

## **DIRECTIONS OF DEVELOPMENT OF ATTRACTION OF FOREIGN INVESTMENTS TO THE NATIONAL ECONOMY**

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**Abstract:** In the article, the role of foreign investments in the development of the national economy and the important factors of active involvement of foreign investments in the economy are considered, large-scale reforms on the establishment of free economic zones, guarantees of the rights of foreign investors and their protection, creation of favorable conditions for attracting foreign direct investment, radical improvement of the investment.

**Keywords:** foreign investment, foreign direct investment, portfolio investment, gross domestic product, enterprises with foreign investment, investment environment, investor.

### **1. INTRODUCTION**

The experience of developed and developing countries shows that the active attraction of foreign investments to the country's economy is one of the important factors of ensuring economic development. This issue is primarily related to the investment attractiveness of the country, the conditions created for foreign investors and the investment policy conducted in the country. On the other hand, the active involvement of foreign investments in the economy of the country will further develop the country from a socio-economic point of view and ensure the well-being of the population, the implementation of structural changes in production and its intensive development, the production of competitive products through the introduction of modern technologies in economic sectors, mineral raw materials and agriculture high-tech production for deep processing of economic resources creates opportunities to increase the country's export potential. Ensuring the effectiveness of such an opportunity and the economic and social reforms aimed at achieving it directly depends on the extent and in what forms they are involved. According to the United Nations Conference on Trade and Development [1], the volume (flow) of foreign investments has decreased in all countries due to the crisis caused by the "Covid-19" pandemic. However, the largest losses occurred in developed countries, this indicator decreased by 80% in European countries and 40% in the USA.

Large-scale reforms are being implemented in Uzbekistan to actively attract foreign investments, establish free economic zones, guarantee and protect the rights of foreign investors, create favorable conditions for attracting foreign direct investments, and fundamentally improve the investment environment. In clauses 3.1 and 3.2 of the Strategy of Actions on the five priority areas of development of the Republic of Uzbekistan in 2017-2021, by improving the investment environment, actively attract foreign investments to the sectors and regions of our country's economy, effectively use attracted foreign investments and loans, modernize production, technical and technological Priorities for carrying out an active investment policy aimed at the implementation of modernization, production, transport-communication and social infrastructure projects have been defined. However, the achievement of such priorities requires, first of all, a fundamental improvement of the investment environment in the country. In this regard, the President of the Republic of Uzbekistan said that "in working with investors, especially locally, the initiatives of investors are not properly supported by all levels of governments, there are still bureaucratic obstacles and pitfalls related to the lack of clear coordination of the activities of ministries and agencies in this regard, and the state policy on creating a favorable investment environment" prevents the strengthening of confidence in the consistency", "...effective use of attracted foreign investments, it is necessary to carry out intensive and systematic work in this regard", "...the need to hold presentations - road shows in foreign countries to attract foreign investments", "...the situation of attracting investment in the production sectors in the regions does not meet the demand", further clarifies this issue. Because, in such conditions, the issues of actively

attracting foreign investments to the national economy are of particular importance and determine the relevance of the subject of this dissertation.

## **2. LITERATURE REVIEW.**

It should be noted that the meaning of foreign investments is still interpreted differently in different economic literature. This is fully confirmed by the following:

“Foreign investment refers to the transfer of tangible and intangible wealth from one country to another for the purpose of creating tangible wealth under the full or partial control of the owner of the assets” [2].

“Foreign investments are property and non-property rights of monetary value that are placed by foreign investors in the objects of business activity for the purpose of profit” [3].

“Foreign investment means the ownership of assets of other countries in order to gain control over the use of assets by residents of a certain country” [4].

“Foreign investments are all types of property and intellectual assets that are transferred from the territory of one country to the territory of another country in order to gain profit or achieve social benefits for entrepreneurship and other activity objects” [5].

“Foreign investment means placing capital in a foreign country with the aim of obtaining income for a long period of time. This type of investment is a source of additional capital that significantly increases the country’s resources to renew and expand the main capital, implement the investment policy, ensure the growth and development of the national economy, fill the market with competitive products and services” [6].

“Foreign investment is the introduction of foreign capital into business and other objects of activity in order to achieve economic, social and other types of results” [7].

“Foreign investments are resources placed in the economy of another country with a view to a higher level of income compared to domestic investments” [8].

“For the purpose of obtaining profit in the future, capital exporting countries, legal entities and individuals transfer to capital receiving countries assets of various forms (movable, immovable property, intellectual property, etc.) and income from them (profit, interest, dividends, license and commission awards) , royalties, technical support and other awards) are called foreign investments” [9].

“Foreign investment is the tying of the capital of one economic entity to another economy for a certain period of time. It differs from domestic investment by the breadth of risks, it is characterized by changes in legal conditions, the investment environment, and as a result, capital migration occurs across countries and regions” [10].

## **3. RESEARCH METHODOLOGY.**

Methods such as abstract-logical thinking, generalization, grouping, induction and deduction, comparative analysis, econometric analysis, analysis and synthesis were used in the coverage of this topic.

## **4. ANALYSIS AND DISCUSSION OF RESULTS.**

The development of investment activity in the country, the scope of attracting foreign investments, in most cases, they are tried to be explained by the level of their weight. Accordingly, the higher the level of the indicator representing the relevant weight, the higher its role and vice versa. Data characterizing foreign investments based on such an approach is presented in Table 2 below.

Based on the analysis of the data in Table 1, the following important conclusions can be drawn: during 2016-2020, the total amount of GDP in our country decreased by 0.8 times under the influence of all factors (including inflation, conversion, coronavirus pandemic); in the same period, the rate of growth of the total amount of foreign investments increased by 1.1 times due to all factors (including inflation, conversion, coronavirus pandemic). So, it can be seen that during the analyzed period, the growth rate of foreign investments due to all factors was much higher than the growth rate of GDP, and the level of this indicator is equal to 1.37.

**The trend of changes in the volume of gross domestic product and foreign investment (in billions of US dollars) [11]**

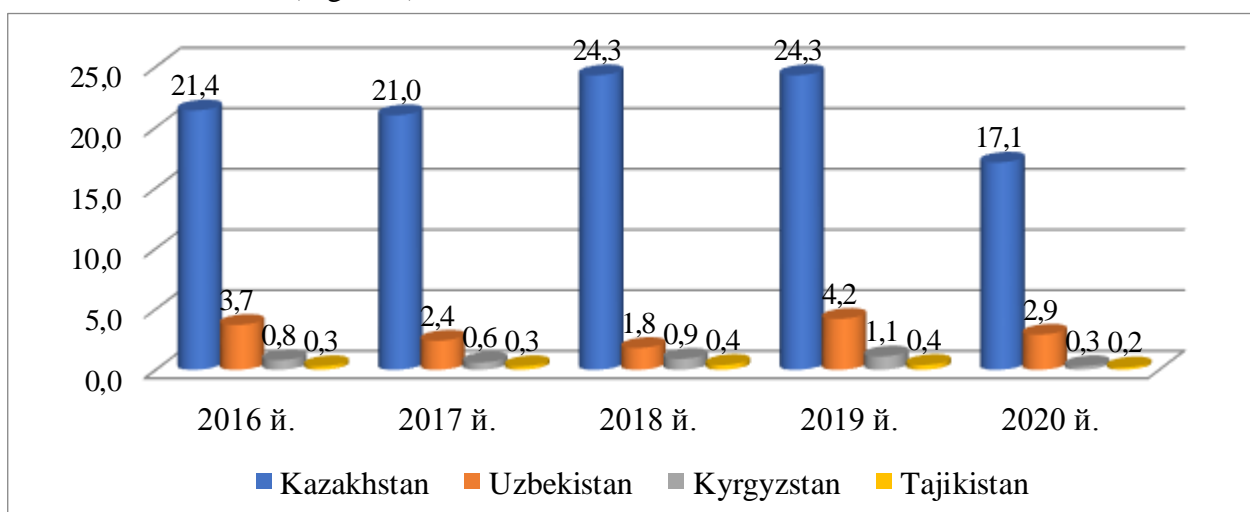
Indicators	2016	2017	2018	2019	2020
Gross domestic product volume, bln. US dollars.	67,22	59,1	50,5	58,3	57,7
Foreign investments, bln. US dollars.	3,8	3,2	3,9	4,3	4,2
The weight of foreign investments in the volume of GDP, in %	5,65	5,41	7,72	7,37	7,28

The general conclusion is that during 2016-2020, the role of foreign investments in the country's economy has grown. This shows a positive situation in terms of modernization of the national economy, application of modern technologies, increase of labor productivity, adoption of modern management practices, creation of new jobs.

Due to the fact that the growth rate of foreign investment sums is higher than the growth rate of total GDP sums, the share of foreign investment in the volume of GDP was equal to 7.28% in 2020 instead of 5.65% in 2016, and therefore, during the years of research, its share was 1.63 f.p. or increased by 28.8%.

It should be noted that the growth of attracted foreign investments during 2016-2020 is not permanent (stability). This indicator changed in the manner of "increase-decrease-increase-decrease-increase" during the analyzed years. The specific reasons for this are, on the one hand, foreign investment is the most important and variable component of GDP, which is very difficult to predict. Foreign investment can suddenly increase or decrease (for example, in the United States during the Great Depression, investment fell 100%). On the other hand, the observation of such a scene in practice shows the presence of many problems related to it.

These problems are also evident in the attraction of foreign direct investment, which is considered an important type of foreign investment. In particular, in 2016-2020, the total volume of foreign investments attracted to the economy of the country is 15 billion. amounted to US dollars. This figure is 108.1 billion in neighboring Kazakhstan. It is equal to US dollars, and the country receives an average of 22 billion per year. The flow of foreign direct investment in the amount of US dollars is observed (Figure 1).



**Figure 1. The flow of foreign direct investments attracted to the countries of Central Asia (in billions of US dollars) [12]**

Such a situation clearly shows that the work of attracting foreign direct investments to the economy of Uzbekistan is not at the level of demand, and it shows that the high rates of economic growth and the satisfaction of the growing demand for foreign investment are not compatible with each other.

Nevertheless, the weight of foreign direct investments in the country's GDP had a growth rate. In particular, this indicator made 5.03 percent in 2020 and increased by 2.5 percent compared to 2016.

In turn, the growth of the weight of foreign direct investments in the GDP of the country indicates that the number of joint ventures established in Uzbekistan with foreign countries is increasing. From 2018, the minimum amount of the share of foreign investments in the charter fund of enterprises with foreign investments will be reduced from 30 percent to 15 percent, the requirement that a foreign legal entity must participate as a participant in the enterprise with foreign investments will be canceled, the minimum amount of the charter fund of this type of enterprises will be reduced from 600 million soums to 400 million soums. reduction to soums and a three-fold reduction of the state duty for state registration of enterprises with foreign investments, tax benefits depending on the amount of foreign investments became important in attracting foreign investments. For example, in 2020, the number of foreign-invested enterprises in Uzbekistan was 12,300, this figure was only 5,147 in 2016, that is, the number of these enterprises increased by 2.4 times during 2016-2020 (the total number of joint ventures established with foreign partners 21 percent is the Russian Federation, 17 percent is the People's Republic of China, 14 percent is Turkey, 9 percent is Kazakhstan, 8 percent is South Korea, and the rest belongs to other developed and developing countries).

However, the lack of development of the stock market in our country has a negative effect on attracting foreign investments in the form of portfolios. For example, the portfolio of foreign investments attracted to Uzbekistan during 2016-2020 has a growth rate, but their volume is not at the level of demand. In 2020, the share of this type of investment in GDP was only 0.41%. In this regard, it should be noted that the state of attraction of direct and portfolio foreign investments to the national economy is weak, and such a situation puts the need to improve the mechanism of attracting foreign investments on the agenda.

At the same time, taking into account that the above information was obtained for the whole of Uzbekistan, the issue should be considered on the example of the regions, and the information showing the relevant situation in the regions of our republic is presented in Table 2 below. Differences in the weight of foreign investments in the regions of the republic (either a high or a low share) indicate that the economic and investment potential of each administrative region, the level of development of entrepreneurship and other factors are different. In particular, the average level of foreign investments attracted to the republic during 2016-2020 is 24.28% in Bukhara region, 21.28% in Kashkadarya region, 12.74% in Tashkent city and 6.86% in the Republic of Karakalpakstan, which is higher than other regions. In the Samarkand region, which is the object of the study, the growth of the volume of foreign investments during 2016-2020 has the character of stability (stability). Because this is observed in all the years in between (except for the indicators of 2017). However, in 2016-2020, only 1.12 percent (average level) of the total foreign investments attracted to the regions of the republic went to Samarkand region. This indicates that the investment and economic potential of the region is not being used sufficiently.

**Table 2**  
**by regions of Uzbekistan in 2016-2020 dynamics of foreign investments (percentage) [13]**

№	The name of the areas	2016 year	2017 year	2018 year	2019 year	2020 year
1.	Andijan region	1,0	1,2	2,8	2,9	2,7
2.	Bukhara region	29,2	50,6	13,4	14,2	14
3.	Jizzakh region	1,0	0,8	1,3	1,2	1,1
4.	Kashkadarya region	18,9	12,0	26,6	24,3	24,6
5.	Navoi region	1,4	2,4	11,7	10,8	11
6.	Namangan region	6,0	6,7	9,0	8,5	7,8
7.	Samarkand region	0,8	0,7	1,2	1,4	1,5

8.	Surkhandarya region	2,0	3,1	5,7	5,8	5,5
9.	Syrdarya region	1,0	0,5	0,8	0,7	1
10.	Tashkent city	14,3	13,2	12,0	11,7	12,5
11.	Tashkent region	5,5	4,8	5,6	6,2	5,9
12.	Fergana region	2,2	1,2	4,0	5,1	4,8
13.	Khorezm region	0,8	1,2	1,1	1,3	1,5
14.	Karakalpakstan Republic	15,9	1,6	4,8	5,9	6,1
<b>Total</b>		<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Another important indicator describing the role of foreign investments in the country's economy is their distribution by economic sectors (Table 3).

**Table 3**

**Absorption of foreign investments by economic sectors in 2016-2020 (percentage) [14]**

<b>Name of networks</b>	<b>2016 year</b>	<b>2017 year</b>	<b>2018 year</b>	<b>2019 year</b>	<b>2020 year</b>
Agriculture, forestry and fisheries	1,6	1,1	2,1	6,4	10,4
Mining industry	31,1	56,8	24,7	17,7	18,2
Manufacturing industry	27,4	14,8	19,9	32,9	42,1
Electricity, gas, steam and condensed air	12,3	2,3	35,0	19,8	8,3
Water supply, sewerage, waste collection and reuse	3,0	1,6	2,8	1,3	1,3
Construction	0,1	0,1	0,3	4,2	4,8
Transport and storage	13,1	8,5	5,5	4,2	2,3
Information and communication	7,2	8,7	1,4	1,6	2,0
Education	1,0	0,8	0,1	0,05	0,3
Provision of health care and social services	1,7	3,0	0,8	2,2	2,0
Other activities	1,6	2,3	7,4	9,6	8,3

During 2016-2020, 18.2% of total foreign investments were in the mining industry, 42.1% in the manufacturing industry, 8.3% in the supply of electricity, gas, steam and air condensation network, and the rest in water supply, sewage system, waste disposal collection and disposal, transportation and storage, wholesale and retail trade, repair of transport vehicles, information and communication, health and social services. The level of foreign direct investment remains low in the industries with high export potential - mechanical engineering, electrical engineering, metallurgy, chemistry and pharmaceuticals.

68.6 percent of the total foreign investments are concentrated in the mining and manufacturing industry, as well as in the electricity, gas, steam supply and air condensing industries, and these industries are becoming important in the development of the economy. Uzbekistan ranks 4th in the world in gold reserves, 7th in mining, 10-11 in copper reserves, 11-12 in uranium reserves. Our country has more than 1,800 mines and about 1,644 promising minerals, 118 types of mineral raw material resources. Such potential is considered an important factor for attracting foreign investments, and therefore it is appropriate to organize investment forums at the international level that represent the economic and investment potential of Uzbekistan.

The results of the above studies show that there are some serious problems in attracting foreign investments to the national economy:

1. The scope of attracting direct foreign investments to the economy of Uzbekistan is not at the required level. High rates of economic growth and meeting the growing demand for foreign investment are incompatible. In particular, during 2016-2020, the total volume of foreign investments attracted to the national economy was 7.2 times less than the neighboring Republic of Kazakhstan.

The underdevelopment of the stock market in our country has a negative impact on attracting foreign investments in the form of portfolios. For example, the portfolio of foreign investments attracted to Uzbekistan during 2016-2020 has a growth rate, but their volume is not at the level of demand. In 2020, the share of this type of investment in GDP was only 0.41%.

In this regard, on the basis of world practice and experience, it is necessary to create a model in which a large part of the assets of large enterprises are in the hands of foreign investors in order to maintain the same high and stable rates of economic growth, to actively attract foreign direct investments to the economy. That is, it is appropriate to sell packages of state shares (shares) in the authorized capital of large enterprises. This, in turn, allows for an increase in the share of direct foreign investment in the total volume of investment and the development of the national stock market.

2. Today, there are several benefits for foreign investors in our country. Including; guarantees against unfavorable changes in the legislation for the investor (if the national legislation worsens the investment conditions, the legislation in force at the time of investment is applied to foreign investors for 10 years from the time of investment); Investors' earnings from investment activities can be reinvested or used in any other way at their discretion after paying taxes and fees. Free transfer of funds in foreign currency from the Republic of Uzbekistan without restrictions is guaranteed to investors, provided that they pay taxes and fees; privileges for the creation of a chartered fund for the establishment of joint ventures, granting land plots for foreign investors, privileges for the state registration of enterprises; investment visas; depending on the volume of private foreign direct investment, further expansion of incentive tax credits, etc. However, according to our analysis, the volume of foreign investment attraction, despite the many financial benefits created for foreign investors, is not synchronized with the growth rate of the economy. Such a continuation of trends in attracting foreign investment may have a negative impact on economic growth. In addition, the lack of improvement of the investment environment, the imperfection of the regulation and protection of private property rights, and the lack of active direct foreign investment in high-tech and human capital make it necessary to optimize all the benefits created for foreign investors. Therefore, in order to develop the attraction of foreign investments in the national economy, it is necessary to provide guarantees and support measures to foreign investors, in particular, benefits and preferences in each specific case. In particular, it should be presented to priority sectors that provide advanced technological changes, expansion of export potential, and priority projects that ensure its integration into global economic relations. In this case, additional incentives for paying taxes and fees should be given to enterprises established in cooperation with foreign investors only for a clearly defined period.

3. According to the results of the research, one of the most popular forms of attracting foreign investments is the establishment of joint ventures. The number of such enterprises increased by 2.4 times in 2016-2020 due to the fact that the requirements for the establishment of joint ventures (formation of the charter fund, registration, etc.) have been somewhat eased (softened) in recent years. In these years, 95 percent of all joint ventures (average level) were operating. However, the initiatives of investors in the establishment of joint ventures, especially in the localities, are not adequately supported by local governments, the activities of ministries and agencies are not clearly coordinated in this regard, and the situation of investment attraction in the production sectors in the regions does not meet the requirements. There are problems in providing them with electricity, gas, drinking water, communication networks, in short, external engineering and communication networks when joint enterprises are established in the areas. In our opinion, in order to fundamentally improve the investment environment and to achieve the active involvement of foreign investments in the national economy, it is necessary to provide external engineering and communication networks for high-value joint investment projects in which the share of the foreign investor's own funds is not less than 25 percent, at the expense of the State budget. Such a practice exists in international experience, for example, "the creation of modern infrastructure (from transport highways to communication systems) in the Czech Republic is partially or fully financed from the budget". Currently, such an experiment is being carried out in the countries that are

members of the Commonwealth of Independent States. This creates an opportunity for effective implementation of high-value joint investment projects, while serving to create a more favorable investment environment for foreign investors.

4. According to the best practices of developed and developing countries, one of the important areas of active attraction of foreign investments is the establishment of free economic zones and ensuring their operation. In this case, as the main measures to attract foreign investments to these zones: exemption of imported products from customs fees; tax reduction (repeal); creation of incentives for leasing territories and infrastructure facilities; application of accelerated depreciation of fixed assets; reduce fees for using resources; providing more attractive credit and insurance terms; visa simplification (investment visa); establishment of modern infrastructure (production, social and market infrastructures); availability of raw materials (closeness to the enterprise); the availability of a sufficiently qualified workforce; it is possible to note such things as the possibility of convenient location, taking into account foreign consumers, the position of the country in international rankings.

In the World Bank's annual report "Doing Business 2020" [15], Uzbekistan rose 7 places and became one of the 20 countries that showed the greatest progress in improving the business environment. This is one of the important factors of actively attracting foreign investments to the country, and the countries and organizations that want to establish cooperation in today's modern world definitely pay attention to the generally recognized ratings.

## **5. CONCLUSIONS AND SUGGESTIONS.**

In 2016-2020, the total amount of GDP in our country decreased by 0.8 times under the influence of all factors (including inflation, conversion, coronavirus pandemic); in the same period, the rate of growth of the total amount of foreign investments increased by 1.1 times due to all factors (including inflation, conversion, coronavirus pandemic). Therefore, during the analyzed period, due to all factors, the growth rates of foreign investments were much higher than the growth rates of GDP. This shows a positive situation in terms of modernization of the national economy, application of modern technologies, increase of labor productivity, adoption of modern management practices, creation of new jobs.

– In our opinion, in addition to the above, relying on the international experience of attracting foreign investments (the Russian Federation, the People's Republic of China, Belarus, Kazakhstan, the Czech Republic, Poland, Latvia, the Republic of Korea, etc.), it is desirable to pay special attention to the following areas in order to increase the investment attractiveness of Uzbekistan compatible with:

– - it is necessary to accelerate the organization of international conferences and investment forums in order to widely inform foreign investors about the economic and investment potential of the country, the conditions created for doing business and legal guarantees;

– - it is necessary to further reduce the minimum amount of the share of foreign investments in the charter fund of enterprises established with the participation of foreign investment and the minimum amount of the charter fund of this type of enterprises;

– - it is necessary to accelerate the creation of special or free economic zones, to attract large strategic investors to these zones;

– - It is necessary to strengthen Uzbekistan's position in international ratings and indexes ("Economic freedom", "Logistics efficiency", "Business conduct", etc.);

– - it is necessary to create an effective system of providing investment objects to foreign investors (provision of information, advertising, joint meetings of government and business representatives, provision of production infrastructure, etc.);

– - it is allowed to sell state shares in the authorized capital of organizations such as large industrial enterprises, commercial banks to potential foreign investors;

- it is necessary to attract foreign investors to the implementation of public-private partnership projects;

- and others.

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