

## **Foreign Investment to Ensure Sustainability of the National Economy**

**Fakhriddin Umarov**

Department of “Macroeconomics”, Tashkent State University of Economics, Uzbekistan

### **Abstract**

The article analyzes the issues concerning the creation of favorable macroeconomic policy to improve the investment environment in Uzbekistan and attraction of foreign capital. Also, It is mentioned that it is very essential to learn foreign experience in research of problems involving foreign capital to national economy, controlling its regulation and promotion. In addition, a lot of preferences to the direct foreign investments are stated. Foreign investments involved by our country and dynamic of direct investments of 5 years has been mentioned in the article. As well as, it is considered very important to conduct a business on forming easy macroeconomic policies in order to involve foreign capital and the following tasks are mentioned on above matter .

### **Key words:**

Investment environment, capital, foreign investment, investment economics, economic mechanism, investment project, investment culture, investment system

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## 1. INTRODUCTION

Today, the government carries out vigorous reforms in all spheres of human activities, and particular attention is given to foreign investment as the indicator of development of the national economy.

Macro-economy plays an important role in increasing the volume of the investment and Gross Domestic Product (GDP) with stability and improving the living standards of the population. The president of the Republic of Uzbekistan, Islam A.Karimov indicates the important functions of the economic development of the country in 2016: “Systematic reforms in democracy and modernization, continuation of the radical structural changes in the economy, especially in the industry and agriculture, rapid development of the private property, entrepreneurship and small business, and the protection of their interests, ensuring the macroeconomic balance must be an essential priorities of economic program of the year 2016”[1].

Implementation of a number of programs plays an important role in economic-social life of the country that is based on the economic achievements, long term goals and present and future situations and changes in the foreign market.

## 2. METHODOLOGY

“To ensure the reliable protection of private poverty, small business and entrepreneurship, and the program on removing the barriers in order to develop them”, “The program of development and modernization of infrastructure of engineering communication and road transportation between the year of 2015-2019 in Uzbekistan”, “The program in changing the structure and the maintenance of modernization and diversification of the production in the years 2015-2019”[2], “The program of making ready products, spare parts and materials in a domestic level during the years 2015-2016”[9], “The program of privatization of government estates during the years 2015-2016”, “The program of change of principles and approaches in the system of corporate governance”, “The development program of agriculture during the year 2015-2019” are among them[3].

Implementation of those programs helps to expand the structural system of the economy, improve industrial modernization and diversification, and develop the industry and maintenance of its competitiveness, develop the economy, create vacancies and improve living standards of the people in the country[4].

## 3. ANALYSIS

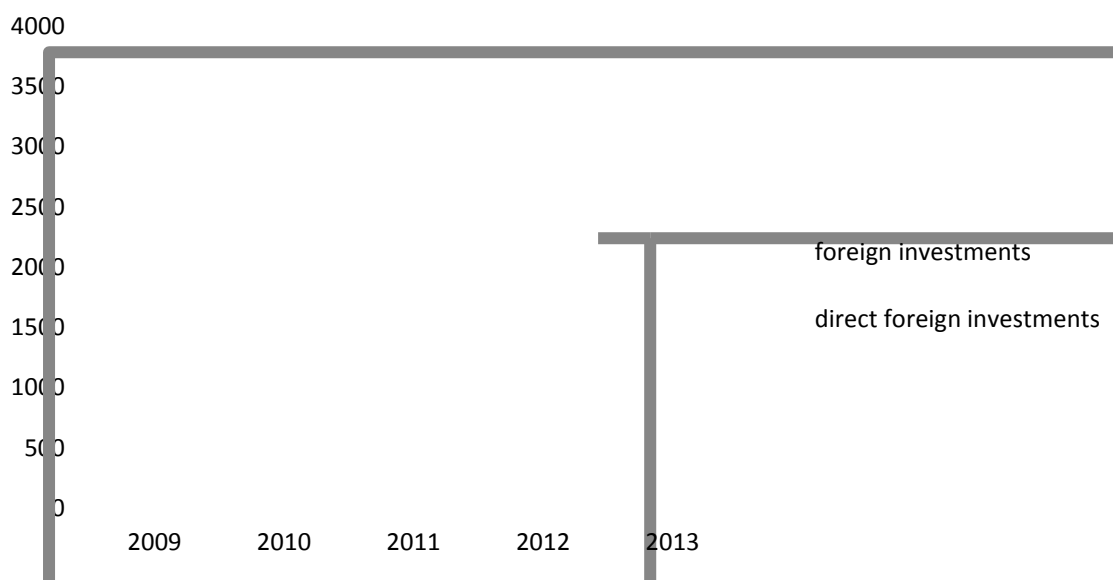
The credit volume, which has been given by financial institutions, has reached by 32.3% which is 12,1 trillion sum compared to the year 2014 as a result of improvement of facilities in banks. 2,5 trillion out of which is allocated to sector entities of microcredit banks, which has increased by 1,3 times compared to the year 2014. The services “Microcredit bank” has made to the small business and private sectors has increased by 1,2 times which is 362 billion compared to the year 2014.

Also, liberation of the banking system, reforms and expansion its role in supporting entrepreneurship have been estimating highly by the World Bank and Foreign Finance Corporation since recent years. In particular, Uzbekistan has risen up to 54<sup>th</sup> that is 87<sup>th</sup> on the list among 189 countries in the world by foreign organizations which has been announced in October, 2015 “Doing Business”. Uzbekistan bank system has risen from 105<sup>th</sup> place up to 42<sup>nd</sup> place which is increased by 63 places in the “Credit Index Service” system [5].

Favorable environment for business, wide system of legal guarantees and privileges for foreign investors, an integrated system of incentives for enterprises with foreign investments have increased the flow of foreign investments in the country. In 2015, the expense of all the sources of financing of the economy makes the investment amount of 15,8 billion USD , which has reached to 9,5% compared to the year 2014.

The bulk of investments which includes 80% of enterprises, the public funds have been financed based on the direct investments and loans. In addition, over the total capital investment of 3,3 billion USD or over 21% foreign investments and 73% out of which is foreign direct investments [6].

Picture 1 displays the dynamics of assimilation of foreign investments and direct investments in Uzbekistan within the last five years. (Picture 1)



**\*Source: State Statistics Committee of the Republic of Uzbekistan**

**Picture1. Dynamics of direct investment and foreign investment assimilated in the economy of the Republic of Uzbekistan.**

#### **4. RESULTS**

Today, one of the main priority directions of the republic is to increase employment, labor intensive and improve their scientific potential.

Likewise, the main aims of investment politics in our country are to reprocess raw materials and to establish a new production based on high quality and energy saver technologies.

Especially 67,1% of the investments was directed to improve production capacity in 2015. As a result, during that period 158 big production enterprises which costs 7,4 billion USD were built and given for use.

980,000 vacancies were created and 60% out which was created in rural areas as a result of activities and programs to create employment in 2015.

It has been serving to increase the income of population, stable growth in labor productivity by increasing employment rate. In 2015, increase in per capita of the population was 9,6 % [6].

The Decrees of the President ‘On establishment of Angren Special Industrial Zone’ dated 13 April 2012, and ‘On establishment of Jizzakh Special Industrial Zone’ dated 18 March 2013, as well as the resolution of the Cabinet of Ministers ‘On the measures to attract direct foreign investment’ dated 10 April 2012, and other decisions could be served the important legal basis in implementation of tasks assigned with this sphere.

Solid growth in assimilation of foreign investment in Uzbekistan in recent years is worthy of notice. In particular, “In 2013, within the implementation of the Investment Program, the country assimilated \$13 billion investments... More than \$3 billion of them are foreign investments. 72 per cent of it, or \$2 billion 200 million are direct foreign investments.” [1]

In the process of globalization of the world economy, reduction of barriers in business, and the economic freedom of countries, the inflow of foreign investments in Uzbekistan raises at a rapid rate. Determination of priority directions in investing, making science-based investment decisions, and involvement of domestic and foreign financial resources basing on upright regulation of investment activities define the future of the national economy.

Investments provide the improvement of production structure and processing in the national economy. Yet, the government’s investment policy provides the reinforcement of key directions in development of the economy. Strengthening the position of the national economy in the international platform, increasing the level of competitiveness of national producers in the international market, as well as upgrading the industry are getting implemented by means of the country’s investment policy as well.

“It is barely possible to carry out structural changes and modernization of major sectors of the economy without attraction of foreign investment, as well as refurbishment of enterprises with advanced equipments, and manufacturing competitive products.” [2]

It is known from the experience of developed countries the attraction of direct foreign investment is the most efficient mean of investing. Namely foreign investment is the driving force in the development of the national economy, as well as technological advancements. [3]

It is quite important to study the international experience in assimilation of foreign investment in the national economy, as well as its regulation, management and stimulation. It is appropriate at that to study the experience of countries having rich experience including China, India, Norway, Singapore, Brazil, and Malaysia. Positive influence on increase of volume of foreign investments in these countries made such factors as high level of private ownership and sound competitive environment, social and political stability, wide and solvent, developed consumers market, rich in diverse natural resources, free economic policy, various economic privileges for foreign capital, as well as promotional activities, high level of intellectual facilities of population and wide field for using them in production, stability in relevant institutional system meant for free activities of foreign capital investments, and others.

Each country’s position and potential in the international society is defined by level of its economic and social development. Therefore, selection of the right way in attraction of foreign investments in the national economy is important tasks for Uzbekistan. [4]

Uzbekistan, developing its model in transition to a social market economy, is in quest of effective ways, mechanisms and tools for investment financing.

Intensification of the investment activities within government and private sector of the economy generates the necessity to improve the process of selection and estimation of investment projects, to find reliable financial resources for investing, to develop capital

market basing on relevant tax policy, to define the ways of attracting foreign investments, and other more issues. The significance of these issues grows with an increase of activities of foreign investments in the country's investment environment. Extended attraction of foreign investments in the national economy requires the creation in the country of favorable conditions and guarantees, as well as the intensification of motivating economic factors.

In this regard, deepening the market economy reforms, economic liberalization, creation of favorable institutional environment, strengthening the protection of the right of property, improvement of the investment environment, modernization of production through privatization, re-equipment and reconstruction, attraction of direct investments for implementation of programs on creating new jobs, implementation of measures to ensure reliable legal protection and guarantees for foreign investors favorably effects in the creation in Uzbekistan of better investment environment and attraction of foreign investments. [5]

It should be noted that due to creation in the country of favorable investment environment, more than \$162 billion capitals have been assimilated within the years of independence, most part of which are foreign investments. Increase in volume of attracting investments indicates the sustainable growth of the country's economy.

In 2014, it is projected to assimilate \$3, 9 billion foreign capitals on 166 investment projects. [6]

## **5. CONCLUSION AND Recommendations**

Most part of the foreign investment assimilated in the country consists of direct investments. It is noteworthy that direct investments:

- are long-term, which prevents the flight of short-term capitals out of the country;
- they do not envisage payment obligations, and hence prevent from emergence of external debts, which is quite big advantage against other foreign investments.

Inflow of direct investments in Uzbekistan contributed to creation of various forms of property-owning in rather short period of time, as well as formation of major sectors of the economy and its structural reorganizations. The most important is the internationalization of Uzbekistan's economy, entry of Uzbek products into the world market and occupying their place there, which brings to the growth in exports, and positive dynamics in balance of payments.

Due to the measures aimed at activation of investment processes, the investment volume assimilated in the country's economy was considerably increased within 2000 – 2013.

In 2013, 150 projects for a total amount of \$2 billion 700 million were implemented within the Investment Program. Enterprises at Special Industrial Zones manufactured the products to the amount of over 100 billion soums, and the growth rate at that as compared to 2012 reached 25.8 per cent.

Today, the government places much emphasis on active investment policy, which is aimed at modernization of enterprises operating in the country, organization of technically advanced industries, including motor car production, gas and chemistry, electric energy, textile, food, pharmaceuticals, information and telecommunication, and others. [7]

In conclusion it should be noted that it is important to implement the works on improving the investment environment in Uzbekistan, formation of favorable microeconomic policy to attract foreign capital, and it would be efficient at that to carry out the following tasks. First, decreasing the affect of inflation to the price increase of investment projects, and increasing the volume of foreign investments. Second, attraction of investments in real production that is in the sector of raw material processing. Third, improvement of incentive

scheme for to create the better investment environment for foreign investors, in particular, reduction of tax takes, and simplification of tax system for investors. Fourth, improvement of the system of implementation of mutually beneficial projects developed together with foreign economic entities, and creation of free investment economic zones in conjunction with them. In tote, these factors could play a key role in the development of the national economy.

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