

5-10-2019

PROMOTING INVESTMENT ACTIVITY THROUGH BUSINESS LINKAGE PROGRAMS

Nargiza Nizomiddin qizi Xudayberdiyeva
Teacher at Namangan state university Social-economic facult

Jahongir Valijon o'g'li Hasanboyev
Student at Namangan State University Social- Economic Faculty Economic direction of vocational training 3 course

Follow this and additional works at: <https://uzjournals.edu.uz/namdu>



Part of the [Education Commons](#)

Recommended Citation

Xudayberdiyeva, Nargiza Nizomiddin qizi and Hasanboyev, Jahongir Valijon o'g'li (2019) "PROMOTING INVESTMENT ACTIVITY THROUGH BUSINESS LINKAGE PROGRAMS," *Scientific Bulletin of Namangan State University*. Vol. 1 : Iss. 5 , Article 21.

Available at: <https://uzjournals.edu.uz/namdu/vol1/iss5/21>

This Article is brought to you for free and open access by 2030 Uzbekistan Research Online. It has been accepted for inclusion in Scientific Bulletin of Namangan State University by an authorized editor of 2030 Uzbekistan Research Online. For more information, please contact brownman91@mail.ru.

PROMOTING INVESTMENT ACTIVITY THROUGH BUSINESS LINKAGE PROGRAMS

Cover Page Footnote

???????

Erratum

???????

PROMOTING INVESTMENT ACTIVITY THROUGH BUSINESS LINKAGE PROGRAMS

Xudayberdiyeva Nargiza Nizomiddin qizi
Teacher at Namangan state university
Social-economic faculty

Email: shin-set-sunan@mail.ru

Hasanboyev Jahongir Valijon o'g'li
Student at Namangan State University
Social- Economic Faculty

Economic direction of vocational training 3 course

***Abstract.** Attraction of foreign investments, proper use of existing funds, time and resources, effective utilization of wealth based on created conditions, thus promoting the country's economy and integration into the world economy is an important issue. The article uses foreign experience to establish business relations between foreign investors and local entrepreneurs.*

***Key words:** Direct Investment (FDI), branch-plant, business linkage, know-how, Backward linkages, Business linkages to technology partners, Business linkages to competitors, Forward linkages to customers, Business linkages that result from spillover effects, local content requirements.*

РАЗВИТИЕ ИНВЕСТИЦИОННОЙ ДЕЯТЕЛЬНОСТИ ЧЕРЕЗ ПРОГРАММЫ ДЕЛОВОГО ВЗАИМОДЕЙСТВИЯ

Худайбердиева Наргиза Низомиддин қизи
Хасанбоев Жаҳонгир Валижон угли
Наманганский государственный университет

***Аннотация.** Привлечение иностранных инвестиций, правильное использование имеющихся средств, времени и ресурсов, эффективное использование богатства на основе созданных условий, что способствует развитию экономики страны и интеграции в мировую экономику, является важной проблемой, В статье используется зарубежный опыт для установления деловых отношений между иностранными инвесторами и местными предпринимателями.*

***Ключевые слова:** Прямые инвестиции (ПИИ), филиал, деловые связи, ноу-хау, обратные связи, деловые связи с технологическими партнерами, деловые связи с конкурентами, прямые связи с клиентами, деловые связи, возникающие в результате побочных эффектов, местные требования к контенту.*

BIZNES ALOQASI DASTURLARI ORQALI INVESTITSION FAOLIYATNI RIVOJLANTIRISH

Xudayberdiyeva Nargiza Nizomiddin qizi
Hasanboyev Jahongir Valijon o'g'li

Namangan davlat universiteti

Annotatsiya. *Xorijiy investitsiyalarni jalb qilish, mavjud mablag'lardan, vaqt va imkiniyatlardan to'g'ri foydalanish, yaratilgan shart-sharoitlardan kelib chiqib, boyliklarni samarali tasarruf etish, shu yo'l bilan mamlakat iqtisodiyotini yuksaltirish, jahon iqtisodiyotiga integratsiyalashuvini rag'batlantirish muhim masala hisoblanadi. Maqolada xorijiy investorlar va mahalliy tadbirkorlar o'rtasida biznes munosabatlarini o'rnatish, bu borada xorijiy tajribadan foydalanilgan.*

Kalit so'zlar: *To'g'ridan-to'g'ri investitsiyalar (FDI), filiallar, biznes aloqalari, nou-xau, orqadagi aloqalar, texnologik sheriklarga biznes aloqalar, raqobatchilarga biznes aloqalar, mijozlarga oldindan bog'lanish, tarqoq effektlar natijasida paydo bo'lgan biznes aloqalar, mahalliy kontent talablari.*

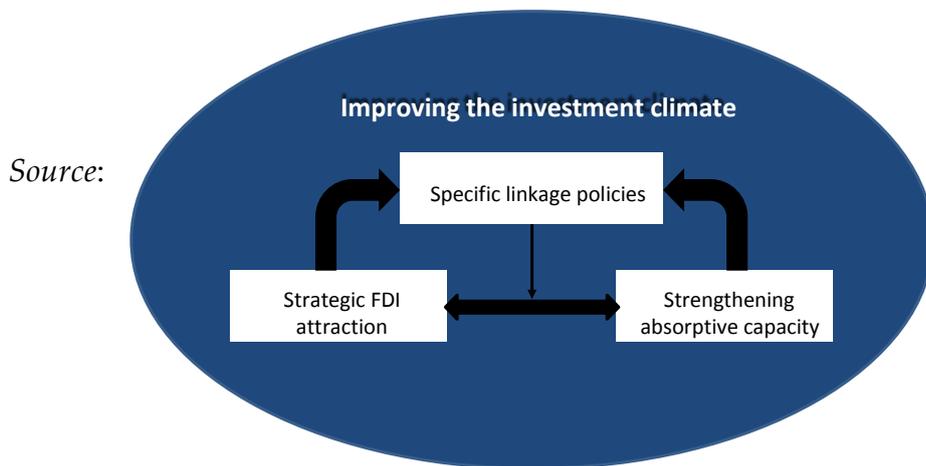
International experience shows how governments can design BLPs as specific measures to promote FDI while maximizing its benefits to the local economy. In the past, a significant proportion of FDI in both developed and developing countries has been in the form of "branch-plant" facilities with few linkages to the rest of the local economy. Such operations provide limited benefits to the host economy, conducting little or no R&D locally and importing components rather than buying locally. BLPs can provide an effective way to change this relationship, tying FDI more closely into the domestic economy, encouraging local sourcing of inputs, including labor, and strengthening relationships with domestic firms in research and product development [1]. BLPs can include elements such as databases detailing the products and capabilities of local SMEs and FDI, a framework for assessing and selecting participating companies, programs for skills development (training schemes, exchange programs, internships), promotional and marketing services, certification schemes, and incentives (tax or other) to encourage participation.

OECD good practice suggests a five-stage approach to developing a business linkage programmer. Phase one defines the strategy of the programmer by setting its objectives and establishing a process to identify suitable participants, *i.e.* potential local suppliers and foreign enterprises. Phase two proposes an internal organizational structure for the linkage programmer. Phase three describes the diagnostic and promotional activities that essentially launch the programmer. Phase four outlines the mechanisms that will assist in monitoring the results of the programmer. Lastly, phase five examines how linkages facilitated by the programmer might be sustained in the long-run [2].

Business linkage programs (BLPs) can serve as a critical conduit for the transmission of skills, know-how and technology from foreign companies to the local economy. This is relevant in Central Asia where, due to low levels of industry development and resource availability, most FDI has tended to be directed towards resource extraction industries that run very self-contained operations in host countries. For example, Chinese companies often bring their own workers in to work on projects. Consequently, there is little spillover effect of this investment into local economies in

terms of employment, knowledge transfer and related industry development. BLPs, if set up the right way, can constitute an effective way to address this issue. As opposed to more coercive measures, such as local content requirements or import restrictions, BLPs are soft mechanisms that are not ruled out by international trade agreements. Instead of forcing multi-national enterprises (MNEs) to co-operate and share knowledge with local enterprises, the programs serve as government-sponsored information source and linkage that increases MNEs business opportunities in the host country.

BLPs must be placed in conjunction with existing FDI strategies. BLPs are part of governments overall efforts to attract FDI and to improve its positive effects to the local economy. In order to be effective, BLPs must fit into government’s strategic approach and the local environment. Figure 1 depicts the location of BLPs within overall efforts to improve the investment climate. BLPs are thus influenced by both a countries strategic FDI attraction, such as a competitive advantage due to abundance in natural resources or a highly skilled workforce, as well as policies that aim at strengthening the absorptive capacities of local enterprises. The latter refers to improvements in local enterprises technological and managerial capacities, as well as the educational level of the workforce.



UNCTAD (2010)[3]

Figure 1 Location of BLPs in a general FDI strategy

BLPs can be categorized into five main types:

Backward linkages. Backward linkages are business linkages that occur between MNEs and local suppliers and this type refers to MNEs buying products or services from local suppliers

Business linkages to technology partners. Linkages with technology partners are joint ventures, licensing agreements, or strategic alliances between the MNE and local partners. This type of linkage is beneficial in that it establishes access to technological and managerial know-how for the local firm while MNEs benefit from local partners access to authorities, institutions, and markets.

Business linkages to competitors. Linkages with competitors take place when a large entrant into a national market puts incumbent enterprises under pressure to enhance production, distribution and marketing.

Forward linkages to customers. Forward linkages with customers are established through MNEs that outsource the distribution of their brand name products or through MNEs that offer extensive after-sales service.

Business linkages that result from spillover effects. Spillover effects refer to demonstration effects, while there are also human resource spillovers as local employees are trained by MNEs (OECD, 2010) [4].

Establishing BLPs can be a good practice to transform FDI into sustainable quality employment. Linkage programs produce benefits for the host country, local SMEs and MNEs. For the host country, these include stronger economic activity, higher employment, an increase in local knowledge and capabilities, substitution of imports and an improvement in the balance of payments, and a stronger business sector. For the foreign investor, the potential rewards include lower production and transport costs, increased flexibility and better adaptation to local markets and better access to local markets. Domestic SMEs stand to benefit from improvements in output and quality standards, an increase in know-how and management capabilities, and a more diversified customer base. By increasing the competitiveness and know-how of local companies, BLPs, as well as linkages between local SMEs and MNEs in general, can thus serve as a tool to provide a country with sustainable growth and quality employment. The positive effect of these linkages is not only limited to first-tier suppliers as these SMEs sometimes extend the knowledge transfer to other second-tier suppliers.

Several studies discuss the beneficial effects of well-engineered BLPs in developing countries. BLPs are seen as the best tool to enable countries to enhance their competitiveness while gaining access to international markets, finance, technology, management skills and specialized knowledge (UNCTAD 2010)[3]. However, these transfers are usually hard to obtain as market failures, financial shortcomings and low quality or lack of experience in dealing with foreign partners may undermine SMEs abilities to establish meaningful linkages with MNEs. Therefore, government intervention becomes necessary to create an enabling framework for these co-operations (OECD, 2006) [4]. Studies underline the importance of adjusting FDI strategies and BLPs to country- and context-specific conditions. In any case, this programmer must be based on local needs and demands in order to be successful (UNCTAD, 2011) [3]. While well-designed BLPs are beneficial, this is not necessarily the case. Bad designed or in transparent BLPs may enforce established client realistic networks or particular interests, especially as, by definition, the BLP requires a selection of companies. Kuznets and Sable (2011) [5] thus recommend delegating the implementation of BLPs to an independent agency. Clear and transparent selection criteria are also helpful.

Case study: FDI strategy and BLPs in Singapore

Singapore is a success story based on its economic growth history that pushed the city-state to becoming a developed country. A huge share of this growth is based on FDI,

MNEs now account for more than two thirds of the country is manufacturing output. The foundations for the crucial role of FDI were already laid in 1961, when the Economic Development Board (EDB) was established. The board served as a connection point in between different ministries in order to increase FDI inflows in strategic industries. The country has no restrictions on foreign ownership, except in some strategic sectors. However, these requirements were further relaxed in the past years. Generally, investments take place in a stable institutional environment characterized by a low level of corruption. In addition, the country possesses a highly skilled workforce and a good infrastructure, as well as government policy and programs that started to emphasize the relevance of SMEs beginning in the 1980s.

While many SME-MNE linkages developed naturally due to the high levels of FDI and the educated workforce, linkages were further promoted through government policies, most importantly by the Local Industry Upgrading Programmer (LIUP). The programmer was established in 1986 and aimed at supporting the transfer of knowledge from MNEs to local SMEs. It is divided in three stages, where the first stage aims at an overall improvement of operational efficiency of SMEs, i.e., making SMEs capable for collaborating with MNEs. The second phase is concerned with introducing and transferring processes from MNEs to SMEs while the third and final phase aims at establishing joint product, process research and development with foreign affiliates' partners. The majority of existing MNE-SME linkages evolved from this successful programmer, which was initially based in the electronics sector but then expanded to other industry areas.

We can conclude that BLPs are formal institutions combining some or all of the elements listed above. Their shape varies with the sector they target and the approach they pursue. For example, a BLP targeting high growth SMEs in the IT industry might focus on training and skills development, whereas a BLP in manufacturing might focus on organizing matchmaking events. There is no single model for BLPs. As a result, programs can be heterogeneous and difficult to compare.

Uzbekistan

BLPs in place are part of the State and Regional Investment Programmer, the Programmer for the Development of Industry, and the Programmer on Localization of Production. The goal of these programs is the promotion of new technologies and skills, and the strengthening of inter- and intra-industrial co-operation.

An example of a recently established BLP in Uzbekistan is the case of General Motors (GM) Uzbekistan, a joint venture between GM and the Uzbek Company Uzavtosanoat that actively aims to develop local SMEs into suppliers to its plant in the Andijon region. The programmer has several components, including a framework for company selection and training. Even though strict quality review procedures apply to all proposals by potential suppliers and the average review process takes six months, over 100 local companies are currently suppliers to GM Uzbekistan. In order to increase the availability of skilled employees to the automotive industry, Turin Polytechnic University opened a branch in Tashkent in 2009.

The combination of improvements in the legislative regime regarding foreign investors, tax breaks and incentives offered in the country's free economic zones and the investment promotion efforts of Uzinfoinvest has proved relatively successful in boosting FDI in recent years. According to Uzinfoinvest, in 2018 large foreign investors embarked on 456 new investment projects totaling USD 8,5 billion in commitments. This compares with just USD 6, 3 billion in 2017

Elements of BLP development. In Uzbekistan, BLP development has already passed its initial stage. The country is well advanced in the areas of training, promotional activities, and local content requirements (elements 3 and 5).

BLPs in Uzbekistan typically have a **training** component.

- A strong focus of BLPs in Uzbekistan is on **matchmaking** between investors and local producers. This practice is supported by the investment promotion agency Uzinfoinvest, established in 2007, which reports to the Ministry for Foreign Economic Relations, Investments and Trade. Like most such agencies, Uzinfoinvest is responsible for creating and sustaining a positive international image of the country overseas by pursuing advertising campaigns and promotional events abroad, including exhibitions, forums, presentations, conferences and workshops.

- Even though **local content requirements** are formally not in place, there is a government localization program that actively seeks opportunities to substitute imports with locally manufactured goods. Technology transfer and local sourcing are explicitly stated as goals by the government. Local companies receive preferential treatment in public procurement. Additionally, in strategic projects, there is an obligation on the part of the investor to hire and train local workers. Individual investment agreements generally include obligations on the part of foreign investors regarding the hiring and training of local workers and the use of locally produced goods.

Progress is still limited with regard to the development of a database, a framework for assessment of companies and certification (elements 1, 2 and 6).

- At present, there is no BLP **strategy** and no monitoring mechanism in place that could help to determine the impact of existing BLPs in the country.

- Despite the existence of BLPs, a **database** of suppliers is not in place in Uzbekistan; neither is a **framework** for the assessment and selection of participating companies.

- **Certification** is not a component of BLPs in Uzbekistan.

Now we can look through the cases of Central Asian countries where formal BLPs have not yet been established. Even though Kyrgyz Republic and Tajikistan carry out investment promotion activities that encompass different elements of BLPs, formal BLPs are not in place in these countries according to OECD survey results.

Uzbekistan could consider taking the following actions to develop a comprehensive approach toward BLP development:

- Linkage programs should be associated with a **strategy** that outlines policy objectives and priority actions. Ideally, such a strategy would target pilot sectors, which

were identified based on their potential to generate a positive economic development impact.

- A framework for assessing and selecting suitable companies could be developed, in order to ensure that informed choices are made in the selection of BLP participants. This should be linked to a database containing potential suppliers that can be targeted by foreign investors. Such a database should be organized by sector to increase the likelihood of finding a match.

- The impact of training programs offered as a component of BLPs could be further increased if it was complemented by internship offers provided by multinational companies and regular long-term exchange programs with (potential) partner companies.

- Introducing certification standards would help signal to foreign investors that local suppliers meet minimum standards such as quality, fairness, and environmental protection. The government could consider undertaking an assessment of relevant international certification standards by sector and introducing those standards in existing BLPs.

- Existing local content and local hiring requirements as well as rules regarding the preferential treatment of local companies should be made transparent to not act as a deterrent to foreign investment.

- Should the government consider offering tax incentives to encourage the participation of foreign companies in BLP programs, these should be targeted towards the specific objectives outlined in the strategy and would need to undergo a thorough cost-benefit analysis as outlined in the OECD checklist for foreign direct investment incentive policies (OECD, 2003)[4].

From above analyzes, it can be said that Uzbekistan is a country with a wide range of investment opportunities and the country has become one of the attractive destinations for foreign direct investments (FDI) in the last decade. The reforms, which have been held by the government and favorable policies, have changed the investment image of the country to a better side.

However, there are some suggestions for further development of foreign investment activity in the country. Firstly, as the financing of investment projects depends on mainly investments of few countries, there is needed to develop the cooperation with other potential investor countries like India, Singapore and others. Secondly, only 5 sectors attracted 70.4% of total FDI in 2012 and this calls for a sectorial diversification of Uzbek economy. If the country policy makers choose the best investment strategy, which is the most suitable to the economy, it can be one of the leading countries among CIS.

In order to improve investment climate and to be frontrunner in the FDI race, Uzbekistan should promote the influx of foreign investment and maximize its benefits by organizing media campaigns, business forums, support through an investment promotion agency, establishing special economic zones, directly contacting potential investors.

One of the other solutions, which I consider as a perspective for Uzbekistan, is to develop business linkage programs to foster knowledge and commercial linkages between foreign companies and domestic suppliers. We can take an example of BLPs in General

Motors (GM) Uzbekistan, a joint venture between GM and the Uzbek company Uzavtosanoat, that actively aims to develop local SMEs into suppliers to its plant in the Andijon region. This company established BLP and this has helped the company to increase the number of suppliers.

References:

[1] UNCTAD (2011), Best Practices in Investment for Development: How to create and benefit from FDI-SME Linkages – Lessons from Malaysia and Singapore, Investment Advisory Series, Series B, number 4, UNCTAD, Geneva.

[2] OECD (2009), Policies and Tools for Private Sector Development: Business Linkages. Paris: OECD.

[3] <http://www.unctad.org>

[4] <http://www.oecd.org>

[5] <http://www.sabel.com>