

## ANALYSIS AND PROSPECTS OF THE PRACTICE OF ATTRACTING FOREIGN INVESTMENT TO THE ECONOMY OF UZBEKISTAN

Omonullo Hamdamov<sup>1</sup>, Iroda Sabirova<sup>2</sup>, Ilhom Mannanov<sup>3</sup>

1. Associate Professor, Doctor of Philosophy (PhD) in Economical Sciences, The department of Corporate Finance and Securities, Tashkent Institute of Finance, Tashkent, Uzbekistan, [fin\\_management@mail.ru](mailto:fin_management@mail.ru)
2. Master's student, Tashkent Institute of Finance, Tashkent, Uzbekistan
3. Master's student, Tashkent Institute of Finance, Tashkent, Uzbekistan

**Abstract.** This article analyzes the dynamics of foreign investment in the economy of Uzbekistan in recent years. The importance and other features of foreign investment in the development of the economy are studied. In addition, scientific recommendations have been made to further reduce the sectoral gap in foreign investment and increase the number of companies with foreign investment in the regions.

**Keywords:** investments, securities, stock trading, futures, options, capital, innovation, strategy.

### INTRODUCTION

Over the past few years, Uzbekistan has undergone rapid economic changes and is increasingly emerging in the international community as one of the symbols of openness, renewal and resilience in overcoming various barriers to business and investment.

For the effective implementation of the Law of the Republic of Uzbekistan "On Investments and Investment Activities", a four-stage mechanism of cooperation between investors and public authorities, consisting of the Ministry of Investment and Foreign Trade, local governments, diplomatic missions abroad and deputy heads of commercial banks. This mechanism allows you to quickly respond to all requests from investors and properly monitor the effectiveness of the implementation of measures provided by law.

In this regard, it is important to emphasize the role of the Council of Foreign Investors under the President of the Republic of Uzbekistan, established with the support of the European Bank for Reconstruction and Development, which provides direct communication with investors operating in the country. The development of the International Arbitration Institute is also actively supported. In turn, this will ensure the rule of law, which is an important and systemic component of the country's investment climate, as well as the proper implementation of the obligations of state and local investors.

Given that the investment climate affects all areas of activity in the country, the scope of reforms has covered economic, institutional, education, health, agriculture, water supply,

energy, transport and other areas. Great attention is also paid to the practical support of entrepreneurs and initiators of investment projects. The most striking example in this direction is the work of the Government Commission on Export and Investment Development, established in 2020, which aims to work closely with entrepreneurs and exporters, analyze the problems associated with the pandemic, as well as solve the problems of each business entity. developing and implementing fast and efficient solutions based on an individual approach.

### **Main part**

In many countries around the world, regional investment policies can be applied differently depending on the domestic capabilities and conditions of each region. The model of economic development of the People's Republic of China and the experience of attracting foreign investment are of particular importance for Uzbekistan. These features of China's socio-economic development are characterized by specific social conditions such as the specificity of the democratic situation in it, the high importance of agriculture in the economy, the underdevelopment of the processing industry, its agrarian-industrial country. The country's success in attracting foreign investment is largely due to the creation of a favorable investment climate in its regions.

In China, low labor costs, land use, large-scale incentives for capital invested in production, the development of social infrastructure and other factors have made the country an object of capital investment for foreign investors in recent years. The tariff regime established in China, the developed foreign economic relations and the currency legislation have created favorable conditions for the inflow of foreign investment.

Investment potential takes into account the main macroeconomic characteristics, the provision of the regions with factors of production, consumer demand of the population, etc. It is determined by a number of factors, which, in turn, depend on the ratio of private indicators of several investment significance. The most important advantage of Uzbekistan in the context of energy shortages faced by many developed and developing countries today is that the economy of Uzbekistan is one of the few countries characterized by energy independence. Uzbekistan is one of the dozens of countries with gas, coal and uranium reserves and is an exporter.

Uzbekistan is a crossroads of Central Asia, which creates favorable conditions for regional cooperation, development of transport corridors, participation in regional and transnational projects. This will allow for free trade with CIS countries. Uzbekistan's integrated transport infrastructure and cross-border integration into the Eurasian multimodal system determine the prospects for investment and trade and economic cooperation. By

investing in Uzbekistan, foreign companies will have access to five major and dynamically developing markets - the CIS, Central and Eastern Europe, South and Southeast Asia, and the Middle East, with markets of more than 500 million people.

### **Results and Discussions**

The main factors that influenced the formation of the balance of payments indicators of the Republic of Uzbekistan in 2020 were changes in the internal and external conditions associated with the ongoing corona-crisis, which led to a reduction in foreign trade, a slowdown in global business activity and an increase in financial risks.

Growth of net external debt in the form of loans increased by 20%, up to USD 7.1 billion compared to previous year and it's stock amounted USD 30 billion<sup>1</sup> at the end of the year. The largest borrowings were made by government and banking sectors. In addition, portfolio borrowings of government and banking sectors amounted to USD 1.4 billion, as a result of placing Eurobonds in international markets. Net foreign direct investment amounted to USD 1.7 billion (USD 2.3 billion in 2019). Net investments, excluding operations of enterprises operating on the basis of product sharing agreements, amounted to USD 1.8 billion, in the form of debt instruments from parent companies USD 153.2 million. A net decrease in investment by enterprises operating on the basis of production sharing agreements is USD 276.1 million. Uncertainty associated with the duration of the coronavirus pandemic had a negative impact on the foreign investments.

Net inflows of foreign direct investment<sup>4</sup> for 2020 amounted to USD 1.7 billion. The attraction of foreign direct investment to the country was to some extent offset by the repatriation of parts of the investments made under production sharing agreements (PSA). Against the backdrop of the crisis in the global economy, net foreign investment in capital decreased by 1.6 times and amounted to USD 1.3 billion, while the volume of reinvestment of income by foreign investors reduced by 1.3 times. In the structure of liabilities on direct investments, investments in loan instruments remain at the same level of previous year. Thus, during the coronavirus pandemic, financial support in the form of loans from parent companies amounted to USD 153 million. At the same time, due to a decrease in natural gas production, net payments under the PSA amounted to just under USD 276 million (Figure 1).

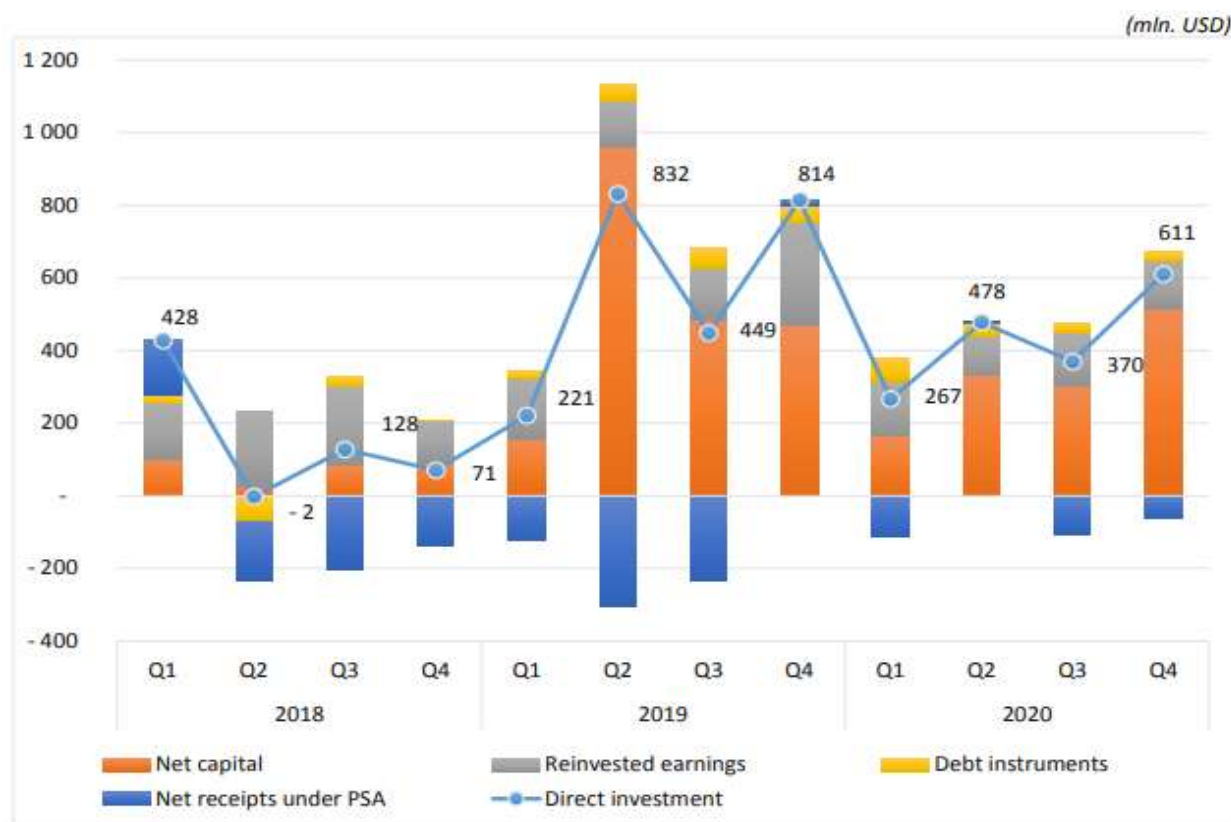


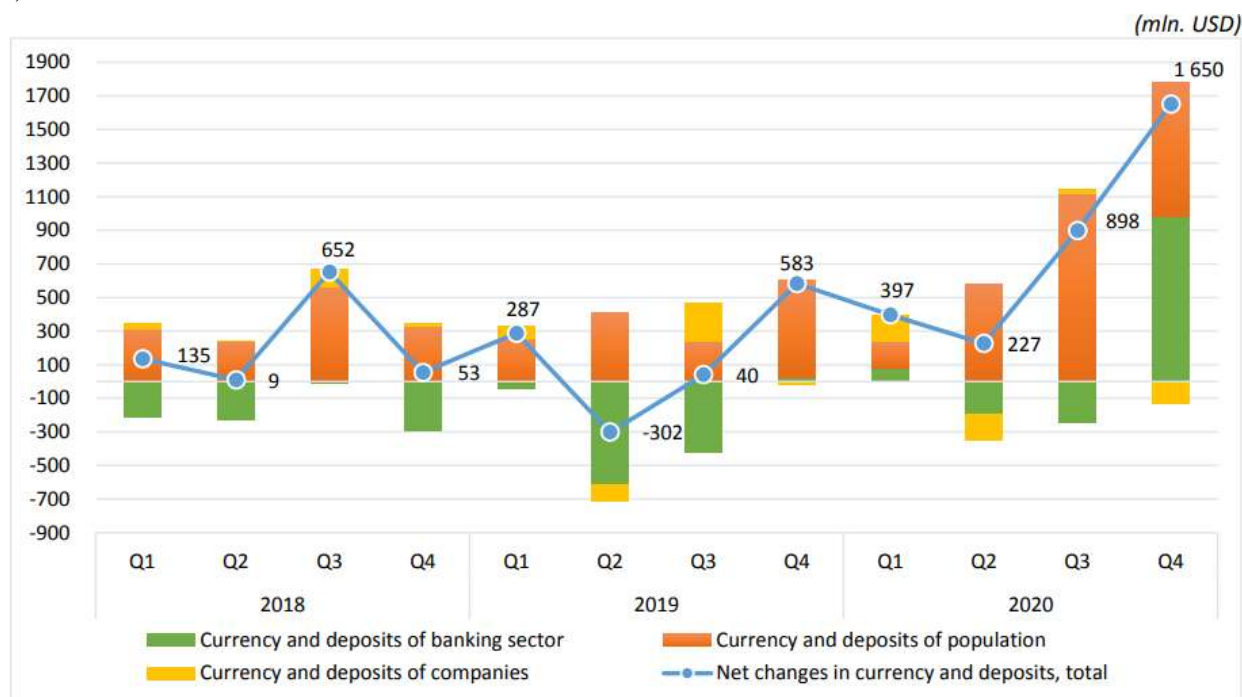
Figure 1. Change in direct investment components<sup>1</sup>

For 2020 significant net increase was recorded in structure in portfolio investment liabilities. The reason for this increase was successful issuance of two international bonds of the Republic of Uzbekistan at the end of the year in the amount of USD 555 million and UZS 2 billion. At the same time, Eurobonds were placed on world capital market by the National bank and “Ipoteka-Bank” JSCMB for a total amount of USD 600 million. As a result, the balance of portfolio investment operations at the end of 2020 was negative in the amount of USD 1.4 billion.

Assets. Net increase of assets in the item «Other investments» amounted to USD 5.3 billion in 2020. Main components of the item «Other investments» were currency and deposits of residents, as well as trade credits and advances (accounts receivable), which grew by USD 3.2 billion and USD 2.1 billion respectively. The analysis of the component «Currency and deposits» by sectors of the economy showed that the main volume of operations falls on other sectors, since growth of the population savings in foreign currency are taken into account in this sector. At the same time, if the assets of the population in foreign currency are constantly increasing due to the repatriation (return) of incomes of

<sup>1</sup>[https://cbu.uz/upload/medialibrary/a7a/en\\_BOP\\_-IIP\\_-EXD\\_4Q2020.pdf](https://cbu.uz/upload/medialibrary/a7a/en_BOP_-IIP_-EXD_4Q2020.pdf)

citizens of the Republic of Uzbekistan working abroad, then the volume of expenditures increased receipts of funds to the foreign accounts of residents - legal entities in 2020 (Figure 2).



**Figure 2. Net changes in the component “Currency and deposits”<sup>2</sup>**

Net changes in the currency and deposits of the banking sector (balances of correspondent accounts and cash departments) were mainly formed as a result of the need to make payments on import operations of residents. As a result, for 2020, net assets of Uzbek banks in foreign currency and deposits increased by USD 617 million. The main reason for that was net assets increase observed in the IV quarter of 2020 in the amount of USD 982 million. The balance of operations on trade credits and advances provided to non-residents under foreign trade contracts was positive and amounted to USD 2.1 billion. This increase in accounts receivable may be due to delays in production associated with the introduced quarantine measures.

For the period 2018-2020, share of «Loans and borrowings» prevailed over «Direct investments». This phenomenon is mainly due to an increase in borrowing by the general government sector in order to finance state targeted programs for the development of industries and regions. Also, the volume of foreign direct investment decreased in 2018 due to increase in payments in the framework of the PSA and introduced quarantine measures in 2020. According to the results for 2020, due to a slowdown in economic growth in many

<sup>2</sup>[https://cbu.uz/upload/medialibrary/a7a/en\\_BOP\\_-IIP\\_-EXD\\_4Q2020.pdf](https://cbu.uz/upload/medialibrary/a7a/en_BOP_-IIP_-EXD_4Q2020.pdf)



countries of the world, net growth in foreign direct investment decreased, while loans and borrowings reached the largest share (80%) in the net growth of liabilities to the rest of the world, because the general government and the banking sector continue actively attracting external borrowings (Figure 3).

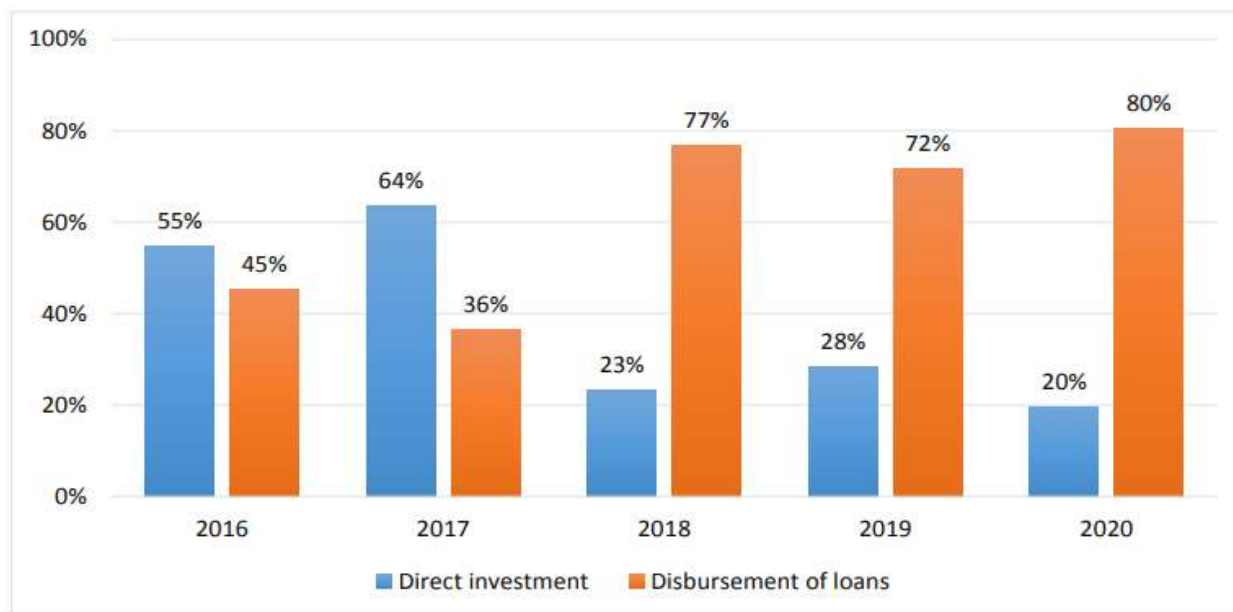


Diagram reflects components with largest shares. Transaction data are shown on a net basis. Direct investments include loans from parent companies. Loan disbursements exclude loans from parent companies.

### Figure 3. Share of “Direct investments” and “Loans and borrowings” in the net growth of liabilities in the financial account<sup>3</sup>

At the same time, the large volumes of inflow of funds observed in the operations of the financial account for 2020 may also imply an increase in import volumes in subsequent periods.

For 2020, the total volume of foreign assets and external liabilities of the country amounted to USD 65.9 billion and USD 45.6 billion respectively. In this regard, the net investment position of the Republic of Uzbekistan increased by USD 567.6 million and as of January 1 of this year amounted to USD 20.4 billion. Analysis of changes in the net investment position for considered period showed that despite the negative balance of the financial account, non-operational changes had a positive impact on the improvement of international investment position of the country.

An analysis of the international investment position by sectors of the economy showed that for 2020, the general government sector and other sectors remained as «net creditor», while banking sector was «net borrower» (Figure 4).

<sup>3</sup>[https://cbu.uz/upload/medialibrary/a7a/en\\_BOP\\_-IIP\\_-EXD\\_4Q2020.pdf](https://cbu.uz/upload/medialibrary/a7a/en_BOP_-IIP_-EXD_4Q2020.pdf)

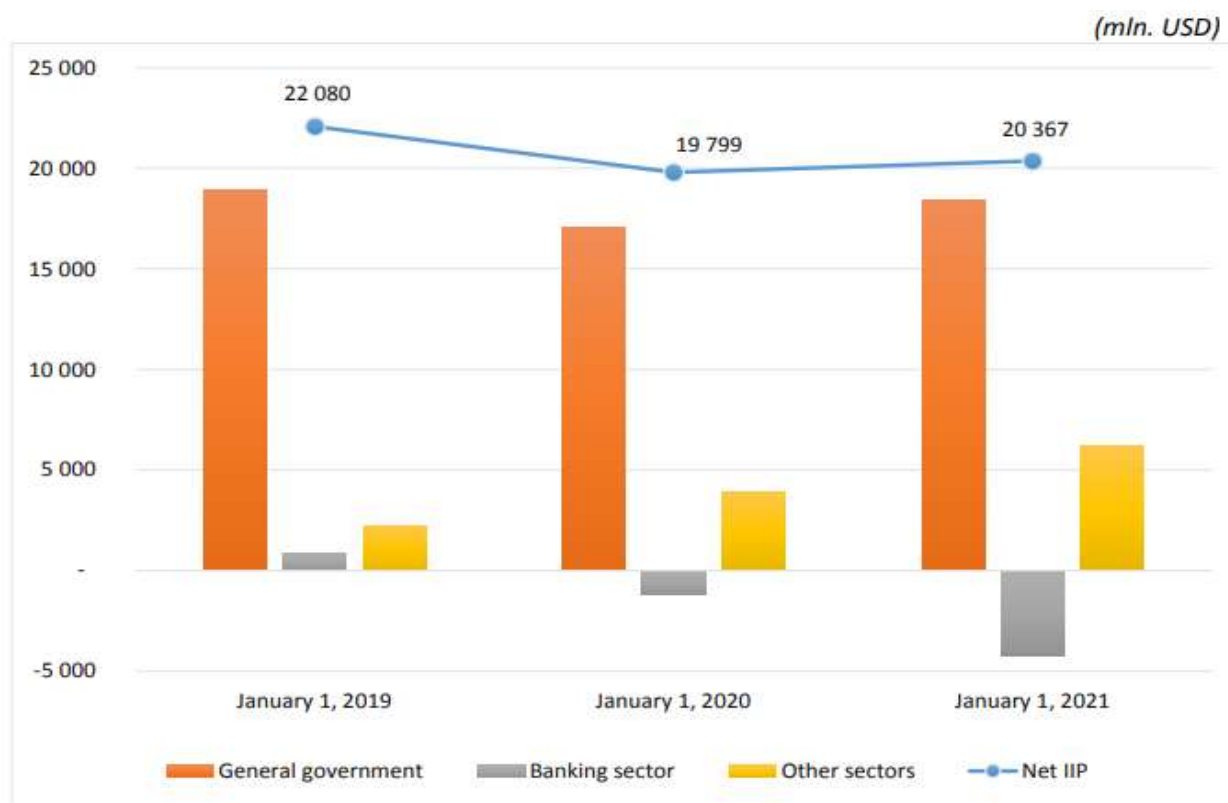


Figure 4. Net investment position by sector of economy<sup>4</sup>

### Conclusion

Continuation of current trends in investment may threaten to achieve economic growth rates (projected at 5.1%) in 2021, which will require practical measures to improve the investment climate and increase their efficiency, aimed at significantly increasing the volume of investment in the economy.

The lack of active foreign direct investment in high-tech and human capital jeopardizes the process of achieving goals such as achieving high levels of inclusive growth and poverty reduction in the country. A key step in improving the investment climate should be the formation of a full and effective institutional framework through efforts to create the conditions for attracting private and foreign direct investment.

The development and deepening of the investment base is identified as a very important condition of the reform strategy in the country, and in order to pursue a strong investment policy, it is necessary to implement the following priorities:

<sup>4</sup>[https://cbu.uz/upload/medialibrary/a7a/en\\_BOP\\_-IIP\\_-EXD\\_4Q2020.pdf](https://cbu.uz/upload/medialibrary/a7a/en_BOP_-IIP_-EXD_4Q2020.pdf)

- First, it is necessary to pursue a policy with a specific goal to further liberalize foreign economic activity. At the same time, the introduction of a more preferential regime for the free use of income of foreign investors in the export and import of goods;

- secondly, further improvement of legal, socio-economic and other conditions for the wide attraction of foreign investments, mainly in the form of direct capital investments in the economy of the Republic;

- Third, an open door policy towards foreign investors, which will help Uzbekistan to create a modern structure of the national economy that will bring world-class technology;

- Fourth, the funds should be spent on the most priority areas - the development of the agricultural sector, fuel and energy complex and other basic industries that ensure the independence of the republic, the development of competitive, finished products.

This is because it is impossible to expand export opportunities without restructuring the economy.

### References

1. Law of the Republic of Uzbekistan "On investments and investment activities" December 25, 2019.
2. Law of the Republic of Uzbekistan "On joint-stock companies and protection of shareholders' rights" May 6, 2014, No. ZRU-370
3. Бовкунович Виктория Валерьевна, Мартынова Татьяна Алексеевна Финансовая стратегия: понятие и роль в развитии компании. молодежный научный форум: общественные и экономические науки: конф.- М.: «МЦНО». - 2015 - № 10 (29)
4. Jonathan Berk, Peter DeMarzo, Jarrad Harford, Fundamentals of corporate finance. – 2 nd ed. Prentice Hall, 2012 y, p. 41
5. Миловидов В.Д. Философия финансового рынка.//Мировая экономика и международные отношения. №8. – 2012. С.5.
6. Якушев А.А., Дубынина А.В. Инновационная экономика. – М.: Финансы и статистика, 2017. – 264 с.
7. Hamdamov O.N. Methodological aspects of investment risk assessment in the system of financial management // Economics and Finance (Uzbekistan), 2020 - 2 (134).
8. <https://cbu.uz> – official website of the Central Bank of the Republic of Uzbekistan
9. Buvsara, Toshmurodova. "Financial Management Features In Emerging Economies (In Case Of Uzbekistan)." *Voice of Research* (2014).



10. Toshmurodova, B. "FINANCIAL MANAGEMENT: PROBLEMS AND PERSPECTIVES."

11. Kurbonov, Javlonbek. "Public and Private Sector Relations for Economic Growth: Evidence from Uzbekistan." *European Journal of Business and Management* 8.6 (2016).

12. Shavkatov, N. "ANALYSIS OF INFRASTRUCTURE PROJECTS ON THE BASIS OF PUBLIC-PRIVATE PARTNERSHIP AND THEIR FINANCIAL EFFICIENCY INDICATORS." *International Finance and Accounting* 2020.6 (2020): 5.