

FOREIGN INVESTMENTS AND THEIR ROLE IN ECONOMIC GROWTH

Ma'murjonov Komiljon Muzaffar ugli

Tashkent State University of Economics

Second-year student of the faculty of Economics

komiljonmamurjonov41@gmail.com

Scientific supervisor: **Xurshidjon Tillayev**

Abstract: While spending on consumption goods provides utility to households today, spending on investment goods is aimed at providing a higher standard of living at a later date economic growth. Investment is the component of GDP that links the present and the future. In this article, the importance of foreign investment and their role in the development of the national economy are discussed and they are analyzed on the basis of statistical data. As well as, the article considers the existing problems in attracting foreign investment to the economy of host economy and what measures should be taken to strengthen their prevention

Key words: Investment, economic growth, foreign investment, national economy, capital inflow, foreign direct investment (FDI).

INTRODUCTION

Globally, foreign investment has emerged as a key factor in economic development in various countries. The inflow of foreign capital, experience and technologies plays a key role in strengthening the direction of economic growth of the country, stimulating innovation and expanding development opportunities. One of the main advantages of foreign investment is its contribution to economic growth.

The inflow of capital from abroad paves the way for the development of infrastructure, industry and services. This infusion of funds will help create jobs, thereby reducing unemployment and raising the standard of living of the local population. Take Uzbekistan as an example, from the initial years of independence, Uzbekistan has set a specific direction for the development of the national economy. As a result of timely understanding of the unique role of investment in the development and stability of the economy, there has been an increase in attention to investment, in particular, foreign investment, which leads to the development of investment activity in our country today. Nowadays, it should be noted that the development of investment activity is because of a prudent investment policy pursued by our government. In fact, in Uzbekistan—2030 Strategy, adopted by Shavkat Mirziyoyev, the President of the Republic of Uzbekistan, it is expressed to further improve the investment climate and increase its attractiveness. The strategy aims to attract US\$ 250 billion of total investment by 2030, including US\$ 110 billion in foreign investment. Attracting foreign investment in the economy of Uzbekistan is important to accelerate the expansion of its economic potential, ensuring the economic power of the state through the use of domestic potential and reserves in all areas, the development of new equipment and technology, export-oriented goods and their production [1]

RESEARCH METHODOLOGY

Learning the topic scientifically, logicity, systematic analysis in the process of analysis and research, synthesis and cognitive thinking methods were widely used. This study adopts a qualitative research approach to explore the impact of foreign investment on economic growth in

the countries' economy. Furthermore, in this article, the role of foreign investment in the development of national economy and attracting more external investments to boost the standard of living, enhancing the up-to-date technologies to the production processes as well as scientific proposals and practical recommendations were provided for the further development of promising projects.

ANALYSIS AND RESULTS

The role of foreign investment in the development of the national economy is significant, which is explained by:

Capital Accumulation: Foreign direct investment (FDI) serves as a vital source of external financing, especially for developing countries with limited domestic savings, supplementing domestic investment and helping to break the cycle of underdevelopment.

Technology Transfer and Innovation: Foreign companies often introduce advanced technologies, new management practices, and organizational skills. These can lead to knowledge spillovers, boosting productivity and efficiency in local industries.

Job Creation and Human Capital Development: The establishment of new foreign businesses or expansion of existing ones creates job opportunities and enhances the skills of the local workforce through training, contributing to human capital development.

Market Expansion and Export Potential: FDI can help integrate domestic firms into global value chains, provide access to international markets, and improve the host country's competitiveness and export potential.

Infrastructure Development: Inflows can fund large-scale infrastructure projects in sectors such as transport, energy, and communications, which further improve the overall business environment. [2]

Currently, for instance, the rapid growth of foreign investment in the economy of Uzbekistan is determined by these factors above. These are a clear indication of the growing interest and confidence of foreign investors in the stability of the country's economy, the prospects for its development.

In the process of globalization, foreign investments are considered as an important factor of economic growth and development. In particular, through foreign direct investment (FDI), new technologies, management experience and financial resources are entering the economy of countries. This serves to improve production efficiency and strengthen competitiveness. For example, China has attracted large-scale FDI since the 1980s to develop its manufacturing industry. This process turned the country into a global manufacturing center and contributed greatly to its economic growth. Singapore has become a leading financial center in the region, actively using FDI to develop the high-tech and financial services sectors. Vietnam has increased its export potential and diversified its economy in recent years by attracting FDI to develop the textile and electronics industries. And India has gained an important place in the global IT services market by attracting FDI in information technology and telecommunication sectors. Take Uzbekistan as an example,



Figure 1. Share of foreign investments and loans in investments in fixed assets

According to Statistics Committee of Uzbekistan, this table demonstrates the percentage of total investments in fixed assets (like infrastructure, machinery, and buildings) that were funded by foreign investments and loans across the country. Most regions show growth in foreign investment, with Namangan and Surkhandarya experiencing notable increases. The overall percentage for Uzbekistan rose from 18.5% in 2015 to 69.4% in 2024, indicating a strong upward trend. The increase in percentages suggests strengthened foreign interest, which can lead to improved infrastructure, job creation, and overall economic development across the regions.

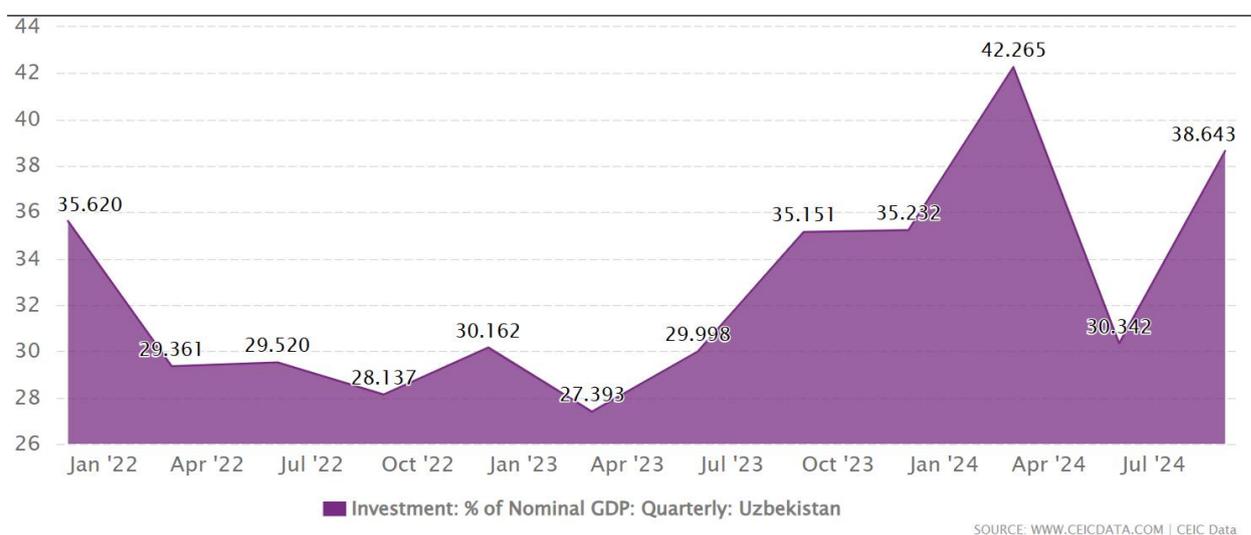


Figure 2. Uzbekistan Investment: % of GDP

Key information about Uzbekistan Investment: % of GDP
This table above shows that Uzbekistan Investment accounted for 38.6 % of its Nominal GDP in September 2024, compared with a ratio of 30.3 % in the previous quarter. Uzbekistan investment GDP data share of Nominal is updated quarterly, available from March 2016 to September 2024, with an average ratio of 30.2 %.

The data reached an all-time high of 42.3 % in March 2024 and a record low of 17.4 % in September 2017

Related information about Uzbekistan Investment: % of GDP

In the latest reports, Uzbekistan GDP expanded 5.5 % YoY in March 2023.

Uzbekistan Nominal GDP reached 17.5 USD bn in March 2023.

Its GDP deflator (implicit price deflator) increased 12.6 % in March 2023.

Uzbekistan GDP Per Capita reached 2,790.0 USD in December 2023.

Its Gross Savings Rate was measured at 30.1 % in September 2024.

Therefore, Foreign investment is a powerful engine for economic growth because it:

- increases the nation's capital stock
- improves productivity
- transfers technology
- raises wages and living standards
- connects the economy to global financial markets

Even though some income flows back to foreign investors, the receiving country still benefits significantly. [3]

CONCLUSION AND RECOMMENDATIONS

The analysis showed that foreign investment can positively affect the economies of developing countries if it is properly regulated and used efficiently. Above all, foreign investment plays a major role in the growth of economies by providing financial resources that are often limited domestically. Consequently, this contributes to the development of infrastructure, modernisation of production facilities, and increased competitiveness in global markets. Foreign direct investment promotes the introduction of advanced technologies and modern management practices, which increases the productivity and efficiency of businesses. Attracting foreign investment enables countries to gain access to global supply chains, which creates new opportunities for the development of national industry and strengthens their positions in the international market.

In general, Foreign Direct Investment (FDI) tends to have a beneficial effect on a nation's economic advancement and market expansion. Our analysis confirms this assertion, particularly in the context of Uzbekistan. Given the essential role of FDI for Uzbekistan's economic progress, we recommend the following:

- **Enhance Investment Climate:** Continuously improve the investment climate by implementing investor-friendly policies, streamlining bureaucratic processes, and ensuring transparency and accountability in regulatory frameworks. This will attract more FDI inflows and foster investor confidence.
- **Diversify Investment Sectors:** Encourage diversification of FDI across various sectors of the economy, including manufacturing, agriculture, services, and technology. This diversification reduces dependency on specific industries and promotes balanced economic growth.



- Monitor and Evaluate Impact: Establish a robust monitoring and evaluation framework to assess the impact of FDI on economic growth, employment, technology transfer, and sustainable development goals. Regularly review investment policies and outcomes to make informed decisions and adjust strategies as needed.

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