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INVESTMENT ACTIVITIES DURING THE PROCESS OF GLOBALIZATION AND ASSESSMENT OF FOREIGN INVESTMENT ACTIVITY IN UZBEKISTAN

Мақолада глобализация жараёнида инвестиция фаолиятининг хусусиятлари кўриб чиқилган ва Ўзбекистонда ҳалқаро инвестиция фаолиятига баҳо берилган. Мамлакатлараро инвестициялар, шу жумладан ривожланаётган давлатлар инвестициялари расмий статистик маълумотлар асосида таҳлил қилинган.

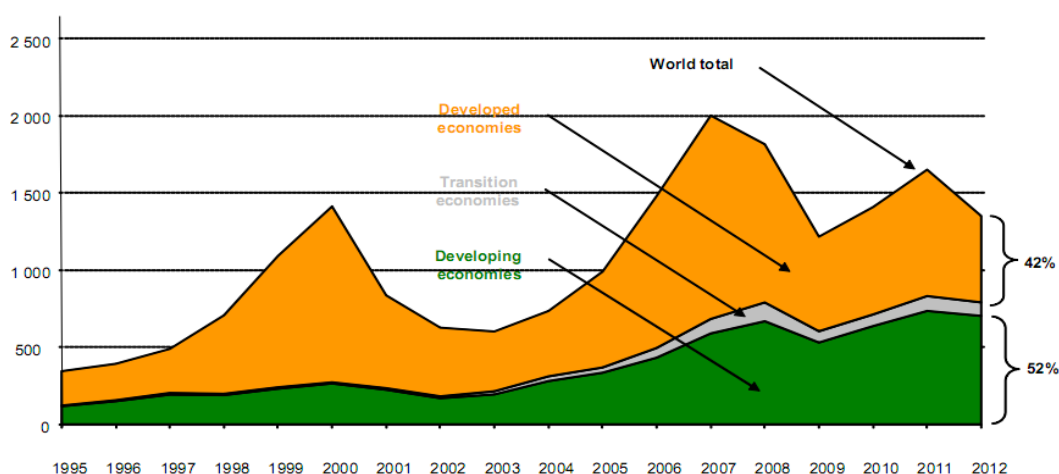
В настоящей статье рассмотрены особенности инвестиционной деятельности в процессе глобализации и выполнена оценка иностранной инвестиционной деятельности в Узбекистане. Проанализированы межстрановые инвестиции, в особенности развивающихся стран на основе официальных статистических данных.

Keywords: globalization, investments, foreign direct investments.

It is evident that in a market economy investment plays an important role for economic growth, employment and competitiveness. In the process of economic transition or development, investment in capital goods through private companies serves to the process of structural change and technical modernization. In such case foreign direct investment (FDI) plays a significant role since it brings new technology and managerial expertise with it.

In order to clarify the features of investment activity during the process of globalization it is necessary to first take a look at the trend of world FDI flows over the recent years.

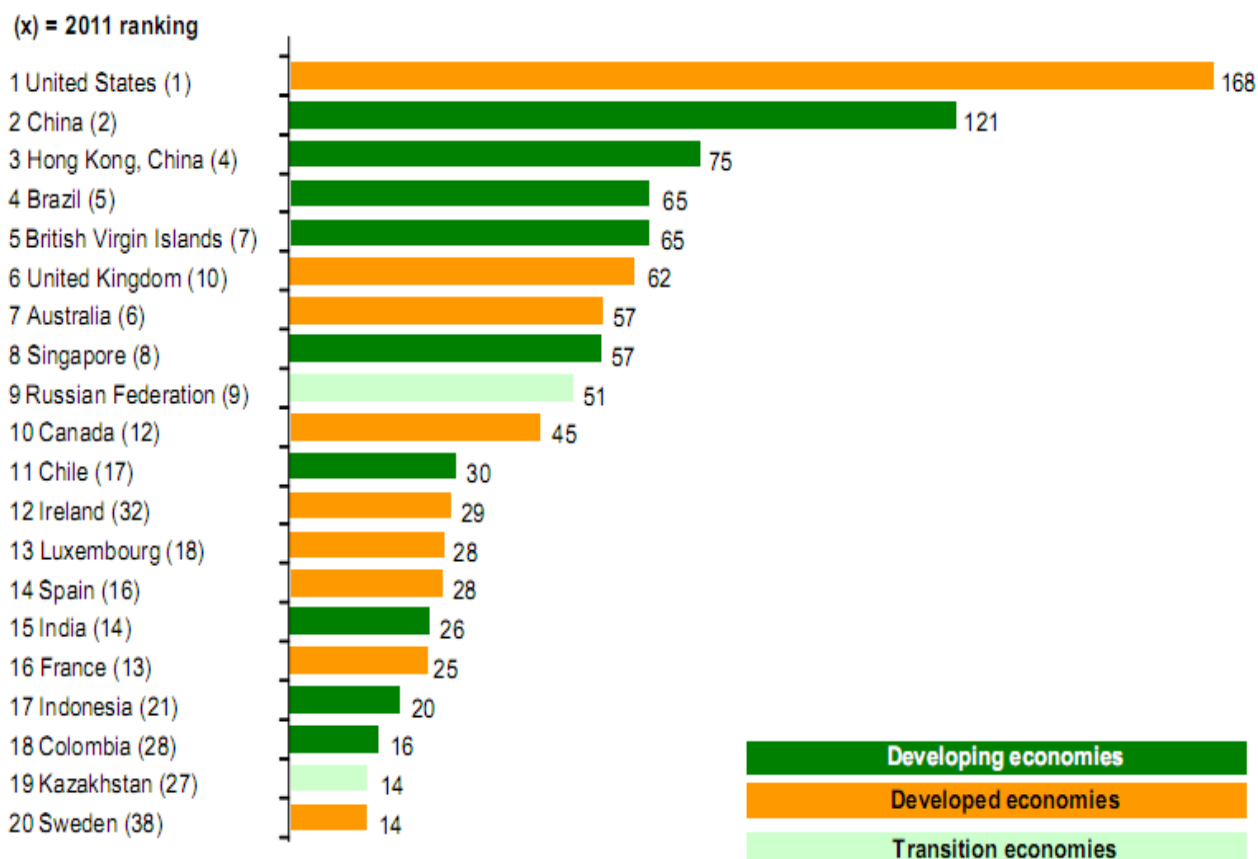
Figure 1. FDI inflows by group of economies, 1995-2012 (bln. USD)



Source: UNCTAD, World Investment Report-2013. Global Value Chains: Investment and Trade for Development. Based on annex table. (www.unctad.org/fdistatistics)

During the globalization process, FDI inflow fluctuated considerably in developed countries while there was steady growth in developing countries almost for the whole period. Although FDI to transition economies began to rise from 2002, the growth remains to be slow and their share is about 8% of world FDI inflow. The amount of FDI to developing countries has surpassed FDI inflow in developed countries for the first time for the years with 52% compared 42% in developed countries.

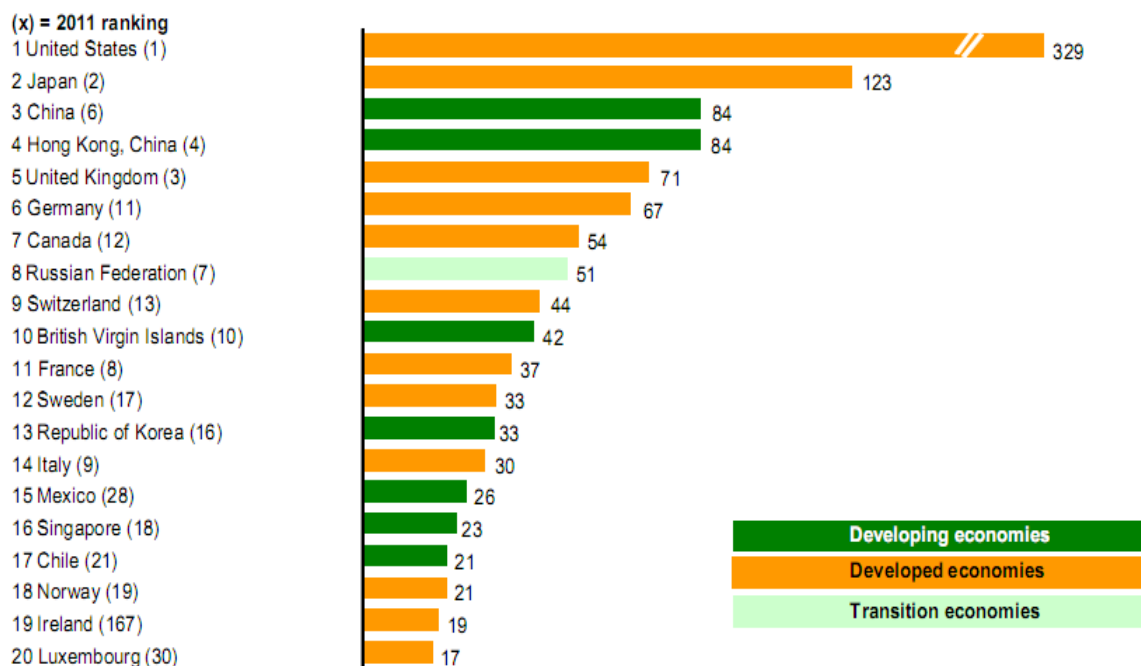
Figure 2. Top 20 host economies, 2012 (bln. USD)



Source: UNCTAD, World Investment Report-2013. Global Value Chains: Investment and Trade for Development. Based on annex table. (www.unctad.org/fdistatistics)

The globalization of the world economy can help emerging economies to catch-up industrialized countries since there will be no borders for foreign trade and investment. As this process is expanding throughout the world, the amount of FDI flow to developing countries is increasing year by year. According to UNCTAD statistics for 2012, 9 of the 20 largest FDI recipients were developing economies and they attracted more than 475 billion of USD. China became the second largest recipient after the US and this trend proves positive development of investments activity in developing countries during the globalization process.

Figure 3. Top 20 investor economies, 2012 (bln. USD)

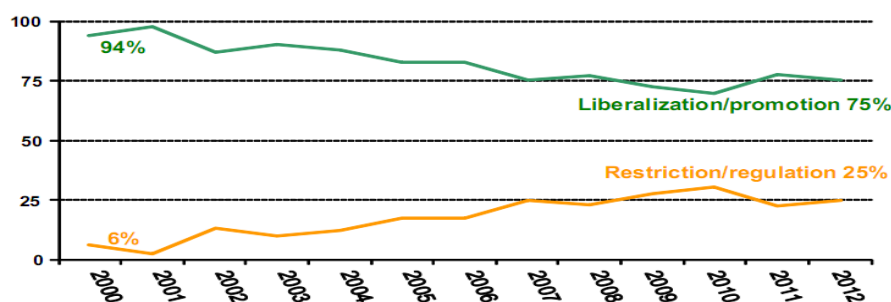


Source: UNCTAD, World Investment Report-2013. Global Value Chains: Investment and Trade for Development. Based on annex table. (www.unctad.org/fdistatistics)

Although developing countries have become the main recipients of FDI, they are not as active as developed countries in FDI outflow yet as most emerging economies are not ready to export capital. However, China became the third largest investor after the US and Japan as it moved up from the sixth (2011) to the third (2012) in the rank. Almost all developing economies moved up from their positions in the rank compared to previous year and this shows developing economies are trying to export more FDI.

At the first stages of integrating into the global economy, many countries attract investments by creating economic freedom for foreign investors and by reducing restrictions. But fast development of globalization process required controlling economy since there is high potential of economic challenges in free-market economy as revealed by world financial-economic crisis in 2007. Some of the world economies have realized the negative effect of liberal investment policy and they began to regulate national investment activity.

Figure 4. Changes in national investment policies, 2000-2012



Source: UNCTAD, World Investment Report-2013. Global Value Chains: Investment and Trade for Development. Based on annex table. (www.unctad.org/fdistatistics)

It is clear that most countries are trying to attract more FDI, but at the same time they are becoming more selective and reinforcing regulatory frameworks in order to avoid the negative effect of globalization.

We can conclude from above analysis that the main features of investment activity during the process of globalization are: the growth of FDI flow to developing countries; the attempt of developing economies to catch-up exporters of FDI in developed countries; the enforcement of more regulations.

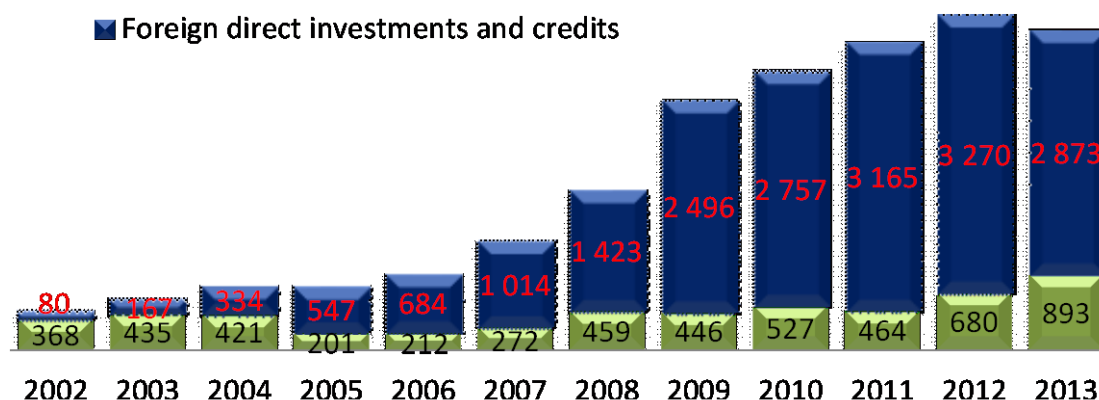
Assessment of foreign investment activity in Uzbekistan. Foreign direct investment (FDI) is an important catalyst for economic growth in developing countries like Uzbekistan. FDI can contribute to the economy of these countries in following ways:

- enhancing the foreign technology absorptive capacity;
- assisting in innovation and technology transfers and management skills;
- promoting international trade integration;
- strengthening the competitive environment.

Since 2000, the region started to show a continuously growing local demand for goods, especially in the bigger countries (Russia, Kazakhstan, Ukraine). Even though there are some challenges in the environment for FDI such as slower transition process, lower qualified labor forces and low levels of labor productivity investors began to move eastwards and invest in the region beyond the natural resource sector.

During the years of independence, Uzbekistan formed favorable investment environment, broad system of legal guarantees and privileges for foreign investors, developed integral system of measures on encouragement of activity of the enterprises with the foreign investments. The legislation, alongside with the general guarantees and measures of protection of foreign investors, may envisage additional guarantees and measures of protection, including providing unconditional performance by partners. Thanks to those reforms, the amount of foreign investments has increased year by year and the following chart (FIGURE 1) illustrates the trend for the last 12 years.

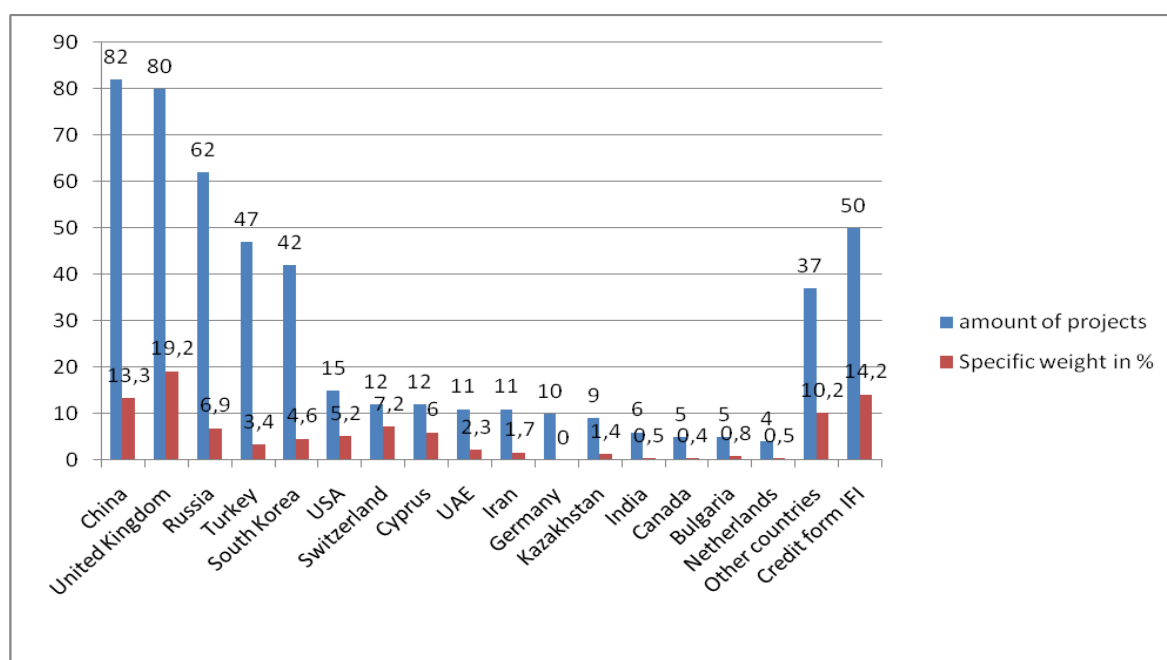
Figure 5. Foreign investment in Uzbekistan, 2002-2013 (mln. USD)



Source: UZINFOINVEST, Investment Environment of Uzbekistan, 2014.

FDI inflow for the last 12 years increased by almost 36 times making 2873 mln USD and reliable business environment has attracted more direct investments than foreign loans under government guarantee.

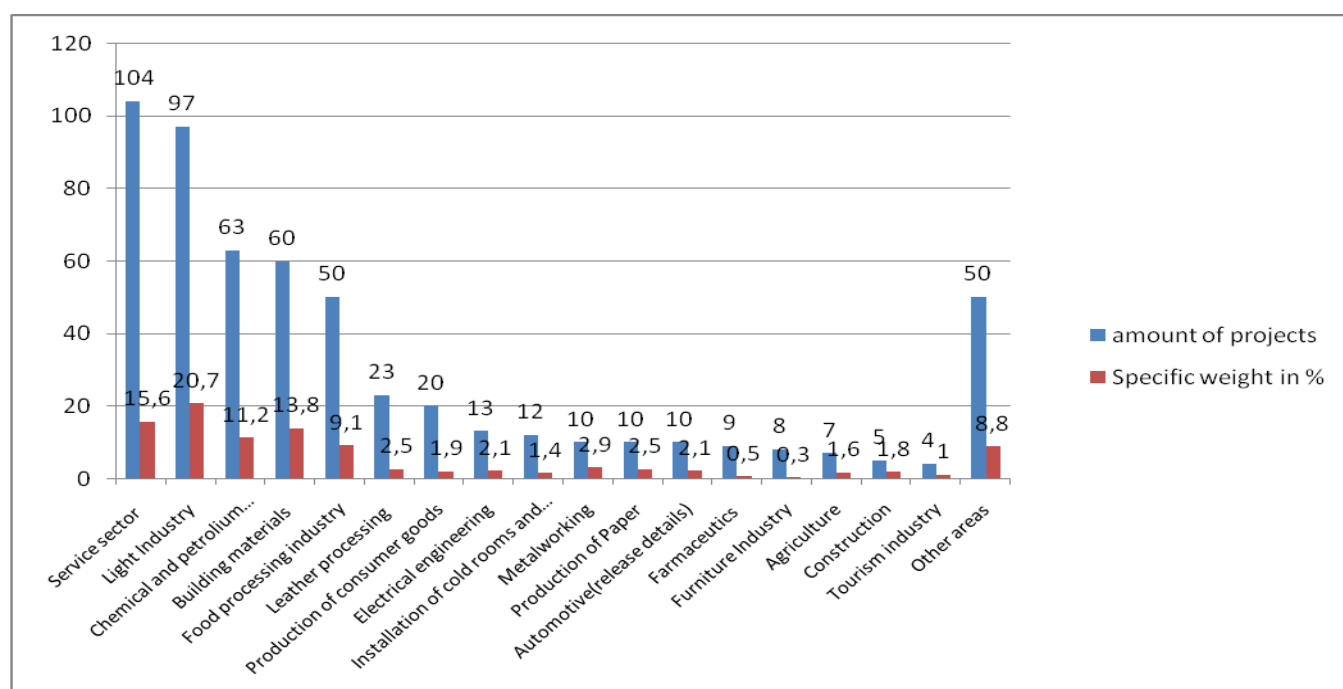
Figure 6. Distribution of direct investment attracted investments and loans within a regional investment program in 2012 by investor-countries (as of 01.01.2013)



Source: According to the statistics gathered by Chamber of Commerce and Industry of Uzbekistan.

If we look at the structure of foreign investors China, United Kingdom, Russia, Turkey and South Korea were the main countries, who have financed the investment projects in 2012. Their investments consisted 47.4% of total FDI in Uzbekistan. This shows the dependence of the foreign investments activity on these countries investment policies.

Figure 7. Distribution of direct investment attracted investments and loans within a regional investment program in 2012 by sectors of industry (as of 01.01.2013)



Source: According to the statistics gathered by Chamber of Commerce and Industry of Uzbekistan.

The main sectors for FDI inflow were light industry, service sector, building materials, chemical industry and food processing industry. 70.4% of total FDI were directed to finance the projects in these sectors.

From above analysis, it can be said that Uzbekistan is a country with a wide range of investment opportunities and the country has become one of the attractive destinations for foreign direct investments (FDI) in the last decade. However, there are some suggestions for further development of foreign investment activity in the country. Firstly, as the financing of investment projects depends on mainly investments of few countries, there is need to develop the cooperation with other potential investor countries like India, Singapore and others. Secondly, only 5 sectors attracted 70.4% of total FDI in 2012 and this calls for a sectoral diversification of Uzbek economy. If the country policy makers choose the best investment strategy, which is the most suitable to the economy, it can be one of the leading countries among CIS.

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