

Analysis of Foreign Investment in the Economic Growth of the Republic of Uzbekistan

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Abstract: *Attracting foreign direct investment - as a guarantee for the development of regional exports. There is discussed in the article importance of the role and the influence of factors on the development of the regional economy and export as a result of attracting foreign direct investment and analyze the involvement of foreign direct investment during the years of independence. Also considered ways to attract foreign direct investment in the economy of Uzbekistan.*

Keywords: foreign direct investments, modernisation, export, region, diverse competitive production, innovational technologies, competitive products, investment atmosphere

1. Introduction

The Government of Uzbekistan is paying special attention to attraction of investments in order to provide stable development of the market economy. Since attraction of investments is an essential factor that enables development of production. Directing internal and external investments into our economy guarantees fundamental changes in our economy. 'Financing investment projects in our republic has a tremendous impact on the development of economic and political factors. Outlining main directions of investments, making scientifically backed investment decisions, wisely managing investments, attracting internal and external financial sources considering all the circumstances determines the future of the national economy. Finding necessary financial resources has become a requirement for an economic growth.' [4]. This is firstly related to the ratio of consumption and savings. Application of market mechanisms of investment, expansion of forming investment resources through the financial market, using untraditional financing resources, exploring the practice deeply and generalization of these has been put at the top of the agenda of the day.

As President ShavkatMirziyoyev noted in his addressing to the parliament of Uzbekistan 'in 2019 the country is planning to receive 13 trillion somsof investment, this is 16 per cent greater than in 2018. Foreign direct investments account for over 4.2 billion US dollars of the investments that are projected to receive.' [2].

Nowadays Uzbekistan's economic, political, cultural relations with foreign countries are developing like never before. It could be said that the country is becoming an integral part of the international community. Currently, in collaboration with Russia, Japan and several South-East Asian countries, modernisation of leading spheres of our industries, technical and technological enhancement, wide application of innovational technologies in production processes are being implemented. It is worth noting that the President of the country approved the action strategy for development of the Republic of Uzbekistan between the years of 2017 and 2021, and boosting the country's export potential to a higher level through effective utilisation of mineral resources, agriculture and other industrial

opportunities of the country has been assigned as a major function. It should be pointed out that modernisation of production, localisation, production of goods that substitute import, and most importantly, expansion of export geography of finished products are considered as locomotives of the reforms.

Furthermore, attraction of investments into the economy of the country accelerates expansion of its economic opportunities, facilitates advancement of the country economy through acquiring modern technologies and carving out ways for production of goods for export purposes.

2. Analyses of References

Investments, foreign investments, their analyses were put forward by the following foreign experts: Bailey J., Lawrence J., Zhonk MD, Maers S, Rose Peter S., Rosenberg J.M., Siegel J. Soros, Francis F. Fies, Havranek PM and others. Sushama Deshmukh[10], Davies S., Hallett M.[6] have researched on directing foreign investments to regions.

Additionally, several economists gave their definitions to the term *foreign investments*. F. Henius's book *Dictionary for Foreign Trade*, second edition, published in the USA, in 1947, defines the term *foreign investments*: 'Foreign investments are investments that are exported from one country to another country.' [9]. The researchers did not ignore significance of cultural relations and moral factors in perspective development of regions. L. Delyusin[7] and L. Perelomov's[8] analyses evaluate advantageous and disadvantageous sides of Singaporean and Chinese economic reforms, consequences of Confucius teachings and Mao Zedong's reforms in the angle of national and regional values.

Additionally, the CIS (the Commonwealth of Independent States) scientists such as Bocharov V.V., Volkov I.M., Lipsits I.V., Pavlov I.T., Postnikov A.V., Sidelnikov L.B., Smirnov A.L., Tumusov F.S., Cherkasov V. E. and others studied and researched on involvement of foreign investment and financing issues. The other group of the CIS experts such as Tumusov FS, [11] Butov V.I., Ignatov V.G., Kerova N.P., [3] Granberg A.G., [5] mainly discussed about

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effective and theoretical bases of organizing advanced production by involving investments.

Investments and matters related to attraction of foreign investments have been discussed by the scientists of Uzbekistan M.S. Angelidi, F.D. Dodiev, N. Karimov, S.A. Nuriddinov, H.A. Omonov, M.F. Ochilov, O.Sh. Sobirov, D.G. Ghozibekov, K. Bhashimov and others.

3. Research Methodology

In this article, scientific-speculative, abstract-logical, comparative and systematic analysis, analysis and synthesis, induction and deduction methods have been used.

4. Analysis and Results

As for foreign investments in the Republic of Uzbekistan, in 2019 alone, 112 essential projects with over 4.2 billion US dollar amount of investment are going to be implemented.

Enabling complex and proportional development of areas, efficient usage of regional natural resources, production and labor capacity, optimal placement of production powers as well as living condition of people should be systematically improved. In order to achieve these purposes people's geographic location, climate, history, land resources should be taken into account and small and family business entities should be encouraged to develop. These tasks ought to be performed under an accurate program.

On January 12, 2017, the President of the Republic of Uzbekistan approved a decree to establish *Urgut, Ghijduwan, Kokand* and *Hazarasp* free economic zones (FEZs) for several reasons such as – providing production of highly demanded and competitive outputs for international markets, organizing contemporary production units for refinery of mineral and agricultural resources, creation of investment-friendly atmosphere to attract local and foreign investors, moreover, comprehensive and effective use of production and resources potential of Samarkand, Bukhara, Ferghana and Kharezmi provinces, building new work places and boosting people's income. These have been a continuing part of *Navai, Angren, and Jizzakh* free economic zones (FEZ) existed before 2017.

As a part of the investment program, in 2018 alone over 600 major investment projects were undertaken as well as over 165 new companies were established. It is noteworthy that joint ventures are primarily being founded in the high-tech fields such as food industry, electrical engineering, chemistry and petrochemistry, machinery, construction industry, telecommunication and information technology. As the first table presents, the total amount of the foreign investments comprised 823.9 million US dollars in 2001, and 96.5 million dollars of that was the share of the foreign direct investment. In 2013, the figures accounted for 3000 million US dollars and 2200 million dollars respectively. As the table denotes, in 2017, the numbers continued to increase steadily reaching a new level of 3184.6 million US dollars of foreign outlay, over two-thirds of which (2420.4 million dollars) was the proportion of foreign direct investments. Thanks to the measures intended to boost investment

attractiveness, between January and December in 2017, the total amount of foreign direct investment and other investments underwent 33.2 % increase and made up 12395.2 billion soms and its proportion in the total investment in the country economy reached 20.4 %. The volume of foreign direct investment and loans accounted for 5 per cent of the total GDP making it 1.3 per cent higher than the preceding year.

Table 1: Annual Dynamics of Investment Amounts and Foreign Direct Investment (FDI) Invested in the Economy of the Republic of Uzbekistan [14]

Years	Foreign Investments (millions of US dollars)	Foreign Direct Investments (millions of US dollars)
2001	823,9	96,5
2002	516,5	80,1
2003	602,1	166,7
2004	754,6	333,8
2005	746,6	545,5
2006	895,7	683,8
2007	1009,3	768,4
2008	1700	1258
2009	2300	1800
2010	2790	2400
2011	2900	2320
2012	2500	1975
2013	3000	2200
2016	3578,1	2479,6
2017	3184,6	2420,4

The decree about 'The Action Strategy for Further Development of the Republic of Uzbekistan' approved and signed by President Shavkat Mirziyoyev of the Republic of Uzbekistan has contributed to the growth of investment attractiveness chances. They are consisted of the following [1]:

Providing timely implementation of the set of programs intended to cover 649 investment projects that cost 40 billion US dollars for refinery of mineral resources.

Establishing 145 production units that cost 1 billion US dollars in the year of 2017, including:

- 63 projects with 147 million dollars of investment to refine fruit and vegetables, meat and milk;
- 6 projects with 217 million dollars of investment for thorough refinery of colored and precious metals
- 2 projects costing 25 million US dollars for thorough refinery of chemical raw materials
- 6 projects with 342 million dollars of investment for deepening of hydrocarbon supplies
- 9 projects costing 6 million dollars for expansion of leather-footwear production
- 7 projects costing 24 million US dollars of investment for enlargement of pharmaceutical goods production
- 29 projects costing 151 million US dollars of investment for further expansion of construction materials
- 15 projects costing 178 million US dollars for augmentation of
- 15 projects for extension of textile goods production

The main capital was allocated as described below in terms of types of economic activity: 12405,3 billion soms in

mountaintop mining industry (20,4 per cent of total investments), 11139,7 billion soms (18,3 per cent) in the procurement of crude oil and natural gas, 8746,8 billion soms (14,4 per cent) in manufacturing industry, while 1265,4 billion soms (2,1 per cent) in foodstuff, beverages and tobacco products, 1446,4 billion soms (2,3 per cent) in textile products and clothing manufacture, 838,9 billion soms (1,4 per cent) in the production of chemical goods, 1102,8 soms (2,8 per cent) in the production of non-metal and non-mineral products.

Table 2: Proportion of investments made in the economy of the Republic of Uzbekistan in 2017 [13]

Types of Economic Activity	Amount of investment (billions of Uzbek soms)	Percent of total (%)	
		2016 й.	2017 й.
Total	60719,2	100	100
Agriculture, forestry and fish-keeping	2004,3	3,2	3,3
Mountaintop mining industry	12405,3	18,1	20,4
Manufacturing industry	8746,8	14,4	14,4
Providing with electricity, gas, steam and conditioning the air	5262,5	5,3	8,7
Water supply; sewage system, waste collection and recycling	742,8	1,2	1,2
Construction	2472,3	4,6	4,1
Wholesale and retail; repair of motor vehicles and motorcycles	2850,5	5,9	4,7
Transportation and storing	5298,2	10,8	8,7
Living and food services	760,6	1,0	1,3
Information and communication	1891,2	2,4	3,1
Finance and Insurance	706,7	0,9	1,2
Professional, scientific and technical activity	781,7	0,9	1,3
Education	1188,4	2,5	2,0
Health care and social services	1393,1	1,9	2,3
Investment in accommodation	10874,5	20,0	17,9
Other activities	3340,3	6,9	5,4

Furthermore, investments and loans were attracted into the following spheres: 1305.6 billion soms (2.2 %) in metallurgy, 5262.5 billion soms (8.7 %) in supplying electricity, gas, steam and conditioning the air, 2472.3 billion soms (4.1%) in construction field, 5298.2 billion soms (8.7 %) in transportation and storage field, 2850.5 billion soms (4.7 %) in wholesale and retail, repair of motored vehicles and motorcycles, 1891.2 billion soms in (3.1 %) in information and communication, 781.7 billion soms (1.3 %) in professional, scientific and technical activity, while 1188.4 billion soms (2.0 %) in education and besides all these, 10874.5 billion soms (17.9 %) in construction of housing.

Table 3: Export and Import Indicators of the republic of Uzbekistan in terms of types of products [12, 13], (million of US dollars)

Types of Production	2009	2010	2013	2016	2017
Total Export	11771,3	13023,4	15087,2	12178,7	13893,6
Out of that:					
Cotton fiber	1012,7	1572,7	1161,7	637,3	477,1
Chemistry and chemical products	584,5	661,3	603,5	841,1	883,2
Ferrous and non-ferrous metals	585,4	894,4	950,5	708,6	917,5

Machinery and equipment	337,8	715,4	829,8	220,7	353,3
Food and foodstuff	711,9	1260,5	1478,5	694,5	875,8
Services	1031,7	1335,5	2444,1	3204,7	3505,7
Sources of energy and crude oil products	4031,9	2973,8	4692,1	1713,8	1920,0
Others	3475,4	3609,8	2926,9	4158,0	4961,0
Total import	9438,3	9175,8	13798,8	12130,7	13013,4
Out of that:					
Chemistry and chemical products	1245,7	1265,7	1973,2	2119,6	2148,3
Ferrous and non-ferrous metals	598,0	742,1	1090,1	920,5	1275,0
Machinery and equipment	5335,0	4032,5	6099,1	5018,0	5057,8
Food and foodstuff	850,8	963,2	1338,5	1439,7	1273,9
Energy sources and oil products	326,1	654,6	993,5	589,0	742,1
Services	410,4	490,4	800,3	802,3	978,2
Others	872,1	1027,3	1504,1	1241,6	1538,1

As the table displays and the analysis of export and import indexes in the years 2009-2017 show that in 2009 cotton fiber had a rather large share among the export products of the Republic of Uzbekistan, then in 2013 there was a relative increase in the number reaching 1161.7 million US dollars, whereas cotton export in 2017 was double less accounting for only 477.1 million US dollars. It denotes that the decrease in the export scales of cotton resulted in an increase of refinery of cotton fiber under the domestic production program.

In addition, in 2017 the country's export was comprised of 883.2 million US dollars' worth chemistry and chemical products, 917.5 million dollars ferrous and non-ferrous metals, 353.5 million dollars machinery and equipment, 875.8 million US dollars' worth food and foodstuff.

As for the proportion of import in the foreign trade of the country, the volume of import made up 13013.4 million US dollars in 2017. It is possible to see the kinds of the largest imported goods. Chemistry and chemical outputs comprised 1245.7 million US dollars in 2009, while the figure rose to 2148.3 million US dollars.

Investors are facing the following issues in the course of making investments in the region:

- 1) Scarcity of skilled personnel in the regions
- 2) Instability of electricity, gas, water supply in the regions
- 3) Bureaucracy and settling majority of issues only through direct involvement of the authorities in Tashkent
- 4) Failure of banking, finance and insurance systems to meet the market economy requirements and so on.

In spite of the extensive reforms that have been undertaken in the last years in the country, regions have huge distinctions in the levels they attracted foreign investments. However, the above-mentioned factors summarise that with the expansion of investments laid out in the country economy, various fields have been financed and as a result, import-substitute end goods that can also be exported are being produced.

5. Conclusion and Suggestions

Modernisation of economy and the volume of foreign outlay directed into regions through diversification and projects that are in the course of development guarantee facilitation of comprehensive update of economy branches and innovational processes. Consequently, the topic of the selected scientific article stands out with its significance. For those purposes, this article can be concluded as follows:

- 1) Foreign investments are crucial in establishing joint ventures and companies owned by foreign investors, participation in privatisation processes, creating banks in collaboration with foreign partners, purchase of valuable papers, owning rights to use land and other natural resources, operating in Free Economic Zones.
- 2) It is specially set that the company charter fund should not be less than 150 000 US dollars in order to prevent trade of low quality goods and excessive number of small entities.
- 3) Foreign investments are considered economic processes; hence, they are connected with the world market closely and completely. Therefore, it includes numerous economic processes. Foreign investments facilitate countries transitioning into market economy restructure their economy at a higher speed. As the most essential direction, acceleration of investment procedure that involves foreign investments serves for expected returns.
- 4) The below are factors necessary for appealing all forms of foreign investments into Uzbekistan's economy based on experiences learned from other countries:
 - Extension of privileges for bodies that attract foreign investments and contributing to export rise
 - Creation of convenient investment environment through sophistication of regional and branch systems of the country
 - It is vital to undertake additional measures such as enhancing effectiveness of the accounting system that enables prompt decision-making by foreign investors
- 5) It is noteworthy that foreign investments constituted 823.9 million US dollars, and 96.5 million US dollars of that was the share of foreign direct investment. The figures changed tremendously by 2013, reaching new peaks - 2500 million and 2000 million US dollars respectively.
- 6) Due to the expansion of investment scale in the country, investments are being allotted in various branches and at the end exportable as well as import-substitute goods are being produced. For instance, between 2009 and 2017 overall export volume went up from 11771.3 to 13893.6 million US dollars. It proves that the export rose more than the import.
- 7) The analyses above has led to a number of suggestions:
 - Further augmentation of the shares of foreign investments in the country economy
 - Amplification of industrial production by utilising present resources effectively
 - Through prudent use of foreign investments expanding production scale, purposeful utilisation and developing other fields of economy
 - Advancement of new production lines with the help of foreign investments by intensifying investment processes in industrial networks

- Promoting investment activeness, supporting mechanisms that control effectiveness of investment activity.

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