



## The Existing Problems In Attracting Foreign Investment To The National Economy And Ways To Overcome Them

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### ABSTRACT

The article analyses the importance of foreign investment and the existing problems in attracting them to the national economy and ways to overcome them based on statistics. The article also outlines the factors influencing the inflow of foreign investment and recommendations for their elimination.

### KEYWORDS

Investment, Foreign Investment, Foreign Direct Investment, Reinvestment, Export, Innovation, Economic Growth.

### INTRODUCTION

Trends in the world economy in modern conditions reflect weak investment activity, as well as imbalances in the distribution of international investment. In particular, “in 2018, the volume of global foreign direct investment decreased by 13% to \$ 1.3 trillion in nominal terms. Investments in new projects have declined by 14% over the year as a factor in future growth. Since 2004, the inflow of foreign investment to developed countries has amounted to 27%. In terms of investment in developing countries, there has been no

change, with an annual growth rate of 2%” [1]. According to the United Nations (UNCTAD), “in 2019, the foreign direct investment will reach 1.54 trillion. The world economy has not seen a significant change since 2005. In 2020, foreign direct investment is projected to decline by 40% due to the global pandemic” [2]. It is known that the competition between the countries of the world to attract foreign investment to the national economy is growing from year to year. Therefore, the more favourable the conditions for foreign

investors, the higher the probability of making a profit, in other words, the greater the

This is a solution that conforms to the law of relative efficiency of a market economy, which means that where there is a relatively high chance of profit (profit), entrepreneurs tend to market more. In this regard, today Uzbekistan is one of the countries with the highest investment climate in the transition to a market economy. This environment will undoubtedly increase the inflow of foreign direct investment into our economy. As the economic policy of our country is aimed at attracting and encouraging more direct investment, the flow of various forms of investment is growing from year to year. This is because the reforms being carried out in our country take into account the direct participation of investors, and there are sufficient conditions for this.

In particular, the rich mineral resources of the country, a sufficient number of skilled workers, a healthy environment, political and socio-economic stability contribute to the further inflow of foreign investment and the development of enterprises operating in the regions of the country. This indicates the relevance of the topic.

### LITERATURE REVIVE

Several economists have developed different definitions of the term "foreign investment". In general, there are some differences in the definition of "foreign investment" by Western economists and CIS economists. There are several reasons for this, one of which is that the term "foreign investment" appeared in the CIS countries in the context of the transition to a market economy after independence.

interest in investing in the economy of that country.

M. Sornaraja, a Western scholar, states: "Foreign investment is the transfer of tangible and intangible assets from one country to another for use to create tangible wealth under the full or partial control of the owner of the asset" [3].

J. M. Keynes describes the investment as "the current increase in the value of capital as a result of production activity in a given period, the part of income not used for consumption in a given period" [4].

It's more about saving than investing. Because part of the income that is not used for consumption is the fund, and the fund is not always an investment. To turn a fund into an investment, the money must be directed to business activity, and as a result, the money must bring income to its owner. Investment theory has gone through several stages in its historical development. According to V.V. Aladin, the first signs of investment can be seen in the scientific work of the Austrian School of Economics. The economic dictionary defines investment as the sum of expenditures of capital as long-term investments in industry, agriculture, transport and other sectors [5].

The general definition of foreign investment is given in the 2nd edition of F. Xenius's Dictionary of Foreign Trade, published in the United States in 1947: "Foreign investment is an investment made from the territory of one country to the territory of another, exported" [6].

Uzbek economists A.Vakhabov, N.Haydarov, Sh. Mustafakulov and D.Gozibekov have researched the characteristics of foreign investment and the forms of their attraction,

their importance in ensuring economic development. In particular, in the dissertation of Professor N. Haydarov on investment, investment is an individual or legal entity operating based on entrepreneurship, regardless of the form of ownership, or any person whose wealth is within the law to obtain economic and social benefits of the state. what kind of business to spend on it”[7]. In his research, AA Isadjanov also made scientific proposals to ensure international economic integration and expand economic cooperation with countries around the world in the active attraction of foreign investment in our country [8].

The scientific works of A.Vakhabov, Sh. Khajibakiyev and N.Muminov [9] studied such issues as the content, types of foreign investments, forms of their attraction, their role in economic development, the international movement of foreign investments, the attraction of investments in free economic zones.

### METHODOLOGY

Clarification of the concept of foreign investment in the coverage of this topic, analysis, data collection, generalization, grouping, comparison, the study of theoretical and practical and regulatory documents, the

existing problems in attracting foreign investment and their elimination conclusions and recommendations for the study of their ways on the basis of international experience are formed.

### RESULTS AND DISCUSSION

From the results of the analysis, we can see that there are obstacles and shortcomings in attracting foreign direct investment to the economy of our country. Examples of this are the underdeveloped infrastructure, the lack of advertising of Uzbekistan's investment attractiveness in the world media, the high differentiation of interregional distribution of investments, the incomplete exchange of currency, and so on. In this regard, targeted measures should be taken to intensify the activities of enterprises with foreign investment and increase the inflow of foreign direct investment. The results of the analysis presented in Table 1 show that in the structure of investments in fixed assets by regions by the end of 2020, the Republic of Karakalpakstan accounted for 69.9%, Kashkadarya region - 76.5%, Navoi region - 77.1%. Surkhandarya region remains one of the regions with the lowest share of investments in fixed assets and investment attractiveness, accounting for 77.4%.

**Table 1. Structure of fixed capital investments by regions [10]**

Regions	(at current prices, billion soums)			(growth rate, in%)		
	2010	2015	2020	2010	2015	2020
Republic of Uzbekistan	16463,7	44810,4	210195,1	104,2	109,4	95,6
The Republic of Karakalpakstan	496,4	6021,2	7089,8	63,9	133,5	69,9
Regions						
Andijon	726,2	1956,5	9622,6	94,6	105,1	110,6
Buxoro	2147,2	4075,9	12183,9	73,6	98,7	104,7
Jizzax	440,8	1304,9	12545,4	118,0	96,9	147,4

Kashkadarya	1792,8	5894,7	20557,6	67,4	112,4	76,5
Navoi	1741,8	1809,1	15688,4	248,6	90,7	77,1
Namangan	660,6	2227,5	12007,2	90,3	108,5	88,0
Samarkand	1083,1	3237,2	14656,4	127,4	115,8	128,8
Surxondaryo	655,3	1843,6	10068,2	95,8	110,3	77,4
Sirdaryo	406,2	1083,3	7191,9	153,9	97,9	111,2
Tashkent	1606,1	4428,1	21148,6	104,0	99,3	92,2
Fergana	930,9	2542,3	11040,0	107,3	98,7	113,5
Khorezm	416,9	1531,5	5391,8	133,8	87,2	92,7
Tashkent city	3309,0	6854,6	50371,3	147,6	102,3	108,6

As can be seen in Table 2, foreign investment and loans in fixed assets in 2020 amounted to 86647.0 billion soums (8.6 billion US dollars in dollar equivalent) or 90.6% of foreign investment in fixed assets in 2019 and loans were disbursed. The share of foreign investment and loans in total fixed capital investments was 42.9%. In the structure of foreign investments and loans, foreign investments amounted to 32847.2 billion soums. soums and foreign loans amounted to

53799.8 billion soums, respectively. The total amount of disbursed foreign investments and loans amounted to 28740.5 billion soums of foreign direct investment. Foreign loans under the state guarantee of the Republic of Uzbekistan amounted to 22467.1 billion soums, other foreign investments and unsecured loans amounted to 35439.4 billion soums. The growth rate of foreign investment and loans compared to 2019 was 90.6%.

**Table 2. Foreign investments and loans in fixed assets in 2020, billion soums [11]**

№	Total	Foreign direct investment	Including:	
			Foreign loans guaranteed by the Republic of Uzbekistan	Other investment loans
O'zbekiston Respublikasi	86 647,0	28 740,5	22 467,1	35 439,4
The Republic of Karakalpakstan	3 759,9	203,5	2 544,0	1 012,4
Regions				
Andijon	3 500,7	940,4	312,2	2 248,1
Buxoro	5 563,8	1 151,0	2 676,2	1 736,6
Jizzax	5 919,6	3 117,5	188,2	2 613,9
Kashkadarya	13 313,6	3 875,2	7 220,9	2 217,5
Navoi	11 359,7	639,4	2 998,7	7 721,6

Namangan	3 795,0	749,7	770,8	2 274,5
Samarkand	3 950,1	809,6	797,6	2 342,9
Surxondaryo	6 158,2	4 273,5	677,6	1 207,1
Sirdaryo	3 110,6	964,2	886,5	1 259,9
Tashkent	5 841,9	4 539,8	599,4	702,7
Fergana	4 479,5	2 172,0	574,9	1 732,6
Khorezm	1 801,4	316,2	323,5	1 161,7
Tashkent city	14093,0	4988,5	1896,6	7207,9

According to scientific research, there are several problems in attracting foreign investment to the regions of the country, which need to be addressed:

- Insufficient development of investment infrastructure to stimulate the activities of banks, investment funds and leasing companies and their effective participation in the implementation of investment projects;
- Insufficient business skills of entrepreneurs, including experience and legal knowledge of working with investment projects;
- Establishment and development of consulting, marketing and legal service centres in the regions;
- Non-compliance of investment proposals and feasibility studies of the project with the established requirements - organization and constant monitoring by local authorities of practical assistance to entrepreneurs in the development of investment projects by commercial banks, regional chambers of commerce and industry and other responsible agencies;
- Insolvency of the project initiators - we can see an in-depth analysis of the financial and economic situation of the initiators of the proposed projects to be included in

investment programs and programs for socio-economic development of the regions by local governments and commercial banks.

There are also cases when foreign investors who want to operate in the country do not fulfil their obligations. Failure of foreign investors to fulfil their obligations, including failure to make timely contributions to the charter of the joint venture, failure to provide guarantees for the timely payment of fees and delivery of equipment, supply of equipment. There are also cases of shortcomings and errors in the issuance and installation. The country's telecommunications and communications networks do not meet international standards, and there is a shortage of advertising and information resources, which also hinders the activities of foreign investors. In the transition to a market economy, the state should focus on the formation of certain systems, the creation of new regions and primary sources of production growth, or the support of production. In financing public investment, it is required to focus on sectors and research that are important for strategic development but may not be effective in the future. Around the world, public funds are spent on large-scale projects such as road construction, urban

development and the development of industrial infrastructure. In the context of the market mechanism of a market economy, the role of the state gradually narrows, leaving tasks at the state level. That is, funding for primary education in the social sphere, emergency medical care, public administration, etc. will remain in the budget. The experience of the Chinese state in attracting foreign investment and introducing various benefits and incentives to foreign investors is also important. The Chinese government has been successfully coordinating the flow of investment at the regional level, giving greater authority to local authorities. The central authorities will determine in which areas investments should be made as part of the overall investment policy. At the same time, local authorities are developing investment incentive programs. Various incentives have been developed to attract foreign investment, such as tax holidays and exemptions, and exemptions on import tariffs. This is especially true for companies established in free economic zones. Foreign experience shows that there are many conditions for investors. The Chinese government is creating conditions in the country's interior to attract more foreign investment, such as long-term tax exemptions and the unimpeded withdrawal of profits. Local authorities may implement programs to encourage the attraction of foreign capital to develop the local economy without the permission of the central authorities. In many countries of the world, the provision of financial and economic benefits and privileges in regional investment policy creates the basis for the economic development of the regions. In our country, increasing the activity and independence of regions and districts in investment activities is an important criterion in attracting foreign investment to the regions. In world practice, the following methods are

used to protect and guarantee the interests of investors. In particular:

- Adoption of appropriate norms of national legislation for foreign investors;
- Harmonization of multilateral agreements;
- Coordination of bilateral agreements on mutual protection and encouragement of capital investments;
- Coordination of agreements with interstate and foreign investors on specific investment projects.

While all these methods are used in our country, these factors are not enough.

## CONCLUSION

In conclusion, we can see that it is expedient to increase the independence and role of local authorities in the investment activities of the republic and to expand the development and implementation of local programs to encourage private investment. The issuance of municipal and corporate bonds as a source of investment in the regions and the establishment of incentives for income from them can also be a factor in increasing investment flows. The following issues need to be addressed to address the factors that negatively affect the country's investment attractiveness:

- Low level of infrastructure (audit, insurance, consulting, evaluation, legal aid, telecommunications, transport and hotel services);
- Underdevelopment of the stock market, imperfect deposit service, lack of market information, low liquidity of stock valuables;
- Lack of management in enterprises;
- Non-compliance with the agreements reached, the complexity of the practice of

negotiating investment projects, the inconsistency of the accounting system with the international system of accounting and financial accounting and reporting standards, etc.

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