob-yem-inostrannykh-investitsiy-v-rk-prevysil-23-mlrd.html>.
10. <https://news.un.org/ru/story/2022/06/1425482#:~:text=>
11. <https://review.uz/post/stran-centralnoy-azii>.
12. <https://www.gazeta.uz/uz/2021/02/26/investments/>
13. <https://www.spot.uz/ru/2022/03/10/ivestments/>