Specific Aspects of Implications of Foreign Investments on the Integration of the National Economy into the Global Economy

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Abstract

The article analyzes the role of foreign investments in the sustainable development of the national economy and their impact on integration of Uzbek economy into the world economy. This paper documents the main factors and conditions for the attraction of foreign investments and sheds light on issues as regards the tendency of attracting foreign investments into Uzbekistan and active participation of countries in the world in investing in the economy. The study examines the direction of received foreign investments by sectors and regions in the economy and the share of private and public sectors and their specific features. The paper also takes a look at the importance of foreign investmentss in the integration of the national economy into the global economy and exemplifies issues arising in the process of implementation and makes some recommendations to address these issues.

Key words: foreign investments, world economy, international experience, economic integration, national economy, national market, investment climate, production, credit, diversification, fixed capital, market conjuncture, modernization.

Modern production capacities that are put into operation, favourable investment climate that is being created in the country, persistent development of economic and social infrastructure, and implementation of bold reforms and expansion of economic liberalization can be foundation for sustainable development of the potential of the economy and provide a basis for further economic development.

It is evident that the well-established investment climate that has consistently been improving becomes a foundation stone for the expansion and diversification of production structure in the country. Indeed, the President of the Republic of Uzbekistan Sh.M.Mirziyoyev emphasized in the Address to the Parliament: “International

1 The Address of the President of the Republic of Uzbekistan Sh.M.Mirziyoyev to the Parliament, December 28, 2018.
experience shows that countries, which run active investment policy, achieved sustainable economic growth. Along with investments, new technologies, advanced experiences, and highly qualified professionals come in different sectors and industries; entrepreneurship is rapidly developing.”

The amount of investment in the fixed capital in the country has been increased. At the same time the share of centrally-financed investment is constantly decreasing and hence the share of decentralized and foreign investment is rising. This represents diversification of financial sources of investment in the national economy and confirms that involvement of local governments and foreign investors and their roles in investment processes have been growing. At the same time, changing characteristics of investment sources by structure appears to be specific while there is a steady increase in the share of financing by enterprises and households and foreign investment.

Factors in the determination of investment climate in the national markets are reserves of natural resources, labor force and their experiences, market conjuncture, demand in the domestic market and opportunities for exports of goods, credit system, taxation system, efforts in the development of economic and social infrastructure, conditions and environment being created for foreign investment, as well as political, legal and normative, social and other measures.

In the 21st century, human-beings is building an innovative economy based on in-depth and profound knowledge.

From the experiences of advanced economies in the world it can be concluded that social and economic development in these countries is the result of their putting foreign investments among the top priority sectors.

The significance of the issue is confirmed by the Decree of the President of the Republic of Uzbekistan. Particularly, it is emphasized that the part "Priorities of Economic Development and Liberalization" of the Strategy of Actions focuses on "further development of international economic cooperation, including the expansion of relations with leading international and foreign financial institutions, continuation of the well-established external debt policy, and efficient use of attracted foreign investments and loans".

One of the key factors in determining the importance of integration of the national economy into the global market is to achieve successes by the competitiveness of the country and its successful participation in international competition alongside its territorial opportunities and natural raw material capabilities and socio-economic conditions. Thus, at the current stage of socio-economic development which is when deepening of globalization process is covering all aspects of the society the need for foreign investments and advanced technologies is dramatically growing as compared to the previous periods. Therefore, it is required to constantly improve the processes related

2 Decree of the President of the Republic of Uzbekistan “On the Strategy of Actions on further development of Uzbekistan” (7.02.2017, PD-4947).
to foreign investments that is one of the main directions and priorities of deepening economic reforms, among the most important tasks.

The creation of favourable investment climate has been one of the priorities of economic reforms since the independence of the country. In particular, it is crystal clear that as a result of measures taken to enhance investment processes in the country both the amount of total investments and foreign investments has increased. Though the growth of investments in the fixed capital in the country within 1995-2018 tended to be volatile, there was consistent and positive increasing trend. The share of investments directed to increasing and expanding production was on the rise.

Especially, the growth rate of investments was 25.8 percent in 2007, 28.3 percent in 2008 when the global financial crisis emerged, and 24.8 percent in 2009. For the development of the social sphere and economy, 16 782.3 mln. USD that is 7.7 percent more than that in 2015 was invested in the fixed capital. As well, the volume of investments into fixed capital in 2016 was 4.2 times as that in 1991, 5.4 times as that in 2000, 4.3 times as compared to that in 2005 and 170.1 percent more than that in 2010³.

Additionally, the share of investments in the fixed capital in GDP in 2017 was 26.9%, increasing by 1.9% as compared to that in 2016. This indicator was 18.8% in 1991, 22.9% in 2000, 19.9% in 2005, 24.6% in 2010, and 24.3% in 2015 (Table 1). There was a specific characteristic in the distribution by regions. Particularly, four regions accounted for 60,5% of total investment in the fixed capital, including 19,8% in Tashhkent, 16.6% in Bukhara region, 15.9% in Kashkadarya region, and 8,2% in Tashkent region⁴.

**The share of investments in the fixed capital in GDP, in percent⁵,**

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<tr>
<td>The share in GDP, %</td>
<td>29.4</td>
<td>22.9</td>
<td>19.9</td>
<td>24.6</td>
<td>24.3</td>
<td>25.0</td>
<td>26.9</td>
</tr>
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</table>

Active investment processes were observed in Bukhara, Surkhandarya, Kashkadarya, Khorezm, Tashkent regions and Tashkent city in 2017. Investments in these regions increased between 1,2 and 1,6 times, on average⁶. Along with the total volume of investments and the regional characteristics, distribution of investments by sectors is also important. Special attention is paid to these aspects in the frame of the ongoing reforms. In particular, the share of industry-enhancing investments in the total

³ [www.stat.uz](http://www.stat.uz)
⁴ [www.stat.uz](http://www.stat.uz)
⁵ [www.stat.uz](http://www.stat.uz)
⁶ [www.stat.uz](http://www.stat.uz)
investments in the fixed capital grew by 5.9% in comparison with that in the previous years\(^7\). Change in investments in the fixed capital by activity is given in Table 2.

An increase in the household income and investment policy that encourages active participation of businesses in investment processes, play crucial role in multiplying the share of investments by them. As economic liberalization deepens in the country, consistent and sustainable growth rates in the amount of foreign investments give a sign of remarkable achievements. In this case, one of the most important aspects is that the majority of attracted foreign investment, that is, more than one fourth consists of foreign directed investments. Nowadays the lion share of attracted investments is being directed to the modernization and technical and technological re-equipment of national production. Due to the strategic importance of structural reforms and modernization of the production in the economy, the priority is given to the construction of major industrial infrastructure objects in the various sectors in the economy.

### Table 2

<table>
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<tr>
<th>Economic Activity</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
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<tbody>
<tr>
<td>Agriculture, forestry and fishing</td>
<td>3.3</td>
<td>3.4</td>
<td>3.5</td>
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<tr>
<td>Mining industry</td>
<td>23.3</td>
<td>14.9</td>
<td>20.8</td>
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<tr>
<td>Manufacturing industry</td>
<td>12.8</td>
<td>18.7</td>
<td>17.9</td>
</tr>
<tr>
<td>Electricity, gas, steam and conditioned air</td>
<td>5.4</td>
<td>5.7</td>
<td>8.0</td>
</tr>
<tr>
<td>Water supply, sewerage, waste collection and recycling</td>
<td>1.1</td>
<td>1.5</td>
<td>1.4</td>
</tr>
<tr>
<td>Construction</td>
<td>2.5</td>
<td>1.9</td>
<td>2.1</td>
</tr>
<tr>
<td>Wholesale and retail trade, repair of motor vehicles and motorcycles</td>
<td>4.9</td>
<td>5.1</td>
<td>3.7</td>
</tr>
<tr>
<td>Transportation and storage</td>
<td>9.0</td>
<td>12.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Food and accommodation services</td>
<td>1.1</td>
<td>1.9</td>
<td>0.8</td>
</tr>
<tr>
<td>Information and communication</td>
<td>2.4</td>
<td>2.3</td>
<td>2.8</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>1.2</td>
<td>0.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Professional, scientific and technical activities</td>
<td>2.1</td>
<td>1.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Education</td>
<td>2.3</td>
<td>2.8</td>
<td>2.2</td>
</tr>
</tbody>
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\(^7\) [www.stat.uz](http://www.stat.uz)

\(^8\) [www.stat.uz](http://www.stat.uz)
As a result of implementation of significant investment programs in the country, a number of buildings for production in food industry, construction materials industry, light and textile industries, agriculture and forestry, thermal power plants, chemical and petrochemical industries, pharmaceuticals and many other sectors are being put into use on regular basis.

Furthermore, large investment projects are implementing not only in manufacturing industry, but also in the development of social sphere. Attracted financial resources accounted for 44.5% of investments in the fixed capital; the other 55.5% was financed by enterprises and households. The share of own funds of enterprises and households increased by 8.4% in comparison with that in 2016. The share of public investments in the total investments in the fixed capital was 5.1%, increasing by 0.5% as compared to that in 2016. Foreign direct investment and other foreign investments and credits flowed into the country was 2 493.3 mln. US dollars in 2017, having 18.7% share in the total investments and increased by 3.9% to compare with that in the previous year. While the share of foreign investments and credits was 21.3% in 2016, it was 25.1% in 2017, growing by 3.8% in comparison with the indicator in the preceding year. Particularly, the volume of foreign direct investments and credits was 105.2 mln US dollars or their share in the total investments was equal to 3.4% in 2000, 422.6 mln. US dollars or 14.9% in 2005, 2454.7 mln. US dollars or 24.6% in 2010, and 2387.6 mln. US dollars or 14.7% in 2015, having consistent increasing tendency.

Table 3

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<tbody>
<tr>
<td>Share of foreign investments and credits in the fixed capital, in percent</td>
<td>23.5</td>
<td>21.7</td>
<td>28.3</td>
<td>19.9</td>
<td>21.3</td>
<td>25.1</td>
</tr>
</tbody>
</table>

9 [www.stat.uz](http://www.stat.uz)
The amount of foreign investments and credits was 3348.2 mln. US dollars in 2017 and their share in the total investments was 25.1%. Additionally, the ratio of foreign investments and credits to GDP was 6.7%, growing by 1.4% as compared with that in 2016. Moreover, the implemented reforms so as to improve investment climate and attract more funds from abroad resulted that foreign direct investments and credits was 2493.3 mln. US dollars in 2017 and the share in the total investments ended to be 18.7%.10

There is a special role of the regions in the attraction of foreign investments and loans in 2017, and the government guarantees became one of the reasons for the large-scale attraction of foreign investments. Large investment projects such as electrification of railways, construction of a new thermal power station, construction of the complex for polyvinylchloride (PVC), caustic soda and methanol production, reconstruction of automobile roads in the mountainous regions, and development of digital transmission network were implemented on the account of foreign loans. In addition, major investment projects that have been financed with foreign direct investments and other foreign investments and loans include preparation of mining deposits for production and construction of the gas processing complex, launching production of hydrocarbon deposits in the regions of the country, organizing the textile complex, expanding mobile network system, developing the network of national mobile operators, and others.

There is a noticeable difference in the role of foreign businessmen and their countries in investing and extending loans to Uzbekistan. The top countries in investing in Uzbekistan are presented in Table 4. Particularly, Russian businessmen were leaders in terms of investing in our country in 2017. They made significant investments in natural gas production, information and communication, production of other non-metallic minerals, metallurgical industry and other types of businesses11.

Table 4

**Dynamics of share of the main investor-countries in the total investments in Uzbekistan, in percent**

<table>
<thead>
<tr>
<th>including, share of foreign direct investments and credits in the total investments in the fixed capital, in percent</th>
<th>3,4</th>
<th>14,9</th>
<th>24,6</th>
<th>14,7</th>
<th>14,8</th>
<th>18,7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign investments and credits in the fixed capital, mln. US dollars</td>
<td>727,5</td>
<td>617,1</td>
<td>2824,5</td>
<td>3248,5</td>
<td>3578,1</td>
<td>3348,2</td>
</tr>
<tr>
<td>including, foreign direct investments and credits in the fixed capital, mln. US dollars</td>
<td>105,2</td>
<td>422,6</td>
<td>2454,7</td>
<td>2387,6</td>
<td>2479,6</td>
<td>2493,3</td>
</tr>
</tbody>
</table>

10 [www.stat.uz](http://www.stat.uz)
11 [www.stat.uz](http://www.stat.uz)
12 [www.stat.uz](http://www.stat.uz)
Furthermore, the Chinese businessmen made large amounts of investments in manufacturing rubber and plastic products, chemical products, natural gas extraction, communications, production of other non-metallic mineral products, and other industries. Nowadays Japanese entrepreneurs are investing in land and pipeline transport, electricity, gas and steam supply, air conditioning, chemical production, and communications. In turn, it is given in Table 4 that investors from South Korea invested in the large amount in the construction of gas-chemical complex in 2013-2016. The President of the Republic of Uzbekistan Sh.M. Mirziyoyev stated the scope of future investment activities in his Address: "It is planned to attract investments in the amount of about 138 trillion sums from all sources or 16% more than that in 2018. The volume of foreign direct investments will increase by almost 1.5 times, amounting to 4.2 bln. US dollars, as compared with the previous year. As a result, 142 modern enterprises will be launched"\textsuperscript{13}. From this perspective, it might be concluded that the growth of the amount of domestic and foreign investments is accelerating due to the favorable investment climate created in the country thanks to socio-economic reforms. At the same time, attraction of foreign investments into the national economy represents that the integration of the country into the international economic system is deepening. Along with the size and structure of foreign investments and loans, their ownership patterns play a special role in the context of globalization. In particular, the patterns of ownership of foreign investment and loans in 2017 seemed to be unique. The private sector accounted for 88.7% of foreign investment and loans, while the share of the public sector was 11.3%\textsuperscript{14}. Uniqueness of the private sector in attracting foreign investments and credits was also observed in the regions. In particular, the share of the private sector in attracting foreign investment and credits by regions was 97.4% in Tashkent province, 96.9% in Navoi and 94.8% in Bukhara. The lowest level was observable in Khorezm region, where the share of private sector received foreign investments and credits was 9.7%. There was an issue in the distribution of foreign investments and loans by sector and industry in our country in 2017. Some sectors of the national economy received a large share of foreign investments. Specifically, production of crude oil and natural gas accounted for 54.1%, 4.8% directed for production of chemical products, 8.5% for transportation and storage, 2.3% for electricity, gas and steam provision and air conditioning, 8.7% for information and

\begin{table}
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\begin{tabular}{|l|c|c|c|c|c|c|c|}
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\hline
Russia & 24.6 & 33.9 & 22.2 & 28.3 & 28.1 & 21.3 & 33.7 & 55.6 \\
South Korea & 1.7 & 5.6 & 6.1 & 11.8 & 24.3 & 30.5 & 20.2 & 1.6 \\
China & 48.6 & 28.7 & 37.7 & 30.8 & 16.3 & 20.7 & 14.8 & 15.0 \\
\hline
\end{tabular}
\end{table}

\textsuperscript{13} The Address of the President of the Republic of Uzbekistan Sh.M. Mirziyoyev to the Parliament, 28.12.2018
\textsuperscript{14} www.stat.uz
communication, 3.2% for production of textile products, 1.6% for water supply, sewerage, waste collection and recycling, and 3.0% for health and social protection.

In general, the consistently-growing volume of foreign investments and credits is considered as a positive and important achievement. Besides, production and services in the sectors and regions, to which foreign financial funds have been directed, develop to meet the modern requirements. However, the other sectors and regions may not benefit from the achievements in science and technology and the success of modern development of foreign capital and cannot meet the requirements of globalization of the world economy. As a result, this issue, even though in the context of a particular industry or region, will generally hamper the sustainable and balanced development of the national economy. Even discrimination may emerge in some sectors and regions. This may lead not only to economic issues, but also to the emergence and deterioration of social problems. Additionally, there is a lack of opportunities for the efficient use of the existing natural resources and labor force, which may ultimately result in unexpected difficulties. All these incidents may cause the exacerbation of unemployment and even feed into other issues. Consequently, this may lead to the acceleration of internal and international migration of the labor force, and the majority of active segment of the population will be concentrated on the dynamically developing regions or centers. It is natural that all above-mentioned issues will result in unexpected socio-economic problems in the national economy.

Additionally, some countries account for a large share of foreign investment and loans and become leaders as investors. This may cause particular complicated situations. In particular, this process may lead to the dependency on these countries in terms of investment and technology, and in the future some challenges for the development in this block will occur. Also, the stable economic situation in our country may be affected by negative spillovers of socio-economic processes in these countries. Thus, in order to further strengthen reforms and gain a worthy position in the global economic system and address potential problems it is important that the measures for effective allocation of foreign investments by sectors and regions in the national economy should be further developed in accordance with the objective conditions. Moreover, it is also an effective approach to diversify the investor countries considering internal opportunities and to implement mechanisms to be oriented to support the private sector involvement in the regions where the private sector is not active enough. Eventually, the well-being of the population can be improved by successfully implementing integration of the national economy into foreign capital market and creating favourable environment for high achievements.

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3. Decree of the President of the Republic of Uzbekistan “On the Strategy of Actions on further development of the Republic of Uzbekistan” (February 7, 2017, PD-4947)
