



e-ISSN: 2319-8753 | p-ISSN: 2320-6710

# IJRSET

International Journal of Innovative Research in  
**SCIENCE | ENGINEERING | TECHNOLOGY**

# INTERNATIONAL JOURNAL OF INNOVATIVE RESEARCH

IN SCIENCE | ENGINEERING | TECHNOLOGY

Volume 10, Issue 3, March 2021

**ISSN** INTERNATIONAL  
STANDARD  
SERIAL  
NUMBER  
INDIA

**Impact Factor: 7.512**

9940 572 462

6381 907 438

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[www.ijirset.com](http://www.ijirset.com)



# Ways to Increase the Flow of Foreign Direct Investment in Asian Countries

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**ABSTRACT:** Foreign direct investment is a goal, according to the understanding of the IMF and the OECD, of obtaining a constant interest in a business that is a resident of another economy, a citizen of a particular country (foreign investor). A “strong relationship” ensures that the private equity firm has a long-term relationship with the private equity business and has a significant impact on its operations. This paper studies ways to increase the flow of foreign direct investment in Asian countries

**KEYWORDS:** FDI, investment, Asia, Uzbekistan, investment flow

## I. INTRODUCTION

The further deepening of regional economic integration between countries since the 1990s and a notable increase in global FDI flows (UNCTAD, 2003) of US \$ 442 billion between 1990 and 2002 was demonstrated by the expansion of regional integration agreements in various forms from the Free Trade Zone to economic unions (Di Mauro, 2000). This, in turn, has raised attention to the impact of economic integration on FDI inflows, as some studies show that through the diffusion of R&D, technology, knowledge and skills, foreign investment plays an important role in the prosperity of emerging economies (Hejazi, et al., 1999). With the collapse of the Soviet Union, post-communist countries, like other emerging economies, realized early on the potential benefits to FDI and pushed for economic expansion through the Commonwealth of Independent States (CIS), the Customs Union (CU) and the common market, gradually realizing the value of transparency, business component, economic and political prosperity and a favorable economic situation. OECD (2013) describes FDI as cross-border contributions in one economy by a resident business to a company in another country that seeks to obtain permanent value from a resident company in another country. It is well known that any inflow of foreign direct investment in any form will both accelerate economic growth in host countries and contribute to long-term economic development (Masron, et al., 2012).

FDI and its benefits for host countries address the resource constraints and lack of access to modern technology that developed countries face, making FDI outcomes far more relevant than those in developed countries (Rehman, et al., 2011). FDI often solves these difficulties. FDI will directly benefit developing countries through capital inflows, tax revenues and jobs, and will indirectly benefit local companies and workers and access foreign markets through the exchange of technology and know-how from foreign investors. Thus, the involvement of competing foreign firms in an increasingly competitive market pushes the remaining local firms to improve productivity, domestic competitiveness, and, ultimately, the developing country's own economic growth (Reiter & Steensma, 2010). After all, it can be said that FDI is an important factor in a country's development, in particular development.

Current global trends

FDI remained at \$ 1.39 trillion in 2019 and fell 1% from a revised \$ 1.41 trillion in 2018. This is due to weaker macroeconomic performance and investment policy uncertainty, including trade tensions. According to projections in the World Investment Report 2019, the move to FDI, which reduces the uncertainty caused by one-off transactions and domestic financial flows, increased by 5 percent - a small shift that continues the deflation of a decade. Historically low FDI flows to developing countries fell another 6% to \$ 643 billion at an approximate rate.

## II. RELATED WORK

Ranjan and Agrawal (2011) used a random effect model on a paneled dataset consisting of a dataset of annual frequency from 1975 to 2009 to classify the determinants of FDI inflows in Brazil, Russia, India and China,



collectively known as the BRIC countries. ... For the study, data were collected from the World Bank Indicator (WDI Data Bank) for 2010.

In terms of globalization, Ranjan and Agrawal's (2011) study aims to examine the main factors affecting capital flows to the BRIC countries, and to provide analytical studies and results that are much more comprehensive and versatile through the long-term use of large tables. ... Ranjan and Agrawal (2011) carefully selected the independent variables consisting of GDP (currently in USD), CPI inflation, labor costs, exchange transparency, infrastructure index, population and total capital development projected to estimate FDI inflows. investment, based on previous literature and available datasets for the selected time period. Akinlo et al. (2013) used pooled least squares (OLS) and fixed effects (FE) models to determine the determinants of FDI inflows in the top ten FDI recipients in Africa in a paper titled Foreign Direct Investment. Determinants in Ten African Countries: Panel Data Analysis ". Thus, the panel variables included Nigeria, Mozambique, South Africa, Ghana, Morocco, Egypt, Congo, Sudan, and Equatorial Guinea, while the time variable varied between 1995 and 2011. Data were obtained from UNCTAD statistics for all variables. Arrangements, including market share, connectivity, domestic investment, transparency and economic growth, are believed to facilitate FDI flows to developing countries, most notably Azam and Lukman (2010), Ranjan and Agrawal (2011). Akinlo et al. (2013) and A mal. et al. (2010). In some South Asian countries (Pakistan and India) and the BRICs, market share and development attract foreign investment, while domestic investment facilitates the movement of FDI to South Asia and Africa.

### III. ANALYSIS AND RESULTS

In 2019, due to all sources of financing, the volume of investment development amounted to 220.7 trillion soums, exceeding the approved annual forecast indicators by 2 times, including the volume of investments in fixed assets amounted to 189.9 trillion soums, with a growth rate compared to the same indicator in 2018 - 1.3 times.

The share of investment in fixed assets in the structure of GDP increased from 30% in 2018 to 36.2% in 2019 (the share of total investment in the structure of GDP at the end of 2019 was 42.1%).

In the reporting period, about 2.8 thousand social, infrastructural and industrial facilities were commissioned: 145 large production facilities, 167 large regional projects, 2.5 thousand social and infrastructure facilities.

A significant increase in investment activity indicators is due to an increase in the inflow and development of foreign investments and loans in the amount of \$ 13.3 billion, of which:

- direct foreign investments - \$ 9.3 billion (including in fixed assets - \$ 6.6 billion).
- funds of international financial institutions - \$ 4.0 billion (including in fixed assets - \$ 3.2 billion).

At the same time, the share of utilized foreign direct investment in the total investment increased to 37% (for comparison, in 2018 this figure was 10.5%).

According to a report by the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment has been declining for the third year in a row, reaching its lowest level since the immediate aftermath of the global financial crisis. At the end of 2018, this indicator decreased by 19% (16% in 2017).

At the same time, according to the UNCTAD report, positive trends were observed in developing countries - especially in Asia, where the volume of foreign investment increased by 5%. Moreover, if in the countries of Central Asia the growth of foreign investment amounted to an average of 8-10%, in Uzbekistan this indicator compared to 2018 (\$ 2.9 billion, of which \$ 1.6 billion in fixed assets) grew 3.2 times (\$ 9.3 billion, of which \$ 6.6 billion in fixed assets), which provided the Republic with leadership in terms of growth rate among the countries of the region.

The main foreign partners in attracting foreign investment to the Republic were China, Russia and Germany, while the total number of investor countries in the economy of Uzbekistan exceeded 50, due to which the share of the largest investor countries decreased to 34% of the total volume of attracted foreign direct investment and loans.

An active growth in attracting foreign direct investment compared to the forecast indicators for 2018 was observed in the electrical engineering (growth - 7.5 times), metallurgical industry (growth - 4.6 times), the textile industry (growth - 2.5 times), leather footwear (growth - 2.1 times), oil and gas (growth - 2 times) industries.

At the same time, the upward trend in foreign direct investment flows into regional projects has strengthened, the total cost of which in 2019 amounted to \$ 4.8 billion (of which in fixed assets - \$ 4.2 billion), having increased by 4



times compared to the same period of 2018 and 24 times compared to 2017. In the regions, only with the participation of foreign capital, 167 projects with a total value of \$ 858.5 million were put into commercial operation.

In 2020 and subsequent years, work will continue to actively attract foreign direct investment, diversify their areas for the implementation of projects in priority areas such as the electric power industry, the chemical industry, the production of electrical products, IT technologies, light industry, agriculture and the production of building materials. The emphasis will remain on increasing the number of industries for the deep processing of raw materials with the creation of high added value chains.

According to the Investment Program, approved by the decree of the President of the Republic of Uzbekistan dated January 9, 2020 No. PP-4563, in 2020, at the expense of all sources of financing, the development of investments in fixed assets is projected in the amount of 233.2 trillion soums, of which direct foreign - 7.1 billion dollars, foreign investments and loans under the state guarantee - 2.7 billion dollars.

In particular, in 2020, it is planned to commission more than 2 thousand social, infrastructural and industrial facilities: 206 new large production facilities, 240 regional production facilities, 1.6 thousand social and infrastructural facilities. FDI remained at \$ 1.39 trillion in 2019 and fell 1% from a revised \$ 1.41 trillion in 2018. This is due to weaker macroeconomic performance and investment policy uncertainty, including trade tensions. According to projections in the World Investment Report 2019, the move to FDI, which reduces the uncertainty caused by one-off transactions and domestic financial flows, increased by 5 percent - a small shift that continues the deflation seen over the decade. Historically low FDI flows to developing countries fell another 6% to \$ 643 billion at an approximate rate.

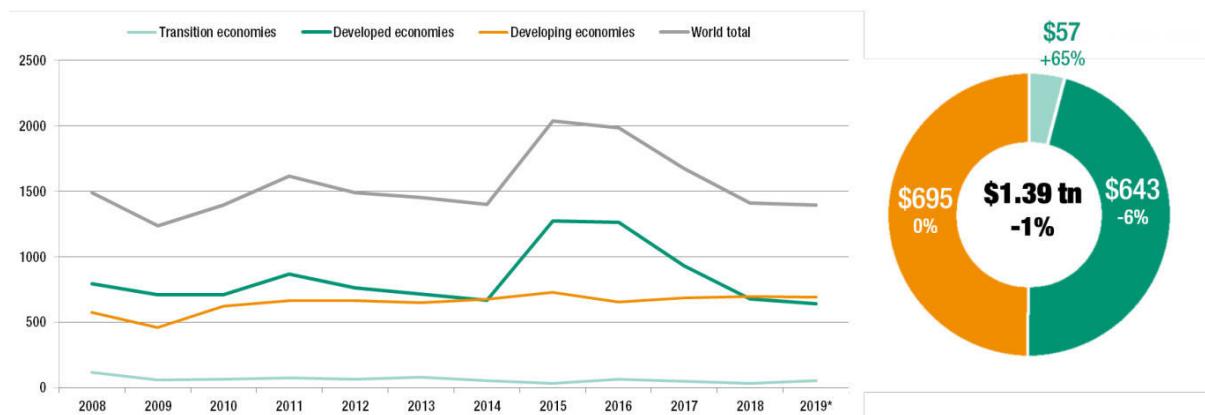


Figure 2 Inflow of foreign direct investment: global and by groups of economies, 2008–2019 (USD billion)  
Source: UNCTAD.

According to Figure 2, development flows have remained stable at approximately US \$ 695 billion. In Latin America and the Caribbean, FDI increased by 16% and in Africa by 3%. After falling 6% in 2019, one third of global FDI remained in Asia's development. Two thirds, up to US \$ 57 billion, are flows from countries with economies in transition.

In view of the more gradual growth of the global economy, UNCTAD expects FDI flows to increase slightly in 2020. Corporate earnings are expected to remain strong and signs of rising trade tensions appear. However, the announced reduction in the number of new projects by 22 percent is an indicator of future trends, high geopolitical risks and concerns about further changes in protectionist policies.

Global FDI flows remained steady at \$ 1.39 trillion in 2019, down 1% from the \$ 1.41 trillion updated in 2018. Europe and Asia saw a decline in imports, unchanged in North America, and growth in transition economies in Africa, Latin America and elsewhere. Caribbean (Fig. 2). In 2019, the impact of the 2017 U.S. fiscal reform, which reduced external and global flows of U.S. foreign direct investment, appears to have declined.

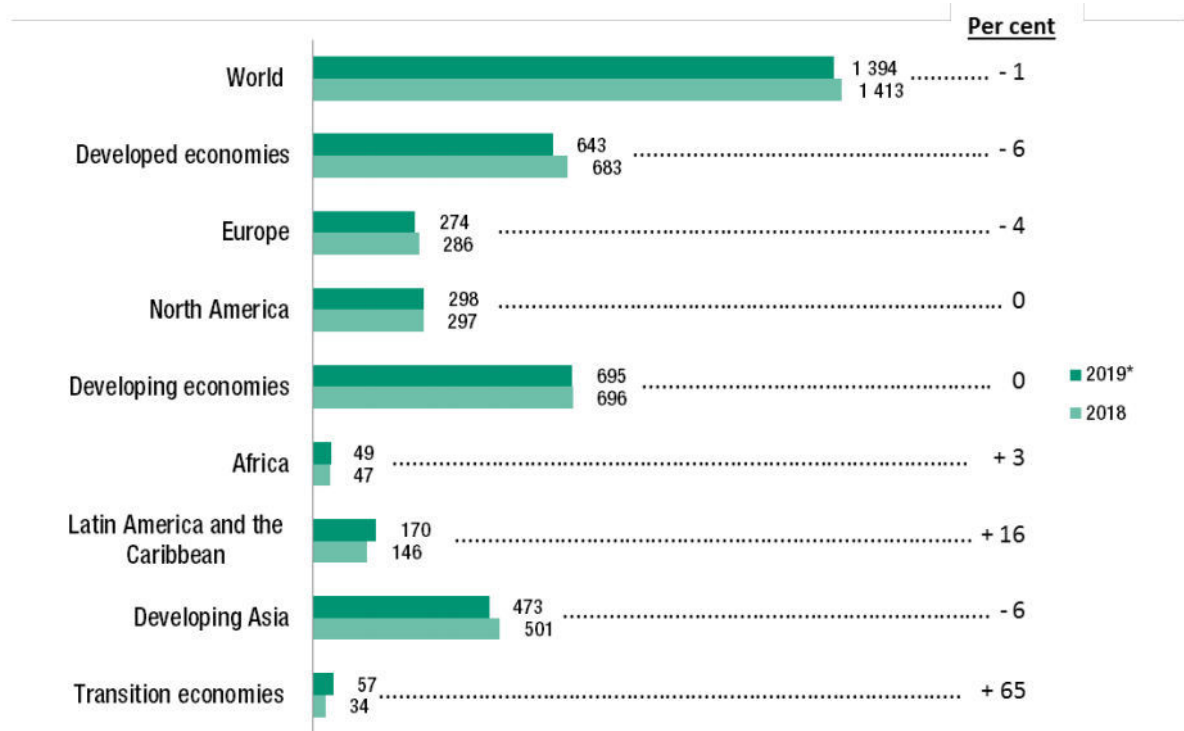


Figure 3 FDI inflows by region, 2018 and 2019

Source: UNCTAD

According to figure 3, within this group, emerging market economies still receive more than half of global FDI flows and half of the top 10 FDI recipients (figure 3). The United States remained the largest target of foreign direct investment, with inflows of \$ 251 billion, followed by \$ 140 billion from China and \$ 110 billion from Singapore.

FDI Trends in Asia

FDI in developing Asia is projected to reach \$ 473 trillion in 2019. The overall decline was caused primarily by a 21% drop in investment in East Asia. Hong Kong's investment has nearly halved to \$ 55 billion, with investment continuing throughout the year. Flows to the Republic of Korea, largely due to trade disputes and investment policy changes, fell 46 percent to \$ 7.8 billion. China has a steady flow of \$ 140 billion.

Southeast Asia remains the driving force behind growth in the region and has boosted FDI to \$ 177 billion, up 19 percent from 2018. Singapore, the largest host country for foreign direct investment, continued to grow in 2019 thanks to information and communications deals. \$ 110 billion, up 42 percent. Indonesia's investment rose 12 percent to \$ 24 billion, with large flows going to the wholesale, retail and manufacturing sectors, including the digital economy.

South Asia increased foreign direct investment by 10 percent to \$ 60 billion. The leader of growth was India, whose inflow is estimated at \$ 49 trillion, an increase of 16 percent. The rest is concentrated in the service sector, including IT. Inflows from Bangladesh and Pakland fell 6% to \$ 3.4 billion and \$ 1.9 billion, respectively, down 20%.

FDI flows to West Asia declined from \$ 30 billion in 2018 by 16 percent to about \$ 25 billion. Flows to Turkey have declined due to economic problems from \$ 13 billion in 2018 to \$ 8.3 billion. Saudi Arabia's investment rose 9 percent, with deals outside the oil and gas industry estimated at \$ 4.6 billion. For example, Tronox Ltd (USA) bought part of the national titanium (Saudi Arabia) for \$ 2.2 billion, which became the world's largest M&A deal in the field of metals.

Contributions to an FDI recovery can go beyond funding. Multinational enterprises (MNEs) tend to be larger, more research and development (R&D) intensive, and more productive than purely domestic firms. In this way, they can



help governments cope with the impact of the pandemic. Investment Promotion Agencies (IPAs), which are responsible for attracting and stimulating FDI, also work with their clients and local overseas partner networks to facilitate business collaboration and support government efforts to tackle the pandemic (see next note on encouraging investment in times of uncertainty :: OECD agencies during and after the COVID-19 crisis). Cross-border partnerships and collaboration between companies can make it easier to find long-term business solutions, such as ways to restart production, while protecting the health of workers.

The main reason for the impact is that sending countries are experiencing unprecedented economic shocks that lead to lower incomes for remittance remitters. In the United States, the country from which most remittances come from, job losses in just four weeks from mid-March 2020 were equal to the number of jobs created since the 2008 global financial crisis (CNBC, 2020). Likewise, migrant jobs will be at risk as oil-dependent countries of origin face hardships from falling oil prices, again surpassing the experience after 2008 (UNCTAD, 2020). The recovery from the fall in oil prices is currently slow, with oil prices expected to rise well below pre-COVID-19 levels in May 2020 (IEA, 2020). Despite the appreciation of the US dollar caused by COVID-19, which partially offset these effects, the World Bank (2020) plans to reduce remittances to developing countries by 20% in 2020 compared to 2019. Overall, projections suggest that external private financing flows to ODA and the number of eligible countries could fall by \$ 700 billion in 2020 from 2019 levels. With an immediate reduction in all sources of external private finance, this represents an unprecedented pressure and funding gap for developing economies, exceeding the experience of the global financial crisis since 2008 by 60% and accounting for 35% of the level of external financing in 2018.

#### **IV. CONCLUSION**

In fact, the general approach to reforming investment policy in Asia has been ruled out by investor reforms to focus reform efforts only on procedures affecting foreign companies. This bias implies that local investors are the dominant public sector, while the government must "compete" with incoming investors.

Indeed, all capital is a pillar, regardless of its nationality, in an increasingly interconnected environment and with the drive to liberalize trade in both the economic and financial reporting of many countries. Given the pendulum of preferences for foreign investors, it is necessary to understand that it is in their interest for developed countries to offer all investors the most-favored-foreigners regime.

In order to move towards best practice in investment policy and promotion, the international developer community must continue to support developed countries and thereby contribute to the process of increasing FDI flows to these countries. However, their assistance must also take into account the likelihood of the life cycle to distinguish between the effectiveness of the investment strategy and promotion.

However, there are some negative aspects of attracting additional FDI to the national economy. High inflows of foreign direct investment can affect the activities of local companies, and as a result, these companies may find it difficult to compete. Those countries that want to achieve economic growth must protect existing firms, as competition could lead to local companies going bankrupt. First, countries need to promote local companies so that they can reach a level where they can compete with foreign companies.

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