

THE IMPACT OF FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH

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Abstract:The article the impact of foreign direct investment on economic growth (FDI) in stimulating economic growth. Our article on the growth of direct investment and their impact on income levels and the quality of the institutional environment. In particular, we consider the long-term and interrelated effects of growth on a country's income level and direct investment of on growth in many developing countries.

Keywords:Foreign direct investment, growth, investment, economic growth, strategy, indicator, macroeconomic, financial development.

Introduction:FDI inflows are important types of capital streams and outflows, generally towards the developing nations and they conclusively influence the host nation's financial development, the macroeconomic steadiness, the infrastructure and the legislative arrangement. The interests in type of FDI empower venture-getting (host) nations to accomplish investment levels past their ability to spare. Throughout the most recent few decades FDI has remained the biggest type of capital stream in the developing nations far outperforming portfolio value investment, private advances, and authority help. The topics matters regarding its future effects of the nation's economy. For over the previous years, there were not really any examination has been done to approach this issue

According to the report of the United Nations Conference on Trade and Development (UNCTAD), the world foreign direct investment volume has been declining for the third year in a row, reaching the lowest level that was observed immediately after the global financial crisis.

Literature review: The economic growth depends on sustained growth of productive capacity, consisting in investment and saving. The low levels in investment and saving imply low economic growth. Being a source of economic growth, the need of FDI inflows has increased in the last years. Over the last decades, investment was the object of scientific research and a vector of social development for prominent political figures. One of the leading economists A.Sh. Bekmurodov³ is a foreigner He spoke about the characteristics of investments, their role in the economy and the investment climate: "Most countries in the world have a certain level of ability to attract foreign direct investment. Creating a favorable and competitive investment environment for it by carrying out a competitive struggle. "Foreign direct investment is not only an important source of additional capital for each country in the face of limited domestic financial resources, but also a reliable source of innovation, new techniques and technologies, knowledge, training and competencies needed to ensure the competitiveness of the country's economy." Economists A.Vahabov, Muminov N.G. Sh.Khajibakiev⁴ , say the following about the investment climate: "Investment climate is a set of economic, political, legal and social factors that predetermine the level of risk of foreign capital investments and their effective use in the country. In 2014, a report "Catalyzing a global market in impact investment", initiated by the Prime Minister of the United Kingdom David Cameron, was published. Among empirical studies on FDI, Wallis (1968) had looked at increase in inflows of FDI from the US to the EU and assessed the importance of FDI in enhancing economic growth⁵ . Studies have found a positive relationship between openness and FDI flows (Chakrabarti, 2001). Following Chakrabarti⁶ (2001), the trade volume is determined by the sum of exports and imports divided by nominal GDP as a proxy for trade openness and must be positively correlated with direct investment. The greater the degree of trade openness, the more it is directed towards external market that would

be more open to foreign capital. The effect of exchange rates on FDI has been examined with respect to changes in the bilateral level of the exchange rate between countries and also in the volatility of exchange rates (Blonigen, 2005).

FDIs have been an important driver of economic growth. Multiple empirical research studies reported a positive impact of FDIs on economic growth both in the short and long run in the context of various developing economies (Brincikova and Darmo, 2014; Hansen and Rand, 2006; Joo and Shawl, 2021; Npg and Haiyun, 2017; Siddharthan and Narayanan, 2020; Sokang, 2018; Xu et al., 2021; Younsi et al., 2021). Therefore, both developing and developed countries often try to attract FDIs to provide new decent jobs and reaching better living standards.

As economic growth in the country is fostered by macroeconomic stability, foreign investors tend to analyze macroeconomic stability and labor market conditions of a host economy prior to deciding to invest or not in addition to other determinants of FDI, such as the degree of corruption, political stability and quality of legislation (Strat et al., 2015). Jallab et al.'s (2008) study and Alguacil et al.'s (2011) study found a positive impact of FDI on growth under macroeconomic stability in the Middle East and North Africa countries (cited in Joo and Shawl, 2021). Likewise, Mehic et al.'s (2013) study found macroeconomic stability to be a strong growth driver in European countries (Joo and Shawl, 2021). Investigating the link between FDI inflows and macroeconomic stability, as proxied by inflation rate and unemployment rate, has been gaining importance (Strat et al., 2015).

A vast number of studies highlighted strong spillovers from FDIs to host countries accentuating high importance of the FDI inflow–unemployment relationship for developing countries (Çolak and Alakbarov, 2017; Joo and Shawl, 2021; Strat et al., 2015). Apart from direct impacts on employment, investment and trade, the FDI generates additional positive externalities contributing to productivity growth through the diffusion of new knowledge and technology from foreign investors to domestic firms and workers; lower prices and efficient resource allocation (Mkombe et al., 2020; Onifade et al., 2020; Siddharthan and Narayanan, 2020). On the one hand, empirical studies showed, in addition to productivity growth, host economies and employees working for foreign-owned enterprises benefit from the transfer and spillover of management skills, infrastructural development and access to international markets (Brincikova and Darmo, 2014; Mkombe et al., 2020; Siddharthan and Narayanan, 2020; Xu et al., 2021). Similarly, Xu et al. (2021) identified possible spillovers from FDI inflow, such as additional source of capital, elimination of balance of payments limitations, generation of competitive market conditions in the host economy and a growth in employment and wages as well as a host country's exports. Brincikova and Darmo (2014) pointed out the potential effect of FDIs in creating jobs through forward and backward linkages generating additional spillovers and adoption of best practices of work organization in the economy.

While most studies share the conclusion that FDIs are crucial for new job creation and reducing unemployment, job content of FDIs differs depending on investment type, amount and intensity. For example, Greenfield investments tend to outperform brownfield investments because a company in a host country is founded from scratch through building new production facilities, distribution hubs, offices and living spaces (Brincikova and Darmo, 2014; Çolak and Alakbarov, 2017; Harms and Méon, 2011; Mkombe et al., 2020). In contrast, in brownfield investments, an investing company purchases existing production facilities to roll out its operations and release a new product.

However, empirical studies suggest FDIs are not as effective as theoretical evidence implies. Mkombe et al. (2020) and Zdravkovic et al. (2017)'s study reported a statistically insignificant impact of FDI on reducing unemployment in the Southern African Development Community region and 17

developing economies. Mkombe (2020) attributed the finding to brownfield investments whose job creation capacity are limited compared to greenfield investments. Çolak and Alakbarov (2017) argued that in the short run, brownfield investments may increase unemployment as they bring about a change in technology, equipment and management systems. Other research studies did not find any statistically significant relationship between the FDI and unemployment in Russia (Sadikova et al., 2017) and the Czech Republic, Hungary, Poland and Slovakia (Brincikova and Darmo, 2014).

Throughout the years, a lot of empirical research works have investigated the relationship between FDI and economic growth. Although there is many empirical researches have been conducted, the influence of FDI on economic growth is still inconclusive; some studies described the impact positively while others described it as negative.

Data and econometric model : This study intends to estimate the determinants of FDI flows to Uzbekistan using time series data. The dependent variable is the FDI net inflows to Uzbekistan. The study uses seven explanatory variables.

In order to characterize the determinant of FDI flows to Uzbekistan, we set up the following empirical mode:

$$\ln FDI_t = \alpha + \beta_1 \ln TO_t + \beta_2 \ln INFL_t + \beta_3 \ln ER_t + \beta_4 \ln PCGDP_t + \beta_5 \ln NR_t + \beta_6 \ln INFR_t + \beta_7 \ln LIB_t + \varepsilon_t$$

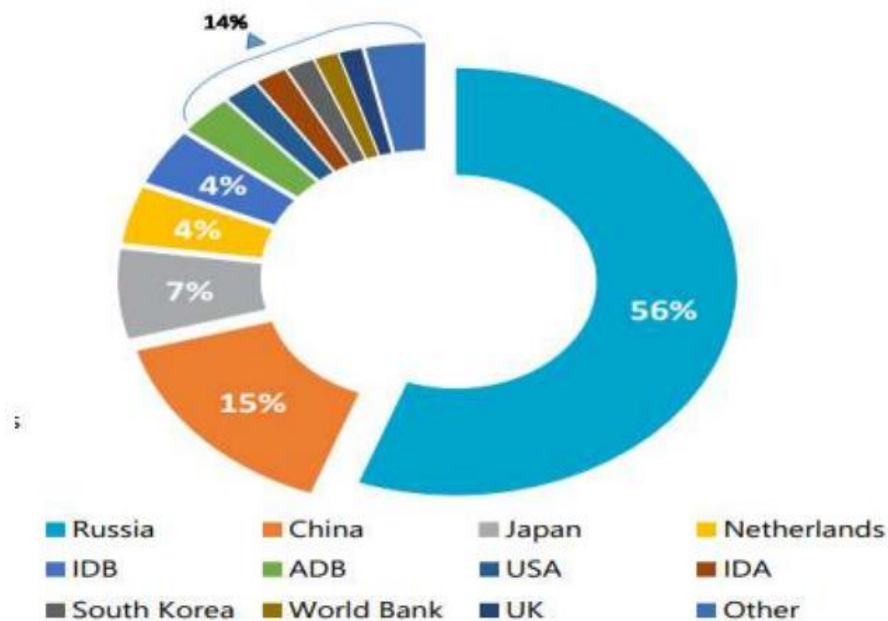
where \ln is the natural log, FDI_t is the dependent variable, the subscript is the time period, TO is the trade openness, $INFL$ is the rate of inflation, ER is the exchange rate, $PCGDP$ is the per capita gross domestic product, NR is the natural resources, $INFR$ is infrastructure, and Trade openness (TO) by a host country is considered as a major determinant of FDI, and has different effects on FDI.

Analysis and results: Global foreign direct investment (FDI) flows in 2021 were USD 1.58 trillion, up 64 per cent from the exceptionally low level in 2020. The recovery showed significant rebound momentum, with booming merger and acquisition (M&A) markets and rapid growth in international project finance because of loose financing conditions and major infrastructure stimulus packages. However, the global environment for international business and cross-border investment changed dramatically in 2022. The war in Ukraine – on top of the lingering effects of the pandemic – is causing a triple food, fuel and finance crisis in many countries around the world. Investor uncertainty has put significant downward pressure on global FDI in 2022, and new investment project numbers, including greenfield announcements, international project finance (IPF) deals, and cross-border mergers and acquisitions, all shifted in reverse after the first quarter of 2022 to start declining. Cross-border M&A sales were 6% lower and IPF values more than 30% lower in 2022. The outlook for global FDI in 2023 appears weak, with a significant number of economies around the world expected to enter a recession. Negative or slow growth in many economies, further deteriorating financing conditions, investor uncertainty in the face of multiple crises and, especially in developing countries, increasing risks associated with debt levels will put significant downward pressure on FDI (UNCTAD Global Investment Trends Monitor, January 2023). The negative trend reflects a shift in investor sentiment due to the food, fuel and finance crises around the world, the Ukraine war, rising inflation and interest rates, and fears of a coming recession.

However, investments continue to decline due to the pandemic, but the rate of decline has slowed significantly: from 11.2% in the first quarter of 2020 to 3.5% in the current one. It should be noted that mainly centralized investments are being reduced. In particular, investments from the budget decreased by 5.2%. The largest decline is observed in investments due to loans secured by the government - by 66.5% and their share in the total volume of investments decreased from 18% in the first quarter of 2020 to 6.2% over the period under review. In contrast, decentralized investment showed significant growth of 13.6%. Foreign direct investment and loans increased by 30.6%,

investments at the expense of the population - by 20%, enterprises - by 6.3%. Changes in the structure of investments and their decline are caused both by the crisis due to the pandemic, which forces budget funds to be redistributed for non-investment expenditures and by structural changes and restrictions on attracting foreign loans under government guarantees.

MAIN INVESTING COUNTRIES (2022)



The Republic of Uzbekistan conducts an open, mutually beneficial and constructive foreign policy based on the national interests of the country. Current foreign policy of Uzbekistan is formed taking into account the dynamic changes in the world and the region as well as large-scale reforms within the country. Main turnover partners are China, Korea, Turkey, Germany and CIS countries. In addition, law of the republic of Uzbekistan on investments and investment activity¹¹, Basic principles of investments and investment activity, The main principles of investments and investment activity are: legality; publicity and openness; freedom to implementation of investment activity; justice and equality of subjects of investment activity; non-discrimination against investors; presumption of investor conscientiousness; The basic principles of the legislation on investments and investment activity are applied at all stages of the investment process and investment activity.

Conclusion: The results of analysis of foreign direct investment economic growth in Uzbekistan shows the lack of transparency, dominant role of government in economy, inefficient judicial mechanisms and diversifications in “strategic” sectors are the obstructions for many potential foreign investors.

The study found trade openness, exchange rate, natural resources and infrastructure as the drivers of FDI in Uzbekistan. Macroeconomic variables, such as inflation and per capita gross domestic products, were also found to be contributing to the determinants of FDI flows in Uzbekistan. Finally, the contribution of this paper is that economic liberalization does really matter for FDI inflows in Uzbekistan and policymakers' efforts in liberalizing the economic activities may necessarily translate into significant FDI inflows into the country.

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