

DIRECT – REDUCTION OF COUNTRY RISKS IN ATTRACTING FOREIGN DIRECT INVESTMENT

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Abstract

The article reveals ways to reduce the country's risks in attracting foreign direct investment. Also, ways of guaranteeing foreign investors by KTIKA (multilateral investment guarantee agency) to investors and creditors have been studied by international organizations. Among other international organizations (Special Foreign Investment Company, Organization for Economic Cooperation and Development), ways of assessing project risks based not only on economic criteria, but also on socio-ecological criteria have been researched.

Keywords: Investment, foreign direct investment, GDP, country risks, BMT, IHTT, MCHEIK, KTIKA.

Introduction

Foreign direct investment plays a significant role in the economic development of developed and developing countries. Despite the positive trends in recent years, experts believe that the COVID-19 pandemic could lead to a 4.3 percent decline in global GDP in some countries [1]. Foreign direct investment flows are expected to decline due to the pandemic. According to experts at the United Nations Conference on Trade and Development, there will be a decrease in demand for investments in securities and the mining industry. Foreign direct investment is expected to decline from almost \$1.5 trillion to \$1 trillion. This will lead to a decrease in investment for developing countries that are dependent on foreign direct investment. In this regard, countries around the world are implementing special measures to attract foreign direct investment in order to support the growth of their national economies [2].

In recent years, foreign direct investment in the amount of 31 billion US dollars has been attracted in accordance with programs in all sectors. As a result, over the past 5 years, we can see that the industry has grown 1.4 times, and the volume of exports has increased by 1.5 times. In the next 5 years, for the sustainable growth of the economy, the goal is to increase the industry by another 1.5 times, and bring exports to 30 billion US dollars. For this, it is predicted that 120 billion US dollars of investment will be absorbed, including 70 billion US dollars of foreign investment. In 2022, this figure will be increased to 11 billion US dollars of foreign direct investment, and future tasks have been set for targeted work with large investors.



REVIEW OF RELATED LITERATURE

Let's consider the definitions of scientists on reducing the country's risks when attracting direct foreign investments. In particular:

According to A.Sh. Bekmurodov, direct foreign investment is the direct export of capital that gives the investor the right to control the enterprise, thereby turning the enterprise into a foreign subsidiary of the parent company [3].

A.B. Vakhobov argues that direct foreign investment is a long-term investment that allows the investor to effectively control economic activities, allowing the investor to own at least 10 percent of the firm's shares or shareholders' capital [4].

A.S. Azizov defines direct foreign investment in his scientific work as follows. It is emphasized that the term foreign direct investment should be understood primarily as an investment in a foreign enterprise by providing partial or full control over economic activities [5].

In the article, we consider it appropriate to consider the views of foreign scholars on the concept of country risk in order to clarify the topic. D. Melderum - the following definition of the concept of country is noteworthy ... all commercial transactions are to some extent associated with risk, commercial transactions carried out across international borders are exposed to additional risks that are not present in domestic transactions [6].

If we consider the Law on Investments and Investment Activities, the law provides a separate definition of the concept of foreign direct investment. Foreign direct investment is considered to be investments by a foreign investor at the expense of his own funds or borrowed funds without government guarantees, in risky conditions [7].

RESULTS AND DISCUSSION

The normative documents adopted in Uzbekistan and based on international investment law norms were analyzed. The main regulatory legal acts of Uzbekistan recognize the right of investors to apply international legal norms registered at the International Center for Settlement of Investment Disputes and the United Nations Conference on Trade and Development. It was noted that the introduction of international legal acts in the field of foreign direct investment is an important positive factor in improving not only the investment attractiveness of Uzbekistan, but also the business environment in general. That is, the ratification and implementation of international investment agreements, the recognition of international arbitration will significantly increase the confidence of potential foreign investors in our economy.

The Address of the President also emphasized the need to attract foreign consultants and turn special and small industrial zones into "drivers" of regional development, and to place newly created production capacities in them. They emphasized the importance of developing new products in sectors such as textiles, leather, building materials, electrical appliances, food, pharmaceuticals, and jewelry, and entering new markets by bringing in global brands.

Today, the socio-economic development of the countries of the world is sharply different in its meaning and content from previous stages. The most important aspect is the increasing integration and globalization of the national economy, which leads to the intensification of competition in the international arena and the intensification of the struggle of each country to strengthen its position in the international division of labor. In this struggle, countries that have



attracted more foreign investment to the national economy and organized the modernization of the economy have achieved high levels of economic development and are dominating global competition. In turn, the Republic of Uzbekistan, in order to attract more foreign investment from the international capital market to the national economy, is also improving its investment activities by becoming a member of international financial institutions and using the experience of developed countries. The investment policy in our country, in line with international norms, is characterized by increasing the attractiveness of large-scale foreign investment and improving the investment climate. The main goal of this investment policy is to systematically implement factors that affect the incomes of the population and ensure the quality of life. The effectiveness of these reforms, in turn, directly depends on the level of foreign direct investment.

We consider it appropriate to ensure the practical implementation of the following tasks to improve the system of attracting foreign direct investment to the economy and reduce the country's risks:

- harmonizing national legislation on foreign direct investment with international and regional standards, using various model legal regulation methods for state support of investment activities in international experience;
- providing additional incentives and benefits to high-tech industries and enterprises that develop and implement innovative projects;
- developing cooperative relations with enterprises with foreign direct investment, in particular, ensuring the integration of the local economy into the world market through their entry into the production chain.

Today, our country participates in some global indices. In particular, in the Doing Business ranking maintained by the World Bank, Uzbekistan ranked 166th out of 190 countries in 2012. As a result of the measures implemented within the framework of the Decree of the President of the Republic of Uzbekistan “On measures to further radically improve the business environment and provide greater freedom to entrepreneurship”, our country managed to rise to 64th place by 2021, that is, it was achieved an increase of 98 positions in 8 years. This will lead to an increase in the volume of investments in our country by investors. However, investors mainly need information provided by international ratings, but our country is still not a member of international ratings. It would be appropriate to ensure the active participation of New Uzbekistan in these indices. In particular:

It is necessary to ensure participation in the Global Competitiveness Index, Foreign Investment Attraction Index, Regulatory Constraints for Foreign Direct Investment Index, Investment Confidence Index, and Industrial Competitiveness Index.



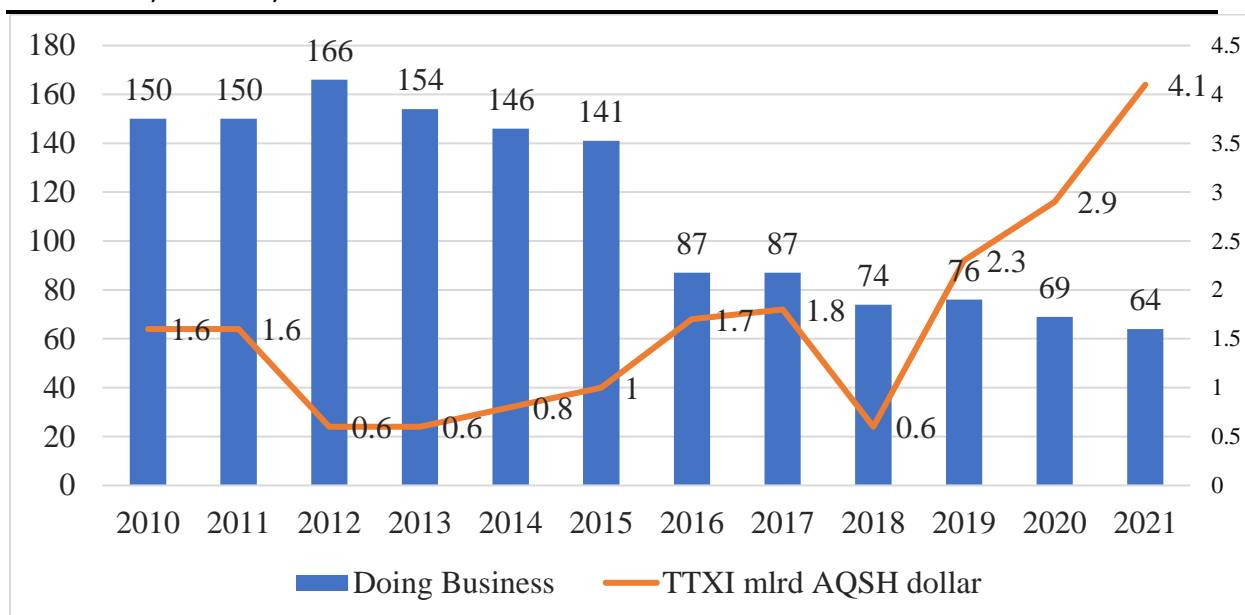


Figure 1. Uzbekistan's position in Doing Business and the volume of foreign direct investment attracted to the country in 2010-2021 [8]

However, this growth has not led to a proportional increase in the volume of foreign direct investment. The reason for this is the low inflow of foreign direct investment due to the lack of active participation in the above-mentioned indices.

There are the following problems in attracting foreign direct investment, some of which we will touch upon: high credit interest rates and poor functioning of the credit system; difficulty and backwardness of connection to the production infrastructure; difficulty in allocating buildings and land; problems with certification and licensing of products and services, among others.

In order to eliminate the problems that hinder the activities of foreign investors, we consider it appropriate to ensure the practical implementation of a number of tasks: for the rapid financing of promising, urgent investment projects, it is necessary to establish a special investment fund in the region with an authorized capital of at least 5 million US dollars from the surplus of the local budget; as an alternative option (proposed by foreign investors), it is appropriate to ensure the participation of commercial banks in projects as partners (partners).

Guarantees, privileges and other instruments provided to foreign and national investors were considered. The classification of foreign investments, the procedure for their attraction and the flexibility of the investment legislation of the Republic of Uzbekistan are ensured by additional privileges provided for in agreements concluded with the Cabinet of Ministers. Special economic zones and small industrial zones also play a significant role in increasing investment attractiveness.

Particular attention is paid to the experience of international institutions in the field of investment risk management. In particular, providing guarantees for foreign investments is of great importance in ensuring the sustainable growth of foreign direct investment in developing countries of the world. Without certain guarantees, it would be impossible to invest

international capital in such important sectors as energy, environmental protection, agriculture, road and infrastructure construction.

Numerous investment projects guaranteed by non-governmental and international non-profit organizations have led to the successful development of economic sectors on the African continent (even in high-risk countries where military conflicts are taking place).

The Multilateral Investment Guarantee Agency (MIGA) is helping to attract foreign investment to developing countries by providing guarantees to investors and creditors. The main task of the MIGA is to provide guarantees for investment projects implemented in countries where the risk of expropriation or confiscation of the assets of transnational companies, war and civil unrest is high.

The Multilateral Investment Guarantee Agency provides guarantees against losses in the following situations: lack of opportunities for fair arbitration, emphasis on the freely convertible currency of the local currency, deprivation of property rights to the insured object, losses caused by military conflicts or civil unrest [9].

In 2020, projects worth 6 billion US dollars were insured, and the total amount of projects amounted to 22.6 billion US dollars. In 2019, these figures amounted to 5.55 billion and 23.3 billion US dollars, respectively. That is, for each insured asset worth 1 US dollar, the volume of investments attracted to the countries amounted to approximately 4 US dollars.

CONCLUSION

The following conclusions were drawn on reducing the country's risks when attracting foreign direct investment. In particular:

1. The introduction of international legislation in the field of investment will serve as an important positive factor not only in improving the investment attractiveness of Uzbekistan, but also in improving the business environment in general. In particular, the ratification and implementation of the Declaration of the Organization for Economic Cooperation and Development on International Investment and Transnational Enterprises will significantly increase the confidence of investors in our economy, which will significantly increase the confidence of the European Union in our economy.
2. The current legislation of the Republic of Uzbekistan provides for the right to resolve disputes in the field of investment through international arbitration. This is an important advantage, creating the opportunity for foreign investors to fairly resolve disputes in Uzbekistan or abroad.

The following suggestions and recommendations can be made to further improve the attraction of foreign direct investment:

- sale of state shares (shares) in the authorized capitals of economic entities in the chemical and oil and gas industries, mechanical engineering, banking and insurance organizations;
- development of ready-made investment proposals to attract foreign direct investment;
- wide use of investment and business forums, presentations ("Road Shows") and marketing campaigns;
- establishment of priority areas for the implementation of public-private partnership projects.



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