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**FDI DYNAMICS IN UZBEKISTAN:
TRENDS, REFORMS AND INSTITUTIONAL PERSPECTIVES**

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Abstract: *This study thoroughly examines the current status of foreign direct investment (FDI) in Uzbekistan's economy, exploring its trends across sectors and regions in recent years. It also assesses the impact of reforms aimed at boosting FDI and addresses existing challenges requiring government attention. The analysis includes an evaluation of quality indicators for state institutions, crucial for attracting foreign investments. The article concludes with carefully crafted recommendations for improving the institutional environment to actively encourage more foreign investments.*

Keywords: *investments in fixed capital, foreign investment, foreign direct investment, multinational companies, reforms, institutions.*

Introduction

Foreign direct investments (FDI), as a component of international capital movement, play a pivotal role in the economic development of nations.

Attracting and effectively utilizing FDI are crucial for ensuring stable global economic growth rates, fostering the production of competitive products with high-added value, promoting technological upgrading of enterprises, and creating new job opportunities.

In recent years, FDI has been recognized as a crucial tool for ensuring stable economic growth and fostering active socio-economic development in regions of Uzbekistan.

In the present global landscape, intense competition exists to attract foreign investments. Governments must undertake successful reforms to capture the attention of foreign investors. These effective reforms not only enhance the investment appeal of the country but also send a robust signal that the nation is receptive to foreign investments. Achieving success in these reforms necessitates a continuous analysis of the recent state of foreign direct investment,

ongoing trends, recently implemented measures, and existing issues that demand government attention.

FDI and its correlation with economic growth have become focal points of research in international economics and management in recent years¹. Numerous theories have been developed by researchers to elucidate the essence of the concept of FDI, its underlying causes, and their ramifications on both national and global economies². However, many current studies argue that there is no single theory of FDI that explains the causes of FDI and the decisions that multinational corporations make about where to invest³.

Numerous studies have highlighted the positive impact of FDI on the economies of host countries⁴. However, some research suggests that there is not strong evidence supporting a clear relationship between them⁵. Additionally, it's important to note that the influence of FDI on a host country's economy varies across countries and industries, considering factors like the host country's characteristics, development level, and political environment⁶.

In the current context, boosting the influx of FDI into a country primarily hinges on enhancing the efficiency and quality of its state institutions⁷.

¹ Werner, Steve. "Recent developments in international management research: A review of 20 top management journals." *Journal of management* 28.3 (2002): 277-305. Wang, Xinxin, et al. "Foreign direct investment and economic growth: a dynamic study of measurement approaches and results." *Economic research-Ekonomska istraživanja* 35.1 (2022): 1011-1034.

² Buckley, Peter J., and Mark Casson. *The future of the multinational enterprise*. Palgrave Macmillan, London, 1976. P. 33. Vernon, Raymond. "International Investment and International Trade in the Product Cycle." *The Quarterly Journal of Economics*, vol. 80, no. 2, 1966, pp. 190–207. JSTOR, <https://doi.org/10.2307/1880689>. Accessed 22 Jan. 2024. Dunning, John H. "The eclectic (OLI) paradigm of international production: past, present and future." *International journal of the economics of business* 8.2 (2001): 173-190. Wilhelms, Saskia KS, and Morgan Stanley Dean Witter. *Foreign direct investment and its determinants in emerging economies*. Washington DC: United States Agency for International Development, Bureau for Africa, Office of Sustainable Development, 1998.

³ Faeth, Isabel. "Determinants of foreign direct investment—a tale of nine theoretical models." *Journal of Economic surveys* 23.1 (2009): 165-196. Denisia, Vintila. "Foreign direct investment theories: An overview of the main FDI theories." *European journal of interdisciplinary studies* 3 (2010).

⁴ Pegkas, Panagiotis. "The impact of FDI on economic growth in Eurozone countries." *The Journal of Economic Asymmetries* 12.2 (2015): 124-132. Har, Wai-Mun, Kai-Lin Teo, and Kar-Mun Yee. "FDI and economic growth relationship: An empirical study on Malaysia." *International Business Research* 1.2 (2008): 11-18. Feridun, Mete, and Yaya Sissoko. "Impact of FDI on Economic Development: A Causality Analysis for Singapore, 1976-2002." *International Journal of Economic Sciences & Applied Research* 4.1 (2011).

⁵ Asghar, Nabila, Samia Nasreen, and Hafeez Rehman. "Relationship between FDI and economic growth in selected Asian countries: A panel data analysis." *Review of Economics & Finance* 2 (2011): 84-96. Karimi, Mohammad Sharif, and Zulkornain Yusop. "FDI and economic growth in Malaysia." (2009). Ayanwale, Adeolu B. "FDI and economic growth: Evidence from Nigeria." (2007).

⁶ Baiaashvili, T., and L. Gattini. "Impact of FDI on economic growth: The role of country income levels and institutional strength. European Investment Bank." Working Paper 2020/02 (2020): 16. Busse, M., & Groizard, J. (2006). *FDI, Regulations and Growth*. Law.

⁷ Bénassy-Quéré, A., Coupet, M., Thierry, M. *Institutional Determinants of Foreign Direct Investment*. The World Economy. Vol. 30 (5). - 2007. - P. 764-782. Knack, S., & Keefer, P. (1995). *Institutions and economic performance*:

N. Oblamurodov⁸, B. Valiyev⁹, A. Kobilov¹⁰, A. Vahobov¹¹, and other researchers conducted in-depth studies on the scientific and practical aspects of attracting investments and ensuring their effective use, as well as regulatory measures within the economy of Uzbekistan. However, based on the analysis conducted, it can be stated that the institutional aspects of attracting FDI to the Uzbekistan economy have not been studied in detail.

This study employs a qualitative research method to examine the challenges associated with attracting FDI to Uzbekistan's economy. The article aims to describe the FDI landscape in Uzbekistan, highlighting trends, governmental reforms aimed at bolstering FDI, and critical issues requiring government attention, with a specific focus on the role of state institutions.

The primary analysis unfolds in two steps. The initial part evaluates recent FDI inflows into Uzbekistan, exploring dynamics across regions, investor countries, and sectors. The subsequent section evaluates reforms and assesses the quality of state institutions in Uzbekistan, identifying areas that demand attention. Notably, this examination draws on international organizations' ratings as benchmarks.

Utilizing secondary data from sources such as the Statistical Agency under the President of the Republic of Uzbekistan, the World Bank, and the World Justice Project, alongside data from local and international entities like the Ministry of Investments, Industry and Trade of the Republic of Uzbekistan, governments, and media publications, the research analyzes FDI trends in Uzbekistan from 2010 to 2022. Additionally, it projects forward seven years, examining regional and sectoral dynamics, and evaluates reforms and persisting issues through appropriate analytical tools.

Between 2010 and 2022, a total of 1 332,9 trillion sums were invested in fixed capital in Uzbekistan, with an average annual growth rate of 10.6 percent. In 2010, investments in fixed capital amounted to 16,5 trillion sums, representing

Cross-country tests using alternative institutional measures. *Economics & Politics*, 7(3), 207-227. Haidar, J. I. (2018). Political stability and foreign direct investment: Evidence from developing countries. *Economic Modeling*, 68, 301-307. La Porta, R., Lopez-de-Silanes, F., Shleifer, A., & Vishny, R. W. (1997). Legal determinants of external finance. *The Journal of Finance*, 52(3), 1131-1150.

⁸ Обломуродов Н. Н. Тўғридан-тўғри хорижий инвестицияларни жалб қилишнинг назарий асослари ва устувор йўналишлари: Иқтисод фанлари номзоди илмий даражасини олиш учун ёзилган диссертация. – Тошкент, 2008. 14 б.

⁹ Валиев Б. Б. Миллий иқтисодиётнинг барқарор ривожланишини таъминлашда тўғридан-тўғри хорижий инвестициялардан фойдаланиш самарадорлигини ошириш: Иқтисодиёт фанлари бўйича фалсафа доктори (Doctor of Philosophy) илмий даражасини олиш учун тайёрланган диссертация. – Тошкент, 2017. 23-24 б.

¹⁰ Kobilov, Anvar. Қашқадарё вилоятида тўғридан-тўғри хорижий инвестицияларни рағбатлантиришга таъсир этувчи омиллар. Архив научных исследований (2020).

¹¹ Вахабов, Абдурахим. "Хорижий инвестициялар." Scienceweb academic papers collection (2010).

20,9 percent of GDP. By 2022, the ratio of investments in fixed capital to GDP, reaching 266,2 trillion sums, had increased to 29,7 percent.

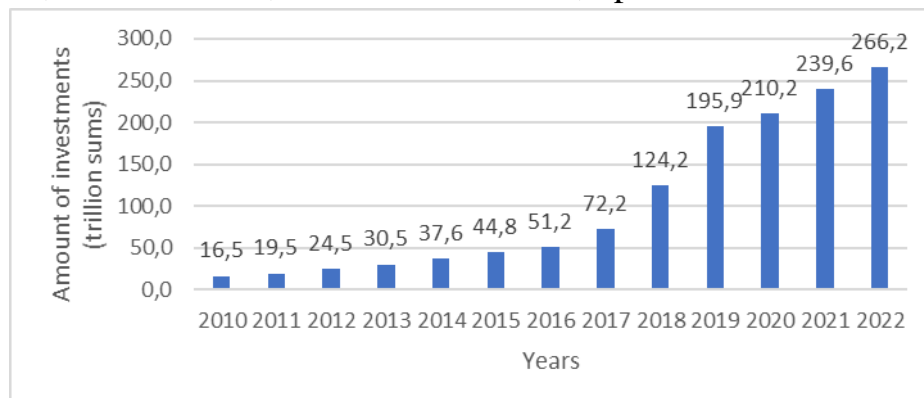


Figure 1. The volume of investments in fixed capital in 2010-2022 (in trillion sums)

Source: Compiled by the authors based on the information from the Statistics Agency under the President of the Republic of Uzbekistan

Investments in fixed capital are financed through the company's and population's own resources, as well as received funds. These received funds include budget allocations, bank loans, other debt funds, foreign investments and loans, and other centralized funds.

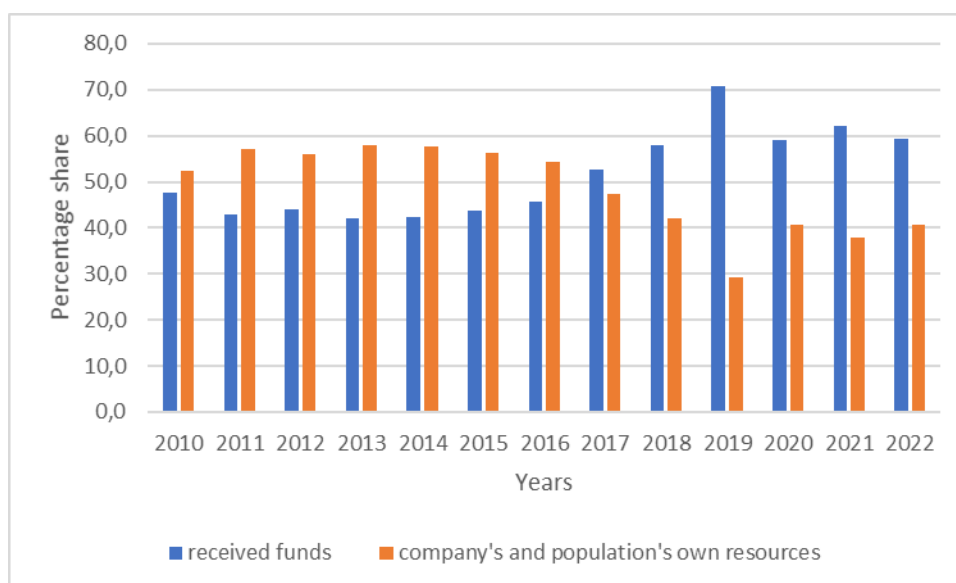


Figure 2. The composition of investments in fixed capital in 2010-2022 (in percent)

Source: Compiled by the authors based on the information from the Statistics Agency under the President of the Republic of Uzbekistan

Analyzing the composition of investments in fixed capital, we observe that the ratio of company's and population's own resources to the total volume of investments in fixed capital was 52,5 percent in 2010 and decreased to 40,6 percent by 2022. Conversely, the proportion of received funds was 47,5 percent in

2010, rising to 59,4 percent in 2022. In the last 5 years, the contribution of received funds has increased, with its share averaging 62 percent.

In 2010, 5,2% of investments in fixed capital were financed by state budget funds, 9% by bank loans and other debt funds, and 26,4% by foreign investments and loans. By 2022, state budget funds accounted for 8%, bank loans and other debt funds for 6,6%, and foreign investments and loans for 42,8%. Over the last 13 years, notable changes have occurred in the composition of received funds. Particularly in 2022, foreign investments and loans constituted 72,1% of the received funds and played a significant role in funding 42,8% of the capital investments. This highlights the growing importance of foreign investments and loans as a primary source of capital formation, crucial for the economic development of the country.

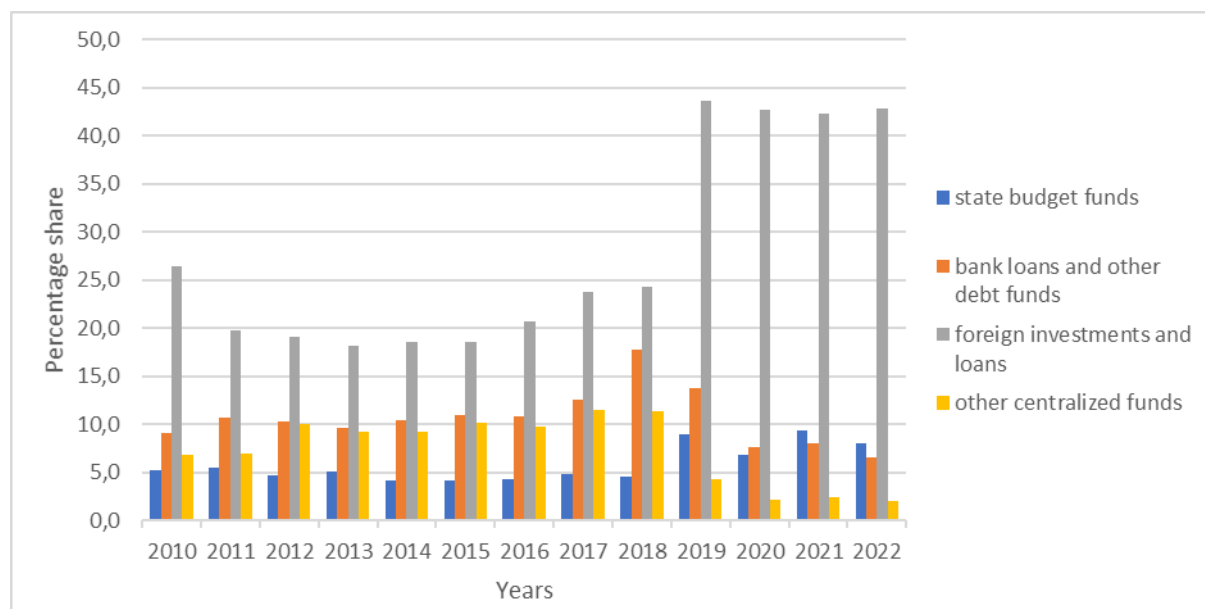


Figure 3. The share of received funds in 2010-2022 in fixed capital investments (in percent)

Source: Compiled by the author based on the information from the Statistics Agency under the President of the Republic of Uzbekistan

In 2016-2022, foreign investments and loans totaling 448,3 trillion sums entered the economy of Uzbekistan, of which 163,1 trillion sums (36,7 percent) were direct is FDI.

In 2016, a total of 10,6 trillion sums of foreign investments and loans entered the country's economy, with 4,9 trillion sums (46,4 percent) representing FDI. Fast forward to 2022, and the volume of foreign investments and loans increased significantly by 10,7 times compared to 2016, reaching 113,9 trillion sums. During the same period, the volume of FDI increased by 8,1 times, amounting to 39,7 trillion sums (34,9 percent). Notably, the growth in FDI volume was somewhat slower compared to the overall growth in foreign investments and

loans, leading to a reduction in its share within the total foreign investments and loans.

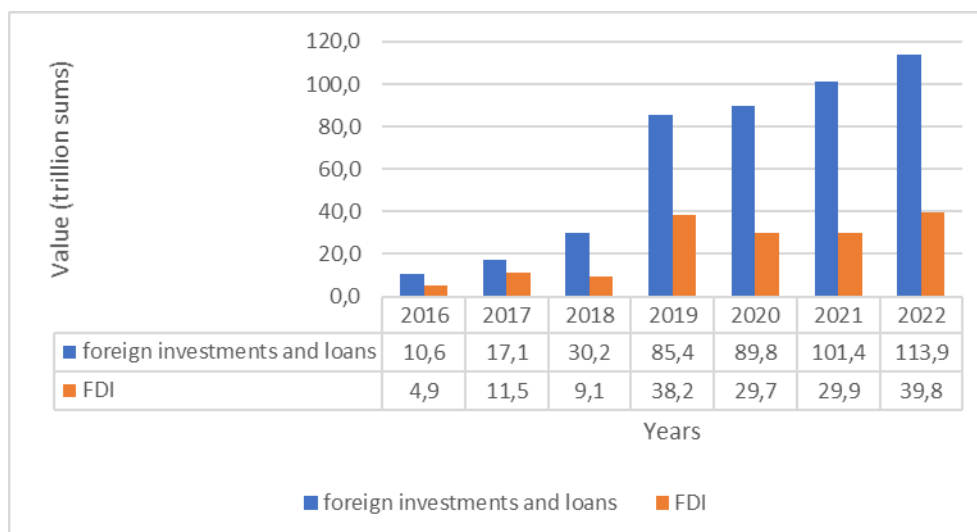


Figure 4. Volumes of foreign investments and loans and FDI in 2016-2022 (in trillion sums)

Source: Compiled by the authors based on the information from the Statistics Agency under the President of the Republic of Uzbekistan

Analysis by types of economic activity

Analyzing by types of economic activity, we observe that in 2016, FDI was primarily directed towards the mining industry (3,3 trillion sums, 67,3 percent), manufacturing industry (0,96 trillion sums, 19,6 percent), and information and communication sectors (0,52 trillion sums, 10,6 percent). Within the mining industry, natural gas extraction (3,27 trillion sums) emerged as the most attractive sector. In the manufacturing industry, the primary recipients of FDI were the production of textile products (0,39 trillion sums) and the production of other non-metallic mineral products (121,4 billion sums).

In 2017, key sectors, notably mining, experienced significant FDI growth, reaching 9,28 trillion sums, with natural gas extraction leading. Manufacturing and information sectors also attracted notable investment. In 2018, FDI slightly decreased to 9,14 trillion sums, with mining and manufacturing remaining top recipients. 2019 saw a sharp rise in FDI to 38,2 trillion sums across various sectors like agriculture, mining, manufacturing, and construction. However, 2020 and 2021 saw declines due to global quarantine restrictions, notably affecting mining and manufacturing. Despite this, 2021 saw an increase in FDI in electricity production. In 2022, FDI peaked at 39,75 trillion sums, with manufacturing leading at 16,8 trillion sums, while other sectors like electricity, gas, steam supply, and air conditioning (9,31 trillion sums, 23,4 percent), construction (3,1 trillion sums, 7,8 percent), professional, scientific, and technical activities (1,09 trillion

sums, 2,74 percent), the provision of health and social services (1,5 trillion sums, 3,77 percent), and information and communication (1 trillion sums, 2,7 percent) experienced significant growth. Agriculture, however, saw a decrease in investment attractiveness compared to 2021.

Over the last 7 years, the industry has been the primary driver of growth. By the end of 2022, the most attractive sectors within the industry include the production of textile products, chemical products, other non-metallic mineral products, and metallurgical industries.

Additionally, during this period, a substantial FDI flow was observed in the activities of electricity generation, transmission, and distribution. The volume of FDI in construction, wholesale and retail trade (including the repair of motor vehicles and motorcycles), information and communication, real estate transactions, professional, scientific, and technical activities, as well as health and social services sectors, remained stable. However, there were no observed changes in the sectors of education, management activities and support services, accommodation and food services, transport and storage, water supply, and financial and insurance activities — areas considered pivotal for economic development.

At the beginning of the period, the mining industry, mainly natural gas, received the majority of FDI inflows into the country. However, by 2022, the manufacturing industry took the lead, accounting for 42,3% of the FDI inflows into the country.

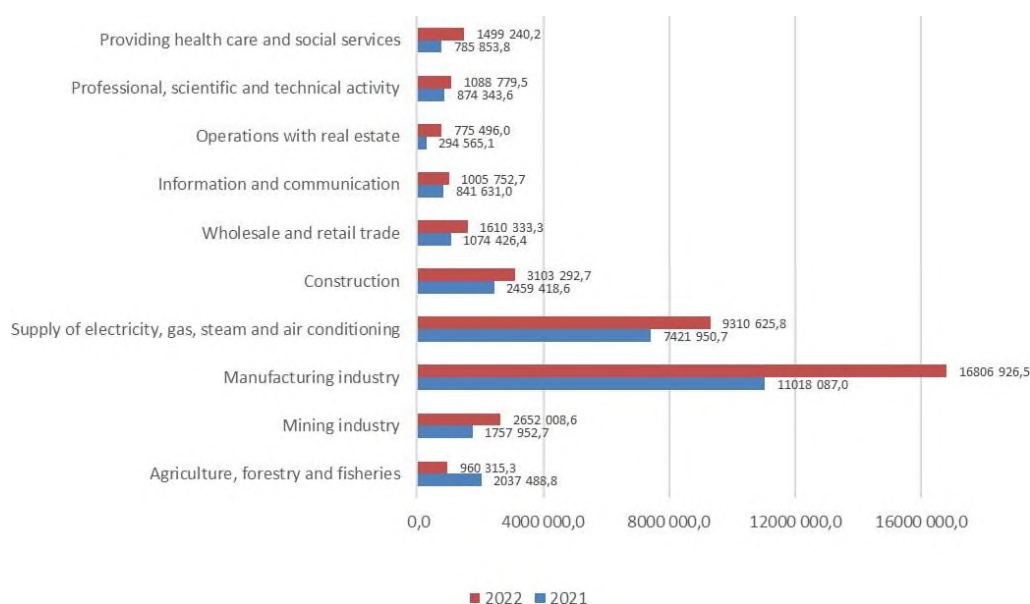


Figure 6. Main economic activities attracted by FDI in 2021 and 2022 (in million sums)

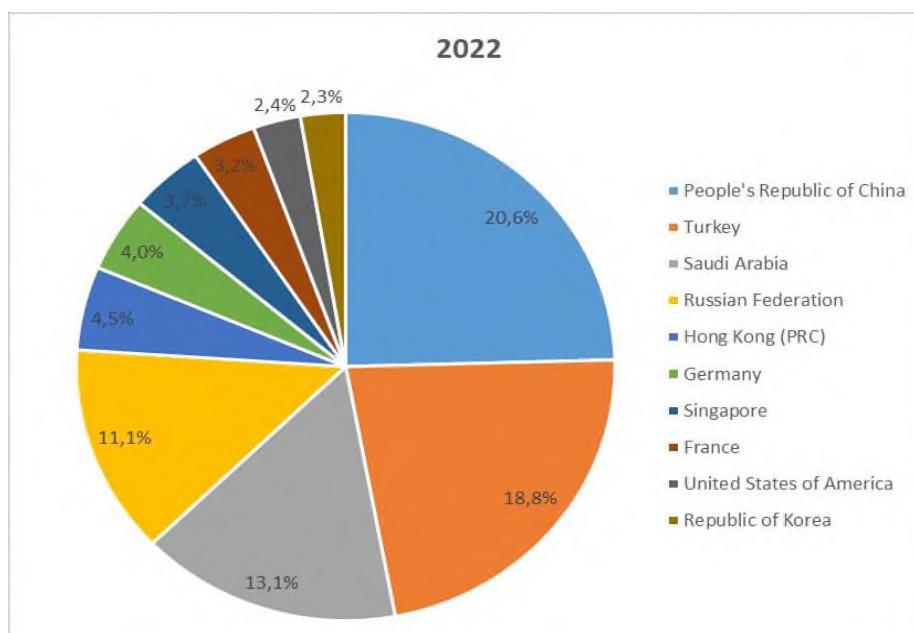
Source: Compiled by the authors based on the information from the Statistics Agency under the President of the Republic of Uzbekistan

Analysis by investor countries

In the last two years, there have been positive changes in the geographical concentration of FDI compared to the previous period, with an increased share from countries other than the People's Republic of China and the Russian Federation.

In 2021, the main contributors to FDI were the People's Republic of China (6,3 trillion sums, 21,1 percent), the Russian Federation (3,73 trillion sums, 12,5 percent), Turkey (3,2 trillion sums, 10,7 percent), Germany (3,73 trillion sums, 8,2 percent). In 2022, the leading investor countries were the People's Republic of China (8,17 trillion sums, 20,6 percent), Turkey (7,47 trillion sums, 18,8 percent), Saudi Arabia (5,22 trillion sums, 13,1 percent), the Russian Federation (4,42 trillion sums, 11,1 percent).

The People's Republic of China emerged as the leading investor country in the flow of foreign investment into Uzbekistan over the last two years, constituting 21,1 percent in 2021 and 20,6 percent in 2022 of the total foreign direct investment attracted. In 2022, compared to the previous year, the volume of investments attracted from Turkey and Saudi Arabia increased, surpassing the Russian Federation, securing the next positions after the People's Republic of China



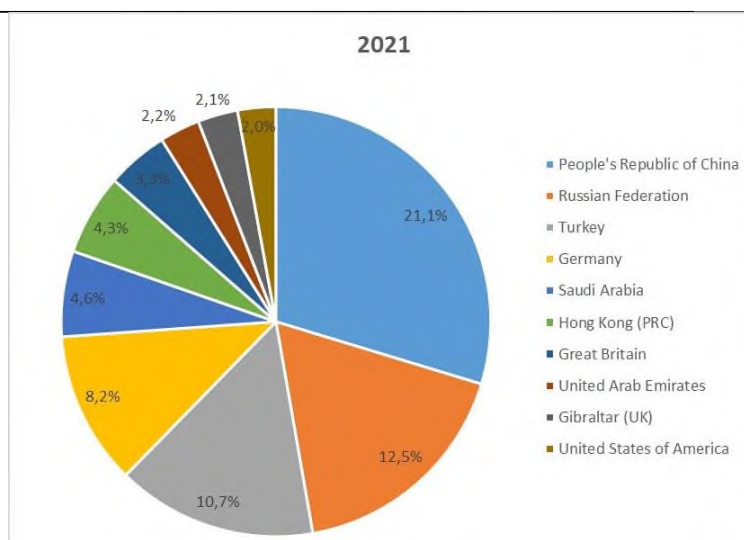


Figure 7. Share of attracted foreign direct investments in 2021 and 2022 by country (in percent)

Source: Compiled by the authors based on the information from the Statistics Agency under the President of the Republic of Uzbekistan

Analysis by regions of Uzbekistan

In 2016 and 2017, the regions that attracted the most FDI were Bukhara, Kashkadarya regions, and Tashkent city. These three regions collectively accounted for 84.3 percent and 89.2 percent of the total FDI entering Uzbekistan in 2016 and 2017, respectively. Specifically, in 2016, Bukhara region attracted 2.58 trillion sums (52.5 percent) of FDI, while in 2017, this figure increased to 7.81 trillion sums (67.9 percent). The majority of the attracted FDI in Bukhara and Kashkadarya regions pertained to the oil extraction type of economic activity.

By 2018, despite a decrease in the volume of FDI entering the Bukhara region, the region maintained its lead among other regions. Following the Bukhara region, Tashkent city, Fergana region, and Kashkadarya regions secured subsequent positions. In comparison to the previous two years, the investment attractiveness of almost all regions increased, accompanied by a rise in the amount of FDI entering them. However, no significant change was observed in Navoi, Syrdarya, and Khorezm regions.

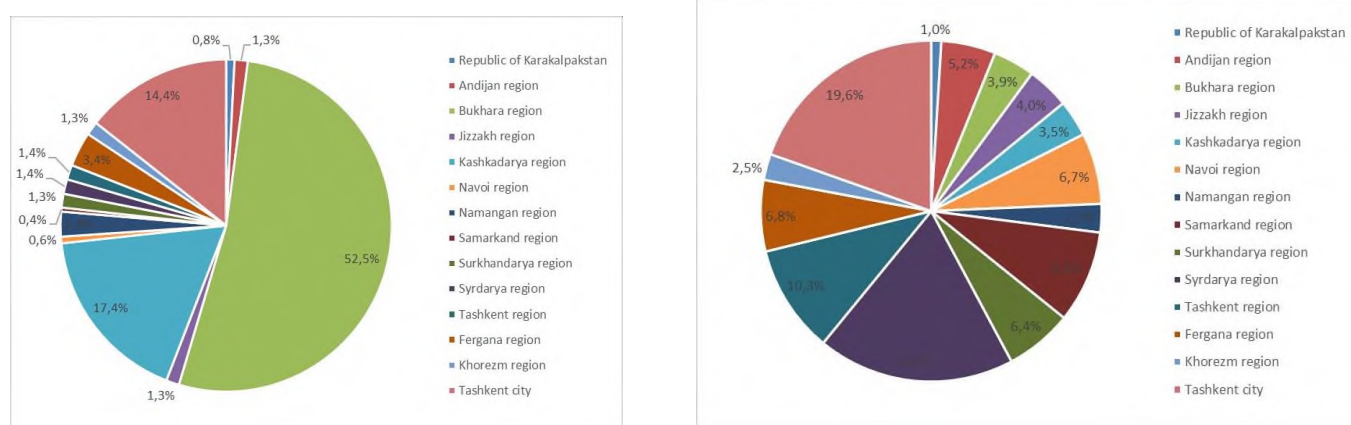
Since 2019, the city of Tashkent has achieved the most attractive investment status in the country and began to receive the highest FDI, while in the Bukhara region, a sharp decrease is observed due to the decline in the share of the mining industry in the volume of FDI into Uzbekistan. In 2019 and 2020, the highest growth occurred in Surkhandarya, Jizzakh, Kashkadarya, Fergana, and Tashkent regions.

In 2022, Tashkent city and Syrdarya regions led with 7.78 trillion sums and 7.45 trillion sums of FDI, followed by Tashkent and Samarkand regions.

Over the last 7 years, a decrease was observed only in the Bukhara region, attributed to the decline in the share of FDI in the field of oil production entering the country. No significant change was observed in the Kashkadarya region. The highest increases were observed in Syrdarya (106 times), Samarkand (182 times), and Navoi (85 times) regions.

Figure 8: Percentage Distribution of Direct Foreign Investments in Regions (2016 (left) and 2022 (right))

Source: Compiled by the authors based on the information from the Statistics Agency under the President of the Republic of Uzbekistan



In recent years, several reforms have been implemented to enhance the attraction of foreign investments, including FDI, to Uzbekistan.

- The Council of Foreign Investors, an advisory body under the President of the Republic of Uzbekistan, was established with the aim of advancing a favorable, non-discriminatory, transparent, and constructive business environment in Uzbekistan, primarily to attract foreign investments. It facilitates open and constructive dialogue between state bodies of the Republic of Uzbekistan and international financial institutions, foreign companies, banks, investments, and other representatives¹². The existence of such an institutional structure is crucial in addressing the challenges that may arise after attracting investments;
- The first and second Tashkent International Investment Forums were organized in the last two years. These forums are aimed at presenting the investment potential of Uzbekistan to international investment and business circles. The goal is to attract leaders of prominent foreign investment, financial, and economic organizations, as well as companies interested in entering the rapidly developing market of Uzbekistan;

¹² <https://miit.uz/uz/foreign-investors>

- To promote an open policy, citizens from 90 foreign countries have the opportunity to enter Uzbekistan without a visa, while citizens from another 60 countries are provided with simplified visa application procedures¹³;
- To enhance the investment attractiveness of regions and attract foreign investments, several free economic zones have been established. As of 2021, there are 23 operating free economic zones in our country, with 20 established after 2016. Additionally, it's noteworthy that free economic zones have been established in crucial sectors such as tourism and pharmaceuticals¹⁴;
- Two laws, namely, the “On Investments and Investment Activities” and “On Special Economic Zones”, were adopted. These laws aimed to consolidate several previously enacted regulatory documents, leading to a substantial improvement in the conditions for making investments in Uzbekistan;
- To liberalize the foreign trade policy, customs duties on various raw materials and goods were reduced to zero¹⁵. Additionally, in 2021, Uzbekistan was granted beneficiary status under the GSP+ system of general preferences by the European Union.

Nevertheless, despite the positive reforms mentioned above, there are still challenges that require the government's attention to create a conducive investment environment.

Despite the Law “On Investments and Investment Activities” adopted in 2019, which consolidated the main laws regulating FDI activity, various other legal documents defining the procedure of FDI activity have been retained today. This situation can lead to complexity, confusion, and potential inconsistencies in the legal framework for foreign investments;

In recent years, there has been a slowdown in privatization processes in the country. Moreover, privatization processes should be conducted transparently, and the results should be legitimate and reliable;

Several political documents provide instructions on projects with investment potential but do not specify a particular list of prospective industries. There are shortcomings in informing investors about the reasons to invest in Uzbekistan and adapting this appeal to specific economic sectors. It is necessary to highlight the advantages of Uzbekistan in certain industries or sectors;

¹³ <https://uza.uz/oz/posts/90-ta-xorijiy-davlat-fuqarolari-uchun-ozbekistonga-vizasiz-kirish-imkoniyatini-yaratdik-prezident-357646>

¹⁴ <https://review.uz/uz/post/samariddin-elmirzaev-iqtisodiyotda-erkin-iqtisodiy-zonalar-va-kichik-sanoat-zonalari-faoliyati-juda-muhim>

¹⁵ <https://lex.uz/ru/docs/-6233618>

Additionally, predictability and stability are crucial for foreign investors in the investment decision-making process, as they tend to avoid investing in unstable countries. Understanding the rules of the game is essential for them. Therefore, foreign investors place special emphasis on the quality of state institutions in the country. Several crucial tasks need attention for improving the institutional environment in Uzbekistan today.

Various ratings and indexes are employed to measure the quality of institutions. We conducted an analysis of Uzbekistan's position in 2022 using the World Bank's Worldwide Governance Indicators, one such indicator. This tool incorporates six indices that reflect different parameters of public administration. Each indicator is estimated on a scale between -2,5 and 2,5. The results for Uzbekistan in these indices are presented below¹⁶.

Table 1
Results of Worldwide Governance Indicators for Uzbekistan (2018-2022)

Worldwide Governance Indicators	2018	2019	2020	2021	2022
Voice & Accountability	-1,63 (6,3)	-1,65 (6,3)	-1,53 (6,3)	-1,4 (12,6)	-1,33 (12,6)
Political Stability and Lack of Violence	-0,3 (35,9)	-0,3 (34,9)	-0,44 (32,1)	-0,25 (37,7)	-0,2 (39,6)
Government Effectiveness	-0,62 (31,4)	-0,60 (31,4)	-0,62 (29,5)	-0,27 (40,5)	-0,33 (38,2)
Regulatory Quality	-1,14 (10)	-1,06 (11,9)	-1,0 (13,8)	-0,60 (31,9)	-0,55 (31,6)
Rule of Law	-1,1 (12,9)	-1,08 (13,3)	-1,11 (12,9)	-0,92 (18,6)	-0,85 (21,7)
Control of Corruption	-1,08 (12,9)	-1,05 (15,2)	-1,07 (15,7)	-0,83 (22,4)	-0,76 (24,5)

Source: Compiled by the authors based on the World Bank's Worldwide Governance Indicators (WGI) database

From the above table, it is evident that the effectiveness of state institutions in Uzbekistan is low. In 2022, it received the lowest score in the “Voice & Accountability” indicator, positioning Uzbekistan above only 12,6% of countries. In the “Political Stability and Lack of Violence” indicator, Uzbekistan outperforms 39,6% of other countries, placing it in a better position compared to other indices. In the last five years, the “Regulatory Quality” indicator has experienced the highest growth. In 2018, Uzbekistan performed better than 12,9% of all countries in this indicator, and by 2022, this figure had risen to 31,6%. These improvements are attributed to the reforms undertaken to foster economic development and enhance the investment environment in the country. “The Rule of Law” indicator, a crucial indicator for investors, remains lower than that of 78,3% of countries, despite improvements over the past five years.

The rule of law and property rights are decisive factors influencing the flow of FDI and play a crucial role in shaping the investment environment¹⁷. The rule of law establishes a stable and predictable legal framework, ensuring fair treatment of investors and shielding them from various uncertainties. Transparent and well-maintained legal systems instill confidence in foreign investors. Property rights, an integral component of the rule of law, safeguard investments by providing security and certainty of ownership. Consequently, countries with strong rule of law and well-protected property rights attract more FDI inflows, fostering economic growth and development through increased capital investment and technology transfers. Conversely, deficiencies in these areas can deter potential investors, impeding FDI flows and hindering economic development. Therefore, the rule of law and property rights play pivotal roles in attracting FDI, influencing the appeal of host countries to foreign investors, and shaping their contributions to sustainable economic development.

In the World Justice Project's annual Rule of Law Index, an international non-governmental organization, Uzbekistan maintained its 78th position among 142 countries in 2023, consistent with the previous year. Within this ranking, Uzbekistan performed well in the order and security sub-indicator, securing the 17th place globally among the 142 countries. However, challenges were observed in areas such as constraints on government powers (119th place), open government (119th place), and fundamental rights (109th place). The ranking reflects the need for continued reforms in these areas.

¹⁷ Knack, S., & Keefer, P. (1995). Institutions and economic performance: Cross-country tests using alternative institutional measures. *Economics & Politics*, 7(3), 207-227.

In addition to the positive impacts on the economy of the host country, the influx of FDI carries risks and negative socio-economic consequences. Therefore, it is crucial for the government of Uzbekistan to implement sound economic policies that minimize or mitigate the adverse effects of FDI inflows into the country's economy.

Firstly, multinational corporations (MNCs) are interested in relocating environmentally harmful production to countries with lower environmental standards. Considering that improving the ecological situation in Uzbekistan has recently become one of the pressing tasks for socio-economic development, the requirements in this sphere for the activities of economic entities should be tightened.

Secondly, MNCs often attempt to introduce capital that is morally outdated and no longer competitive in their home country. Accepting such capital allows for the production and sale of goods produced using it on the domestic market in the presence of significant barriers to import. However, over time, accepting such capital will not only restrain the competitiveness of domestic producers but also become a powerful factor inhibiting trade liberalization and economic integration with the global economy.

Thirdly, it is important to remember that the main goal of MNCs is to maximize profits on a global scale by leveraging their technological advantages. To achieve this goal, they seek to establish monopolistic control over the market of the host country. The main instrument for MNCs to acquire monopolistic control over the market of the host country is the strengthening of import protectionism. To this end, MNCs lobby their interests in the authorities of the host country and extensively utilize transfer pricing on raw materials and intermediate products to maximize their profits globally. The reinforcement of import protectionism precisely allows MNCs to obtain monopolistic profits and legally withdraw them from the country through transfer pricing on raw materials and intermediate products. Such "leakage" of savings reduces investment opportunities and the pace of socio-economic development of the country in the long run. Therefore, it is extremely important for the government of Uzbekistan to implement economic policies that prevent enterprises with foreign investment from acquiring monopolistic control over the domestic market.

Conclusion

Upon analyzing the trends in fixed capital investments, it becomes evident that foreign investments and loans have emerged as the primary driver of capital

formation in recent years, playing a crucial role in the economic development of the country. While the volume of FDI, constituting a major portion of foreign investments and loans, experienced a temporary decline in 2020 due to the impact of the Covid-19 pandemic, it has exhibited a general upward trajectory in recent years. However, the growth rates of FDI have lagged behind those of overall foreign investment and loans. Consequently, its proportion in the total volume of foreign investments and loans has diminished over the past seven years. This persistent trend in FDI volumes may potentially impede the attainment of desired economic growth rates.

In 2016, the mining industry predominantly attracted the primary share of FDI, accounting for 67 percent, primarily associated with 'natural gas extraction' activities. However, by 2022, the manufacturing industry has taken the lead, capturing 42,3 percent of the FDI inflows into the country. This indicates that in recent years, FDI inflows into the country are more diversified, with economic activities beyond natural gas extraction attracting substantial foreign investments. However, the FDI levels for the formation of fixed capital in industries with high export potential, such as mechanical engineering, electrical engineering, metallurgy, chemistry, and pharmaceuticals, still remain relatively low.

The trend suggests that a favorable investment environment has not been established in these areas. Simultaneously, systemic problems persist in the country's competitive landscape, protection of private property, financial markets, and production and market infrastructure.

Additionally, the absence of a concentrated focus of FDI on high-tech and human capital may pose a risk to the achievement of goals related to attaining a high level of inclusive growth and reducing poverty in the country.

After the regional analysis, due to the decrease in the share of FDI in oil production and changes in economic activities that attract active foreign investments over the 7 years, the volume of FDI entering the Bukhara region decreased. On the other hand, there was no significant change observed in the Kashkadarya region. Tashkent city emerged as the most attractive region for investments in Uzbekistan.

In recent years, several reforms have been implemented to enhance the attraction of foreign investments, including FDI, to the country. Despite these positive reforms, there are still issues that require the government's attention to create a favorable investment environment.

One significant concern is the need to enhance the quality of institutions that determine the country's effectiveness. There are crucial tasks to improve the institutional environment in Uzbekistan today.

In particular, the Worldwide Governance Indicators of the World Bank and the Rule of Law index published by the World Justice Project, an international non-governmental organization, indicate the main institutional aspects that the government should pay attention to in its assessment of Uzbekistan. The position of Uzbekistan is not positive in the ratings for consideration of public opinion and accountability of state bodies, rule of law and property rights.

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