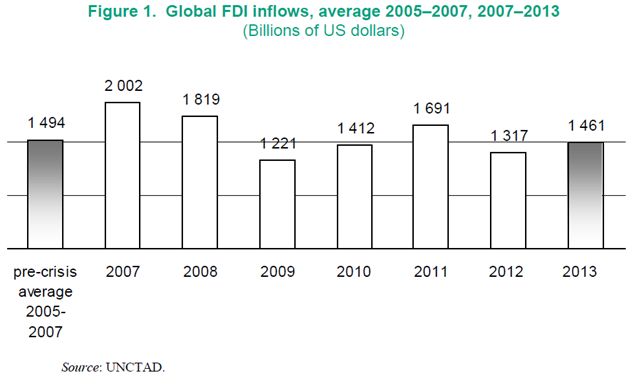
**Azamat Botirov, Gulyar Kasimova**

**(PhD, Uzbekistan)**

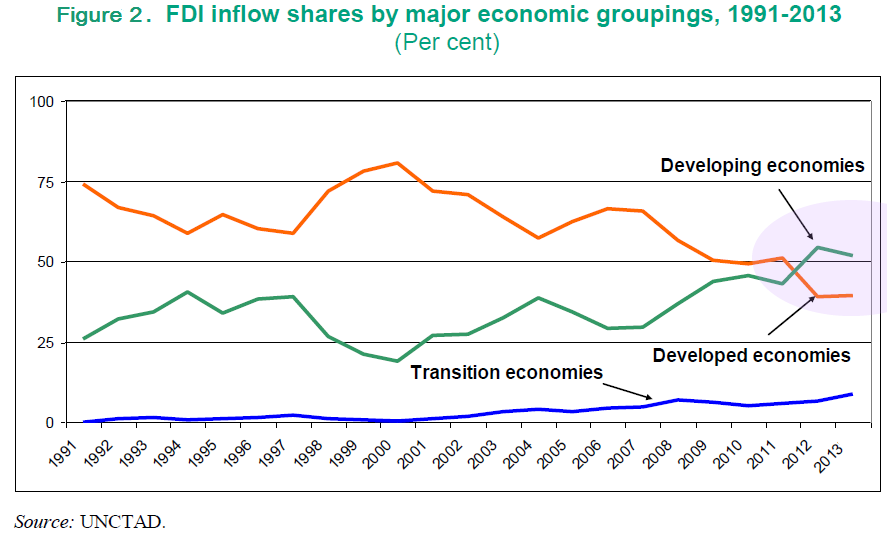
**EXTENDING HORIZON OF FOREIGN DIRECT INVESTMENT FLOWS – ANALYSIS OF GEOGRAPHICAL AND SECTORAL REDISTRIBUTION**

Foreign direct investment (FDI) is increasingly being recognized as an important factor in the economic development of countries. Besides bringing capital, it facilitates the transfer of technology, organizational and managerial practices and skills. More countries are taking series of measures to create a favorable and enabling climate to attract FDI as a policy priority. In addition to reducing the restrictions on the entry of FDI, they are actively liberalizing their FDI regimes.

International financial system is always vulnerable to external shocks and hidden factors. After global financial crisis occurred in mid 2008, global foreign direct investment flows changed its direction to low cost offshore and resource-rich economies. As most scientists and lead economists think, global investment volume experienced changes in geography, sector and type of investing. However, after painful and devastating effects of financial crisis, economies are recovering from critical economic profile. Despite fluctuations in global foreign direct investment, global inflow in 2013 reached the pre-crisis average. (Figure 1)

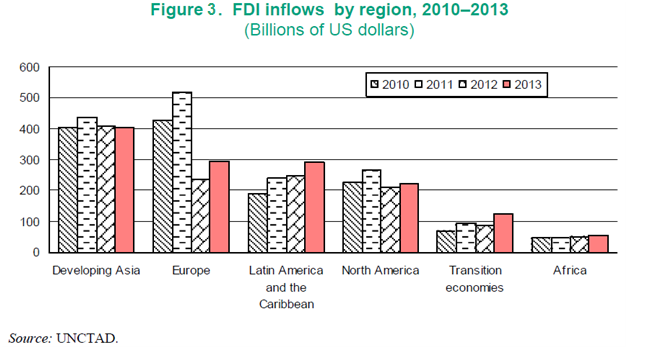


The most striking change belongs to redistribution among economic groups of world countries. Analysis shows that trends in the past three years indicated higher attraction to developing economies. Foreign direct investment flows to developing economies reached a new high of 759 billion USD, accounting for 52 per cent of global FDI inflows in 2013 [1, p 56]. At the regional level, flows to Latin America and the Caribbean, and Africa were up; developing Asia, with its flows at a level similar to 2012, remained the largest host region in the world. Flows to developed countries remained at a historically low share of global total FDI flows 39 per cent for the second consecutive year. They increased by 12 per cent to 576 billion USD, but only to 44 per cent of their peak value in 2007 [1, p 58]. Global foreign direct investment flows rose by 11 per cent in 2013 to an estimated 1.46 trillion USD, up from a revised 1.32 trillion USD in 2012 [1, p 62]. FDI inflows increased in all major economic groupings − developed, developing and transition economies. (Figure 2)



Inflows to developed countries are recovering, with preliminary estimates showing a 12 per cent rise in 2013, over 2012, to 576 billion USD, for the group of 38 economies as a whole [3, p 27]. However, the picture is mixed: despite positive signs of recovery in some developed country regions, such as parts of the European Union, FDI flows to the United States failed to reverse their decline, contrary to other signs of economic recovery over the past year. Inflows to Japan rose by 61 per cent to 2.8 billion USD, but Australia and New Zealand saw sharp declines of 28 per cent to 40 billion USD and 75 per cent to 0.5 billion USD [2, p 91]. Flows to developed economies were therefore still at only 44 per cent of their peak level of 2007. Even though the growth rate in FDI flows to developed countries was twice that compared to developing countries in 2013, it was not enough to restore their position as primary recipients of FDI inflows. The developed country share remained well below half of global inflows at 39 per cent.

The aggregate inflows to the European Union in recent years were largely accounted for by flows to four relatively small economies – Belgium, Ireland, the Netherlands and Luxembourg – that offer a tax-friendly environment for investment, particularly for special purpose entities. As a result, these economies are hosts to a large number of transnational corporations' financial or treasury functions. Having fallen by over 169 billion USD in 2012, inflows to these four economies grew by over 100 billion USD in 2013. Elsewhere in the European Union, Germany (+392 per cent to 32.3 billion USD), Spain (+37 per cent to 37.1 billion USD) and Italy (from 0.1 billion to $9.9 billion USD) saw a substantial recovery in their FDI inflows. Conversely, flows declined in 15 out of 27 EU economies, with the largest declines observed in France (-77 per cent to $5.7 billion USD) and Hungary (from 13.8 billion to - 3 billion USD). Outside the European Union, inflows to Norway and Switzerland also fell sharply by 46 per cent to 9.4 billion USD and by 98 per cent 0.2 billion USD [4, p 87]. (Figure 3)



Estimates for North America show that inflows grew by 6per cent due to a turnaround in Canada (+49 per cent to 64.1 billion USD) where inflows rose across a broad range of industries. The recovery was largely ascribed to a sharp increase in intra-company loans to foreign affiliates in Canada. Cross-border M&A sales in both Canada and the United States declined, which is partly explained by large divestments. Inflows to Israel (+ 48 per cent to 14 billion USD), primarily attracted by the country's high-tech industry, are estimated to have reached a level comparable to the previous high in 2006 [1, p 45]. In Australia, which has benefited from the commodity boom in the recent past, M&A sales halved and FDI inflows declined by more than a quarter in 2013. An upturn in M&A sales helped increase FDI inflows to Japan, but the value of inflows was still marginal.

Continuing their 2012 performance, developing economies accounted for more than half of global FDI again in 2013, as their inflows reached a new high, at an estimated 759 billion USD. The increase was mainly driven by Latin American and the Caribbean, and Africa while developing Asia − the world's largest recipient region for FDI − saw its flows at a level similar to 2012. Total inflows to developing Asia − comprising East Asia, South Asia, South-East Asia and West Asia − as a whole amounted to an estimated 406 billion USD in 2013, at a level similar to 2012. The performance of sub-regions continues to diverge, with FDI growth rates ranging between 3 per cent in South Asia (to 33 billion USD), 2 per cent in South-East Asia (to 116 billion USD), 1 per cent in East Asia (to 219 billion USD) and – 20per cent in West Asia (down to 38 billion USD) [5, p 16]. With inflows to China at an estimated 127 billion USD – including both financial and non-financial sectors – the country again ranked second in the world, closing the gap with the United States to some 32 billion USD. India experienced a 17 per cent growth in FDI flows, to 28 billion USD, despite unexpected capital outflows in the middle of the year. FDI growth slowed in the Association of Southeast Asian Nations, as inflows to Singapore – the largest recipient in South-East Asia – stagnated at 56 billion USD. However, prospects for this regional grouping continue to be promising, as more FDI arrives from China and Japan in a wide range of sectors, including infrastructure, finance and manufacturing. West Asia is the only region to see a fifth consecutive decline in FDI in 2013, dropping by another 20 per cent to 38 billion USD. The region's two main recipients – Saudi Arabia and Turkey – both registered significant FDI declines of 19 per cent to 9.9 billion USD and 15 per cent to 11 billion USD [3, p 24]. Turkey witnessed virtually a total absence of large FDI deals. In addition, the worsening political instability in many parts of the region have caused uncertainty and negatively affected investment.

FDI flows to Latin America and the Caribbean increased by 18 per cent in 2013 – the fourth consecutive year of growth – reaching an estimated 294 billion USD. While in previous years FDI growth to the region was largely driven by South America, in 2013 Central America and the Caribbean were the main recipient of FDI growth (FDI inflows increasing by 93 per cent and 38 per cent respectively). Flows to South America declined by 7 per cent [4, p 22]. The 18 billion USD acquisition of Grupo Modelo in Mexico explains most of Central America’s increase in FDI, while the strong rise in the Caribbean was mainly driven by the British Virgin Islands. The decline of FDI flows to South America came after three years of strong growth bolstered by the strength of commodity prices that fuelled rising profits on investment as well as reinvested earnings in the mining industry. Decreasing commodity prices seem to have brought a stop to the boom in FDI in this industry, especially in countries such as Chile (-33 per cent to 20.4 billion USD) and Peru (-2 per cent to 12 billion USD). In addition, FDI to Brazil – the largest recipient of FDI in the sub-region, with 47 per cent of South American total FDI flows in 2013 – declined by a slight 3.9 per cent in 2013, but remained significant (63 billion USD) [3, p 52]. Nevertheless, this decline should be seen in the context of strong growth in previous years that boosted FDI in Brazil to historical highs.

FDI flows could rise further in 2015, to1.8 trillion USD as global economic growth gains momentum. Activity is expected to improve further in 2015, largely on account of recovery in developed economies. GDP growth, gross fixed capital formation and trade are projected to rise globally over the next years. Those improvements could prompt transnational corporations to gradually transform their record levels of cash holdings into new investments. However, uneven levels of growth, fragility and unpredictability in a number of economies, and the risks associated with a gradual exit from the quantitative easing programmes by the United States and other major countries may dampen the recovery. The announced deals for FDI projects in late 2013, be they M&A or greenfield, suggest that the lift off in FDI may not be strong in the short term.

Favorable investment climate and prudent investment policy serves as one of the factors of fostering economic growth in Uzbekistan. Increasing volume of foreign direct investment and number of foreign investors bring their direct effects on strengthening the socio-economic prosperity in the country. These successes are achieved by creating the necessary condition for investors consolidated by law through deriving from international practice. Nowadays investment climate promotion measures are regularly taken by government. Series of tax incentives holds the major share of their composition.

**Reference:**

1. World Investment Report 2013. UNCTAD.2014
2. OECD Investment Index. OECD.2015
3. Global Investment Trends Monitor in January 2014. UNCTAD. 2014
4. Global Financial Development Report 2014. The World Bank Group.2015
5. Investment Policy Monitor 2013. UNCTAD. 2014