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**THE IMPORTANT ROLE OF FOREIGN DIRECT INVESTMENTS IN SUSTAINABLE DEVELOPMENT OF THE ECONOMY**

Foreign Direct Investment (FDI) is an important part of the massive private investment which is driving economic growth around the world, particularly in the past two decades. FDI is being sought by most, if not all, developing countries as a means of complementing the level of domestic investment, as well as securing economy-wide efficiency gains through the transfer of appropriate technology, management knowledge, and business culture, access to foreign markets, increasing employment opportunities, and improving living standards.

During the years of Independence, the Republic of Uzbekistan has formed a favorable investment environment, broad system of legal guarantees and privileges for foreign investors, developed integral system of measures on encouragement of activity of the enterprises with foreign investments. It is emphasized by the President of the Republic of Uzbekistan that it is necessary to create even more favorable legislative conditions, guarantees and economic stimulus for wide attraction of foreign investments into a national economy, first of all, direct investments. It is necessary to achieve, that foreign investments actively participated in structural transformations of our economy, acceleration of technology and modernization of manufacture.[[1]](#footnote-2)

The investment legislation of the Republic of Uzbekistan is one of advanced amongst legislations of the Commonwealth of Independent States(CIS) countries; it comprise major provisions of the international investment law, in particular, regulations on guarantees of the rights of foreign investors, certain preferences for investors and others.

Legal framework and regulation of attracting foreign investment in the Republic of Uzbekistan base on the acts following laws

* “On Foreign Investments” (1998)[1];
* “On investment activity” (1998)[2];
* “On guarantees and measures of protection of the rights of foreign investors”(1999)[3];
* “On additional measures of stimulation of private foreign direct investments attraction” decree of the President №-3594 (2005)[4];
* “On additional measures of stimulation of foreign direct investments attraction” decree of the President №-4434 (2012)[5].

The Republic of Uzbekistan has no restrictions with regard to the form of investments. Foreign investors are entitled to establish enterprises within the country in any legal form permitted by the legislation. Government measures on the improvement of the investment environment increased the volume of foreign direct investments, attracted to the country’s economy.

Uzbek law provides the following rights to foreign investors:

* to decide the amount, kinds, and channels of investments;
* to conclude agreements to carry out investment activity;
* to own, use and dispose of investments and the results of investment activity;
* to repatriate profits from Uzbekistan or to reinvest them into Uzbek entities;
* to obtain financial resources in the form of credits and loans;
* to convert local currency into foreign currency;
* to possess and use land on terms provided by the legislation;
* to receive compensation for investments/assets in case of expropriation by the state.[8]

It should be noted that the President of the Republic of Uzbekistan issued a decree to further improve business environment and create favorable conditions for business activity « On measures on radical reduction of statistics, tax, financial reporting, of licensable businesses as well as permit issues procedures» on July 16, 2012. This document provides a number of preferences, in particular, the reduction of several statistical, financial, tax and other reporting, the frequency of its submission, and removal of 80 licensing procedures and licensing of 15 types of business activity. In addition, on July 18, 2012 the President of the Republic of Uzbekistan issued a decree “On measures on further radical improvement of business environment and providing more freedom to entrepreneurship”. The document is aimed at radical improvement of business environment, creation of more favorable conditions for business, reduction, simplification and improvement of the transparency of all procedures related to the enterprises operations, introduction of internationally accepted system of evaluation criteria of the business environment and further improvement of international rating of business and investment climate of the country [8].

In accordance with the Decree of January 1, 2013, Uzbekistan shall establish procedures, where the business entities have right, at their own discretion, to carry out, electronically, following operations for the relevant state administration and economic governance bodies:

- paymentof taxes and other mandatory payments via remote service forbank accounts, including Internet Banking;

- declaration of goods by the business entities at the custom clearance of goods;

- registration of ownership of legal entities for real estate through "one-stop shop"approach;

- submission of claims and applications of business entities to economic courts.

In accordance with the document, commercial banks are recommended to reduce, by at least 20%., the fees charged for the account management of small businesses, which make payments electronically [7].

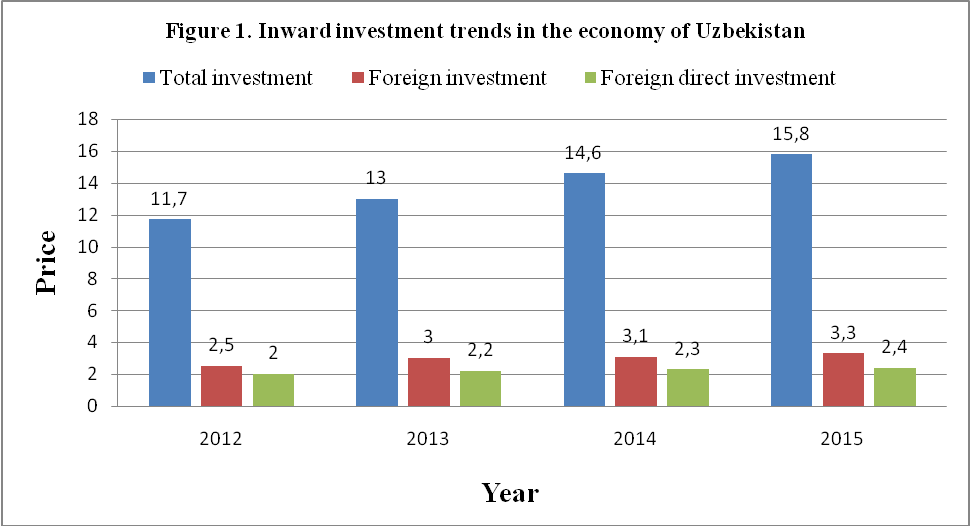
Uzbekistan’s investment legislation provides a range of guarantees for foreign investors, including:

* protection against discrimination based on nationality, place of residence, or country of origin;
* fair and equitable treatment;
* protection from harm caused by retroactive implementation of legislation;
* in the case of changes to legislation, the right to apply at their own discretion those provisions of the new legislation which provide for better conditions for their investments;
* protection from interference by the state in the economic activity of foreign investors which are carried out in accordance with the law;
* anychange in legislation that worsens foreign investment conditions shall not be applied to those investments until ten years following the date of the investments [7].

It should be noted that in the early 2000s inflow of FDI into the economy of Uzbekistan was low, and, for ex­ample, their accumulated volume in 2004 did not exceed $1 billion. However, after the implementation of the reforms on the investment policy, the annual volume of foreign investment in Uz­bekistan increased from $0.7 billion in 2000 to more than $3.3 billion in 2015. The share of FDI in foreign invest­ments has increased from 14.4% in 2000 to more than 73% in 2015, amounting to about $2.4 billion.Noteworthy is the fact that the volume of the inflow of FDI has increased by 4.3 times over the past 10 years[8].

Financial and economic crisis significantly changing the amount, direction and structure of global investment flows had some influence on foreign investment attraction and development in Uzbekistan. Analysis of foreign investment into the country in the pre-crisis and post-crisis period (2012-2015 years) says about the results of the measures taken by the government on leveling the crisis effects and trends of recent years. (Figure 1)

Inward investment trends in the economy of Uzbekistan (in billion USD)



Because of the measures, US $15.8 billion investment was attracted into Uzbekistan in 2015 and 21% of them, or more than US $3.3 billion was foreign investment, of which 73% was direct investment. There was an increase in the share of FDI in total investment and in fact it accounted for more than 2.4 billion dollars in 2015 compared to2.0 billion dollars in 2012. It occurred as a result of the improvement of business environment, a broad system of legal guarantees and privileges for foreign investors, holistic system of measures to encourage activities of enterprises with foreign investment. The share of FDI in the structure of investments increased by 20 percentage points compared with 2012, while the volume of FDI inflows increased by 1.2 times [6].

Moreover, in January 2015 the Presi­dent instructed the government to reduce the share of state in the num­ber of sectors through implementation of a New Privatization Program. Ac­cording to the Program, it is planned to liquidate and to privatize about 660 state-owned non-performing enter­prises, to privatize state-owned shares in 360 enterprises and to sell nearly 400 state property assets in return for investors' commitments. Based on these improvements, the World Bank raised its Ease of Doing Business Index ranking for Uzbeki­stan from 149 in 2014 to 141 in 2015.

Importantly, Uzbekistan introduced new invest­ment incentives in its attempt to re­store confidence of the foreign busi­nesses. For instance, enterprises with foreign investments operating in spec­ified industries are granted tax holi­days for a period of three years if the FDI exceeds $400 million ($2.0 billion in 2012 to 2.4 billion in 2015); of five years if it exceeds $3 million; and of seven years if it exceeds $10 million. Moreover, the Uzbek government grants a ten-year immunity to chang­es in tax legislation to new foreign investors if they invest at least $5 million and provides opportunity to buy state-owned, low-liquidity facilities at zero redemption cost if they make specific investment commitments. Furthermore, foreign investors can receive exemptions from customs duties for some specific amounts of goods and services during the first two years after registration of the enterprise.

All this points to the need to further improve conditions for foreign investors. Economic reality concludes that FDI flows are oriented towards countries which practically demonstrate the following elements:

* selective sectorial investment policy or a focus on more technology-intensive activities;
* political and macroeconomic stability and liberalized markets;
* stable social order, especially attitude towards foreigners, access to social amenities and facilities for expatriate and their families, conflicts’ settlement;
* a limited role of state in economy, a favorable business climate (openness to trade and a free commercial regime, transparent and automatic incentives, a payment system at international standards, a free currency system, financial and fiscal facilities, a small tax on profit and agreements for avoiding double taxation);
* better endowment of human capital(work force initiative and qualification, good connection between education and labor market requests, local managerial abilities, good quality of research and development personnel);
* industrial and intellectual property rights guarantees, successful FDI projects history, foreign investor’s views about investment climate and others.

To sum up, Uzbekistan currently represents a great investment destination for strategic, long term investors who appreciate its geopolitical position, new opportunities likely to emerge from the recent political developments in the Eurasian region, the high pace of growth, ongoing improvement in the investment climate and the current appetite for economic development.

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