

6-1-2018

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Recommended Citation

Ilkhamova, Y.; Yusupova, G.; and Khasanboyeva, M. (2018) "HOW TO ATTRACT FOREIGN INVESTORS TO A COUNTRY," *International Finance and Accounting*: Vol. 2018 : Iss. 3 , Article 40.

Available at: <https://uzjournals.edu.uz/interfinance/vol2018/iss3/40>

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HOW TO ATTRACT FOREIGN INVESTORS TO A COUNTRY

**“Never depend on a single income,
Make investment to create a second source”
Warren Buffet (American business magnate)**

Maqolada investitsiyaning bir davlat uchun qanchalik muhim ahamiyat kasb etishi va xorijiy investorlarni jalb etishning samarali yo'llari O'zbekiston misolida tahlil qilingan.

Kalit so'zlar: xorijiy va mahalliy investitsiya, to'g'ri va egri investitsiya, savdo siyosati, tashqi savdo.

В статье анализируется важность инвестиций в экономику страны предоставляется некоторые лучшие способы привлечь иностранных инвесторов в примере Узбекистана.

Ключевые слова: иностранная и местная инвестиция, прямая и косвенная инвестиция, коммерческая политика, внешняя торговля.

This article analyses the importance of investment in the country's economy and provides some of the best ways to attract foreign investors in the example of Uzbekistan.

Keywords: foreign and local investment, direct and indirect investment, commercial policy, foreign trade.

In today's world even a minor change in economic fields may influence the economy as well as other spheres of a country. Every country wants to develop its economic status in the world. Bringing foreign investment is one of the best ways to enhance the degree of economic growth. As increased globalization in business has occurred, it has become very common for big companies or affluent people to invest money in other companies located in own country or in the other. Before looking at the advantages of investments, it is urgent to know what investment means and differentiate the types of investment.

Foreign investment is when a company or individual from one nation invests in assets or ownership stakes of a company based in another nation. Foreign investment can be split into direct and indirect investments. Direct investments are when companies make physical investments and purchases in buildings, factories, machines and other equipment outside of their home country and are usually long term investment. Indirect investments are when companies or financial institutions purchase positions or stakes in companies on a foreign stock exchange¹. However,

¹<http://www.investopedia.com>.

indirect investments isn't as favorable as former investment because the home country can sell their investment very easily, on the next day if they choose.

Local and foreign investments provide the country with modern technologies, help reaching its economic potential by providing capital to finance new industries and enhance existing ones, boosting infrastructure, productivity, and employment opportunities in the process. Foreign investment has other benefits beyond injecting new capital. By bringing in new businesses with connections in different markets it opens up additional export opportunities, boosting overall export performance. It also encourages competition and increased innovation by bringing new technologies and services to the country. As more foreign investment comes into a country, it can lead to even greater investments because others see the the country as economically stable. [1]

We can understand the upcoming benefits of foreign investment throughly by the example of Uzbekistan. Why does Uzbekistan need foreign investment?

Table 1

Country comparison for the protection of investors [2]

	Uzbekistan	Eastern Europe & Central Asia	United States	Germany
Index of Transaction Transparency*	8.0	7.0	7.0	5.0
Index of Manager's Responsibility**	3.0	5.0	9.0	5.0
Index of Shareholders' Power***	6.0	6.0	4.0	8.0
Index of Investor Protection****	5.7	6.4	6.5	6.0

Source: Doing Business – Latest available data

Note: *The Greater the Index, The More Transparent the Conditions of Transactions. **The Greater the Index, the More the Manager is Personally Responsible. ***The Greater the Index, the Easier it Will Be For Shareholders to Take Legal Action. ****The Greater the Index, the Higher the Level of Investor Protection.

Foreign investment fills the gap between what Uzbekistan saves and invests every year. Total investment is funded by domestic savings and foreign investment makes up the difference.

After a sharp decrease in Foreign Direct Investment (FDI) in 2011 (-35%), Uzbekistan decided to review the country's restrictive commercial policy (temporary closure of the border, increase in customs tariffs, heavy import procedures) and implemented new rules such as fiscal exemptions and administration reforms. More than 58 mixed companies work in Tashkent. This change in investment attraction policy had borne results until 2011, as investment influx grew steadily from USD 1

billion to nearly USD 3 billion in a span of 4 years. Foreign investment to Uzbekistan reached USD 1.2 billion in the first half of 2016 and USD 2.7 billion in total, according to preliminary findings. The volume of used direct and other foreign investments in fixed assets in Uzbekistan exceeded USD 2.4 billion in 2017.

Table 2

The amount of Foreign Direct Investment [3]

Foreign Direct Investment	2014	2015	2016
FDI Inward Flow* (million USD)	632	65	67
FDI Stock** (million USD)	8,825	8,890	8,957
Number of Greenfield Investments***	16	19	23
FDI Inwards (in % of GFCF****)	3.2	0.3	0.3
FDI Stock (in % of GDP)	14.0	13.6	13.5

Source: UNCTAD(United Nations Conference on Trade and Development) – Latest available data.

Note: *The UNCTAD Inward FDI Performance Index is Based on a Ratio of the Country’s Share in Global FDI Inflows and its Share in Global GDP. **The UNCTAD Inward FDI Potential Index is Based on 12 Economic and Structural Variables Such as GDP, Foreign Trade, FDI, Infrastructures, Energy use, R&D, Education, Country Risk. ***Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country By Constructing New Operational Facilities From the Ground Up. ****Gross Fixed Capital Formation (GFCF) Measures the Value of Additions to Fixed Assets Purchased By Business, Government and Households Less Disposals of Fixed Assets Sold Off or Scrapped.

The provided analysis of investment shows that the rate of FDI appeared to be almost stable during several years only including tiny changes.

Without support of the government or state-affiliated entities, foreign investors have limited business opportunities in Uzbekistan. The government generally welcomes investors and investment projects that are in line with its import-substitution and export-oriented industrialization policy, and discourages investments in import-consuming sectors by controlling access to currency exchange.

Formally, foreign investors are welcome in all sectors of the Uzbekistan economy. According to law, the government cannot discriminate against foreign investors based on nationality, place of residence, or country of origin. However, the government control of key industries can have discriminatory effects on foreign investors. For example, the GOU retains strong control over all economic processes and maintains controlling shares of key industries, including energy, telecommunications, airlines, and mining. The government regulates investment and capital flows in the raw cotton market and controls all silk sold in the country, dampening foreign investment in the textile and rug-weaving industries. Partial state ownership and influence are common in almost all sectors of the economy. In addition, Uzbekistan as an independent country now has the freedom to develop new

export markets and to utilize new sources of supply of investment and advanced technology. [4]

Uzbek law provides the following rights to foreign investors:

- To decide the amount, kinds, and channels of investments;
- To conclude agreements to carry out investment activity;
- To own, use and dispose of investments and the results of investment activity;
- To patent inventions, models and industrial samples belonging to the foreign

investor;

- To repatriate profits from Uzbekistan or to reinvest them into Uzbek entities;
- To obtain financial resources in the form of credits and loans;
- To convert local currency into foreign currency;
- To possess and use land on terms provided by the legislation;
- To receive compensation for investments/assets in case of expropriation by

the state;

-To receive compensation for losses incurred due to illegal activity/decisions of the state.[5]

A foreign investor may participate in a variety of legal forms of business, ranging from partnerships to joint-stock companies to wholly owned enterprises. Businesses with foreign investment must register with the Ministry of Justice or the regional governor's office (Khokimyat). Recent amendments to the Law on Foreign Investments (effective January 20, 2014) introduced the "single-window process" for business registration with foreign investments. According to the law, the registration process should take no more than seven business days after submission of a complete application package.

Depending on the extent of foreign participation, a business may be considered an “enterprise with foreign capital” (less than 30 percent foreign-owned) or receive special status as an “enterprise with foreign investment” (more than 30 percent, with a minimum charter capital).

Foreign companies may also maintain a physical presence in Uzbekistan as permanent establishments without registering as a separate legal entity (other than with tax authorities). A permanent establishment may have a bank account.

Therefore, to increase the amount of Foreign Investment a set of following activities should be carried :

- to know the potentials and perspectives of its industry well
- to make realistic projections as well as forecasts and then fight to exceed those projections(investors will not be impressed by unrealistic numbers)
- to use the country's strong points while doing business (for instance, Uzbekistan is the most populated country in central Asia with almost 32 million population. Moreover, its population is young with an average age of 24,7 years. The country is rich in raw materials (copper, zinc, gold, silver, tungsten, lead and natural gas). In terms of consumption, it is potentially the largest market in the region. It is also the world's fifth biggest producer of cotton and the fourth biggest exporter. Also, the Uzbek State had been careful to strengthen the commercial banks, especially eight of the most important ones, before the financial crisis.

- To organize special events to inform investors more about our country and make them show interest to our business.

- To make special “investor portal” to give more information and announce daily news, good chances created by authority for foreign investors.²

This year on March 31 the President of the Republic of Uzbekistan signed the Decree “On the formation of the State Committee of the Republic of Uzbekistan for Investments”. In accordance with the Decree, the new committee, being an authorized state body, will be responsible for coordinating the formation and implementation of a unified state investment policy and attracting foreign investments.

The State Committee for Investments is formed to fully implement the investment potential of the Republic of Uzbekistan, further improve the investment climate, create the most favorable conditions for attracting foreign investment, expand cooperation with international financial institutions, leading foreign companies and banking structures, as well as Increase of efficiency of attracted foreign investments. The State Committee for Investments will become a part of the complex of Cabinet of Ministers for development of territories and communal sphere, transport, capital construction, construction industry.

Uzbekistan declaratively subscribes, to an ongoing process of institutional and economic reform, such as restructuring and privatization. The main mechanisms for selling state assets are open tender or auction, but often the process is transparent only at the initial stage. In some cases the government uses local or international financial consultants for privatization of large enterprises, and only after they evaluate an enterprise are foreign investors invited to participate. In June 2012, the government allowed foreign investors to buy state-owned, low-liquidity facilities at zero redemption cost under condition of a specific investment commitment.

According to the foreign investment laws, investments cannot be nationalized or confiscated without the payment of compensation. The Foreign Investment Laws also provide for protection against adverse changes in the law for a 10-year period following registration. This 10-year guarantee had been widely challenged in the past by the tax authorities so that it would not apply to taxation changes. Such different interpretation of the 10-year guarantee resulted in amendment of the text in the Foreign Investment Laws, which changed the whole concept of the foreign investment protection. Thus, from 17 September 2005 the 10-year guarantee is to apply in the following cases:

- Increase of income (withholding) tax rate on dividends payable to foreign investors

- Introduction of additional requirements that complicate the procedure for repatriation or decrease the amount of income repatriated by foreign investors, except for certain cases when such repatriation is banned due to financial insolvency of enterprises with foreign investments, protection of creditors’ rights, criminal or

²From the speech made by The President of Uzbekistan on 22nd December in 2017 in the meeting with senators.

administrative sanctions imposed on individual foreign investors or other reasons for halting such repatriation based on the court decision

- Introduction of limitations on the size of investment, including the increase of the minimum size of charter capital for enterprises with foreign investments
- Introduction of additional procedures for visas of foreign investors, as well as other additional requirements on foreign investment. [6]

To conclude, investment plays the key role in the development of Economy. The more investment, the more money for developing the fields such as industry, agriculture, trade and business. At one time with developing the economy. Investment, in one word, is spending money to generate more money.

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