

The Impacts of FDI on Uzbekistan's Economic Growth

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ABSTRACT *Importance* Under the global economic crisis, instability of global financial and commodity markets and increased competition for investment resources, the rational allocation and efficient use of investment, particularly in the development of industries, are of great significance.

Object. Due to the crisis phenomena in the world economy, instability of the world financial and commodity markets, rational distribution and efficient use of investments, especially in the development of industries, are becoming increasingly important.

Purposes. Assessment of efficiency of investment in the development of the industry, selecting the most effective sectors and identify activities to improve the effectiveness of investments in the industry.

Methodology. Using the method of calculation of gross value added of investments, analysis of changes in the reproductive and technological structure of investments and analytical comparison of changes in the structure of investments and production of value added by industry for 2005-2014. rationality of distribution and efficiency of investments in development of the industry of Uzbekistan are defined.

Results. The systematization of approaches to the assessment of investment efficiency, analysis of investment efficiency in the development of industry in Uzbekistan, identified the most promising industries in terms of efficiency of investment, identified the main activities to improve the efficiency of investment in the industry.

Conclusions and significance. In the context of the global crisis and falling commodity prices as the consequences of rapid growth in the last three decades of the twentieth century and the beginning of the first decade of the XXI century should pay more attention to resource efficiency, investment in particular, to shift from the view of the current situation in a rapidly changing world on the long-term development of the country. At the same time, monitoring of efficiency and rationality should be started already at the stage of investment planning, since incorrect calculations in the pre-investment stage lead to an increase in the cost of projects and a drop in the profitability of production.

KEYWORDS -efficiency, investment, structure, allocation, value added

I. INTRODUCTION

The consequences of the 2008 crisis for the world economy are expressed in the instability of the economies of both developed and developing countries, the problems of mounting sovereign debt and public deficits, the instability of the global reserve currencies, a sharp decline in the creditworthiness of financial and banking systems, the decline in investment activity on the background of high risks and unpredictability of the situation. Currently, despite some positive changes, investment activity in the world remains less dynamic. Private investors have huge reserves of cash and assets, but there is a shortage of facilities for their investments. Under these conditions, the main mechanism for enhancing investment activity modernization, technical and technological renewal of production facilities and creation of conditions for attracting private foreign and domestic investors to Finance economic development are carried out. The important role here is played not so much by the volume of investments, but by the possibility and ability of their effective use both for the development of the economy of the Republic and for increasing the return on invested funds.

Of particular interest is the analysis of the dynamics of investment and the efficiency of their use in industrial sectors, as industry is the main sphere of material production in the world. Excluding the services sector, the industry in 2012 accounted for the majority of accumulated foreign direct investment in the world – 33% of the total the volume, while manufacturing accounts for 26%, and the share of extractive industry is 7% 1

In General, the approaches to determining the effectiveness of investments can be divided by the final goal or the effect of the investment, the type of data, the approach to determining the cost, the level of the economic system, taking into account the factor of time, the final goal of the assessment, the form of assessment (Fig. 1).

In accordance with the level of the economic system distinguish the effectiveness of investment in the project, enterprise, industry, region, country. Thus, the use of methods to assess the effectiveness of investments in projects is difficult to apply to assess the effectiveness of investments at the macroeconomic level due to specifics of indicators at the micro level which data set at the macro level is absent.

Taking into account the time factor in assessing the effectiveness of investments is based on the valuation of cash flows in time [13]. Accordingly, the calculation methods are divided into static and dynamic.

Dynamic methods for calculating efficiency in turn imply different values of cash flows over time and the need to bring cash flows to an equivalent basis by discounting them, ensuring comparability of cash flows over different periods. These types of performance evaluation include the following indicators:

Net present value (NPV);

- return on investment index;
- internal rate of return (Internal Rate of Return, IRR);
- discounted payback period (DPP, Discounted Payback Period)

Static methods are also called methods based on accounting estimates, and dynamic methods are called methods based on discounted estimates [15]. Most often, static indicators are used for simplified calculations for the short term, where the inequality in the value of cash flows is not significant. Despite the fact that most of the described indicators are calculated to assess the effectiveness of investment projects, some of them can be used for macro - and meso-economic evaluation of the effectiveness of investments, for example, the profitability ratio.

Effectiveness evaluation may be conducted to determine (justify) the benefits of participation in an activity or to assess the results of an activity, which also requires the use of certain calculation methods. Due to the high relevance of profitability studies most of them relate to the calculation of the investment attractiveness of investments in individual projects, while the assessment of efficiency at the macro level by the results of activities is given less attention.

However, investment performance evaluation does not necessarily involve calculations. This is particularly relevant for performance evaluation. In addition to mathematical calculations, performance evaluation can be carried out by descriptive (graphical, analytical) comparison of the dynamics of costs and performance.

Thus, in modern science there is a variety of approaches to determining the effectiveness, the use of which is due to the objectives of the assessment, the vision of the problem by the researcher and the availability of access to certain sources of information.

In this case, the aim is to assess the effectiveness of investments in the development of individual industries. In essence, the study is aimed at assessing the economic efficiency of investments, where as a result of development the indicator of growth of gross value added (GVA) by industry and gross domestic product (GDP) by economy is used. The logic of using it in the CU proceeds from the fact that this indicator is the difference between gross output and intermediate consumption, that is, it most fully reflects the effectiveness of the industry development [16]. The calculation of the efficiency of investments will be made according to the following formula:

$$et=y_t/dt-1,$$

where y_t is the growth rate of VDS in the t -th year;

$d_t - 1$ is the share of investment in the dwss ($t-1$) - th year.

Thus, we will find out how much the value of investments in the industry affects the intensity of value added growth. In order to smooth out the effect of lagging investment returns on the growth of the industry, we will consider not only the change in the indicator itself, but also the change in the average for the three years.

Comparing the share of investments in the VDS industry, the growth rate of VDS and the growth rate of investments in the industry with the performance indicators, we objectively we will highlight the industry by the degree of efficiency of investment.

Uzbekistan, being a part of the global world economy, has also felt the impact of the crisis processes taking place on the world market. As a result of the instability of the post-crisis period and the resulting decline in global investment flows, there is a downward trend in the investment activity of foreign investors. The decline in foreign investment is mainly due to falling foreign direct investment (FDI) inflows. If, in 2007-2009, the growth rate of FDI inflows fluctuated between 161.6 per cent (2008) and 194.5 per cent (2007), that in recent years growth was insignificant, and in 2010-2012. was missing at all. Overall, in 2014 the volume of FDI made up only 81,2% of the level in 2009, the Share of FDI in total foreign investment volume in 2014 has decreased by 7.6 p. p. compared to 2009.

The current situation has led to the fact that the share of foreign investment in total investment in fixed assets in 2014. compared to the 2009 level, it decreased by 12.2 percentage points, amounting to only 20.1% of the total investment volume compared to 32.4% in 2009, which negatively affected the investment activity in the economy as a whole.

However, despite the negative effects of the crisis, the share of fixed investment in GDP over the past five years has been at the level of fast-growing economy³ (an average of more than 23% in 2010-2014). The rate of investment growth for 2005-2014 ranged from 3.8% in 2011 to 34.1% in 2008, with an average annual rate of 14.7% (Fig. 2).

As in the rest of the world, investment in industry plays a significant role in the overall dynamics of investment processes. In 2005-2014, the industry accounted for more than 30% of the total volume of investments, and their volume increased by 4 times during this period, while investments in agriculture increased by 3.5 times, in transport and communications – by 2.1 times.

The leading role in the activity of investment in industry is the implementation of sectoral programs of industrial development. Only within the framework of the development priorities programme industry of the Republic of Uzbekistan⁴ was provided for the implementation of 1,064 projects with the direction of financial resources in the amount of 21.1 billion dollars. USA.

In addition, implementation of priority measures to increase production and mastering production of new types of competitive продукции⁵, according to which in 2012-2016 is planned to implement more than 270 investment projects with the estimated cost of 6.2 billion dollars., of which more than \$ 2 billion. - foreign investment.

Great attention is paid to the implementation of investment projects aimed at creating new high-tech industries that ensure the deep processing of local raw materials. In 2014, 154 large facilities worth \$ 4.2 billion were commissioned in the leading sectors of the economy. equipped with modern high-tech equipment.

For transitional economies at the present stage, the main direction of the state investment policy is not only to increase the volume of attracted investments in the economy, but also to conduct an active investment policy to ensure the continuous, accelerated modernization, technical and technological renewal of production

sectors. The success of such a policy, its results can be judged by the dynamics of the reproduction and technological distribution of capital investments [17].

Over 10 years, significant changes have taken place in the reproductive structure of investments. While in 2005 most of the investments were directed to the reconstruction of existing enterprises (67.3%), in 2014 the bulk of investment funds (58.8%) were invested in the construction of new enterprises.

A similar shift in the distribution of investments by purpose of use is observed after 2007, when investments in new construction almost equaled with investments in expansion and reconstruction of existing enterprises and renewal of fixed assets (42.2% and 43.5%, respectively). The reason for this was a significant increase in investment in the economy and the implementation of a number of major projects in the construction of new production facilities. More than 860 projects were implemented within the approved 14 sectoral programs of modernization of priority industries for 2007-2014 and about 15 billion dollars were spent. USA 6.

The implementation of a number of major projects for the construction of new production facilities and infrastructure development has also affected the technological structure of capital investments. If in 2005 in technological structure of investments expenses on construction and installation works made 48,7% of total volume of investments in fixed capital, in 2014 57,6% of investments were directed to these purposes already. At the same time, about 32% of all investments were spent on the purchase of new equipment. Such dynamics of investment distribution points to insufficient efforts on modernization and technical and technological renewal of industrial capacities. Production branches of the Republic, as well as in other CIS countries, are characterized by rather high level of wear and tear of the equipment. The focus of investment in new construction and construction works at the present stage of development, although it contributes to some reduction in the level of wear and tear in the economy, but it slows down the renewal of obsolete funds, which generally leads to the preservation of a low level of technological production, prevents the production of products competitive in world markets.

The comparison of the growth of gross value added and fixed capital investments in 2005-2014 by industry clearly indicates significant gaps between the volume of investments and the results of their use. Despite significant investments in the fuel and energy industries over the past 10 years, the gross value added of these industries has not increased, and the growth of investment in the economy as a whole and in industry is twice the growth of the country's GDP and VDS industry, respectively. Significant excess of investment growth over VDS growth was observed in more than half of the industries under consideration. At the same time, in the medical, glass, porcelain and faience and printing industries, the growth of VDS is at least twice higher than the investment.

Analysis of the structure of investment in fixed capital industry showed that as in 2005. the leading position is occupied by the fuel industry. However, in 10 years its share in the structure of investments in the industry has doubled and amounted to slightly less than half of the total volume of investments.

The share of the electric power industry has also grown. In 2014, it ranked second in terms of investment among industries with an indicator of 10.3% of total investment in industry. Striving for the development of high-value-added industries, the creation of new and expansion of existing production facilities with a higher technological level led to the active investment of machine-building enterprises and the production of building materials. The share of mechanical engineering in the structure of investments in industry increased by more than 1 percentage point, and building materials – by 1.8 percentage points.

In the remaining sectors, the unfavourable global market conditions and the financial and economic crisis resulted in an outflow of investors and, consequently, a slowdown in investment flows.

The crisis strongly affected the role of light industry. Its share has decreased by almost two times. Attention paid to the development of deep processing of raw materials affected the growth of the specific weight of the food industry in the structure of the added value of the industry. Compared to 2005, the share of the food

industry has almost doubled. The results of the development of the industry of building materials and mechanical engineering were positive. Despite the crisis in demand, the share of engineering remained almost unchanged, and the production of building materials even slightly increased.

Based on the analysis of the structure of investment distribution and production of value added by industry, it can be noted that the expansion of investment in certain industries (fuel and energy sector) has not led to an increase in the role of these industries in the production of value added.

Let's consider the index of efficiency of investments using the formula presented earlier for calculation. To solve the problem of volatility over the years and to eliminate most of the negative values, and also to account for the time lags of the return on investment, average values for the three года⁷. The values of the coefficient for the economy as a whole and for industry indicate a dynamic increase in the efficiency of investment in the pre-crisis period, the peak of which falls on 2008 (table. 1). As a result of the crisis, the efficiency of investment has declined sharply and only in recent years has it stabilized and started to grow slightly. In 2014 the efficiency of investments in the economy as a whole and in industry was 1.26 and 1.25 times lower than the peak levels of 2008, respectively.

It can be noted that the efficiency factors by industry highly differentiated and unstable over the years, although we can talk about the negative impact of the crisis on the efficiency of investment. Negative values indicate a decline in gross value added in the industry in question during this period.

The obtained data confirm the existing hypothesis of higher efficiency of investments in the processing industry compared to the extractive and raw materials industries. Efficiency in these sectors differs at least 2-6 times.

A comparison of the 2006 and 2014. Shows that the efficiency of investment in the industry as a whole, despite the decline in the interim period is at the same level in 16 units of growth in GVA per 100 units of capital investments. On the economy, the overall efficiency slightly below the level of 2006 – 34 u-36 power gain VDS 100 units of investment in the industry. However, the structure of efficiency across sectors has undergone major changes. In particular, due to the narrowing of the gap between the industries with the highest and lowest efficiency of investments, the average efficiency has halved. The maximum value investmentsrecht with 130 units. в2006. (woodworking industry) to 47 units in 2014 (food industry).

The role of individual industries as engines of qualitative industrial growth has also changed. Thus, the main engines of growth in 2006 were the woodworking industry, ferrous metallurgy, mechanical engineering and Metalworking and the glass industry. At the same time, there were significant gaps between the values of indicators both in the group of leaders and between leaders and other industries. In 2014, the highest efficiency was observed in the food and medical industry, and the distribution of values of the indicator was more uniform-mainly the values were in the interval of 20-30 units.

It should also be noted that despite the global crisis of 2008-2009, the efficiency of investments in the food industry in 2014 was slightly higher than in 2006, and in the medical and light industry increased by more than 2.5 times. In other industries (except electric power industry) the efficiency of investments significantly lags behind the level of 2006.

It should be noted that in General, the efficiency of investment in the industry of Uzbekistan is significantly inferior to that of developed countries. Thus, in Germany, the efficiency of investment in 2006-2008 averaged 45 units, in the UK 138 units and only 18 units in Uzbekistan.⁹ The conjuncture of the world markets of raw materials becomes less favorable for the enterprises of oil production and oil processing and other spheres of the extracting industry [19]. Hence, the need to take into account the level of efficiency of investment in production is becoming increasingly important. The issue of improving the efficiency of investment is complex and must be addressed at all stages of investment, from development programs to the construction of facilities.

At the stage of planning the investment process efficiency is achieved by:

- a thorough economic justification of the need for investment and its volume, rational use and distribution;
- optimizing the placement of production facilities and given access to financial, human and logistical resources, industrial, housing-and-municipal and cultural and community infrastructure, promoting in related fields;

The most important stage from the point of view of ensuring efficiency of use of investments is a stage of development of preproject and project documentation on implementation of construction of objects. Insufficient attention to the quality of the developed documentation leads to the rise in the price of the final cost of the project, lengthening the time of construction and commissioning of facilities, and as a result – to non-compliance of the expected and final efficiency of investment, profitability of the project, falling profitability of new production.

To ensure the efficiency of investments, 100% must be maintained:

- organization of design on the basis of maximum account of the latest achievements

science and technology, the introduction of advanced technology and advanced equipment;

- rational use of built-up areas and industrial areas;
- improving the quality and reliability of the survey package, including economic surveys and surveys;
- improvement of technical and economic feasibility of design solutions and selection of the most economical ones;
- selection of the most economical space-planning and constructive solutions for individual buildings and structures;
- use in typical projects and facilities;

Mass construction

- reducing the weight of buildings and structures through the use of lightweight concrete, structures and parts of light metals and effective profiles;
- improving the validity of estimates and enhancing the role of estimates;
- strengthening of economic interest and responsibility of design organizations for the quality and cost-effectiveness of design estimates.

Uzbekistan pays special attention to improving the efficiency of investment attention. Thus, in 2014-2015, in order to improve and optimize the procedure for the development, expertise and approval of investment project documentation, proposals were developed in the state Supervisory and expert organizations to make changes and amendments to the main normative acts in this sphere, 11 to bring them into line with other legislative acts and to radically improve the process of implementation of investment projects. The main proposals were the simplification of the procedure for the review of project documentation with the tightening of quality requirements of this documentation and to increase of responsibility of executors.

In our opinion, one of the remaining problems of improving the efficiency of investments is the current system of tax incentives, more aimed at increasing the volume of investments, rather than the efficiency of the invested enterprises. For example, privileges for foreign investors are granted under a number of conditions: investment of certain amounts of investment, the share of foreign participation of at least 33%, investments in priority 20 types of production. The criterion of the level of return on investment for the provision of benefits is not defined. Perhaps in the previous stages of the country's development, attracting as much investment as possible was the most important, but in the new realities, the need to establish tax benefits, the main criterion for the provision of which is the effectiveness of activities, is becoming increasingly stronger.

The adoption of these amendments and additions, as well as the improvement of the application of the described theoretical foundations to improve the efficiency of investment in modern conditions will significantly reduce the limitations of external and internal sources of financing, as well as a positive impact on the cost of production and its competitiveness.

II. FIGURES AND TABLES

In the long term, it is necessary to strive to improve the efficiency of resource use, without relying on short periods of super-profits through the extensive development of individual sectors of the economy. Bet on efficiency will not only make it possible to benefit more from the resources invested, but also to overcome structural market changes with less resources. *Table 1*

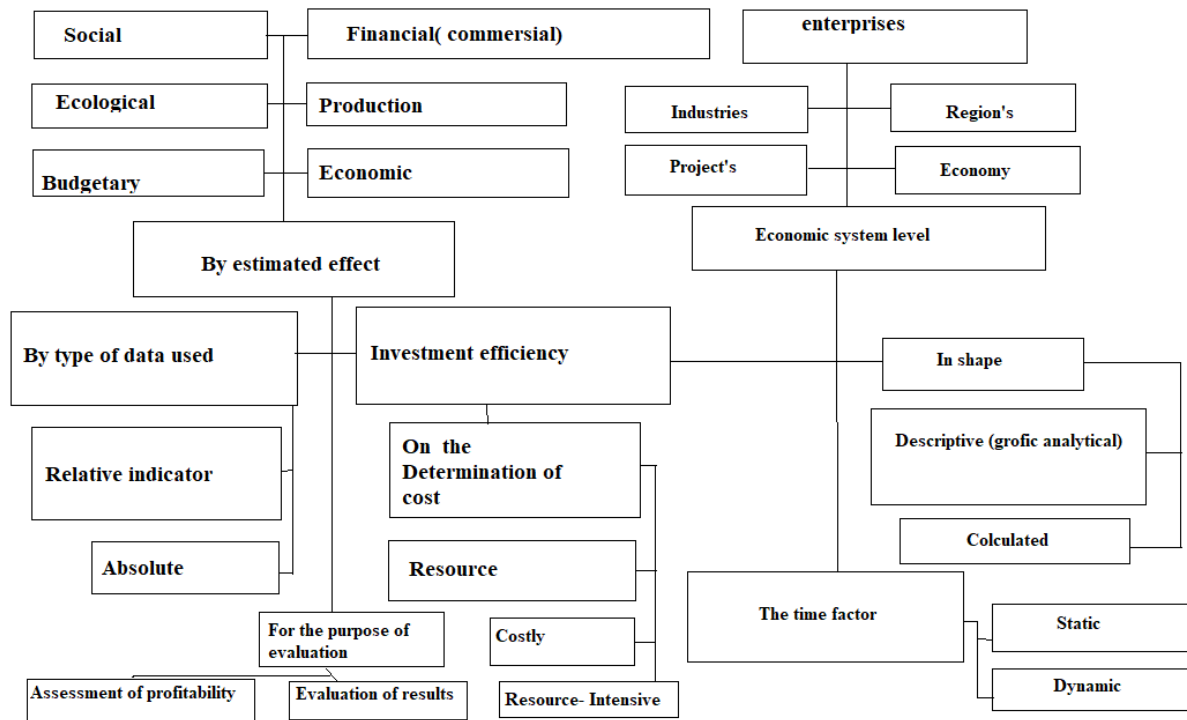
The ratio of investment efficiency by industry of the Republic of Uzbekistan for 2005–2014, in GVA per 100 units of investment

Industry	2006	2007	2008	2009	2010	2011	2012	2013	2014
Power engineering	-5	-6	1	-5	3	2	4	3	3
Fuel	2	3	8	7	2	-5	-9	-6	-3
Ferrous metallurgy	119	48	53	52	20	23	23	20	10
Non-ferrous metallurgy	-8	-7	-9	-7	-4	-3	-6	-2	-4
Chemical and petrochemical	7	20	23	18	16	13	16	9	7
Engineering and Metalworking	102	166	138	106	61	29	21	26	29
Woodworking	130	101	75	59	33	22	13	16	23
Building Material Industry	46	28	24	24	22	20	21	22	26
Glass	79	29	38	17	8	19	33	23	28
Lightweight	9	9	7	6	19	15	23	13	23
Food	44	54	73	53	51	35	46	43	47
Flour and cereals	36	30	34	28	-1	8	8	29	23
Medical	15	193	219	211	54	37	49	48	39
Secondary poly by industry	40	47	51	45	26	17	18	20	20
Industry generally	16	18	20	17	14	12	13	14	16
Economy in general	36	40	43	42	36	33	34	34	34

Source: Authoring

Figure 1

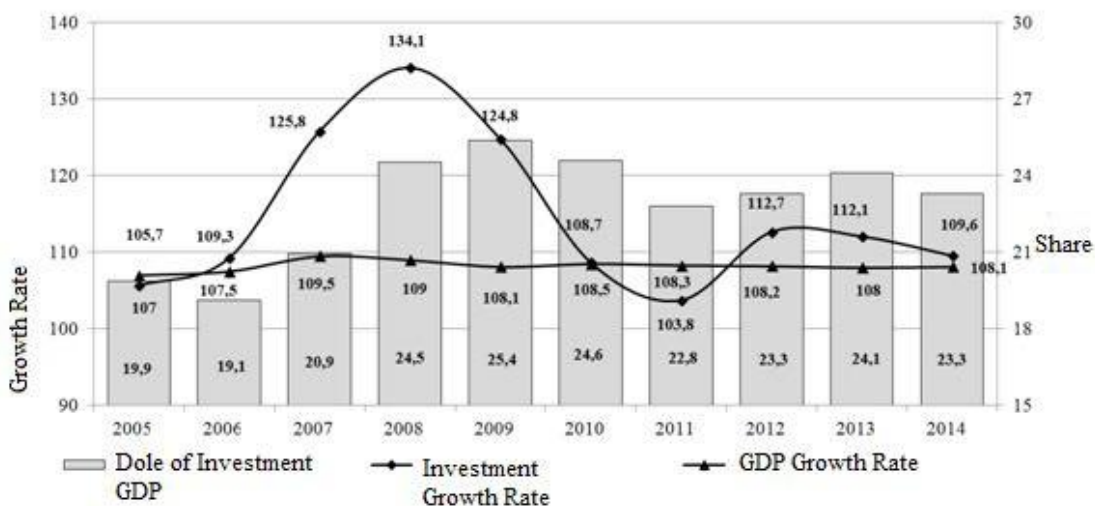
Classification of types of investment efficiency and its calculation methods



source: Authoring

Figure 2

Impact of investment on the economic growth of the Republic of Uzbekistan in 2005–2014, %



Source: Authoring, based on the State Committee on the Republic of Uzbekistan data

III. CONCLUSION

The efficiency and rationality monitoring process should be started at the stage of investment planning, as shortcomings in the pre-investment stage lead to higher project costs and a fall in commercial performance.

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