

Investment – Basis of the Economic Growth

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Abstract

this article analyzes the importance of investment, especially, Foreign Direct Investment (FDI) in the economy of the country and provides an in-depth analysis of the role of this area by carrying several studies. In addition, a number of suggestions have been made for further development of this sector.

Keywords: *investment, growth, Foreign Direct Investment, inflow, economy.*

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Introduction

Clearly understanding huge role of investments in the development and stability of economy not only increased attention of government to foreign investments but also has led to the development of investment activity in our country. It is worth to say that economy is increasing rapidly as a result investment policy, which is being conducted by the government. It is clear that attention should be paid to investments to improve them. Additionally, the sustainable economic development of any society is impossible without investment exactly, it is especially evident today that further development of any country depends on investment attraction. The incomparable role of investments in the economy requires a clear understanding its essence

In the new edition of the law on “investment activity” in 2014 year October 29 the concept of investment defined as “material and non-material benefits and rights ,including intellectual property rights ,as well as reinvestment in business and other activities which are not prohibited by the legislation”[1].

Literature Review

As we know, the most significant characteristic of the investment is that it is primarily on profit. Clearly, investments are considered to be profitable naturally. Moreover, investment as an economic category is characterized by:

1. Placement of capital in business entities with a view to increase initial capital
2. Economic relations among participants of the investment activities in the course of implementation of the investment projects

Investments in macroeconomics are considered as a part of the total cost of production, including the cost of new assets, housing, and the increasing cost of the material resources. In general, in the theory of production and in macroeconomics, investment is the process of creating new capital (including production tools and human capital). While, in some literatures investment refers to the acquisition of the real or financial assets, clearly, the purpose of today’s spending is to make a profit in the future.

It is said by Tejvan Pettinger[2] that investment influences the rate of economic growth because it is a component of aggregate demand and more importantly influences the productive capacity of the economy. Furthermore, Investment means expenditure on capital spending , e.g. buying new machines, building new factories and others.

According to Melkumov Ya.Sa.[3] the total amount of financial, property, and intellectual benefits are invested in various industries and investment projects for the purpose of production, business development, profit or other reasons.

Moreover, American economist Eugene Fama [4]noted in his scientific work on the theme “Components of investment Performance that investment involves making of a sacrifice in the present with the hope of deriving future benefits. Two most important features of investment are current sacrifice and future benefits. Investment is a sacrifice of certain present values for the uncertain future reward.

Uzbek scientists of economy also noted such kind of notions. For instance, Sh.Q.Fozilchayev and N.G. Khidirov in the study book for students “ Fundamentals of investments and leasings”[5] stressed that attraction of investments are strongly related to the percentage of the credit bank-rate because, borrowed funds are also used in the investment process. If the expected

net profit margin is higher than the average interest rate, these investments are profitable for the investor. Therefore, the increase in the rate of the average percentage leads to a slowdown in the investment process. Moreover, expected inflation rate also has an impact on the investment. The higher this figure, the more decreases the profit rate and investment incentives shrink sharply.

Methodology of the Research

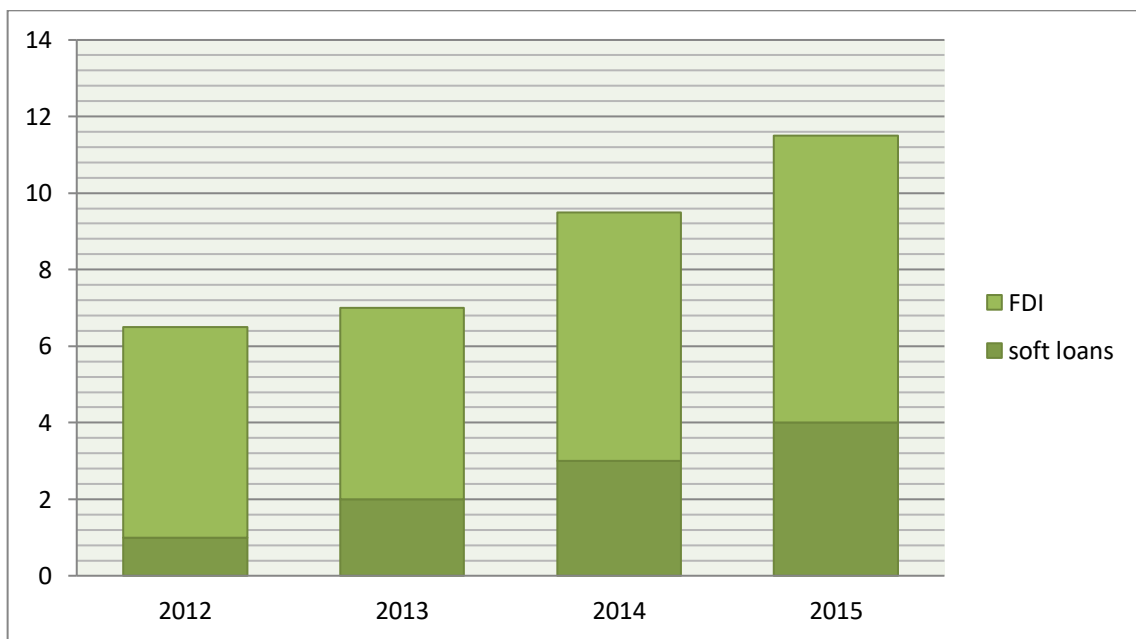
Several practical methods have been used in the studies. These include economic statistics, induction, deduction, and graphical research. Statistical dates have been made based on the official websites of the Republic and the world.

Results

According to the researches of economy, investments are resources for the expanding or upgrading production clearly, they are spent recourses for the increase of the real capital. However, it is worth to say that investments are not just recourses for expanding real capital, but also for tangible, intangible assets, and securities. Therefore, in my view, investment is the mobilization of capital to achieve economic and social effect.

Studies showed that the contribution of foreign investments in our Republic is also facing to the growth. The diagram given below shows foreign investments growth in Uzbekistan in the given period [6].

Figure 1 Foreign investment growth in Uzbekistan from 2012 to 2015 (in million USD)



It can be seen from the diagram that the share of both foreign direct investment (FDI) and soft loans increased in the given period. It should be noted as information that FDI is an investment in a business by an investor from another country for which the foreign investor has control over the company purchased. The indicators of FDI and soft loans nearly doubled in 2015 compared to 2012 year. The increase of FDI and soft loans are beneficial for Uzbekistan to flourish its economy and the share of world market. Moreover, it can be stated that according to the UNCTAD’s 2019 World Investment Report, FDI inflows increased significantly in 2018 to USD million (compared to USD 98 million in 2017). FDI traditionally arrives from Russia, South

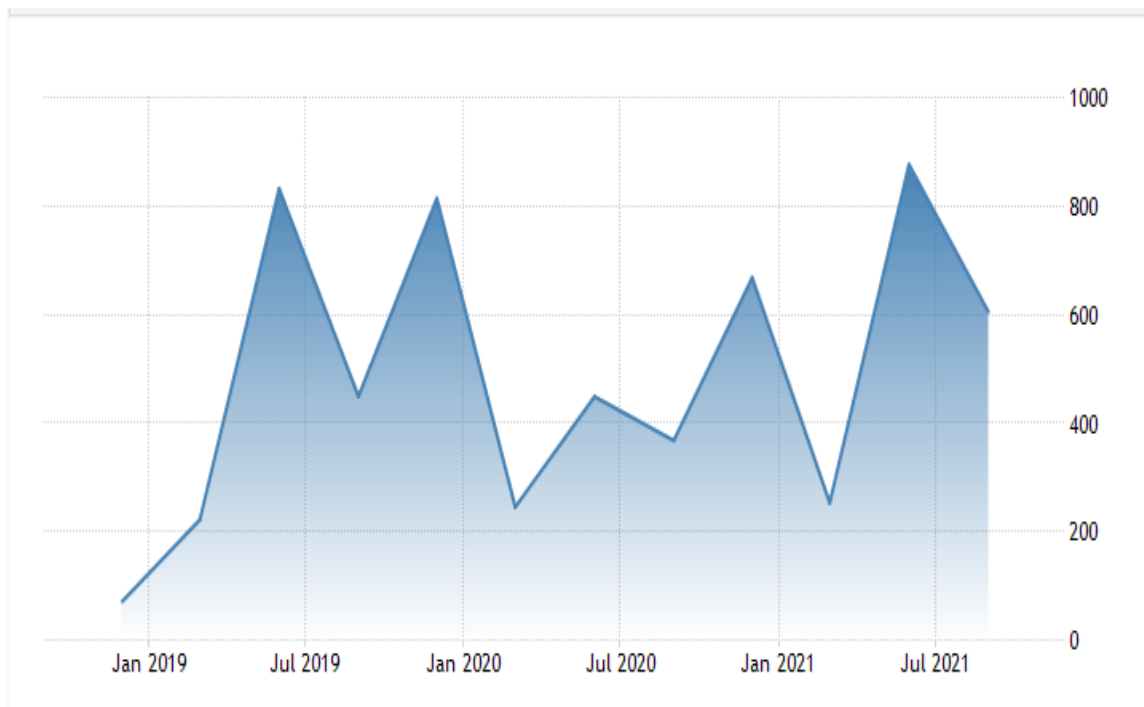
Korea, China and Germany. Investments focus on the energy sector, including alternative/renewable energy in recent years. Total FDI stock stood at USD 9.6 billion (23.4% of GDP) in 2018[7].

According to the statistics of conducted researches revealed that the condition for attracting foreign investments to Uzbekistan are the followings:

1. Political stability in the country
2. The formation of a legislative framework for the protection of private property and competition
3. Development of infrastructure that supports the investment process
4. Increased potential for the development of the agro-industrial sector and rich resources of the country's mineral and raw materials resources
5. Availability of labor resources with high qualifications
6. Sufficient level of breadth of the domestic market volume for trade.

According to Central Bank of Uzbekistan, Foreign Direct Investment in Uzbekistan increased by 605.31 USD Million in the third quarter of 2021. This increase can be seen in the following figure2.

Figure 2 Increase in Foreign Direct Investment in Uzbekistan [8]



It can be seen from the above given figure that the inflow of Foreign Direct Investment in Uzbekistan experienced upward fluctuation over the three years. Particularly, in the first half of 2019 year, the inflow of foreign direct investment soared up by about 800 USD million dollars before showing a downward trend during the second half of the year. The inflow experienced gradual fluctuations during the next year and reached its peak (just above 800 USD million dollars) in July 2021.

Conclusion

Summing up, it should be noted that investments have a decisive influence on the formation of the rates of the economic growth, the welfare of the population of the country. It is clear from the above given information that the share of the investment in the economy of Uzbekistan has been rising year by year. For further increase the flow of the investments in Uzbekistan following proposals have been made:

7. Eliminate low economic diversification and dependence on commodity prices
8. Encourage competition in the country
9. Develop banking sectors
10. Ease general business climate

Additionally, legislative changes should be made to encourage investment attractiveness by the Government. Those laws should provide easiness for foreign investors to compete in the country and improve business environment.

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