

# CURRENT STATUS AND TRENDS OF ATTRACTING DIRECT FOREIGN INVESTMENTS TO THE UZBEKISTAN ECONOMY

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## Abstract

This study examines the state and trends of attracting foreign direct investment into the economy, describes the economic essence of foreign direct investment, examines the role and importance of foreign direct investment in economic development, considered as one of the important financial mechanisms for attracting foreign investment into the national economy, and provides conclusions and recommendations based on international experience.

**Keywords:** Foreign investment, modernization, diversification, innovation, cross-border investment, international business, know-how.

## Introduction

Investment activity determines the basis for the successful development of the world economy, and also helps to determine the prospects for modernization and diversification of the economies of various countries of the world. The importance of foreign investment is reflected in the international division of capital, as well as in the search for ways to get more profit from entrepreneurial activity abroad than in the investor's own country. By attracting foreign investment in the international capital movement for the country, the production and service sectors develop, new innovative sectors appear, and taxes are paid to the national budget. To effectively attract foreign investment to the economy, Uzbekistan needs to increase the attractiveness of the investment climate, correctly assess the socio-economic potential of the regions, and increase the package of benefits and preferences provided to foreign investors. The task of "improving investments worth \$ 250 billion in our country, including \$ 110 billion in foreign investments and \$ 30 billion in investments within the framework of public-private partnerships" has been set. There is a foreign direct investment market in the world, which embodies the movement of private foreign investment.

"Foreign direct investment is a type of cross-border investment in which an investment by a resident of one economy in an enterprise resident of another economy provides the opportunity to control or exercise significant influence over its management. In this case, at least 50 percent of the voting rights of the enterprise are required to control management, and 10-50 percent of

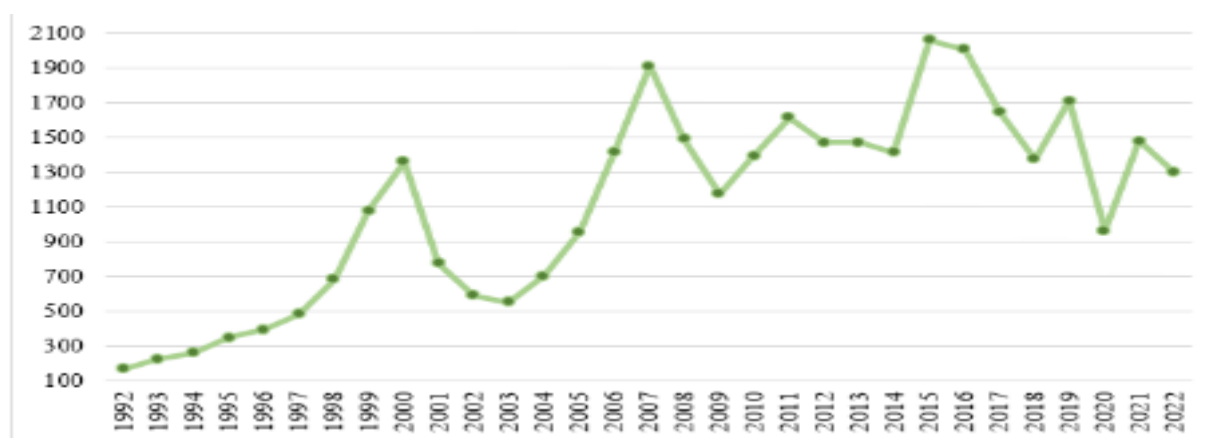


the voting rights are required to exercise significant influence over it”<sup>1</sup>. Direct investment is aimed not only at generating income, but also at expanding the sphere of influence and securing future financial interests.

The United Nations Trade and Development Organization defines foreign direct investment in its 1999 World Investment Report as follows: “FDI is an investment by a resident unit (foreign investor or parent company) in one economy in an enterprise resident in another economy for the purpose of establishing a long-term relationship, continuing interest and control”<sup>2</sup>.

The International Monetary Fund defines direct investment as follows: it is an investment made to participate in the profits of an enterprise operating in a foreign country and the investor’s objective is the right to participate directly in the management of the enterprise. “Foreign direct investment can take three different forms: greenfield (zero-sum) investments, cross-border mergers and acquisitions (M&As), and joint ventures”<sup>3</sup>.

In modern conditions, investment activity around the world is uneven and depends on many factors. Developed countries are always ready to attract foreign direct investment, develop all sectors of economic life, and actively cooperate on a global scale. For developing countries, it is much more difficult to determine the vector of development due to wars, environmental problems, crises, and other factors, which limit their potential economic growth and prevent them from going beyond their capabilities. The World Investment Report, published annually by the United Nations Organization for Trade and Development (UNCTAD) since 1991, also publishes detailed statistical data on foreign direct investment.



**Figure 1. Dynamics of foreign direct investment in the world in 1992-2022 (billion US dollars)<sup>4</sup>**

Over the past 5 years, the volume of foreign direct investment has increased 30-fold and by the end of 2022 it amounted to 1.29 trillion USD (Figure 1). However, this figure is 12 percent

<sup>1</sup> Balance of payments and international investment position manual. 6th ed. –Washington, D.C.: International Monetary Fund, 2009. P. 100–110.

<sup>2</sup> World investment report. 1999, UNCTAD.

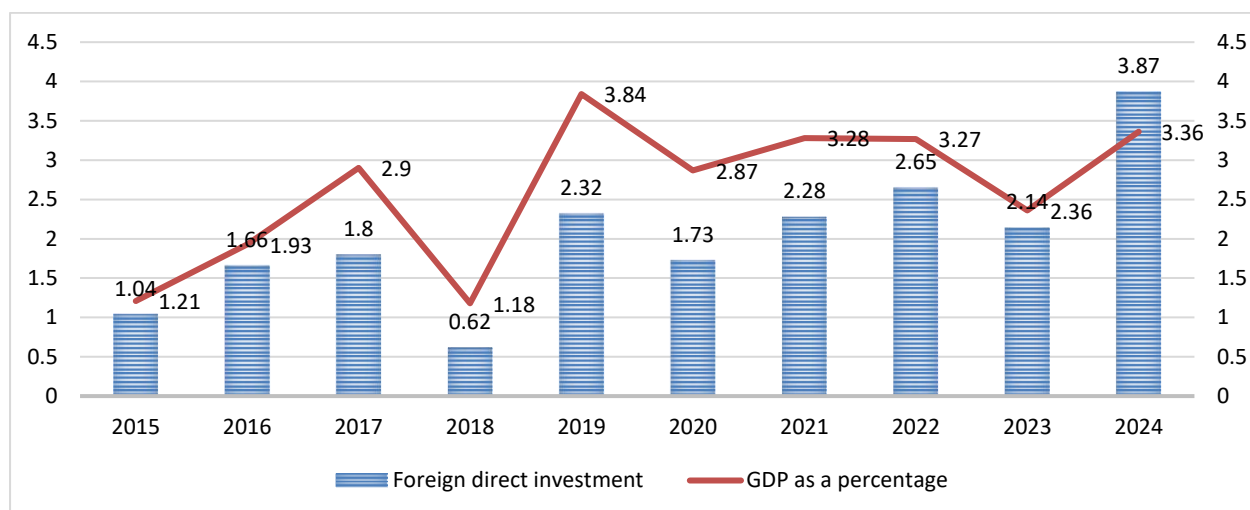
<sup>3</sup> Dunning, J. Multinational Enterprises and the Global Economy. – Harlow: Addison-Wesley, 1993.

<sup>4</sup> UNCTAD Data Centre: Foreign Direct Investment: Inward and outward flows and stock, annual, 1992-2022. – [Electronic resource]. – Access mode: <https://unctadstat.unctad.org/datacentre/reportInfo/US.FdiFlowsStock>.

lower than in 2021 and 2.06 trillion USD below the peak in 2015, which is seen as a result of rising food and energy prices, rising debt, as well as tensions between Russia and Ukraine and uncertainty in the Middle East.

The main methods of implementing foreign direct investment at the international level are: establishing a wholly owned subsidiary or enterprise abroad; purchasing or taking over foreign enterprises; financing the activities of foreign subsidiaries, including through intra-corporate loans and loans granted by the parent company to a foreign subsidiary; purchasing land use rights (including leases), natural resources and other property rights; granting the right to use certain technologies, know-how, etc.; purchasing shares or units in the authorized capital of a foreign company that give the investor the right to control the activities of the enterprise; reinvesting the investor's profits in the country where the subsidiary or joint venture is located. As a representative of the Central Asian countries, foreign direct investment plays an important role in the development of Uzbekistan's economy.

From the data in Figure 2 below, we can see that if we analyze the volume of foreign direct investment attracted to Uzbekistan in 2015-2024 and its ratio to GDP in percentage terms, in 2015, foreign direct investment amounted to 1.04 billion US dollars, which was 1.21 percent of GDP, while by 2024 this figure amounted to 3.87 billion US dollars, which was 3.36 percent of GDP. Over the decade, foreign direct investment increased by 2.83 billion US dollars in 2024 compared to 2015. Despite the overall growth trend observed over the decade, there was a decrease in the flow of foreign direct investment in 2018 (0.62 billion US dollars) and 2020 (1.73 billion US dollars). This is explained by the conditions of the 2020 pandemic.



**Figure 2. Foreign direct investment inflows to Uzbekistan in 2015-2024, in billions of US dollars, as a percentage of GDP<sup>5</sup>**

The role of foreign direct investment is not only to have a significant impact on the national economy and international business in general, but also: in its ability to activate investment processes due to the multiplier effect inherent in investments; in stimulating effective

<sup>5</sup> <https://www.macrotrends.net/countries/UZB/uzbekistan/foreign-direct-investment> compiled by the author based on statistical data.

investments in the material base, promoting general socio-economic stability; in combining practical skills and qualified management with mutually beneficial exchange of know-how, which facilitates access to international markets; in stimulating the development of medium and small businesses; in properly organizing the acceleration and stimulation of the development of sectors and regions; in coordinating the growth of employment and stimulating the growth of population incomes, expanding the tax base; in creating export products with a high share of added value, innovative goods and production technologies aimed at the consumer, and in quality management issues.

Analyzing the data in Table 1 below, although the volume of foreign direct investments has a tendency to increase in the last five years, their share in the GDP fluctuates at an average of 32.7 percent. Foreign direct investments amounted to 28.7 trillion soums in 2020, and will reach 150.5 trillion soums by 2024, increased by 524.4% to soum. The share of foreign direct investments in fixed capital investments increased to 13.6 percent in 2020, and in 2024 this indicator reached 30.5 percent.

**Table 1 Dynamics of foreign direct investment in Uzbekistan (trillion soums)<sup>6</sup>**

Indicators	Years				
	2020	2021	2022	2023	2024
GDP	605,5	738,4	896,6	1066,6	1 454,6
Investments in fixed capital	210,2	239,6	266,2	352,1	493,7
<i>Share in GDP</i>	34,7%	32,4%	29,7%	33%	34,0%
Foreign direct investment	28,7	30,1	37,0	84,3	150,5
<i>Share in GDP</i>	4,7%	4,1%	4,1%	7,9%	10,3%
<i>Share of investment in fixed capital</i>	13,6%	12,6%	13,9%	24%	30,5%

We analyze the position of foreign direct investment, which is one of the main forms of financial mechanisms for attracting foreign investment, in fixed capital investments by sources of financing in the country.

<sup>6</sup> Prepared based on data from the State Statistics Agency of the Republic of Uzbekistan.

**Table 2 Capitalized investments by sources of financing (trillion soums)<sup>7</sup>**

Funding sources	Years				
	2020	2021	2022	2023	2024
Population funds	18,1	22,2	25,70	33,3	32
Foreign direct investment	28,7	30,1	37	84,3	150,5
Unsecured and other foreign investments and loans	35,4	56,9	60	82,4	159,6
Enterprise funds	51,9	71,2	84,5	84,9	87
Commercial bank loans and other debt funds	28,5	19,5	21,1	22,3	12,7
Foreign loans under the guarantee of the Republic of Uzbekistan	22,5	17,3	15,2	21,2	23,6
Recovery and Development Fund	1,8	3,1	2,5	1,6	3,6
Development of water supply and sewage systems	1,9	2,9	2,9	1,7	1,9
Republic budget	1,3	2,1	20,9	20,4	22,8

Table 2 shows that in the structure of sources of financing for investments in fixed capital, foreign direct investments amounted to 150.5 trillion soums in 2024, ranking second after unsecured and other foreign investments and loans (159.6 trillion soums). According to the table, although the share of decentralized sources of financing in sources of financing for fixed capital is high, the volume of loans and other debt funds from commercial banks has decreased (from 28.5 trillion soums in 2020 to 12.7 trillion soums in 2024). This is also explained by the high interest rates on loans from commercial banks. 32.0 trillion soums were borrowed from the population, and investment activities were carried out mainly in the field of housing construction at the expense of population funds.

Therefore, the Central Asian countries should not compete with each other in successfully attracting foreign direct investment to their economies, but rather create an attractive overall investment climate and improve the indicators of political, economic, social and environmental factors that affect this environment.

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<sup>7</sup> Prepared based on data from the State Statistics Agency of the Republic of Uzbekistan.