

The Impact of Direct Foreign Investment on the Economic and Social Development of Uzbekistan

Jumayeva Gulruh Jurakulovna, Khayriddinov Azamat Botirovich,
Alikulov Azamat Tuygunovich and
Samadov Ortiq Abdualim o'g'li

Annotation--- *This article examines the positive impact of foreign direct investment on the social sphere. Over the last 3 years, the share of fixed capital investment and foreign investment in it has been dynamically analyzed on the basis of statistics, and the main methodology of the study is how much these funds have increased the real money in the hands of the population. The main topic of the article is a comparative analysis of investment and social processes in the context of Uzbekistan, revealing the interrelationships. In addition, special attention will be paid to the significant socio-economic changes that have taken place in the country's economy in recent years.*

Keywords--- *Foreign Investment, Population Income, Fixed Capital, Small Business, Private Entrepreneurship, Economic Development, Social Development, Gross Domestic Product, Gross Regional Product, Investment Efficiency, Export Investment.*

I. INTRODUCTION

In recent years, Uzbekistan has witnessed positive changes in the socio-economic sphere, and the quality of living standards has improved. One of the priorities of the development of the Republic of Uzbekistan, of course, is to bring the quality of life of the population to the level of developed countries with good relations with foreign partners. At the same time, the reforms aimed at attracting large amounts of foreign investment to the country's economy and creating a favorable investment climate for investors are bearing fruit. In particular, in 2019 the Uzbek economy, as in all sectors, has achieved positive results in increasing investment. As noted in the Address of the President of the Republic of Uzbekistan Shavkat Mirziyoev to the Oliy Majlis on January 24 2020, "In particular, foreign direct investment amounted to 4.2 billion dollars, compared to 2018 - this is I want to draw your attention to the number - \$ 3.1 billion, or 3.7 times. The share of investment in GDP reached 37% [1]. These figures show that the role of foreign investment especially foreign direct investment, in the development of economic and social life of the country is invaluable. After all, if we study the trends of socio-economic development of any developed country, they are based on the principles of an open economy in their development. World experience has made it clear that if any country wants to develop and prosper it must first integrate into the international economy. As a result, equal conditions will be created for all segments of the population, and education, healthcare and culture will develop in accordance with international standards. In order to create conditions for the comprehensive and rapid development

Jumayeva Gulruh Jurakulovna, Associate Professor of "Accounting in production" Karshi Engineering Economics Institute, Karshi, Uzbekistan.

Khayriddinov Azamat Botirovich, Associate Professor of "Accounting in production", Karshi Engineering Economics Institute, Karshi, Uzbekistan.

Alikulov Azamat Tuygunovich, Senior Lecturer of the Department of "Accounting in production", Karshi Engineering Economics Institute, Karshi, Uzbekistan.

Samadov Ortiq Abdualim o'g'li, Researcher of Finance Direction, Karshi Engineering Economics Institute, Karshi, Uzbekistan.
E-mail: samadovortiq19981112@gmail.com

of the state and society, modernization of the country and the implementation of priorities for the liberalization of all spheres of life, adopted by the President of the Republic of Uzbekistan Shavkat Mirziyoyev in 2017-2021 on the Strategy for Action for Further Development "[2] approved the Action Strategy for the five priority areas of development of the Republic of Uzbekistan.

The role and importance of foreign investment in the structure of financial resources in the development and improvement of the priorities outlined in this legal document. In particular, the effectiveness of foreign direct investment in the further development and liberalization of the economy is much higher. An important aspect of foreign direct investment is that investments are based on mutual investment agreements of the parties on the principles of voluntariness and interest. This money will be used for large-scale production in the long run. The subtlety of the matter is that these financial resources are gradually being exploited by the population in the form of wages and other payments and as a result, the more investment is attracted, the faster social problems will be solved.

A good example of this is Epsilon development company operating in Uzbekistan. It is no secret that this foreign-invested oil and gas company has increased the purchasing power of its employees by guaranteeing high wages. Attracting foreign investment in the economy of our country guarantees high-capacity production and improves the living conditions of the population with the help of cash.

II. LITERATURE REVIEW

Scientific views on the importance of direct investment began to emerge, mainly in the post-World War II period. The general definition of foreign investment is given in the 2nd edition of F. Henius' 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 country exported" [3]. So, according to, investment can be understood as a flow of capital from one country to another.

The economic literature of recent years has focused on the investment climate and the processes that shape it. The theoretical foundations of the formation of the investment climate are reflected in the research work of many foreign scientists, including P. Drucker, J. Schumpeter, D. Hicks and others. The issues of formation, analysis and evaluation of a favorable investment climate in ensuring economic stability were discussed by economists from the countries Smaglyukova T.M, Anishin V.M, Yesipov VE, Ivanchenko V.A, Tumusov F.S. and has been extensively covered in the scientific work of others. Reisberg B., Lozovskiy L. According to Starodubtseva, "the investment climate is the economic, political and financial conditions that affect the flow of domestic and foreign investment in the country's economy." Of course, a good investment climate can also affect the flow of investment. Realizing this, in recent years research in this area is growing.

Today, in addition to the above, new approaches are emerging. Ingo Walter, a professor at New York University, describes investment in his recently published book, the infrastructure finance challenge:

"In all cases, investment is a mixture of public sector funds and private sector capital. Based on the experience of a number of countries, it can be said that public investment in infrastructure projects should be between 5% and 7% of GDP. Total investment in the private sector should be between 20% and 25% of GDP. If these ratios are

maintained, stable growth of 6-7% will be achieved ”[4]. Many developing and developed countries are failing to achieve this result. This is a natural problem for developing countries. But for a developed country, this is unnatural.

For example, the unstable political situation on the ground in recent years, or the observation of various global pandemics, has become an obstacle for developed countries. It is understandable that Walter's ideas are a bit closer to the classic definition of investment. In particular, in his view, investment is the investment of current consumption funds for the future on the basis of social discounts for the next expensive consumption process and the achievement of high levels of consumption.

Professor D. Gozibekov's theoretical views on foreign investment state the following: “Foreign investment is the binding of the capital of one economic entity to another economy for a certain period of time, and the breadth of risks from domestic investment It is characterized by changes in the legal environment, the investment climate, and, as a result, capital movements across countries and regions ”[5]. From these considerations, it can be understood that foreign investment generates high-risk cash flows from one country to another, where not only cash flows but also development and production levels are transformed.

Doctor of Economics N.Kuziyeva also describes the importance of foreign investment in her research: “Foreign countries that export capital for the purpose of future profit, legal entities and individuals to the countries receiving capital in various forms of wealth. (movable, immovable property, intellectual property, etc.) and income from them (profits, interest, dividends, license and commission fees, royalties, maintenance and other rewards) are called foreign investments ”. [6] The authors of the literature published in the new edition are Sh.K. Fozilchayev and N.G. Khidirov's book "Fundamentals of Investment and Leasing" defines foreign investment as follows: are their wealth. ”[7] In the new edition of the Law of the Republic of Uzbekistan "On Investment Activity" dated October 29, 2014, the content of investments is defined as including intellectual property rights, as well as reinvestments ”[8].

III. ANALYSIS AND RESULTS

The importance of foreign investment in the overall development of the national economy is explained by the following:

- It contributes to the growth of GDP, the exchange of experience in the field of regional infrastructure, transport, logistics.
- There will be an opportunity for small businesses in Uzbekistan to grow, and eventually large enterprises will emerge.
- Introduces modern equipment and technologies into production and develops the production of export-oriented products.
- The introduction of import-substituting goods will allow to attract foreign investment to priority sectors of the economy and, ultimately, to ensure a decent standard of living.
- Provides jobs to the growing population through the development of small business, private entrepreneurship and the acceleration of agricultural production.

- Renews and technically re-equips obsolete production facilities, material and technical base of enterprises.
- Facilitates the establishment of enterprises processing natural resources, will increase tax revenue to the state budget.

Syndicated credit lines will appear in our national banking system, and a positive balance of payments will be achieved in the long-term strategy. This means that the role of foreign investment in our national economy is much higher. "Analysis shows that the bulk of public spending in our country about 60 percent, is on the social sphere and social protection. In recent years, practical work has been carried out on the general socio-economic development of the regions of the country, radical improvement of living standards, achieving quality changes in living standards "[9]. In order to better understand the relationship between investment and the national economy, below we look at the impact of large-scale foreign investment on the national economy on GDP.

Gross Domestic Product and Investment in Uzbekistan for the Last 5 Years Dynamics of Volume Change

Table 1

Years	Gross Domestic Product (billion USD)	Growth compared to the previous year (in percent)	Investments(billion USD)	Growth compared to the previous year (in percent)
2015	55.2	108.0	15.8	109.5
2016	59.5	107.8	16.6	109.6
2017	48.7	105.3	11.9	109.7
2018	49.09	105.1	12.9	118.1
2019	53.8	105.6	19.9	133.9

(Table created by the author on the basis of statistical data) (stat.uz)

From the data in the table above, it is clear that our GDP growth is maintained at a high level. In 2015-2016, the increase in investment inflows had a positive impact on GDP growth. At the same time, the increase in investment by 0.8 billion led to an increase in GDP by 4.3 billion. It should be noted that there was an increase in other factors, which did not have a direct impact, but due to the inflow of funds. We need to look at the coming years separately, because in 2017 in Uzbekistan the currency was devalued and the exchange rate was shifted to a mechanism determined by supply and demand on the stock exchange, and macroeconomic indicators fell slightly.

In 2018 (the exchange rate was 8,300 soums compared to the end of the year), the volume of investments amounted to 12.9 billion soums, GDP amounted to 49.09 billion soums, an increase of 5.1%. Last year, 2019, was definitely a big step forward. In 2019, investments worth 19.9 billion soums (the exchange rate was 9,500 soums at the end of the year) were disbursed, and GDP growth increased from the expected 5.4 percent to 5.6 percent. Compared to the following 2018, a high growth rate of 33.9% was achieved.

In practice, the ratio of investment return (IR) to investment cost (IC) as a percentage to determine investment efficiency (IE).are obtained:

$$IR = \frac{IE}{IC}$$

This formula is traditionally applied to all economies, and the result is that the investor calculates the level of return on his investment. In realizing the growth rate of socio-economic state activity through foreign investment, we will use the Ingo Walter formula in the private sector and consider its application to the economy of Uzbekistan

for the last 3 years.

Table 2

Yillar	Gross Domestic Product (billion USD)	Total investments (billion US dollars)	Percentage of investments in GDP as a percentage
2017	48,7	11,9	24,43531828
2018	49,09	12,9	26,27826441
2019	53,8	19,9	36,98884758

(Tables and diagrams are based on statistics by the author)

In order to visualize the table above more accurately, we present Figure 1 below. Here is a graphical representation of total investment in GDP.

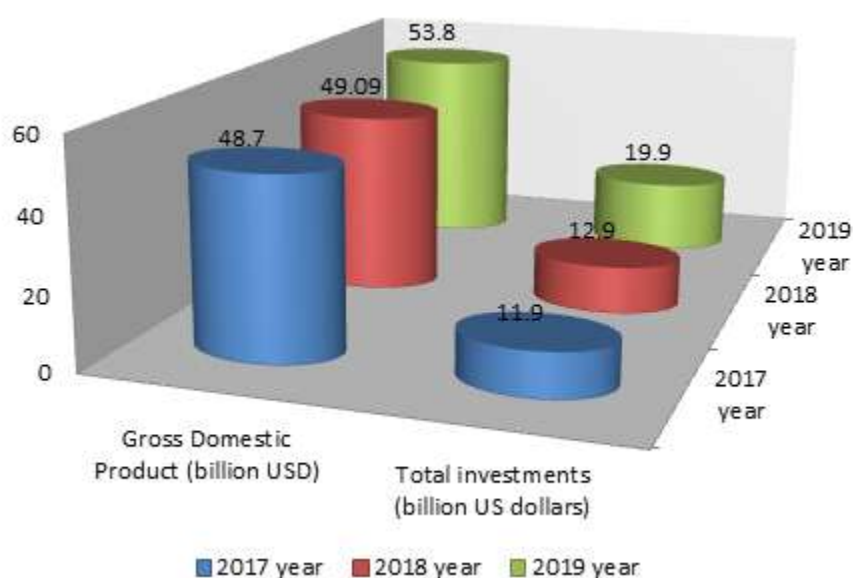


Diagram 1

According to the table, in the last 3 years, the share of investments in our GDP has been growing. 2017 (24.4 percent), 2018 (26.2 percent). In 2019, the volume of investments will increase significantly, reaching one third of GDP. The second table shows that we are actively involved in economic relations with foreign countries, and our integration is developing rapidly.

By comparing the Ingo Walter model with ours, we look at the data in Table 3 to assess how profitable the incoming investment is for us.

Table 3

Years	Gross Domestic Product (billion USD)	Amount of attracted funds (billion USD)	Percentage of investments in GDP as a percentage
2017	48,7	4,5	9,240246407
2018	49,09	7,8	15,88918313
2019	53,8	14,1	26,20817844

According to the table, the volume of foreign investment in GDP is not positive compared to the model, but it

should be borne in mind that there is a steady growth. In order to better understand the table above, we present 2 diagrams below.

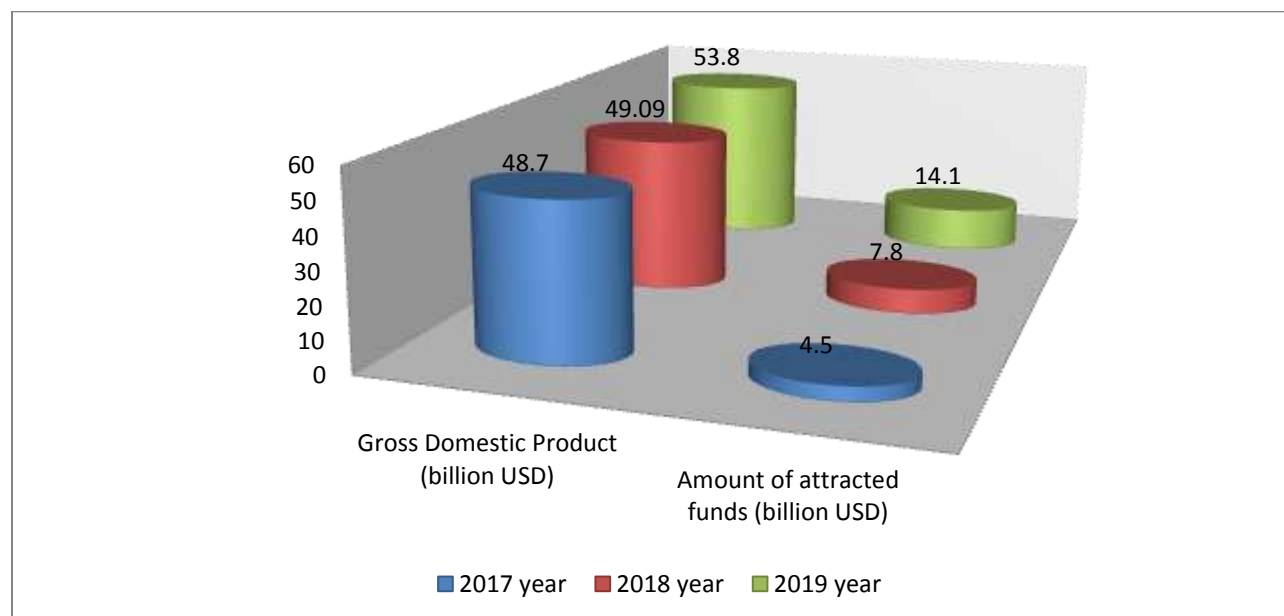


Diagram 2

(Tables and diagrams are based on statistics by the author)

According to the Walter model, private investment should be around 20-25 percent of GDP. In 2017, the figure was 9.2 percent. The bottom line is that economic growth is not positive when economic growth is approached through investment.

In 2018, the figure was 15.8 percent and is better than last year but not at the level of the economic model. Finally, in 2019, the volume of investments will be 26.2%, which corresponds to the economic model.

Proof of this can be seen in the 5.6 percent economic growth in 2019. These processes can be mathematically expressed as follows.

$$20 < \text{Gross Domestic Product} / \text{Involved Funds} < 25$$



6-7% economic growth

Of course, as a result of comprehensive reforms in Uzbekistan in recent years, our GDP per capita has grown positively.

It is gratifying that the share of foreign investment is growing from year to year. The table below shows the per capita distribution of fixed capital investment over the last 3 years.

(Exchange rates at the central bank rate in December 2017 were 8100 soums, in December 2018 - 8300 soums, in December 2019 - 9500 soums).

Per Capita Fixed Capital Investment

Table 4

	2017 (1000 soums)	2017 (USA indollars)	2018(1000 soums)	2018(USA indollars)	2019(1000 soums)	2019(USA indollars)
RepublicofUzbekistan	2227,8	275,037037	3769,6	454,168674	5655,8	595,3473684
TheRepublicofKarakalpakstan	1542,2	190,395062	3641,1	438,686747	4476,7	471,2315789
provinces	0		0			
Andijon	999,6	123,407407	1550,3	186,7831325	2642,3	278,1368421
Buxoro	6254,2	772,123457	5105,4	615,108433	5167,3	543,9263158
Jizzax	1361,9	168,135802	2693,9	324,566265	2693,9	283,5684211
Kashkadarya	3583,4	442,395062	5193,4	625,710843	7246,1	762,7473684
Navoi	4185,4	516,716049	10920,2	1315,68674	17985,7	1893,231579
Namangan	1340,3	165,469136	2992,5	360,542168	4380,8	461,1368421
Samarkand	1189,4	146,839506	1878,3	226,301204	2552,7	268,7052632
Surxondaryo	1427,1	176,185185	2848,3	343,168674	4705,5	495,3157895
Sirdaryo	2011,1	248,283951	3280,2	395,204819	7312,4	769,7263158
Tashkent	2087,2	257,679012	3898,4	469,686747	5799,9	610,5157895
Fergana	822,4	101,530864	1516,8	182,746988	2465,1	259,4842105
Khorezm	1215,1	150,012346	1655,6	199,469879	3007,2	316,5473684
Tashkent	5552,7	685,518519	10627,8	1280,45783	16332	1719,157895

(Tables and diagrams are based on statistics by the author)

According to the table, the highest rates in 2017 were recorded in Bukhara (\$ 772), Tashkent (\$ 685), Kashkadarya (\$ 442) and Navoi (\$ 516). The rest of the provinces were worth less than the national average (\$ 275). In 2018, Tashkent (\$ 1,280), Kashkadarya (\$ 625), Bukhara (\$ 615) and Tashkent region (\$ 469) have the highest rates in the country. The rest of the region has an increase compared to last year, but lower than the national average (\$ 454). Finally, in 2019, the country's index (\$ 595) also had a high dynamics.

The rest of the province saw an increase of at least 15 percent. It is noteworthy that Navoi region (\$ 1893) had the highest rate. The main reason for this is the free economic zones established in the region. As a result of the establishment of free economic zones, not only investment flows but also the gross regional product have increased in the region. In this region, which has been financed by transfer payments for many years, the growth of incomes and the improvement of infrastructure are certainly positive.

IV. CONCLUSION

Reforming the existing legislation in the effective conduct of investment processes in our country, the extensive use of international experience in the effective use of investments, the implementation of public policy aimed at increasing the use of domestic resources for the economy the positive solution of existing shortcomings and problems are urgent issues. Improving the efficiency of investments requires, first of all, systemic reforms by the state. This will require a steady increase in fixed assets per unit of labor, and the focus of investment in promising industries and sectors that will quickly pay off in order to support mass production. In addition, it is necessary to ensure a steady flow of investment and accelerate investment activity.

Improving the effectiveness of investment policy in our country, providing a favorable investment climate and

further increasing the inflow of foreign capital will have a positive effect on the implementation of the following measures in the main areas of living standards and economic growth:

First, it is necessary to make more extensive use of the accumulated foreign experience in the establishment of mixed investment agencies, which operate in the interests of the state, taking into account the interests of business entities;

Second, to expand measures to increase the efficiency of the use of domestic investment, including the development of legislation on the promotion of domestic investment and the legislation on the benefits and preferences granted to them;

Third, not only government agencies but also the private sector should be involved in investment promotion activities.

Fourth, to establish clear criteria and standards for the use of funds of enterprises and individuals, commercial bank loans. Extensive advocacy and advocacy for the benefits and conveniences provided to them;

Fifth, to improve the system of implementation of mutually beneficial projects with foreign economic entities and the establishment of free investment economic zones with them;

Sixth, to create a single electronic database of investment activities in the country. This includes all existing investment laws and regulations, presidential and government decisions, investment programs and capital conditions, concessions and preferences across regions and sectors;

Seventh, systematic development of the industry by attracting investors to areas with existing and convenient infrastructure;

Eighth, the establishment of state-funded funds for foreign investors based on foreign experience. strengthening efforts to attract long-term, low-interest foreign direct credit resources;

We believe that the implementation of the above proposals will have a positive impact on the further development of the Uzbek economy. Of course, it makes sense to take into account that these proposals are designed for long-term strategic development.

REFERENCES

- [1] Address of the President of the Republic of Uzbekistan ShavkatMirziyoev to the OliyMajlis. 24.01.2020. <https://prezident.uz/uz/lists/view/3324>
- [2] Decree of the President of the Republic of Uzbekistan No. PD-4947 "On the Action Strategy for further development of the Republic of Uzbekistan". February 8, 2017.
- [3] Dictionary of International Trade. *Global Marketing Strategies*, 2015, p.82.
- [4] THE INFRASTRUCTURE FINANCE CHALLENGE. Edited by Ingo Walter New York University / *Stern School of Business*
- [5] Gozibekov D. G . Investment financing issues. - T .: "*Finance*", 2003, 45 pages.
- [6] Koziyeva N.R. Directions for improving the financial and credit mechanism to stimulate the activities of enterprises with foreign investments summer to get. - T .: *BMA*, 2008, 11 pages.
- [7] FozilchayevSh.Q., XidirovN.G. Fundamentals of investment and leasing. *Study guide*. - T .: *Finance*, 2017, 22 pages.
- [8] New edition of the Law of the Republic of Uzbekistan dated October 29, 2014 "On investment activities".

- [9] Jumayeva G.J., Khayriddinov A.B., Samadov O.A. SOCIAL SECTOR ECONOMY AND MAIN DIRECTIONS OF ITS DEVELOPMENT. *South Asian Academic Research Journals* <http://www.saarj.com>. MARCH 2020, pages 94-98.
- [10] Ministry of Economy of the Republic of Uzbekistan www.mineconomy.uz
- [11] Website of the State Statistics Committee of the Republic of Uzbekistan: <https://stat.uz/>