



FOREIGN DIRECT INVESTMENT IN UZBEKISTAN

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<https://doi.org/10.5281/zenodo.5450351>

ARTICLE INFO

Received: 25th August 2021
Accepted: 30th August 2021
Online: 05th September 2021

KEY WORDS

FDI, GDP, Inflation rate, exchange rate, income, division, awareness

ABSTRACT

This paper studies foreign direct investment determinants of Uzbekistan. Different variables have been chosen according to the previous researches in this field. According to the results, market size and population growth have statistical significance to the FDI inflow of Uzbekistan. It is a very interesting process to discuss about the matter, which is related with the investment matters, which are positively seen as the key issue in terms of the appropriate awareness of the conceptual understanding of the economic processes.

Introduction

Foreign direct investment is a powerful tool for shaping foreign economies and practices, and can therefore take the form of public or private expenditure. Private investment is the main form of FDI today, but it is also regulated by investor countries' policies, and plays a role in conducting foreign policy in a region.

In the interests of policy relations, the use of international private investment by firms in their own countries is based on various political and economic processes that decide the ties between foreign capital's participation and shifts in host state politics. FDI appeal is more difficult in developing countries than developed countries. Furthermore, in this case the regional factors play a role. Economists are trying to define FDI determinants. A developing country like Uzbekistan aims to attract

more foreign investment, which studies FDI determinants with linear

Regression. In addition, other guidelines were formulated on the basis of the findings of the study.

In recent decades, foreign investor currency and trust in Uzbekistan have increased, as the country took a number of measures in building investment-friendly infrastructure; developing the energy sector; providing the necessary facilities and promoting the establishment of industries; and simplifying regulations and rules. Concerning the period, which is related with the current flows in particular towards the year of 2021, FDI inflows decreased slightly to 96 million US dollars in the UNCTAD Foreign Investment Report in concordance with 2021 year's report. In fact, the World Bank reports that investment growth declined from 9.5% in 2019 to 9.1% in 2021. This reflects a decline



of 47.82 percent (152 million) from 2019 rates, however high renewable energy expenditure continues to see significantly stronger FDI estimates in future (FDI rise 744percent between 2019 and 2021). To Russia, South Korea, China and Germany, the FDI has historically arrived, but Canada increased its financial footprint overall in 2019. The energy sector, particularly sustainable / renewable energy, has been based on investments throughout recent years. The total amount of FDI in 2021 reached up to 11,3 billion USD (approximately) (13.5% of GDP).

In the year of 2019 World Bank as a primary organization, Uzbekistan ranked 67th, with the 12th lightest company-building region. In the Transparency International ranking 2021, the country ranks 137th out of 180 nations. The government's policy of setting up seven special economic zones with fiscal opportunities has drawn international capital. Examples include Syrdarya Commercial Free Zone and a provisional President's decree dated October 2019, Shavkat Mirziyoyev (FDI Intelligence), which calls for "further steps to accelerate and extend the operations in accessible commercial zones." Uzbekistan offered Eurobonds in 2019 to manufacture and services (Bloomberg) for up to 300 million dollars. Russia ordered the development of a nuclear power plant through the Russian Nuclear Energy Corporation (TASS) "Rosatom" through Saudi Arabia and Uzbekistan in these nations. The Russian Central Bank posted on the matter of transfer of funds from Russia to Uzbekistan. The privatization of large state-owned companies and entrance into the WTO will

strengthen Uzbekistan's FDI request, but in these areas the country is moving gradually.

Literature review

FDI is described as an investment package in which a resident business maintains a long-term interest in a company outside its country borders in one country. FDI shall be considered the possession or management of a non- corporate holding company or the equal value in 10% or more of its voting shares. Farrell described FDI as an encouraging entity to function and provide goods and services in a foreign market as a bundle of money, technology, administration and entrepreneurship. FDI can be separated into two groups, from theoretical perspective: horizontal and vertical. The Horizontal FDI (HFDI) is a type of investment, which either in the same international industry that is in operation at home, or which provides the same services and is only tailored for local or original markets without the export of large amounts of output to host countries (Mask 2002)

Japanese MNE are commonly used in their international expansion as they assume that this model would allow them to reduce the risk and share experiences, expertise, and reputation already established at home. There is still no general census on these determinants and it is direct contribution to the influx of these economies, where many research studies still are in attempt to assess them. FDI has long-term ties. Between economies which are good stimulus for economic growth and development They also found out that GDP per capita is the main indicator of the market size. In fact, the technology and specialist workers are the main drivers of



FDI's successful productivity increase. The national currency uncertainty on the international market is one of the other influences. He states, meanwhile, that foreign investors have a large number of FDI influxes from countries with tax incentives, usually about 9 percent higher than from others.

Research objectives

The primary objective of conducting this study is to determine the determinants of foreign direct investment (FDI) in Uzbekistan. Based on the theoretical framework and research questions of this study, the research objectives of this research study had been constructed. The followings are the research objectives of this research study:

1. To investigate the relationship between exchange rate and foreign direct investment (FDI) in Uzbekistan. 2. To examine the relationship between population growth and foreign direct investment (FDI) in Uzbekistan.

To investigate the relationship between market size and business climate and foreign direct investment (FDI) in Uzbekistan.

To examine the relationship between inflation and foreign direct investment (FDI) in Uzbekistan.

Data and methodology

A panel data from 2019 to 2021 has been collected and the paper "DETERMINANTS of foreign direct investment (fdi) in agriculture sector based on selected highincome developing economies in oic countries: an empirical study on the provincial panel data by using stata, 2019-2021" by intan

Maizura Abdul Rashid and et al has been chosen as a benchmark paper. The availability of data is one of the justifications behind choosing these periods. The variables that have been taken as the independent variable are exchange rate, population growth, market size, inflation, the logistics performance unlikely the benchmark paper, whereas the dependent variable is foreign direct investment. The sample of data that has been taken for empirical analysis will take credit on 11 years data in annually basis. Expected Outcomes in the study is to estimate the effect of several factors on the FDI inflow. Therefore we study the relationship between FDI and these factors and their significance level to the FDI inflow into Uzbekistan

Data Collection Methods

Unit Measurement for all variables1

Variable	Abbreviation	Unit of Measurement	Sources
Foreign Direct Investment	FDI	FDI (USD)	World Bank Data
Exchange Rate	EXC	Inflation, GDP deflator (annual %)	World Bank Data
Market Size	GDP	GDP per capita growth (annual %)	World Bank Data
Population growth	POPGR	Growth in population	World Bank Data
Inflation	INFL	Inflation Rate	World Bank Data

Research Framework

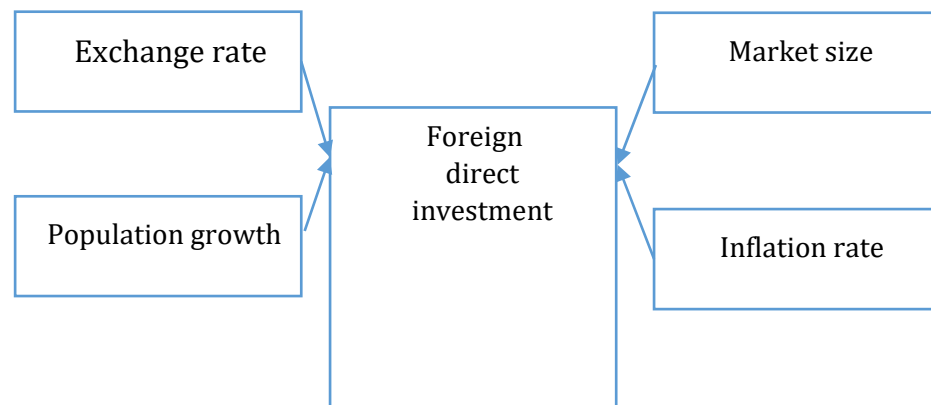


Figure 1: Research Frameworks of the Determinants of Foreign Direct Investment (FDI) in Uzbekistan²

The study context is important to understand the relationship between dependent variable and indigenous variables, as shown in Graph , which describes the determinants of FDI in agricultural sectors between OIC countries. The component plays a key role in promoting work and in any other aspects. Here is a samples of the FDI in Uzbekistan. Regression model

Our framework is as follows

$$FDI = \alpha + \beta_1 GDP_i + \beta_2 INFL_i + \beta_3 POPGR_i + \beta_4 EXC_i + \epsilon_i$$

Based on equation , the positive GDP symbol, INFL, POPGR and EXC are a result of te positive effects on foreign direct investment in Uzbekistan of market size, development, population increase, exchange rate and logistics indicators. In Uzbekistan, GDP growth, INFL, POPGR, EXC cause FDI and vice versa.

Results and Principles Firstly, it is believed to be natural and uncorrelated to predictor or independent variables in the model when evaluating Panel results, including the form

of random effects used for variance between items. The tool used to evaluate the impact of time-consuming factors. Combined OLS–If a single influence does not occur, an efficient and accurate parameter approximation is given by the normal smallest square (OLS). Summarize GLS focused on the production of “rough” measures of proportional journal threats and the estimation of the modified linear pattern. Summarize the minimum square technique. All these measurements are conducted and data used in a STATA Comprehensive analytical framework is built for data analyzing which indicates the number of observations required for observation on the basis of the data collected. An overview of the FDI, market size, inflation, population growth and exchange rates, focused on descriptive statistics to assess the statistics of each component. The mean of each of the factors was then also included and the square root of the standard deviation. Furthermore the data which is performed have a minimum and maximum meaning.



Variables	Exchange rate	Market Size	Population growth	Inflation rate
Observations	11	11	11	11
Mean	16.12	6.1263873	1.827837	12.21939
Std.Dev	0.054993496	1.1931205	0.470105	1.565411
Min	7.98	3.5465823	1.423475	9.399636
Max	26.83	8.3675377	2.82285	14.11765

According to the table above exchange rate has the highest mean and the highest maximum and the lowest mean belongs to the population growth, exchange rate has the lowest standard deviation of 0.150761702 while inflation rate has the highest standard deviation of 1.565411. Market size, population growth and inflation rate have middle range Std.Dev 1.1931205, 0.470105, 1.565411

respectively. In addition this table includes the data about the minimum and maximum points of the collected data.

Correlation between variables

Variable correlation is the relationship between each variable included in the dependent variable and the independent variable analyzed in the study.

	FDI	Exchange rate	Market size	Population growth	Inflation rate
FDI	1.0000				
Exchange rate	0.3694	1.0000			
Market size	0.3213	0.1991	1.0000		
Population Growth	0.4395	-0.0679	-0.3976	1.0000	
Inflation rate	-0.1575	0.2571	-0.1302	-0.3654	1.0000

The presence of a high correlation between the independent variables will lead to the problem of multicollinearity on the estimates. Still consider these variables because of the evaluation of the panel data, which takes care of collinearity issues. The highest correlation value means a very good relationship between the two

variables in this study. It also shows that an aspect has emerged between the two variables that can be used for future research. Based on the above table, the

correlation between variables is determined by the value for each variable between other variables. The highest correlation rate is FDI and population growth and it is 0.4395. In addition we see there is a slight positive correlation between exchange rate and FDI (0.3694). It can be seen that market size and population growth has the negative correlation (-0.3976). Negative correlation exists between inflation rate and population growth too (-0.3654)



Variables	Coefficient	Standard error	t-statistics
Exchange rate	2.40495	2.468131	0.97
Market size	.2274241	.1265234	1.80*
Population growth	.7356233	.3319358	2.22**
Inflation rate	.0335291	.0964266	0.35
R squared	0.5862	Adj. R squared	0.3103

Conclusion

Uzbekistan's potential also relies on strong macroeconomic fundamentals, with a strong domestic market, a relatively young with abundant natural resources, a relatively diversified economy and fast-improving infrastructure. Overall, Uzbekistan benefits from macroeconomic stability, which, combined with the current reforms, is opening up opportunities in diverse economic sectors such as financial services, construction, and tourism.

Leveraging a positive macro-environment, the country is undertaking large-scale reforms to generate further economic growth and improve the investment climate. In recent years, Uzbekistan's business climate has improved tremendously, leapfrogging in the World Bank's Doing Business ranking from 166th place in 2011 to 76th place in 2021. Fast-paced reforms are in progress to address the barriers in the legal environment, as well as within the tax and customs systems. The currency liberalization in September 2021 is one of the most significant reforms.

Uzbekistan has a large textile industry, which represents around 3.8% of the country's GDP, with high potential for development thanks to several competitive advantages. The textile industry benefits from local raw materials.

Uzbekistan is the world's sixth largest producer of cotton. The country grows about 3.5 million tons of raw cotton annually and produces 1.1 million tons of cotton fiber⁹. It also produces silk and wool.

Cotton processing and fabric production remain below optimal levels and are expected to grow. The government has expressed its intention to develop the textile industry further and process more of its own raw cotton into intermediary or consumer goods for export. According to "Uztextilprom," a major association of textile producers, about \$1 billion will be allocated for the modernization of the textile industry between 2015 and 2020. Currently, the cotton processing rate is ~70%. According to a government forecast, Uzbekistan is expected to achieve full processing of cotton fiber in 2021.

Huawei Technologies is one of the largest Chinese telecommunications companies, known around the world as a leading producer and solution provider in the field of information and telecommunications

In its 18-year history in Uzbekistan, the company has equipped several mobile operators with telecommunications hardware and software. It launched the first 3G network in Uzbekistan and the first 4G network in the CIS. In 2015, in a joint venture with "Uzbektelecom," Huawei also



launched “Uzmobile,” the national mobile operator. In 2016, in a JV with “Uzbektelecom.” “Huawei” launched production facilities for optical equipment. The total cost of the project was \$3 million, which was equally split between the two companies.

Huawei also provides products and advanced “ITC” solutions for large organizations and enterprises in education, energy and other areas.

In the consumer segment, Huawei mobile phones are gaining popularity among Uzbekistani citizens. According to the

company, 65% of Uzbekistan’s population uses communications services based on Huawei equipment.

Since 2012, the company’s Tashkent office has been the regional headquarters for all of Central Asia, the Caucasus, Turkey and Mongolia. Huawei’s CEO stated that moving the regional headquarters from Istanbul to Tashkent was made possible by the support of both governments and other partners.

Huawei has developed social programs in the country, such as Seeds for the Future, launched in January 2019. In a partnership between Huawei and Tashkent University of Information Technology, students were selected to participate in two-week training courses in China. The two institutions also launched a new research and educational project, HAINA (Huawei Authorized Information and Network Academy),

in 2016 to help train professionals in information and network technologies. Through these programs and similar activities, Huawei is trying to support the development of digital skills in the country.

Recommendations

An investment into a foreign firm is considered an FDI if it establishes a lasting interest. A lasting interest is established when an investor obtains at least 10% of the voting power in a firm. The key to foreign direct investment is the element of control. Control represents the intent to actively manage and influence a foreign firm’s operations. This is the major differentiating factor between FDI and a passive foreign portfolio investment. For this reason, a 10% stake in the foreign company’s voting stock is necessary to define FDI. However, there are cases where this criterion is not always applied. For example, it is possible to exert control over more widely traded firms despite owning a smaller percentage of voting stock.

Methods of Foreign Direct Investment

As mentioned above, an investor can make a foreign direct investment by expanding their business in a foreign country. Amazon opening a new headquarters in Vancouver, Canada would be an example of this.

Reinvesting profits from overseas operations, as well as intra-company loans to overseas subsidiaries, are also considered foreign direct investments.

Finally, there are multiple methods for a domestic investor to acquire voting power in a foreign company. Below are some examples:

- Acquiring voting stock in a foreign company

- Mergers and acquisitions-Joint ventures with foreign corporations

- Starting a subsidiary of a domestic firm in a foreign country

Benefits of Foreign Direct Investment

Foreign direct investment offers advantages to both the investor and the foreign host



country. These incentives encourage both parties to engage in and allow FDI.

Below are some of the benefits for businesses:

Market diversification, Tax incentives, Lower labor costs, Preferential tariffs

Subsidies

The international investment flows are vital for sustainable development in the poorer regions of the world. Increasing investment to support a sustainable and inclusive recovery from the pandemic is now a global policy priority. This entails promoting investment in infrastructure and the energy transition, in resilience and in health care.

The World Investment Report supports policymakers by monitoring global and

regional investment trends and national and international policy developments. This year's report reviews investment in the Sustainable Development Goals (SDGs) and shows the influence of investment policies on public health and economic recovery from the pandemic.

A concerted global effort is needed to increase "SDG" investment leading up to 2030. The package of recommendations put forward by "UNCTAD" for promoting investment in sustainable recovery provides an important tool for policymakers and the international development community.

António Guterres

Secretary-General of the United Nations

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