

Foreign Investment and Forms of Its Attraction

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Abstract: *This article describes the content of foreign investment and its types, forms of attraction, its role in the development of the economies of countries, as well as to increase the attractiveness of the investment climate in Uzbekistan and the active involvement of foreign direct investment focused suggestions and recommendations.*

Keywords. Investment, foreign investment, investment environment, free economic zones, basic capital, GDP, force majeure cases.

Introduction

Foreign investments are all property, financial and intellectual assets mobilized by foreign investors to the economy and other activities of another state in order to achieve high income and efficiency. While the acceleration of globalization around the world, countries have to try to attract foreign investment. Particularly in developing countries, attracting foreign investment is so important for the improvement of basic capitals. According to the laws about foreign investment, in Uzbekistan these are considered as foreign investors:

Territorial or administrative organs of foreign countries;

The subjects of international public law or the international organizations established in agreement of countries.

Foreign investments have four main types: direct, indirect, international debt and bank deposits. Foreign direct investments (FDIs) are the physical investments and purchases made by a company in a foreign country, typically by opening plants and buying buildings, machines, factories, and other equipment in the foreign country. These types of investments find a far greater deal of favor, as they are generally considered long-term investments and help to enhance the foreign country's economy.

Foreign indirect investments involve corporations, financial institutions, and private investors buying stakes or positions in foreign companies that trade on a foreign stock exchange. In general, this form of foreign investment is less favorable, as the domestic company can easily sell off their investment very quickly, sometimes within days of the purchase. This type of investment is also sometimes referred to as a foreign portfolio investment (FPI).¹

Literature analysis

There are some reasons aimed by countries to attract foreign investment. Kuziyeva N. suggests these as the reasons for establishing foreign investment companies:

Internal reasons – risk sharing, learning new management methods, acceleration of access to foreign countries, decreasing the cost of contracts.

External reasons – access to the world market, easing of political tensions, national government demands, creating a competitive and efficient atmosphere.

Strategic reasons – having a solid base of raw materials, technology transfer, production diversification, the possibility of long-term operation in the country.

The concept developed by J.Danning helps us to understand the basis of factors that ensure the attractiveness of the country for foreign direct investment. This concept is based on:

Comparative advantages in the field of ownership law (in particular, the presence of its own technologies or advantages associated with management);

The presence of local advantages in the country (e.g., the size of the internal market capacity, low production costs, infrastructure development, workforce qualifications and value);

The maximum advantages in the internal relations of the firm, the presence of competition between independent investors and receipts.

Results and findings

Depending on the main purpose of investors, certain aspects of countries are important for investors. Here are 5 main types of foreign investments. Firstly, the investments focused on capturing domestic market, for such companies the size of market and the amount of GDP per capita are important. Secondly the investments focused on producing the products specialized for export

¹ <https://www.investopedia.com>

purposes, for the attraction of such investments countries should have qualified and fairly cheap labor force. Thirdly, there are the investments in the aim of seeking resources. It is clear that the production resources of countries are crucial for this type of investment attraction. Another foreign investment type is the one focused to boost the efficiency of production, this type of foreign investment is carried out by companies with the aim of making more efficient use of relative advantages by reducing production costs. The last type of investment is the one that is done in the purpose of technology update, this type of investment is concentrated in high-tech production, electronics, biotechnology, nanotechnology and other new branches of the industry.

It is clear that the main aim of investors is earning more money. Therefore, they try to take every investment risk into consideration. Possible risks like general banking crisis, the risk of default, the risk of unfavorable changes in the national valuation course in relation to international values, force majeure cases, risks arising as a result of changes in the national government and laws play a significant role to attract foreign investment.

In addition to these, a free economic zone is another factor that can attract foreign investment. Free economic zone can be certain part of the country where preferential tax payment procedure is introduced. In 1950 free economic zones started to origin and in mid 1970s they became popular in the world.² In 2024, there are nearly 30 types of free economic zones that differ from each other in terms of size, formation and customs freedoms. In the process of establishing free economic territories, the state should be the chief reformer as a supporter, promoter and controller. The participation of the state as the chief reformer is clearly manifested in foreign experience, for example, the Chinese government has mobilized \$ 4 of its own funds to attract \$ 1 of foreign investment. As a result, national and mainly foreign investors began to invest in the territories, which, in turn, served as the foundation for the development of the country's economy.³

The number of free economic zones operating in Uzbekistan was 3 in early 2017, up from 22 by 2022. Of this, 12 specialized in industry, 6 specialized in pharmaceuticals, 2 specialized in tourism, and 2 specialized in agriculture.⁴ Despite this, some economists suggest that the improvement on integrational atmosphere of Central Asia can influence on foreign investment attraction effectively. Therefore, introducing the system in Central Asia like the European Union is predicted to improve the amount of foreign investment.

Nearly 37 million of people live Uzbekistan in 2024, which means that the size of Uzbekistan market is the biggest one in Central Asia. Moreover, Uzbekistan has abundant and diversified natural resources (gas, gold, cotton, hydropower potential) and has a strategic position between China and Europe. On top of this low level of debt and comfortable foreign exchange reserves, current public investment program in Uzbekistan can attract the attention of foreign investors. However, there are some major obstacles to FDI in Uzbekistan:

- Low economic diversification and dependence on commodity prices;
- Low competitiveness;
- Underdeveloped banking sector;
- State interventionism and insufficient general business climate.

To improve the investment environment, the Government of Uzbekistan introduced in 2017 a number of legislative changes, including the cancellation of unscheduled and seemingly arbitrary or punitive, inspections of businesses as of January 1, 2017; elimination of the requirement to convert certain percentages of hard currency export earnings at the official (artificially low) exchange rate; simplification of business registration procedures; creation of a Business Ombudsman office; and a Law on Countering Corruption that attempts to increase transparency in Government of Uzbekistan functions.⁵ By law, foreign investors are welcome in all sectors of the Uzbek economy and the government cannot discriminate against foreign investors based on nationality, place of residence, or country of origin. However, government control of key industries has discriminatory effects on foreign investors. For example, the Government of Uzbekistan retains strong control over all economic processes and maintains controlling shares of key industries, including energy, telecommunications, airlines, and mining. The government still regulates investment and capital flows in the raw cotton market and controls all silk sold in the country, dampening foreign investment in the textile and rug-

² <http://biznes-daily.uz>

³ A.U.Burxanov, Sh.X.Muminov, X.X.Xudoyqulov. Investitsiya va Innovatsiyalar. - Toshkent – 2021. Page 200

⁴ <https://www.stat.uz>

⁵ <https://www.state.gov/reports/2018-investment-climate-statements/uzbekistan/>

weaving industries. Partial state ownership and government influence are common in many key sectors of the economy. To encourage foreign investment, the Government provides tax incentives to joint stock companies for which foreign investment participation accounts for at least 15% of the authorized capital.⁶

Conclusion

The article discussed the benefits of foreign investment and how to attract it. It has been clear that due to internal, external and strategic reasons, which help countries to enhance economic situations, countries try to attract foreign investment. The factors like the size of domestic market, diversity and amount of natural resources, the cost of labor force and most importantly the political situations of countries are so important to attract foreign direct and indirect investments.

Moreover, introducing free economic zones has a significant role to attract FDI. In the conditions of Uzbekistan, there are some problems should be dealt with, these are low economic diversification and dependence on commodity prices, low competitiveness and also not well-developed integrational atmosphere of Central Asia.

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