THE IMPORTANCE OF ATTRACTING QUALITY INVESTMENTS

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Abstract: *Currently, many developed countries are focusing on attracting high-quality foreign investments to their national economy. This article examines the term "quality investment" and analyzes the policies of foreign countries to attract "quality investments".*

Key words: *quality investment, foreign direct investment, investment policy, investment attraction strategy.*

It is difficult to imagine the development of the country's economy in the 21st century without foreign investments. Foreign capital and foreign experience are equally important to all industries. However, the experience of many developing countries shows that foreign investments can lead to an increase in the country's debt burden, deterioration of the environmental situation, or the export of natural resources that can be left for the next generation as raw materials at low prices.

Therefore, in recent years, many developed and developing countries of the world have been paying special attention to attracting high-quality foreign direct investment to their economy. In this case, the investments entering the country should have the following characteristics in order to be called "quality direct investments":

- contribute to the creation of decent and value-added jobs;
- increase the skill base of workers in the receiving country;
- facilitate the transfer of technologies, modern knowledge and know-how;
- increase the competitiveness of local firms and create opportunities for them to enter the markets;
- must meet requirements such as operating in a socially and ecologically responsible manner.

The term "quality investments" has also started to be used in the infrastructure sector. For example, quality infrastructure investment criteria have been developed by the countries of the Group of Twenty (G20) and they are evaluated based on the following criteria.[1]

[1] Качественные инвестиции в инфраструктуру. ключевые аспекты.

Criteria for quality infrastructure investment:

1.The project must be in accordance with the goals of sustainable development and lead to the growth of the national economy;

2.It should be economically efficient during the whole life cycle of the project;

3. The project should be environmentally friendly with minimal impact on the climate and environment;

4. It should be resistant to natural disasters and emergency situations and safe for people;

5. Project solutions should be socially oriented;

6. Management efficiency and investment decision-making should be transparent.

In order to attract quality FDI, countries will need to implement reforms to address domestic and foreign companies' internal barriers to global integration, which may adversely affect their performance.

In recent years, modern economists have been working on strategies[2] for attracting quality direct investment, and they have suggested that they should be implemented in the following stages:

1. Open markets and allow the flow of foreign direct investment. In doing so, the state should reduce restrictions on foreign direct investment, provide open, transparent and reliable conditions for all types of foreign and domestic firms, including: favorable conditions for doing business, access to imports, relatively flexible labor markets and protection of intellectual property rights.

2. Establishment of an investment development agency. A successful agency should target high-profit foreign investor investments and then become an intermediary between them and the domestic economy. On the one hand, the agency should act as a mediator for the rights investors demand from the state. On the other hand, it should encourage the host's domestic economy to provide a high level of infrastructure and access to skilled workers.

3. Determining target sectors. Decisions of foreign investors to invest in a country are made depending on the importance of the target sectors.

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http://www.pressmia.ru/pressclub/20200904/952878495.html

[2] Moran T. et al. Attracting Quality Foreign Direct Investment in Developing Countries //International Growth Centre (October 2017). – 2017. https://www.theigc.org/blogs/attracting-quality-foreign-direct-investment-developing-countries

4. Creation of the necessary infrastructure for a quality investor: nearby transportation facilities (airport, ports), sufficient and reliable energy supply, provision of qualified labor force, organization of courses for professional training of specialized workers.

5. Strengthening of relations between local economy and investors. Enable foreign investors to connect with local producers, help local firms with training, financial planning, management, quality control and access to export markets.

6. Stimulating the spread of direct investment in the local economy. Local firms founded by managers of multinational companies are more successful than others. Managers of local firms learn about new technologies and marketing methods by studying and imitating competent competitors.

7. Encourage foreign direct investors who are cooperating for the first time. It is necessary to pay special attention to new investors entering the country, to increase their interest in the local economy.

8. Encouraging foreign investors to enter the country. It is necessary to establish relations with their local firms. They are more likely to contribute to the internationalization of the host country.

9. Ensuring access to credit by reforming domestic financial markets. Establishing a business-friendly financial system encourages investors to invest in the country without fear.

10. Develop foreign trade relations to support the negotiation process between the foreign customer and the local supplier. Creating a convenient program for local manufacturers to work with abroad.

11. Formation of export zones leading to domestic economy. Avoid regulations that favor local suppliers and discriminate against others.

12. "Who is who should be reconsidered. "Ours" should be understood as companies that are the most useful for the domestic economy, regardless of the nationality of their owners. Firms that create high-skilled and high-paying jobs, produce the cheapest products and the most competitive exports should be considered "Ours."

13. Step-by-step efforts to fill the domestic economy with only quality investments in the future. No country can attract quality investments at once, because most developing countries need all kinds of investments to develop their economy, but they should gradually create an environment for selecting quality investments in the future.

Several countries that have been following the above strategies for a long time are now developing their own strategies to attract quality investments. As we examine the policies of attracting quality direct investment at the country level, it is useful to look at the policies of the Turkish state.

Turkey's strategy for attracting quality direct investment.

The following categories of investments are included in the quality direct investment category for Turkey:

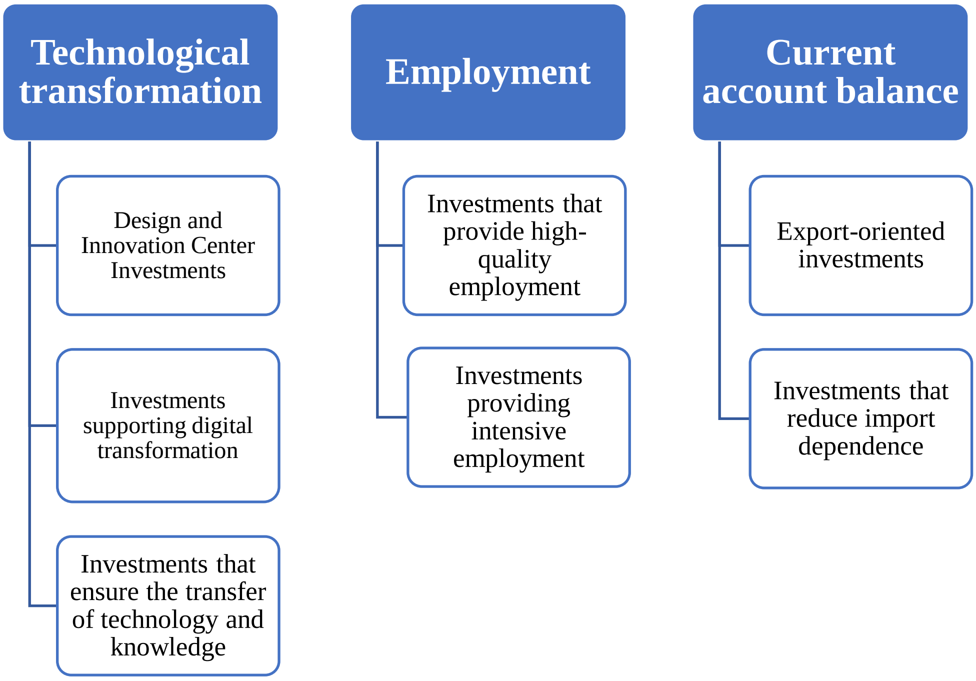

Figure 1. Quality FDI for Turkey [3]

Source: Investment Office of the President of the Republic of Turkey

In addition, Turkey's Direct Investment Strategy (2021-2023) is formulated with criteria that prioritize the profile of quality direct investment, but do not exclude other investments. According to the strategy, the following investments matching the following profiles have been adopted proactively to ensure growth:

Profile of quality FDI:

Profile 1. Investments in all R&D, design and innovation centers regardless of sector.

[3] Foreign Direct Investment (FDI) Strategy of Turkey (2021-2023). https://www.invest.gov.tr/en/library/publications/Lists/InvestPublications/Turkiye-Foreign-Direct-Investment-Strategy-2021-2023.pdf

Profile 2. Investments that provide digital transformation of industries and services, develop or expand technologies.

Profile 3. Technology-intensive manufacturing investments that develop supplier bases and have high added value.

Profile 4. Investments in value-added, high-tech service industry and business services.

Profile 5. Investments located in developing regions and providing high employment regardless of the sector.

Profile 6. Export-oriented production investments.

Profile 7. Investments that reduce import dependence in sectors or product groups with high imports of intermediate goods.

To be more precise, in 2021-2023, due to changes related to the reduction of the global economy, climate and stability, investments are concentrated under 4 horizontal directions. Investments corresponding to these 4 horizontal directions are recognized as quality direct investments. They are:

A) Investments to support infrastructure (ICT, energy, transport and logistics infrastructure):

According to this direction, investments in logistics activities that improve maritime transport infrastructure and support intermodality, as well as investments in digital and information and communication technology (ICT) infrastructure are quality investments for Turkey. This will strengthen Turkey's role in global value chains.

B) Investments with high expansion and growth potential:

Over the past decade, the global FDI market has become increasingly dominated by expansionary investments. These investments have been effective in Turkey's direct investment activity in 2015-2019.

In particular, expansion investments by existing investors and new investments with high growth potential will be more important in the FDI market in the short to medium term post-Covid-19.

C) Investments in accordance with the goals of sustainable development:

The European Union is Turkey's largest investor and export partner. In this context, the goal of sustainable development, energy efficiency and the global trade and investment policies formed according to them directly affect Turkey's indicators (Main sustainable development goals: cheap and clean energy; decent work and economic growth; industry, innovation and infrastructure; sustainable cities and communities; responsible production and consumption; climate action).

D) High-quality financial investments:

In this direction, international development finance organizations, participatory finance organizations, asset funds, pension funds, investment banks, asset management companies, private equity funds and venture capital funds are considered quality financial investments.

This is the strategy of attracting high-quality direct investments in the case of Turkey alone, besides, many countries of the world are trying to select high-quality investments in their national economy, and to avoid investments that have a negative impact on the national economy and the well-being of the country. For example, a number of European countries are imposing restrictions on investments that threaten their national economy. If we take the country of Germany, we can see the country's restrictions against investments that threaten national security.

EU Regulation 2019/452 of March 19, 2019 establishing a framework for screening foreign direct investment in the EU entered into force on October 11, 2020 in the EU territory, greatly influencing the German government's review of foreign investment.[4]

Foreign direct investments entering the country are examined in 3 categories depending on their importance in the control: critical infrastructures, critical industries and all other sectors:

1. Significant infrastructure investments. investments owning 10% or more of important objects in the fields of energy, information technology, transportation, health care, finance and insurance, media, telecommunications;

2. Investments for important industries. investments holding 20% or more of companies that manufacture artificial intelligence, automated vehicles, drones or their components, robots, semiconductors, processors, cybersecurity products, and certain goods used in aviation and space technology;

3. Investments other than critical infrastructure and networks. Investments in such investments involving a 25% or more stake in any German company will be investigated if it is determined that the investor's stake poses a threat to the national security of Germany or EU member states.

[4] Foreign Direct Investment Regimes of Germany 2023. https://iclg.com/practice-areas/foreign-direct-investment-regimes-laws-and-regulations/germany

The Dutch government has also introduced some restrictions. The Netherlands has long supported free trade and an open market economy. However, in recent years, attempts to buy state-owned companies by foreign investors have felt the need for government protection of these companies. The government has recognized that several key pillars of the Dutch economy have become vulnerable to foreign interference and geopolitical tensions as a result of globalization and digitization. In particular, in 2019, the government recognized that changes in the financial and economic world order are one of the 11 "dominant threats" to national security.

Nevertheless, the current foreign investment laws are relatively liberal and apply only to certain sectors. In 2012, the Dutch government passed screening legislation covering investments in LNG facilities and electricity facilities with a nominal capacity of 250 megawatts. In 2014, screening legislation was introduced for health impact investments. It is intended to check that the investments coming into the country are not directed to these sectors.

In October 2020, the government introduced a telecom investment screening regime. In May 2022, the Senate approved the introduction of a broader national security investment screening policy, covering investments in critical suppliers (energy, transportation hubs and financial institutions), sensitive technologies (especially military and dual-use goods).

These measures taken in Germany and the Netherlands are aimed not only at protecting national security, but also at attracting high-quality, high-efficiency investments to the national economy.

The need to attract quality investments to the Republic of Uzbekistan.

Uzbekistan has a huge and untapped potential to attract direct investment from developed countries and non-resource oriented sectors. The country's geographical location is of strategic importance as it provides easy access to major markets, including China, Europe and South Asia. In terms of GDP, Uzbekistan ranks second in Central Asia (after Kazakhstan) and occupies a leading position in terms of population. However, it has one of the lowest FDI-to-GDP ratios in Central Asia, and is much lower than other developing countries with similar per capita incomes. In the countries of Central Asia, the indicator of investments attracted from developed countries is on average 87%, while this indicator is 32% in Uzbekistan. This imposes the task of fully establishing and adequately using the opportunities of Uzbekistan's cooperation with developed countries to attract foreign direct investment.

One of the issues that should be paid attention to at the current stage is that the volume of income from the sale of non-renewable resources constitutes a large part of the budget of the Republic of Uzbekistan. We can see from this table that according to the forecast of the state budget planned for 2023, it is planned to receive 8 percent of income from resource fees and property tax, and 16 percent from dividends from metallurgical plants. That is, it shows that a quarter of the total state budget is dependent on raw material resources (Table 1).

Table 1. Forecast of revenues of the republican budget of the Republic of Uzbekistan for 2023[5]

№	Indicators	Bln soums	percentage
1	Budget revenues	183442,8	100%
2	Direct taxes	47127,1	26%
3	Indirect taxes	84515,5	46%
4	Resource charges and property tax	14780,1	8%
5	Dividends (received from metallurgical plants)	29532,2	16%
6	Other income	7488	4%

Source: Law of the Republic of Uzbekistan dated 30.12.2022 No. O‘RQ-813.

In fact, such trends were not considered a good indicator. Because the price of raw materials in the world economy is extremely volatile. As a result, such revenues may cause budget instability in the coming years.

In conclusion, it should be said that foreign direct investments play a major role in achieving the economic development goals of Uzbekistan. The analysis shows that foreign direct investments bring advanced technologies to the economy of Uzbekistan, help in the formation of knowledge and skills in the development of human capital, contribute to the country's international trade integration, and help create a more competitive environment for business development. All such factors help to achieve high economic growth rates. FDI promotes environmental and social improvements, increasing net economic benefits through green technologies and more socially oriented corporate policies.

[5] Law of the Republic of Uzbekistan dated 30.12.2022 "On the state budget of the Republic of Uzbekistan for 2023" No. O'RQ-813. https://lex.uz/pdfs/6333240

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