



PROBLEMS OF ATTRACTING FOREIGN INVESTMENT INTO THE NATIONAL ECONOMY

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ABSTRACT

This article provides the theoretical content of foreign investments, their classification in world practice. The types of attracting foreign investment in the economy of the Republic of Uzbekistan are discussed. The problems of attracting foreign investment to the Republic are listed, as well as conclusions and recommendations.

KEYWORDS- *Foreign investment, national economy, direct investment, free economic zones, foreign capital, investors.*

INTRODUCTION

In connection with the continuing instability of the economic situation of the Republic of Uzbekistan, many leading economists associate the future of our country with the attraction of foreign investments on a large scale to the economy, which pursues the long-term goals of creating a civilized society in the country characterized by a high standard of living of the population. It is hard to believe that foreign investment alone will help boost the country's economy. But on the other hand, they can serve as an incentive, catalyst for the development and growth of domestic investment. The inflow of foreign investment is vital for achieving such goals as getting out of the current crisis, and the initial recovery of the economy. At the same time, Uzbek public interests do not coincide with the interests of foreign investors, therefore, it is important to attract capital in such a way as not to deprive their owners of their own motivations, while simultaneously directing the actions of the latter for the benefit of public goals.

This task is solvable, but for this, first of all, it is necessary to study the specific state in the field of attracting foreign investment in the current Uzbek conditions, to consider the economic and legislative framework that ensure the investment climate in the country. At the same time, much attention should be paid to the last of the indicated, since today it is the uncertainty in this area that limits the investment process, that is, there is a kind of paradox: the

strongest tool for attracting foreign capital is simultaneously the main reason that keeps investors from making large investments.

THE ESSENCE OF THE MATTER

Given the serious technological backwardness of our economy in most positions, Uzbekistan needs foreign capital, which could bring new (for Uzbekistan) technologies and modern management methods, as well as contribute to the development of domestic investments. The experience of many developing countries shows that an investment boom in an economy begins with the arrival of foreign capital. The creation of their own advanced technologies in a number of countries began with the assimilation of technologies brought in by foreign capital.

The experience of many Third World countries, especially Latin American ones, shows that unfavorable conditions for the operation of foreign companies within the country lead to the need for external government loans and an increase in the country's external debt. Moreover, since government loans are usually used ineffectively, large external debts begin to slow down economic development. In addition, government loans are a lever of political pressure and a cause of economic concessions.

Investing (exporting capital) is a multilateral process. By definition, investments are long-term capital investments in various sectors of the economy with the aim of making a profit. However, it should



be borne in mind that the implementation of investments, including foreign ones, should be a mutually beneficial process, that is, bring profit to both the object and the subject (investor).

In world practice, there are three main forms of investment:

1. Direct, or real, investments (investment of capital in industry, trade, services - directly into enterprises).
2. Portfolio, or financial, investments (investments in foreign stocks, bonds and other securities).
3. Medium and long-term international loans and loans of loan capital to industrial and commercial corporations, banks and other financial institutions.

Direct investment can provide investing corporations with either full ownership of the invested company, or they can establish effective control over it. Sometimes it is necessary to have no more than 10% of the share capital for this.[1]

The leading investors are economically developed countries, primarily the United States, but over the past 20 years their share in the total amount of foreign direct investment has declined.

Significant changes in the direction of direct investment: before the Second World War, the bulk of capital investment fell on backward countries, and recently, investors are attracted by countries with an already developed economic system. This behavior is explained by shifts in the sectoral structure of investment, which is now mainly concentrated in the manufacturing industry, and inside it - in knowledge-intensive and high-tech industries.

Portfolio investments are the main source of funds for financing shares issued by enterprises, large corporations and private banks

In the post-war period, the volume of such investments is growing, which indicates an increase in the number of private investors. Intermediaries in foreign portfolio investments are mainly investment banks (intermediary organizations in the securities market that finance long-term investments).

The movement of this type of investment is influenced by the difference in the rate of interest rates paid on various securities. Thus, the high rate of interest rates in the United States attracted many foreign investors, especially Japanese.

The main ways to attract foreign direct investment in the economy of Uzbekistan are:

- attracting foreign capital in an entrepreneurial form by setting up joint ventures (including by selling large blocks of shares in joint-stock companies to foreign investors);
- registration on the territory of Uzbekistan of enterprises fully owned by foreign capital;

- attraction of foreign capital on the basis of concessions or production sharing agreements;
- creation of free economic zones (FEZ) aimed at actively attracting foreign investors to certain regions of the country.

In the investment sphere, a number of key problems are noted that impede the effective provision of socio-economic development, the main of which is the insufficient volume of attracted investments, including foreign direct and their irrational distribution, says the draft Strategy of the Investment Policy of the Republic of Uzbekistan until 2025, developed by the Ministry of Economy and industry.[2]

The following are the key problems and imbalances in the dynamics and structure of investment flows:

1. Lack of investment is a key development challenge in Uzbekistan. In 2018, gross fixed capital formation stood at \$ 13.3 billion, or 26.3% of GDP. The level of fixed capital formation per capita is only 20% of the world average and 25% of the CIS average. The republic remains in the penultimate place, ahead of the CIS countries only Kyrgyzstan.[4]

2. The volumes of attracted foreign direct investment are insufficient, and their sources are not diversified. In 2018, foreign investments of \$ 3.9 billion were mastered, which indicates the low activity of attracting foreign investment in the sectors of the economy, in particular, due to the insufficiently favorable investment climate in the country.

3. The high differentiation of regions in attracting investment resources remains. For example, almost 44% of attracted investments in the republic for 2013-2018. accounted for 3 territories (Tashkent city, Kashkadarya, Bukhara regions) and the share of 5 regions (Andijan, Jizzakh, Syrdarya, Surkhandarya and Khorezm regions) was 16.2%.[4]

4. The level of attracting investments for modernization, technical and technological re-equipment is insufficient to ensure an effective reproduction process. A retrospective analysis revealed that since 2007, in the reproduction structure of investments, 62% -63% of the total volume of investments is the construction of new enterprises, while the expansion, reconstruction, modernization, technical and technological renewal of production facilities is only 21% -22%.[4]

5. The structure of investment resources does not correspond to the existing structure in developed countries. The capital market (investments in corporate securities) currently provides only slightly more than 0.4% of the volume of investments, which is much less than in a number of CIS countries. The domestic stock market has not yet emerged as an important source of investment.



6. High level of government presence in the economy. State-owned enterprises continue to dominate the national economy, occupying a significant share in the fuel and energy, mining, engineering, transport, chemical and telecommunications industries.

7. Growth in inflation. As noted above, in recent years there has been an increase in the average monthly rise in prices, which in turn leads to both an increase in the cost of borrowed capital (bank loans) and an increase in capital requirements for the implementation of investment projects and activities, and the complexity of assessing the profitability of investments in the future. In conditions of weak financial situation of enterprises, with a high level of inflation, they have difficulties with the availability of working capital, which in turn does not allow them to allocate funds for investments.

8. Deterioration of the financial condition of the leading enterprises due to the incomplete process of changing the tax burden, curbing the growth of tariffs and maintaining a number of enterprises with a large amount of accumulated debt. The current situation does not allow to fully compensate for production costs and timely finance modernization, technical and technological re-equipment programs.

9. Insufficient level of infrastructure and communications development. In some areas, there is still a large number of unused production capacity, problems with electricity supply, and weak engineering and communication infrastructure in rural areas. In Uzbekistan, there are very few efficiently operating multimodal transport and logistics terminals, warehouse complexes of the international level, there are many scattered warehouse operators that do not fully meet international requirements. In the near future, with an increase in exports and, accordingly, cargo transportation, they will be in demand.[3]

10. A low level of activity of the processes of renewal and modernization of fixed assets, especially in manufacturing sectors. Thus, the rate of renewal of fixed assets was 17.4% in the economy and 15.9% in the industry, with the wear rate being 40.4% and 38.3%, respectively. As for the active part of fixed assets - machinery and equipment, the renewal rate was 16.8% in the economy and 16.6% in the industry, and the depreciation rate - 49.7% and 45.9%, respectively. The average service life of fixed assets is 15.9 years in the economy and 20.7 years in industry, and machinery and equipment - 22.2 years and 29.1 years, respectively.[4]

11. Lack of own engineering and research and development, own developments and technologies. Industries rely heavily on external partners, their technology (including design, product upgrades) and marketing strategy. The situation is

aggravated by the instability and disproportions in the distribution of investment in innovation.

12. Low level of manufacturability. In OECD countries, the shares of high- and medium-high-tech sectors in the structure of the manufacturing industry are on average 19% and 28%, respectively, and in reference countries (China, Korea, Malaysia, Singapore, Thailand, Finland, Indonesia) - 19.2% and 31.5%. In Uzbekistan, at the end of 2017, these indicators were 1.6% and 17.1%.

13. Low level of localization and strong dependence on imported components. Along with this, the analysis of merchandise imports for the last 2016-2017. showed that imports of products of high- and medium-high-tech sectors account for 46.4% of total imports, of which 34.9% are machinery and equipment. The share of medium-low and low-tech sectors is 28.7%, including 12.7% of imports of spare parts and materials for machinery and equipment.

14. A significant gap in the "value chain". So, for example, in the textile industry, most of the investment has recently been directed to the production of knitted fabrics due to lower risk and lower volumes of required capital investments, although the production of fabrics provides a greater increase in added value. From 2012 to 2016, the volume of production of cotton fabrics increased 1.9 times, while the production of knitted fabrics increased 2 times over the specified period.[4]

CONCLUSION

From all of the above, we can conclude that foreign capital, having almost no significant impact on the development of the national economy as a whole, is now playing the role of a "growth catalyst" only in a few narrow production sectors focused primarily on foreign demand.

In order to achieve a significant quantitative increase in foreign direct investment in the country's economy, it is possible by developing a comprehensive state program to attract foreign investment. Taking into account the experience of many foreign countries, the measures necessary for Uzbekistan in this direction (in addition to the general improvement of the political and macroeconomic situation) should include:

- creation of a really operating system of benefits for foreign investors in certain industries and regions (in particular, the creation of real operating free economic zones);
- a clear delineation of ownership between economic entities, as well as between state and local authorities;
- creation of stable economic and foreign trade legislation;
- reducing the tax burden and simplifying the tax structure;



- introduction of private ownership of land;
- Creation of mechanisms for insurance of foreign investments.

Summing up all of the above, it can be noted that attracting foreign investment in the country's economy, which is one of the necessary conditions for the country's exit from the economic crisis, requires significant rule-making and organizational efforts from both central and regional authorities, and from individual enterprises and financial institutions. In general, these efforts should be aimed at:

- improving the overall investment climate in Uzbekistan, stabilizing the economic and legislative situation and creating effective economic legislation;
- organization of an efficient intra-republican capital market, providing a full-fledged connection between the securities market and the real sector;

Currently, in Uzbekistan, there is an increase in the inflow of foreign investment. Nevertheless, in absolute terms, foreign investment remains very small and clearly does not meet the needs of the country's economy.

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