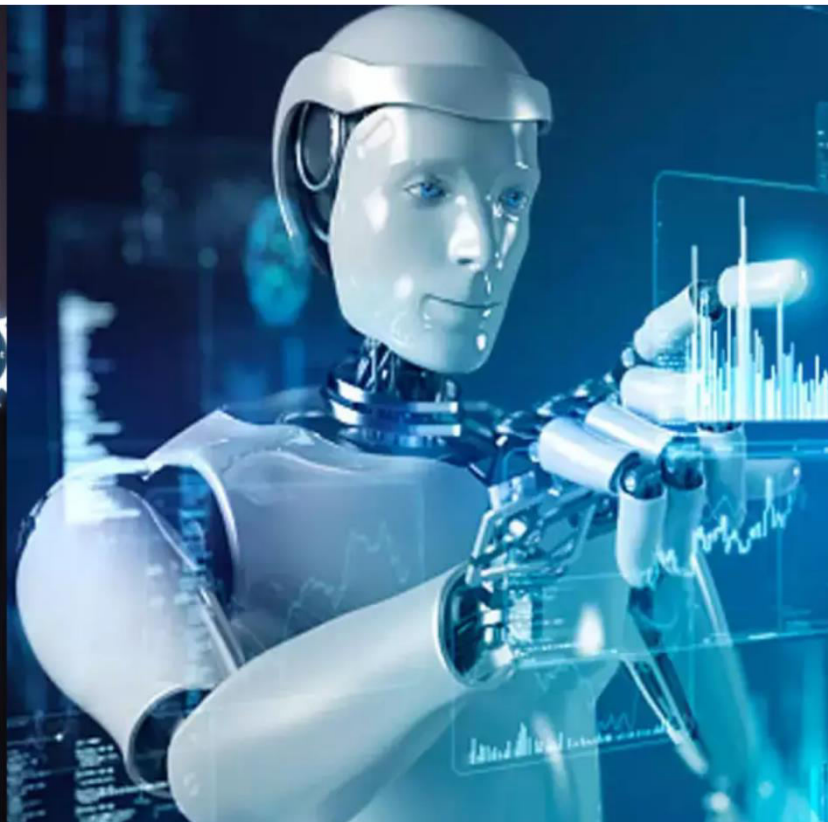




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Effect of Foreign Direct Investment on the Financial Growth of Uzbekistan

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ABSTRACT: Foreign direct investments are very important source of capital for the transition and less developed countries. Such investments are good for the its economy in many aspects like employment growth, industrial production growth, GDP growth, beneficial effects on the balance of payments and many more, so not surprisingly countries without its private investors are struggling to bring investors from abroad. Thus each and every country looking foreign direct investments should be careful about the policy and its economy and try to be most attractive as it. Foreign Direct Investment (FDI) inflows represent a crucial type of capital movement, primarily directed towards developing nations, significantly influencing the economic growth, macroeconomic stability, infrastructure, and governmental policies of host countries. This paper examines FDI inflows in Central Asian nations, focusing specifically on Uzbekistan, which attracts a relatively small amount of FDI compared to its regional counterparts. It is suggested that Uzbekistan draws FDI largely due to its market size and natural resource availability; however, the reforms implemented have not sufficiently enhanced the country's appeal to foreign investors.

KEYWORDS: Economic growth, foreign direct investments, capital inflows, developing countries

I. INTRODUCTION

Foreign Direct Investment (FDI) has long been recognized as a critical driver of economic development, particularly in emerging and transition economies. As a catalyst for financial growth, FDI facilitates the transfer of capital, technology, and managerial expertise, while also fostering job creation, infrastructure development, and integration into global value chains. For nations like Uzbekistan, which have undergone significant economic reforms and are striving to modernize their economies, FDI represents a pivotal mechanism for achieving sustainable financial growth and enhancing global competitiveness. Since gaining independence in 1991, Uzbekistan has embarked on a transformative journey to transition from a centrally planned economy to a market-oriented system. In recent years, the government has implemented a series of bold reforms aimed at liberalizing trade, improving the business climate, and attracting foreign investors. These efforts have positioned Uzbekistan as one of the fastest-growing economies in Central Asia, with FDI inflows playing an increasingly prominent role in shaping its economic trajectory. However, the extent to which FDI contributes to the financial growth of Uzbekistan remains a subject of considerable academic and policy interest. This study seeks to explore the multifaceted relationship between FDI and financial growth in Uzbekistan, examining both the direct and indirect mechanisms through which foreign investment influences the nation's economic landscape. By analyzing key indicators such as GDP growth, employment rates, technological adoption, and sectoral development, this research aims to provide a comprehensive understanding of how FDI has impacted Uzbekistan's financial growth. Furthermore, the study will address the challenges and opportunities associated with FDI inflows, including the need for robust regulatory frameworks, infrastructure development, and human capital enhancement to maximize the benefits of foreign investment. As Uzbekistan continues to integrate into the global economy, understanding the dynamics of FDI and its implications for financial growth is essential for policymakers, investors, and scholars alike. According to Metaxas and Kechagia Uzbekistan's cultural and archeological features are another feature that is anticipated to draw in global investment. To become a popular travel destination, the nation's economy has to draw foreign direct investment. Given the limited resources available domestically, it is said that foreign investment is crucial to Uzbekistan's economy in order to grow the tour sector (Metaxas and Kechagia, 2016). This article contributes to the growing body of literature on FDI in transition economies, offering insights that can inform future strategies for sustainable economic development in Uzbekistan and beyond. No matter where it comes from, FDI has a variety of effects on the economic well-being, expansion, and development of host nations. First, foreign direct investment (FDI) takes the form of transnational corporations (TNCs) opening local offices in any host nation, typically

through one or more affiliates. These overseas affiliates employ people, many of whom will need training, and construct production facilities in order to engage with the local economy (Pelinescu and Radulescu, 2009).

Literature review. According to Ivanovic, Bogdan and Baresa (2014) in the 1990s, economic analysts and policymakers in transitional nations are more interested in foreign direct investments. Eastern and Central European nations, which have since grown far more receptive to international direct investment, saw a large influx of foreign direct investment in the early 1990s, a time that was characterized by the shift to a market economy. Foreign investors are now able to purchase shares in the biggest and most significant Croatian enterprises thanks to the privatization processes in the manufacturing and service sectors. In the current world, financial instruments are essential for drawing in and effectively distributing investment capital. Financial instruments are ways to implement financial interactions through the signing of contracts that create or enhance a financial asset on one company's balance sheet and a financial obligation or equity instrument on another's (Osatiuk et al., 2024). In addition to providing a nation with a wealth of investment cash, foreign direct investment (FDI) can also allow the nation to benefit from its technology externalities, which can enhance businesses' ability for technological advancement. Specifically, when foreign investors enter through joint ventures or technology, the technological spillover impact of FDI is more noticeable (Zeng and Zhou, 2021). Umar established the same model for lower, lower-middle, and upper-middle-income countries in order to examine the effects of governance, human capital, and foreign direct investment on trade. This model is estimated using a fixed and random effect model (Umar et al., 2021). Hermes and Lensink argues that the development of the financial system of the recipient country is an important precondition for FDI to have a positive impact on economic growth. A more developed financial system positively contributes to the process of technological diffusion associated with FDI (Hermes and Lensink, 2003). Osei and Kim look into how much the beneficial impact of foreign direct investment on economic growth is impacted by an increase in financial development. Even while the financial sector contributes to economic growth, more financial development has a negligible impact on growth (Osei and Kim, 2020). Given the lack of agreement on how FDI affects the economic growth of the host nation, a review of the literature on the subject might be helpful. As a result, the study of both the good and negative effects of FDI on the economic growth of the host nation is the main focus of this work, with an emphasis on the reasons behind these effects (Forte and Moura, 2013).

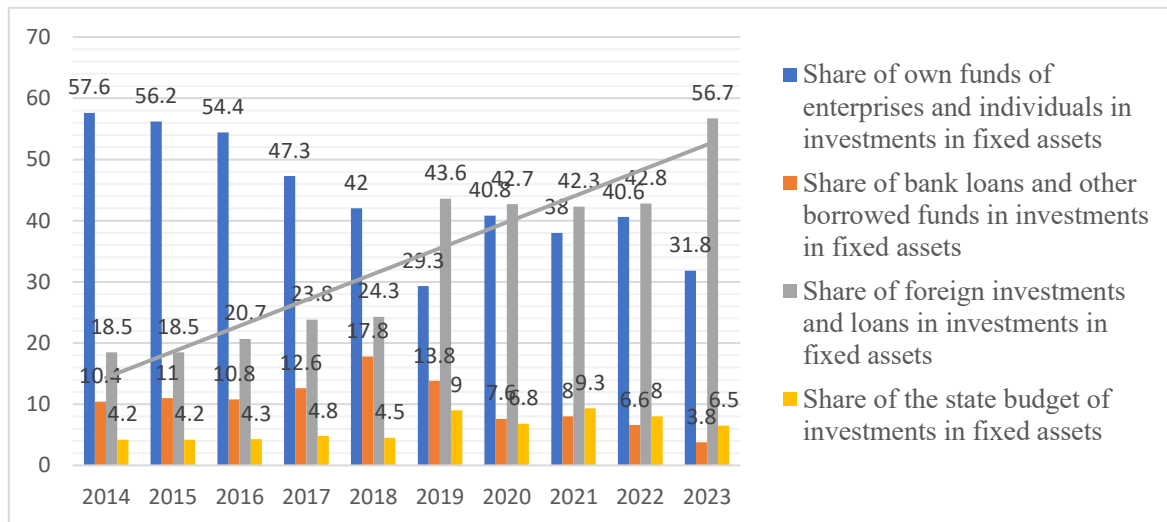
II. METHODOLOGY

Depending on the topic's scope, the article analyzes and goes into great detail about theoretical and scientific research. To accomplish the study's objective, a particular course was taken. The research plan was established after the sources of industry-related statistical data were examined and analyzed.

III. RESULTS AND DISCUSSION

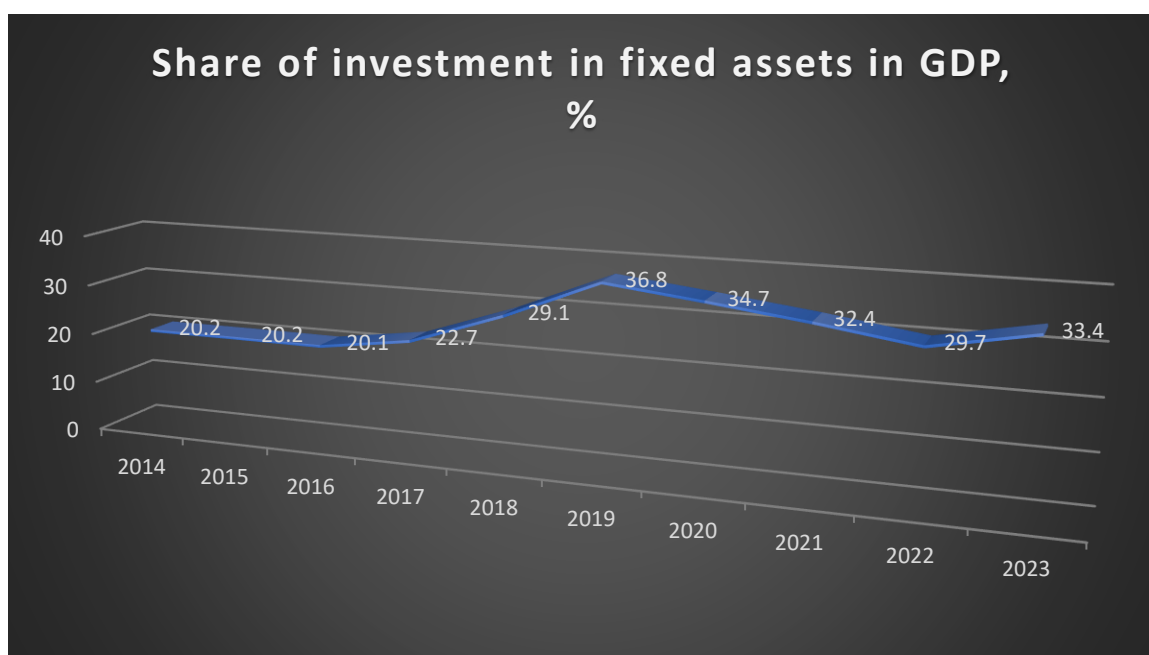
The breakdown of the data given provides useful information on the impact of foreign direct investment on Uzbekistan's financial growth. The graphs depict the structure of investments in the fixed capital and their proportions to the GDP for the period of 2014 – 2023.

Table 1. Share of investments in fixed assets by source



The first table shows the origins of investments into fixed assets, categorized by equity of enterprises and individuals, bank and other types of loans, foreign investments and loans, and state budget. It is interesting to point out that the share of own funds has had percentage variation over the years. Reaching a peak of sixty percent in 2014, it has continuously declined to roughly fifty-six percent in 2023. This suggests an increasing failure to utilize internal resources, which, it appears, is on a gradual decline. Bank loans and other forms of borrowing have consistently retained their proportion, remaining between 40-50%, which indicates a sustained dependency of external funding. Although less significant, the share of foreign direct investments and loans has improved suggesting an increasing impact of FDI on the economy. The state budgetary subsidies are still rather low, thereby emphasizing the almost passive role of public funds in direct fixed asset investment.

Table 2. Share of investment in fixed assets in GDP, %



In the second table, the share of investment allocation in fixed asset purchases in percentage of GDP is presented. The data recorded an increase from 26.2% in 2014 to a peak of 36.8% in 2019 but is noted to have slightly declined to a figure of 33.4% in 2023. This trend indicates that investment towards fixed assets have significantly contributed to the economic growth, especially in the second half of the decade.

The increasing foreign loans and investments to the Republic of Uzbekistan are indicative of its growing FDI potential. This is consistent with the worldwide phenomena since developing countries rely on foreign direct investment as their major source of financial capital in a broad range of activities. The other loans and advances from banks remaining steady show that the financial market is active and capable of funding investment endeavors.

The data further shows that the increase in share of investment to GDP results in enhanced inclusive growth. The slight increase then slight decrease in 2019 can be attributed to the global economic conditions surrounding COVID-19 and its resounding impact to investment flows across the world. In short, the data indicate that FDI contributes significantly and positively towards the financial growth of Uzbekistan. The country's capacity to effectively attract and utilize foreign investments has contributed to the economic growth and resilience. Nonetheless, the recent years' slight dip should warrant extra effort in improving the investment climate to reduce external shocks.

To sustain and strengthen the positive effect of FDI, Uzbekistan should enhance its investment climate through policy changes, infrastructure improvement, and the deepening of financial institutions. Moreover, attempting to diversify the region's sources and the sectors of investment would also assist in reducing the possible volatile effects of changes in the global economy.

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