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## FOREIGN INVESTMENTS AND INNOVATIVE WAY OF DEVELOPMENT OF THE ECONOMY OF UZBEKISTAN

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**Abstract:** The paper considers theoretical issues of innovative development of the economy of Uzbekistan, as well as the problems of foreign investment in this development of the economy of Uzbekistan, and also offers recommendations.

**Keywords:** innovations, innovative way of development, investments, foreign investments.

### **Introduction**

The deepening of economic reforms in Uzbekistan is closely linked to investment. Foreign investments are becoming such an important lever for accelerating the socio-economic development of the country. It is not only a matter of creating new production on their basis, but even more important is the role of investments as a factor activating the inclusion in the economic process of the previously insufficiently used natural, production and labor potential.

The formation of a market economy in Uzbekistan is closely related to the solution of a number of problems that arise at each stage of its development. In this regard, an important place is occupied by the issue of innovative development of a socially oriented market economy. Recently, a number of documents have been adopted, such as the Action Strategy for the Development of the Republic of Uzbekistan for 2017-2021, as well as the Strategy for Innovative Development of the Republic of Uzbekistan for 2019-2021, the Strategy for the Investment Policy of the Republic of Uzbekistan until 2025, the Strategy for New Uzbekistan for 2022-2026 in

which determined the need, conditions and prospects for the development of our country. [1]

### **Analysis of literature on the topic:**

A variety of theoretical and methodological problems of studying the innovative development of the economy has led to the existence of different points of view on this process and ambiguous approaches to the analysis of its features.

As a scientific direction, innovative development has become widespread thanks to the works of such scientists as I. Schumpeter , P. Drucker , D. Clark, G. Mensch , D. Bell, E. Denisov, T. Kuhn, M. Porter and K. Arrow.

The Russian scientific community of researchers of this problem is represented by the works of L.I. Abalkina, S.Yu. Glazyev, A.G. Gryaznova, A.A. Dynkina, A.G. Zeldner , A.N. Illarionova, B . J.I. \_ Inozemtseva, G.B. Kleiner , V.V. Kulikova, I.N. Myslyaeva and others[2]

Gulyamov S.S., Abdullaev A. are also fruitfully engaged in the development of issues related to the peculiarities of the innovative development of the economy. M.[3] They have developed conceptual approaches to the evaluation of innovation and investment, business methodology, competitiveness, financing of innovation, innovative entrepreneurship and the implementation of enterprise innovation policy under risk uncertainty.

Speaking about the innovative way of development, we studied the issues of investment. So, to date, a number of economists continue to explore investment processes. Thus, American economists Stanley L. Brew and Campbell R. McConnell single out "investment costs as the second main determinant of aggregate demand"; moreover, 2 parameters are singled out: "interest rates and expected profits [4 ].

Theorists of Russian economic science, such as Sedov V.V. consider investments as an integral factor of economic growth [5. ]; a team of authors led by Kamaev V.D. focus on the investment accelerator [6. ].

Other investment researchers, in particular, those who study foreign investment (Andrianov A.F., Ivanov V.A.), consider them purely in an applied nature (for example, for the Russian economy), give recommendations of a general theoretical nature [7.]

Despite the existence of extensive economic literature devoted to the consideration of various aspects of the innovative path of economic development, a number of problems need further research. There is no comprehensive approach to the definition of innovative development in the economy of Uzbekistan, no directions for the use of investments, in particular foreign investments in this process, have been identified.

### **Research Methodology**

The study was conducted using the methods of scientific knowledge. Using the abstraction method, conclusions were obtained about the features of using innovations as an indicator of investment policy. The method of generalization reveals tendencies characteristic of developing countries in the implementation and decision-making of investment policy, as well as new phenomena of the innovative path of the country's development.

In the process of research, logical, systemic, deductive, inductive and economic-statistical methods, comparisons and analogies were used to describe economic phenomena and their properties.

### **Analysis and results:**

The innovative way of economic development today has acquired significant world experience. This means the creation, implementation and wide distribution of new products, services, technological processes are becoming key factors in economic growth, improving the efficiency of economic activity and the competitiveness of enterprises.

Countries are embarking on an innovative path of development, and the processes of globalization of the world economy have determined the conditions for this transition: an innovative path of development is available for countries with

macroeconomic and political stability and a developed competitive environment, with high scientific and technical potential and an effective national innovation system; for economies with a high degree of industrialization and developed export-import relations.

In Uzbekistan, as in other states of the world community, work is underway to modernize, technical and technological re-equipment of industrial production, and to involve academic and industrial science in this process.

In this regard, an important role in the formation of the innovative development of the economy of Uzbekistan belongs to investments, their active role in accelerating the socio-economic development of the country, improving the living standards of the population.

Among the advantages offered by the modern economy of Uzbekistan for foreign companies are political and macroeconomic stability, favorable natural and climatic conditions, hospitable and hardworking people, and many others. The investment legislation of the Republic of Uzbekistan is one of the most advanced in the system of legislation of the CIS countries, incorporating the main provisions of international investment law, in particular, the provisions on guaranteeing the rights of foreign investors, providing certain preferences for investors and others. "Deepening the reform and ensuring the stability of the banking system, the level of capitalization and deposit base of banks, strengthening their financial stability and reliability, further expanding lending to promising investment projects, as well as small businesses and private entrepreneurship". [1]

In the Republic of Uzbekistan there are no restrictions regarding the form of investment. During the years of independence, a favorable investment climate has been created in Uzbekistan, a wide system of legal guarantees and benefits for foreign investors has been developed, an integral system of measures has been developed to stimulate the activities of enterprises with foreign investments.

The implementation of the Investment Policy Strategy of the Republic of Uzbekistan for the medium term will improve the investment climate for the

development of private business by increasing transparency and improving the quality of regulation, strengthening the protection of the rights and interests of investors and entrepreneurs. This will lead to an increase in the inflow of direct and other foreign investments, an increase in the involvement of the population in investment processes through the development of the securities market.

As a result of the above measures, in the period 2019-2025. the share of investment in fixed assets in GDP is expected to increase from 26% to 28-30%, respectively. At the same time, it is expected that in 2025 the volume of attracted foreign direct investment will amount to 6.7 billion dollars compared to 1.8 billion dollars . in 2018

In general, the implementation of the investment policy strategy will achieve the following results by 2025:

- the volume of investments in fixed assets will increase by 3.5 times compared to 2018 and will amount to 379.7 trillion soums ;
- the volume of foreign investment in the country's economy as a whole for the period will amount to 84.7 billion dollars , including foreign direct investment will amount to 12.7 billion dollars . [one].

The relevance of attracting foreign investment for the development of the economy of the Republic of Uzbekistan today is due to the deepening of economic reforms taking place in the Republic and the need for financial support for such processes.

Uzbekistan has a huge investment potential. During the years of independence , such industries as the automotive industry, agricultural engineering, biotechnology, the pharmaceutical industry, and information technology have received new development. Uzbekistan is rich in various types of minerals. More than 100 types of mineral raw materials have been discovered in the bowels of the republic. In terms of reserves of gold, uranium, copper, silver, lead, zinc, tungsten, natural gas and some other minerals, our country occupies one of the leading places in the world.



In general, the investment attractiveness of industries is determined by relatively low costs for production factors (electricity, natural gas, labor), a significant domestic market (more than 26.3 million permanent residents), duty-free access to the markets of the CIS countries (280 million people). population person).

The developed concept of attracting and using foreign direct investment in the country's economy, as well as domestic investment resources, allows us to substantiate the general trends in the development of the investment process and draw some conclusions, the essence of which is as follows:

**Firstly**, the potential of innovative developments accumulated in the republic and still unused is very significant. In addition, in the conditions of insufficient and extremely “meager” funding by the state of fundamental and applied sciences, a significant backlog of unclaimed technologies, inventions, know-how has formed in the country that can have a significant impact on the development of the economy of the republic. However, due to the lack of funds, the financial instability of many enterprises, these innovative tools and technologies remain unused.

**Secondly**, a significant part of the banking structures in Uzbekistan, in the process of reform, began to take part in investing in small, medium and large businesses, recognizing the increased role of long-term investment.

**Thirdly**, the republic, having a huge resource, production and technological potential, cheap labor, and a wide sales market, attracts foreign investors who are ready to invest in the economy, both by providing long-term loans and by creating joint ventures.

**Fourthly**, regional administrative structures are interested in the development of the regional economy, including through the wide attraction of external capital.

**Fifthly**, the republic will not ensure the accelerated growth of its economy without attracting funds from outside, their presence will become a determining factor in the rise of industry, agriculture and other sectors of the economy.

Thus, the country has a rather high need for investment and innovation, and on the other hand, potential investors and science ready to invest capital and ideas in the



economy of Uzbekistan to receive additional income in the future. This means that the prerequisites for a significant market business have developed in the country, requiring the definition of a clear investment policy.

Analyzing the statistical data, one can notice that direct investments are engaged in only 17% of the total investment. It follows that out of the huge amount of investment, only a small part goes to the renewal of fixed assets of production. This leads to a relatively slow renewal, modernization or replacement of fixed assets, which leads to their longer use in inadequate quality and, as a result, reduces the efficiency of enterprises and economic growth rates.

It should be noted that Uzbekistan has done a lot to increase the investment attractiveness of its region, we are not talking only about the existing favorable conditions, but about creating a clear economic mechanism developed by the state, taking into account the real conditions of changes in the global investment market. Thus, in 2005, foreign investments amounted to 687.0 billion . soums , in 2010 - 4 340.8 billion soums , in 2014 - 6980.1 billion soums . In 2017, Uzbekistan mastered 2.4 billion US dollars of foreign investment. [9]

Positive trends in attracting foreign investment reflect not only a significant increase in the size of capital. But there are also other important changes: the ratio in the sectoral context has improved towards the development of the real economy. Thus, the share of foreign investment in the development of industry from 2005 to 2014 changed from 46.4% to 67.7%, agriculture (the same period) from 3.0% to 2.3%, transport from 12.2% to 14.5%, communication with 26.5% to 8.7%, other industries from 11.9% to 6.8%, ratio by type of ownership: the state's share in fixed capital (the same period) decreased from 21.3% to 12.7%, joint ventures , foreign citizens and organizations increased from 51.8% to 75.5%. [9 ].

It should be noted that the pace of economic development in our country, as in other countries, was significantly affected by the coronavirus pandemic, which required adjustments in attracting foreign investment.

In 2021, a total of more than \$10 billion of foreign investment was attracted, including \$8 billion 100 million of direct investment. As a result, 318 large and more than 15 thousand regional projects have been launched, over 273 thousand jobs have been created. These enterprises are able to provide \$1 billion in exports and replace \$530 million in imports.

Of course, the coronavirus pandemic continues to have a serious impact on economic processes. Despite this, a dynamic growth in exports is achieved. So, if in 2020 the volume of exports amounted to \$ 9 billion, then in 2021 it amounted to \$ 12 billion. It is noteworthy that the share of finished and semi -finished products in its structure has grown significantly.

In 2022, it is planned to attract foreign direct investment in the amount of more than \$9.5 billion, launch 282 large and more than 9,000 regional projects, and increase exports to \$14 billion.[10]

### **Conclusions and offers:**

Currently, there are a number of problems from the solution, which depends on the acceleration of socio-economic development, an intensive transition to the country's innovative path:

- as you know, the dynamics of foreign investment in our country is positive, it is growing, which of course affects the sustainable economic growth rates (over the past 10 years, the economic growth rate of the economy of Uzbekistan has been about 8% per annum); but it should be noted that these sizes are almost completely under the guarantor of the government of the state, other subjects of the investment market are not used;

**foreign direct investments** are mainly used (foreign direct investments are investments of foreign investors, giving them the right to control and participate in the management of an enterprise in the territory of another state), insufficiently **venture, portfolio investments** (investments of foreign investors in foreign securities with the purpose of obtaining or increasing income in the form of

dividends, interest or stock price differences), as well as investments in non-financial assets;

- in the economy, foreign capital functions in the form of joint ventures, free economic zones (we currently have 22 free economic zones, 45 small industrial zones), leasing, and foreign loans. At the same time, I would like to use other forms:

**franchising** (a form of long-term business cooperation, where a large company provides an individual entrepreneur or a group of entrepreneurs with a license (**franchise**) for the production, trade or provision of services under the trademark of this company in a limited area on the terms of a contract), **tied loans**, **depository receipts**, **offshore zones** ). Thus, in recent years, American firms have begun to use **offshoring** (the practice of transferring American jobs to other countries).

In this regard, we consider it necessary to take the following measures:

- creation of a holistic concept of innovative development for the long and medium term, using a strategic planning system that makes it possible to form future models of innovative development of priority areas and industries based on long-term scenarios for increasing the country's intellectual and technological potential;

- use a flexible economic mechanism for introducing innovative forms of public administration that ensure the optimization and simplification of procedures for the provision of public services, increasing the efficiency of public administration; expand the conditions for attracting investments in the development and implementation of innovative ideas and technologies, improving the legal framework that ensures their further development;

- in the process of planning investment projects, take into account interregional disproportions and untapped export potential; move from drawing up short-term to medium-term government investment programs, attracting foreign investment;

- to solve the problems of employment of the population and the implementation of large-scale modernization projects that require a high concentration of capital, create conditions for the formation of financial and industrial groups (FIGs); with the formation of FIGs, the role of research institutes of the Academy of Sciences of

Uzbekistan is changing, the efficiency of using state funding for scientific research will increase, and the requirements for the quality of management and corporate governance will increase dramatically;

- ensure information transparency of investment objects, increase the reliability of securities and enhance their role in foreign investment; improve the mechanisms and nature of the analysis, as well as the examination of the feasibility studies of investment projects, especially in regions with an unfavorable investment climate;

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