

Investment: Policy of Uzbekistan

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Abstract

This article discusses the investment policy of Uzbekistan and analyzes recent changes in this sector. Furthermore, several proposals have been made for further improvements in this sphere.

Keywords: *investment, FDI, loans, growth, national economy, policy, private sector, resources.*

Introduction

The socio-economic development of the country, achieving sustainable economic growth, increasing incomes, improving living conditions largely depend on the size and composition of investment in various sectors and industries of the national economy. Therefore, the priority of the socio-economic development strategy of each country is inevitably focused on creating an attractive environment for attracting investment in the national economy. Appropriate legal framework for the development of the investment climate in the Republic of Uzbekistan has been created [1], and a number of normative documents reflecting guarantees and benefits have been adopted. They set standards for the protection of private property by the state and the creation of conditions for a competitive environment and the necessary investment infrastructure. Also, the political stability prevailing in our country and the availability of rich natural mineral resources open the door to opportunities for the development of the investment climate.

Materials and Methods

According to Grazia Ietto-Gillies [2] prior to Stephen Hymer's theory [3] regarding investment in the 1960s, the reasons behind foreign investment and multinational corporations were explained by neoclassical economics based on macro-economic principles. These theories were based on the classical theory of trade in which the motive behind trade was a result of the difference in the costs of production of goods between two countries, focusing on the low cost of production as a motive for a firm's foreign activity. For example, Joe S. Bain only explained the internationalization challenge through three main principles: absolute cost advantages, product differentiation advantages and economies of scale. Furthermore, the neoclassical theories were created under the assumption of the existence of perfect competition. Intrigued by the motivations behind large foreign investments made by corporations from the United States of America, Hymer developed a framework that went beyond the existing theories, explaining why this phenomenon occurred, since he considered that the previously mentioned theories could not explain foreign investment and its motivations. Facing the challenges of his predecessors, Hymer focused his theory on filling the gaps regarding international investment. The theory proposed by the author approaches international investment from a different and more firm-specific point of view. As opposed to traditional macroeconomics-based theories of investment, Hymer states that there is a difference between mere capital investment, otherwise known as portfolio investment, and direct investment. The difference between the two, which will become the cornerstone of his whole theoretical

framework, is the issue of control, meaning that with direct investment firms are able to obtain a greater level of control than with portfolio investment. Furthermore, Hymer proceeds to criticize the neoclassical theories, stating that the theory of capital movements cannot explain international production. Moreover, he clarifies that FDI is not necessarily a movement of funds from a home country to a host country, and that it is concentrated on particular industries within many countries. In contrast, if interest rates were the main motive for international investment, FDI would include many industries within fewer countries. Another observation made by Hymer went against what was maintained by the neoclassical theories: foreign direct investment is not limited to investment of excess profits abroad. In fact, foreign direct investment can be financed through loans obtained in the host country, payments in exchange for equity (patents, technology, machinery etc.), and other methods. The main determinants of FDI is side as well as growth prospectus of the economy of the country when FDI is made. Hymer proposed some more determinants of FDI due to criticisms, along with assuming market and imperfections. These are as follows:

Firm-specific advantages: Once domestic investment was exhausted, a firm could exploit its advantages linked to market imperfections, which could provide the firm with market power and competitive advantage. Further studies attempted to explain how firms could monetize these advantages in the form of licenses.

Removal of conflicts: conflict arises if a firm is already operating in foreign market or looking to expand its operations within the same market. He proposes that the solution for this hurdle arose in the form of collusion, sharing the market with rivals or attempting to acquire a direct control of production. However, it must be taken into account that a reduction in conflict through acquisition of control of operations will increase the market imperfections. Propensity to formulate an internationalization strategy to mitigate risk: According to his position, firms are characterized with 3 levels of decision making: the day to day supervision, management decision coordination and long term strategy planning and decision making. The extent to which a company can mitigate risk depends on how well a firm can formulate an internationalization strategy taking these levels of decision into account. Hymer's importance in the field of International Business and foreign direct investment stems from him being the first to theorize about the existence of multinational enterprises (MNE) and the reasons behind FDI beyond macroeconomic principles, his influence on later scholars and theories in international business, such as the OLI (Ownership, Location and Internationalization) theory by John Dunning and Christos Pitelis which focuses more on transaction costs. Moreover, "the efficiency-value creation component of FDI and MNE activity was further strengthened by two other major scholarly developments in the 1990s: the resource-based (RBV) and evolutionary theories"[4]. In addition, some of his predictions later materialized, for example the power of supranational bodies such as IMF or the World Bank that increases inequalities. Moreover, in the scientific work which was published by International Monetary Fund [5] FDI was noted as investment which happens when an individual or business owns 10% or more of a foreign company. A 10% ownership doesn't give the individual investor a controlling interest in the foreign company. However, it does allow influence over the company's management, operations, and policies. For this reason, governments track investments in their country's businesses.

Methodology of the research

The methodology includes historical analyzes, systematic analyzes, and graphic methods. Statistics have been made by the help of official statistics of Uzbekistan and the world.

Results

However, major changes have been made in investment sector, these alone are not enough to keep pace with the times. As in order to take a worthy place in the rankings of the rapidly developing world community, there is a need to invent new modern ideas. Attracting large-scale foreign investment will allow carrying out structural changes in the economy, strengthening the country's export potential, creating high-tech competitive industries, applying advanced foreign technologies, know-how and management practices.

During the years of independence, the Republic of Uzbekistan has created a favorable investment climate, created a comprehensive system of legal guarantees and benefits for foreign investors, developed a system of integral measures to stimulate the activities of enterprises with foreign investment. The investment legislation of the Republic of Uzbekistan is one of the most advanced laws in the legislation of the CIS countries, which includes the basic provisions of international investment law, in particular, guarantees of the rights of foreign investors, certain benefits for investors, etc.

Modern Uzbekistan is located in the heart of Central Asia, ensuring the stability and economic development of the entire region. Among the advantages, the main factors of business success in Uzbekistan are: rich raw material base, convenient geographical location in the center of major regional markets, transport and logistics system integrated into the land and air network of international importance, diversified industrial base and scientific and intellectual, human resources.

However, the country's ratings on a number of indicators are not high enough, which reduces the investment activity of investors and negatively affects the restructuring and restructuring of the business, especially in the context of directing global players from investing in new production projects. Thus, the current conditions of global investment policy require great efforts to attract investment to developing economies, including Uzbekistan, by creating the most favorable investment climate.

The main directions of systematic work to eliminate barriers to investment and innovation in the country are the formation of a competitive model of the economy through the gradual privatization of the banking sector, the development of public-private partnership to attract investment in infrastructure. It is planned to digitize the process of interaction between the state and investors, encourage the legalization of capital and pursue an effective investment policy aimed at using the most promising sectors that can become a point of economic growth and rapid technological development.

Investment policy is a set of interrelated measures aimed at ensuring the necessary level and structure of investments in the economy of the Republic of Uzbekistan and its individual sectors, increasing investment activity of investment activities aimed at finding sources of investment and identifying priority areas for their use. In the implementation of public investment policy, more priority is given to the creation of small businesses, enterprises with foreign investment. Public investment policy is aimed at eliminating existing shortcomings, resolving problems quickly and, on this basis, creating a favorable economic, investment environment in which investment participants can move freely.

The main purpose of investment policy is to implement structural reforms in the economy, increase the investment activity of enterprises and companies, concentrate on decentralized investment, attract foreign investment to the economy. "World experience shows that a country that pursues an

active investment policy has achieved sustainable economic growth. Therefore, it is no exaggeration to say that investment is the driver of the economy, in Uzbek, the heart of the economy” said President Sh.Mirziyoyev [1].

Indeed, achieving large-scale investment in the economy will serve as a huge foundation for the entry of new technologies, best practices, highly qualified specialists and the rapid development of entrepreneurship in many industries, sectors and regions.

Thanks to institutional growth and wide-ranging reforms in investment and economic spheres, as well as effective cooperation of relevant ministries and departments in improving the business and investment climate, Uzbekistan ranks 43rd out of 83 countries, followed by Kazakhstan (56th) and Tajikistan (58th.) and Kyrgyzstan (62nd place) [6].

Implementation of the Investment Policy Strategy of the Republic of Uzbekistan in the medium term will improve the investment climate and conditions for the development of private business, which in turn will increase the inflow of direct and other foreign investment, increase the involvement of the population in investment processes. Increased efficiency in the use of budget and other public resources, improved financial condition and the expansion of investment activities of enterprises at the expense of own and borrowed funds will be accompanied by an increase in the efficiency of lending to the real sector of the economy.

The conditions for attracting foreign investments to Uzbekistan are the following:

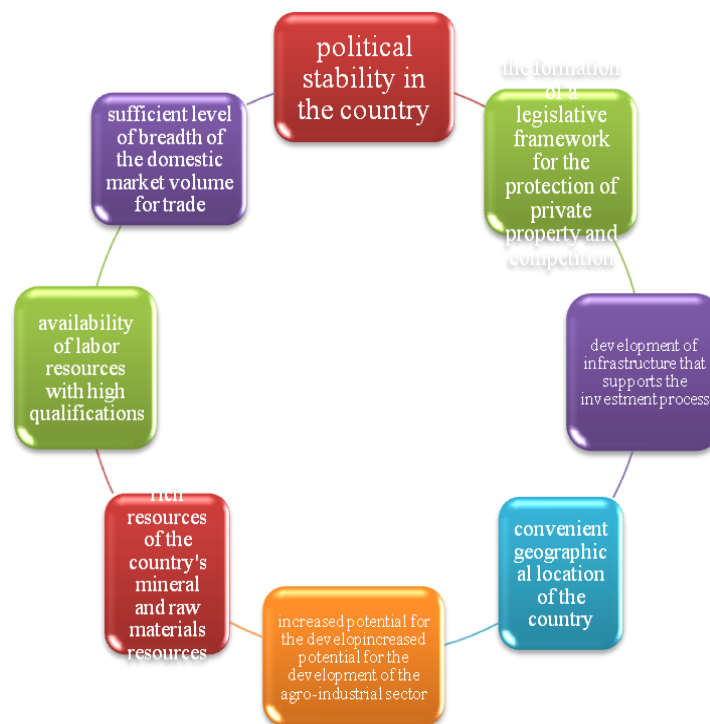


Fig. 1. The conditions for attracting foreign investments to Uzbekistan [6]

Until 2025, the main sources of investment will be direct investments, including the use of private financing through public-private partnerships, public investment and investments in corporate securities. In 2019-2025, it is planned to develop more than \$ 80 billion of decentralized investments under ongoing and promising new investment projects, about 30% of which will be financed by enterprises themselves. As a result of the above measures, the share of fixed capital investment in GDP is expected to increase from 22% in 2018 to 28-30% in 2025.

At the same time, the volume of foreign direct investment attracted in 2025 is expected to more than triple. In general, the implementation of the investment policy strategy will allow to increase the volume of investments in fixed assets by 3.5 times compared to 2018 and reach 379.7 trillion soums by 2025

It is expected to increase the competitiveness of national companies in the production of new finished products, their deeper integration with global manufacturers and, ultimately, significantly expand the use of skilled labor and solve the problem of sustainable employment. The result of the implementation of the investment policy strategy is to ensure the full support of regional and industrial development of the republic, as well as the formation of value clusters of products from raw materials to finished products, the strengthening of existing and the formation of new interregional and intersectoral links, the development of cooperation between industries, regions, government agencies and private business.

One of the directions of the investment policy strategy is to expand the investment opportunities of these enterprises, including by improving the quality of management and strengthening the financial position of enterprises. To solve this problem, the following is assumed:

Firstly, the introduction of a modern management system in large strategic enterprises and the development of measures to increase the investment attractiveness of companies, including the involvement of international and foreign experts in the field of production management and company development.

Secondly, to stimulate the issuance and circulation of securities by businesses to finance technical and technological renewal, modernization of production through the issuance of targeted bonds and shares in the securities market by enterprises of the real sector of the economy, placement of Eurobonds.

To this end, in 2021, it is planned to further improve the country's access to international financial markets, placing for the first time in the national currency 2 trillion soums of government Eurobonds at low interest rates. Approval of regulatory documents to optimize the existing requirements for issuers and increase the role and responsibility of supervisory boards, audit commissions, general meetings of shareholders for the targeted use of funds received.

As President Sh.M.Mirziyoev noted, "we must learn to live and work in a pandemic." To do this, we need to strengthen the attraction of foreign investment in the economy. As of January 2021, 10,400 enterprises are operating in the country on the basis of foreign investment.

In 2021, it is planned to sell shares of 29 state-owned enterprises to foreign investors, including 6 in the oil and gas sector and 3 in the chemical industry.

According to the Deputy Prime Minister of Uzbekistan - Minister of Investment and Foreign Trade S. Umrzakov, in 2020 the volume of foreign direct investment amounted to 6.6 billion dollars. Under the investment program, 197 projects were implemented and 38,000 new jobs were created. Exports amounted to 15.1 billion. USD, of which \$ 7.6 billion is foreign direct investment, and exports are expected to reach \$ 17 billion.

Uzbekistan is taking a bold step towards the development strategy adopted for 2017-2021.

Conclusion

Summing up, it can be said that the main focus is on creating additional conditions for private investors (population) to participate in the stock market by creating a special trading platform for ensuring the consistency of investments, creating new financial instruments, selling small shares to

individuals, developing a database of securities market, fast coverage and high activation and accumulation of funds of the population in order to invest in profitable investment projects.

In order to improve the policy of lending to investment projects in the real sector of the economy in the medium term, it is necessary to do the following.

Firstly, to restructure state-owned banks, revise their strategies and operations on the basis of a program that covers all activities, from corporate governance and risk management to digitalization, in order to privatize state property, including to foreign investors.

In 2021, the privatization of Sanoat Kurilish Bank, Asaka Bank, Ipoteka Bank, Alokabank, Turonbank and Kishlok Kurilish Bank will begin. It is planned to sell the state share in at least one large bank to a full strategic investor.

Secondly, to introduce and encourage the use of modern methods and approaches to risk assessment of investment processes based on market principles. Additionally, lending rates for investment projects are set on a flexible basis depending on the risk level of the project, and collateral is required only if the risk is high.

Thirdly, diversifying the economy and reduce the share of the state in it, the open sale of state assets.

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