

THE ANALYSIS OF FDI INFLOWS TO DEVELOPING COUNTRIES AND KEY OPPORTUNITIES TO IMPROVE FDI ATTRACTIVENESS CLIMATE: THE CASE OF UZBEKISTAN

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ABSTRACT

Foreign Direct Investment (FDI) has become an important driver of economic growth and development in many developing countries. The aim of this research paper is to explore the essence of FDI in order to improve the foreign trade turnover in developing countries. The paper begins by providing a background on the concept of FDI, including its definition and different forms. Next, it examines the main motives and benefits of FDI for host countries, particularly in the context of developing countries. Finally, the paper concludes by discussing policy measures that developing countries can implement to attract FDI and maximize its benefits for their economies.

Key terms: *FDI (Foreign Direct Investment), Foreign Trade Turnover, developing countries, host country*

АННОТАЦИЯ

Прямые иностранные инвестиции (ПИИ) стали важной движущей силой экономического роста и развития во многих развивающихся странах. Целью данной исследовательской работы является изучение сущности ПИИ для улучшения внешнеторгового оборота в развивающихся странах. Документ начинается с предоставления справочной информации о концепции ПИИ, включая ее определение и различные формы. Далее в нем рассматриваются основные мотивы и преимущества ПИИ для принимающих стран, особенно в контексте развивающихся стран. Наконец, документ завершается обсуждением политических мер, которые развивающиеся страны могут реализовать для привлечения ПИИ и получения максимальной отдачи от них для своей экономики.

Ключевые слова: *ПИИ (прямые иностранные инвестиции), внешнеторговый оборот, развивающиеся страны, принимающая страна.*

INTRODUCTION

Foreign Direct Investment (FDI) is a type of investment in which a foreign entity establishes a lasting interest in an enterprise resident in another country. This

can take various forms, including the establishment of a new enterprise, the acquisition of existing enterprises, and the expansion of existing enterprises. FDI has become a significant source of economic growth and development in many developing countries, particularly in the context of global economic integration and increased competition for foreign capital.

The main motives for FDI include access to new markets, access to natural resources, access to new technology and management practices, and access to lower labor costs. These motives are particularly relevant for developing countries, which often have large populations and emerging markets that are attractive to foreign investors. Additionally, FDI can also bring significant benefits to host countries, including the creation of jobs, the transfer of technology and management practices, and the enhancement of infrastructure.

However, FDI can also have negative impacts on host countries. For example, FDI can lead to trade diversion, where foreign firms displace domestic firms in the domestic market, leading to a decline in the competitiveness of domestic firms. Additionally, FDI can also lead to negative impacts on the environment, labor standards, and human rights.

LITERATURE REVIEW AND METHODOLOGY

"The Role of Institutions in FDI Attractiveness" by M.A. Raza and A. Raza (2015) - This paper examines the role of institutions in FDI attractiveness in developing countries. The authors discuss the importance of institutions in shaping the investment climate and suggest ways to improve institutions in order to attract more FDI. "FDI IN CENTRAL ASIA: THE CASE OF UZBEKISTAN" by METAXAS, Theodore, KECHAGIA, Polyxeni (2016) - This literature review examines the trends and patterns of FDI inflows to Uzbekistan and the factors that influence FDI attractiveness in the country. The authors also suggest ways to improve FDI attractiveness in Uzbekistan. "Research on the impact of FDI on economic growth and market scale based on OLS (evidence from Uzbekistan)" by Zhang Lingzhi (2021) – The author discusses the trends and patterns of FDI inflows to Uzbekistan, and the factors that influence FDI attractiveness in the region. The author also suggests ways to improve FDI attractiveness in Central Asia.

THE CURRENT STATUS OF FDI IN UZBEKISTAN AND OPPORTUNITIES TO IMPROVE FDI ATTRACTIVENESS CLIMATE

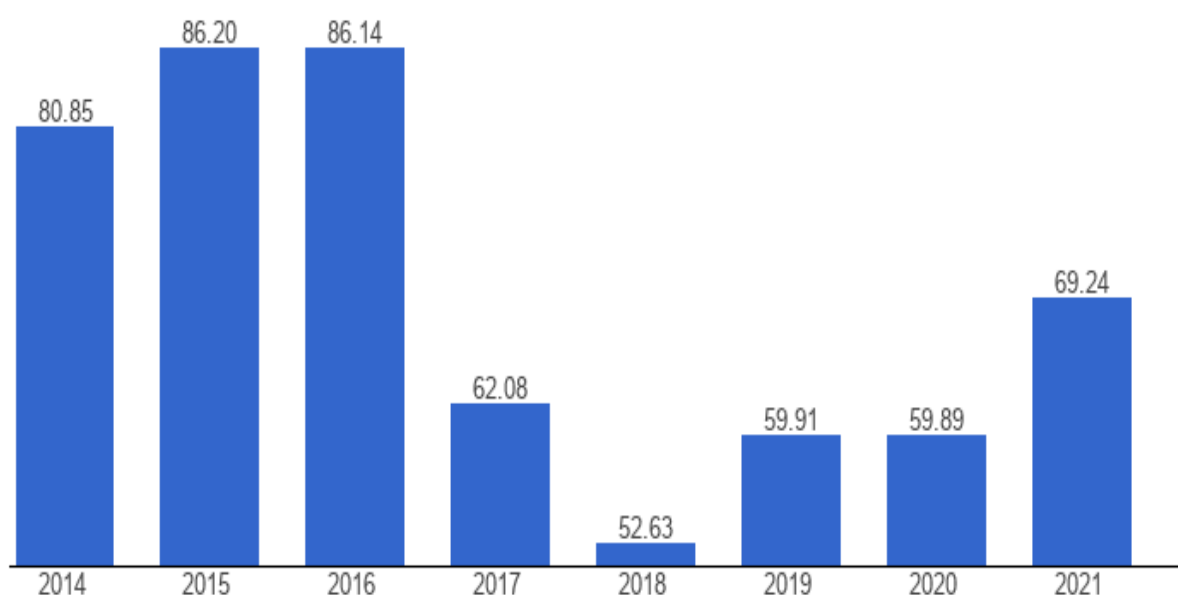
Uzbekistan has made significant strides in recent years to attract foreign direct investment (FDI) and bolster its economy. The country has implemented a number of economic and legal reforms, including the liberalization of currency exchange rates

and the simplification of business registration procedures, to create a more favorable environment for FDI.

One of the key factors that has contributed to Uzbekistan's FDI capability is its strategic location. The country is situated at the crossroads of Central Asia and serves as a gateway to the region's vast markets, including those of China, Russia, and Iran. This makes it an attractive destination for companies looking to expand their operations in the region.

The charts below provide the amount of GDP and FDI of Uzbekistan in given period:

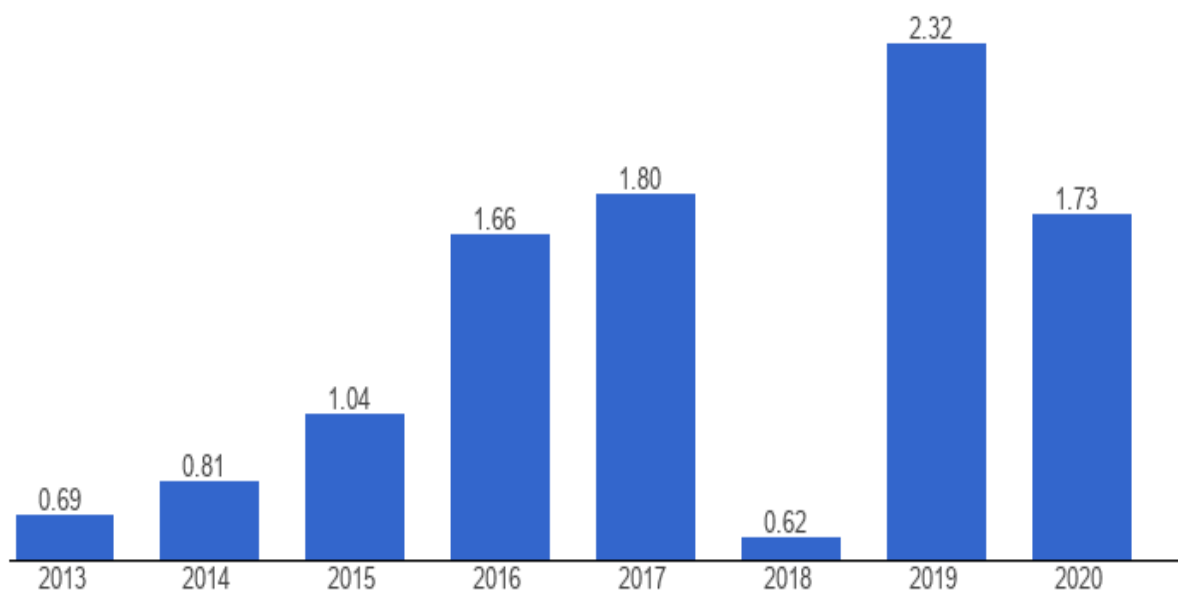
Gross Domestic Product, billions of U.S. dollars¹



Foreign Direct Investment, billion USD²

¹ World Economic Outlook Database, International Monetary Fund
<https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending>

² World Economic Outlook Database, International Monetary Fund
<https://www.imf.org/en/Publications/SPROLLS/world-economic-outlook-databases#sort=%40imfdate%20descending>



Uzbekistan's rich natural resources are also an important draw for foreign investors. The country is the world's fifth-largest producer of gold and has large reserves of oil and gas, as well as significant deposits of copper, uranium, and other metals. These resources provide a solid foundation for the development of a number of key industries, such as mining, energy, and metallurgy.

The government of Uzbekistan has also taken steps to promote FDI by establishing special economic zones and free industrial zones, which offer investors a range of benefits, including tax exemptions and streamlined regulatory procedures. These zones have attracted a number of major investors, including those in the automotive, textile, and food processing sectors.

In addition to these efforts, the government has also implemented a number of policies aimed at improving the overall business climate in the country. These include measures to combat corruption, improve the rule of law, and increase transparency in government decision-making. These policies have helped to build confidence among foreign investors and have contributed to the steady growth in FDI in recent years.

Despite these positive developments, there are also some challenges that Uzbekistan must overcome in order to further improve its FDI capability. One of the main challenges is the need to improve the country's infrastructure, particularly in the areas of transportation and telecommunications. Additionally, the country still needs to further improve the transparency and predictability of its legal and regulatory framework.

DISCUSSION AND RECOMMENDATIONS

There are several opportunities to improve Foreign Direct Investment (FDI) inflows to Uzbekistan:

Economic reforms: The government of Uzbekistan has implemented a number of economic reforms in recent years, such as liberalizing currency exchange rates, reducing state control over industry, and simplifying business registration procedures. These reforms have the potential to attract more FDI by making the country more attractive to foreign investors.

Developing infrastructure: Uzbekistan has a large and young population, but lacks modern infrastructure. Investing in transportation, power and internet infrastructure can provide necessary support for businesses and attract more FDI.

Focusing on specific sectors: The country has significant natural resources, including gas, oil, gold, and cotton, as well as a growing tourism industry. The government could focus on attracting FDI in these sectors by offering incentives such as tax breaks or streamlined regulations. **Improving transparency:** Uzbekistan has been ranked as one of the most corrupt countries in the world. Improving transparency and reducing corruption would help to create a more attractive investment environment and would increase confidence among foreign investors. **Improving legal and regulatory framework:** The country could also consider improving its legal and regulatory framework to make it more investor-friendly. This could include measures such as simplifying the process for obtaining business licenses, streamlining regulations, and improving the efficiency of the legal system. **Opening up to the world:** The country has been closed for a long time, but with improving relations with neighboring countries and the world at large, Uzbekistan can open up to the world and increase trade and investment.

Providing more information and support for foreign investors: Uzbekistan could also consider providing more information and support for foreign investors, such as through the creation of an investment promotion agency or the establishment of a one-stop shop for investors.

POLICY MEASURES TO ATTRACT FDI

In order to attract FDI and maximize its benefits for their economies, developing countries can implement various policy measures. These include:

Creating a favorable business environment: Developing countries can improve their business environment by reducing bureaucracy, improving the rule of law, and combating corruption.

Providing incentives for FDI: Developing countries can provide various incentives for FDI, such as tax holidays, subsidies, and investment guarantees

Improving infrastructure: Developing countries can improve their infrastructure in order to attract FDI, such as by investing in transportation, energy, and telecommunications infrastructure.

Building human capital: Developing countries can invest in human capital by improving education and training, in order to create a skilled workforce that can attract FDI.

CONCLUSION

This working paper provides evidence that FDI inflows in Uzbekistan are positively associated with economic growth, trade openness, and political stability, and negatively associated with corruption and the quality of institutions. Based on these findings, the paper suggests several policy recommendations for the government of Uzbekistan to improve the FDI attractiveness climate in the country.

There are several opportunities to improve FDI inflows to Uzbekistan, such as implementing economic reforms, developing infrastructure, focusing on specific sectors, improving transparency and reducing corruption, improving legal and regulatory framework, opening up to the world and providing more information and support for foreign investors.

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