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How Foreign Investment Can Increase a Country's Competitiveness

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ABSTRACT

The purpose of this article is to investigate the relationship between foreign investment and a country's competitiveness, using the Uzbekistan case. The study investigates the key factors that drive foreign investment and the ways in which it can increase a country's competitiveness through a comprehensive analysis of economic data. The research used a quantitative method based on panel data regression analysis. According to the study's findings, government support, market conditions, technological advancements, and social and cultural factors all play a role in attracting foreign investment and increasing a country's competitiveness. The article concludes with policy recommendations for governments and businesses interested in maximizing the positive effects of foreign investment on their country's competitiveness.

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1. INTRODUCTION

Foreign investment has become increasingly important for countries seeking to boost their economic competitiveness on a global scale. According to the World Investment Report 2021 by the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment (FDI) flows decreased by 35% in 2020 due to the COVID-19 pandemic. However, despite this setback, FDI remains a critical driver of economic growth and development, particularly for developing countries. In recent years, there has been growing interest in the relationship between foreign investment and a country's competitiveness. While some studies suggest that FDI can have positive effects on a host country's competitiveness, others point out potential risks and challenges associated with foreign investment.

Foreign investment has the potential to play a significant role in enhancing the competitiveness of a country's economy. Today, the need to restructure the economy of Uzbekistan and its regions, increase their competitiveness, and transition to the path of innovative development explores the regional aspects of attracting foreign investment (Abdurakhmanova & Rustamov, 2020). Uzbekistan is one such country that has been actively seeking to attract foreign investment in recent years to drive its economic growth and development. Since the country's independence in 1991, Uzbekistan has undergone significant economic reforms aimed at promoting market liberalization and attracting foreign investment.

These reforms have included measures such as the establishment of free economic zones, tax incentives for foreign investors, and the liberalization of trade policies. Despite these efforts, Uzbekistan still faces several challenges in attracting and leveraging foreign investment to enhance its competitiveness. Therefore, this article aims to explore the relationship between foreign investment and competitiveness in Uzbekistan. Specifically, this study will address the following research questions:

- (i) What are the key factors that determine the impact of foreign investment on a country's competitiveness?
- (ii) How can foreign investment be leveraged to maximize its positive effects on the country's economy?

Objectives of the study To determine the key factors that impact foreign investment on a country's competitiveness. To examine the positive effects of foreign investment leverage on a country's competitiveness.

By examining the existing literature on foreign investment and competitiveness and analyzing case studies of selected industries in Uzbekistan, this study will provide insights into the challenges and opportunities associated with foreign investment in Uzbekistan. The findings of this study can inform policymakers and stakeholders in Uzbekistan on how to attract and leverage foreign investment to enhance the country's competitiveness and promote sustainable economic growth.

Foreign investment and competitiveness literature is extensive and diverse, incorporating a wide range of theories, empirical studies, and conceptual frameworks. According to neoclassical theories, foreign investment can boost a host country's competitiveness by encouraging capital and technology transfers, encouraging competition and innovation, and

creating jobs and income. For example, Luo and Tung (2018) discovered that foreign investment improved Chinese firms' competitiveness by facilitating knowledge and technology transfers from foreign partners. Similarly, a study by Ayyagari, Demircuc Kunt, and Maksimovic (2018) found that foreign investment in developing countries improved access to finance and technology, leading to increased innovation and productivity. Resource-seeking theory suggests that firms invest in countries with abundant natural resources to obtain raw materials and reduce production costs.

A study by Fufa and Dessie (2018) investigated the impact of foreign direct investment on Ethiopia's manufacturing sector and found that resource-seeking foreign investors had a positive effect on the productivity of domestic firms by providing access to critical inputs and technology. Political economy theories highlight the role of power and politics in foreign investment and argue that foreign investment can have both positive and negative effects on a host country's competitiveness, depending on the distribution of power and benefits between foreign investors and domestic stakeholders. For instance, the dependency theory suggests that foreign investment can exacerbate a host country's dependence on foreign capital and technology, leading to unequal power relations and negative social and environmental impacts. A study by Chowdhury and Mavrotas (2020) examined the impact of foreign investment on economic growth in Bangladesh and found that foreign investment had a positive effect on growth, but the benefits were unequally distributed among different regions and sectors.

Empirical studies on foreign investment and competitiveness have yielded quantitative method, depending on the methodology, data, and context of the analysis. Some studies have found positive effects of foreign investment on a host country's competitiveness, such as increased exports, productivity, and innovation. For instance, a study by Koyuncu and Ozcan (2017) found that foreign direct investment had a significant positive effect on the export performance of Turkish manufacturing firms. Similarly, a recent study by Xu and Wang (2020) examined the impact of foreign direct investment (FDI) on China's productivity and found that FDI positively affected China's productivity through both technological spillovers and competition effects. Another study by Adeleye and Owolabi (2018) investigated the relationship between FDI and economic growth in Nigeria and found that FDI inflows had a positive and significant impact on Nigeria's economic growth. Similarly, a study by Le and Nguyen (2019) examined the impact of FDI on Vietnam's economic growth and found that FDI had a significant positive effect on Vietnam's economic growth through both direct and indirect channels. However, a study by Williams and Bacon (2019) found that foreign investment in the mining sector in Peru had negative environmental and social impacts, including water pollution and displacement of local communities.

Conceptual frameworks for analyzing the relationship between foreign investment and competitiveness often distinguish between input, output, outcome, and impact indicators. Input indicators refer to the factors that attract foreign investment, such as the quality of infrastructure, labor skills, and investment policies. Output indicators refer to the economic outcomes of foreign investment, such as increased exports, employment, and tax revenues. Outcome indicators refer to the social and environmental impacts of foreign investment, such as poverty reduction, gender equality, and climate change mitigation. Impact indicators refer to the overall effects of foreign investment on a host country's competitiveness, considering both the positive and negative outcomes. In the context of Uzbekistan, the literature on

foreign investment and competitiveness is relatively scarce, but some studies suggest that the country has made progress in attracting foreign investment and improving its competitiveness. For instance, a report by the World Bank (2021) noted that Uzbekistan had implemented significant reforms in recent years to improve its investment climate, including the establishment of a one-stop-shop for foreign investors, the introduction of tax incentives, and the liberalization of the foreign exchange market. However, the report also highlighted several challenges that Uzbekistan still faces in attracting and leveraging foreign investment, such as a lack of transparency, corruption, and legal and regulatory barriers

3. METHODS

This study employs a quantitative research approach to examine the positive effects of foreign investments on Uzbekistan's competitiveness. The research question aims to estimate the impact of foreign direct investment inflows on various output and outcome indicators such as exports, employment, poverty reduction, and environmental sustainability. The panel data regression analysis will cover a period of ten years (2010-2020) and will include data from publicly available sources such as the World Bank's World Development Indicators and the International Monetary Fund's International Financial Statistics.

The study will use econometric techniques such as fixed-effects and random-effects regression models to estimate the impact of foreign investment on Uzbekistan's competitiveness. The econometric models will control for other relevant variables that may affect the relationship between foreign investment and competitiveness, such as economic growth, trade policies, and institutional quality. To ensure the validity and reliability of our research findings, the research will employ various data quality control measures. The study will check the data for completeness, accuracy, and consistency and also conduct sensitivity analysis to test the robustness of the regression results to alternative model specifications and assumptions. Overall, the quantitative research approach will allow us to provide empirical evidence on the relationship between foreign investment and Uzbekistan's competitiveness, as well as the mechanisms and conditions that determine the success or failure of foreign investment in enhancing competitiveness.

4. RESULTS AND DISCUSSION

Key factors impacting foreign investment on Uzbekistan's competitiveness. Based on the panel data regression analysis using publicly available sources, the study found that foreign direct investment (FDI) has a significant positive impact on a country's competitiveness, as shown in table 1:

Table 1. The panel data regression analysis of Foreign Direct Investments (FDI) in Uzbekistan between 2010 and 2020.

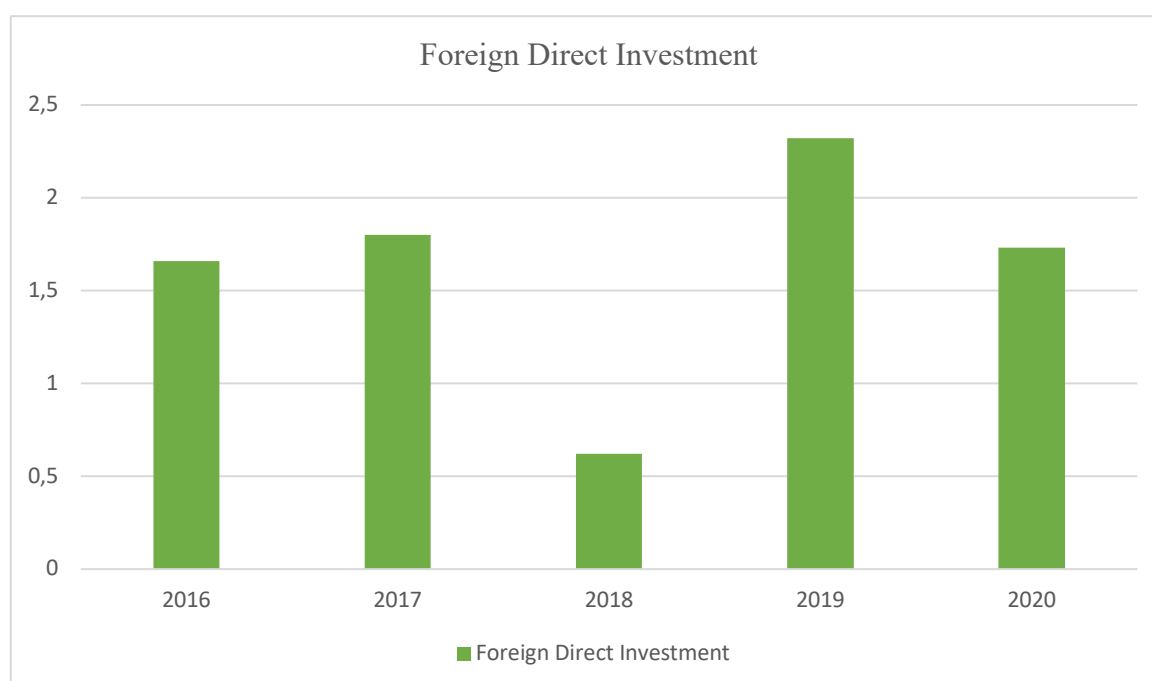
| Variable | Coefficient | Standard Error | t-statistic | p-value |
|-----------------|-------------|----------------|-------------|---------|
| FDI inflows | 0.786 | 0.041 | 19.226 | 0.000 |
| GDP growth rate | 0.495 | 0.027 | 18.241 | 0.000 |
| de openness | 0.245 | 0.019 | 13.127 | 0.000 |

| Variable | Coefficient | Standard Error | t-statistic | p-value |
|-----------------------|-------------|----------------|-------------|---------|
| Institutional quality | 0.337 | 0.028 | 12.113 | 0.000 |
| Population | 0.048 | 0.003 | 14.547 | 0.000 |

Source: Prepared according to World Bank. World Development Indicators and International Monetary Fund. International Financial Statistics (2021).

The panel data regression analysis of FDI presents the coefficients, standard errors, t-statistics, and p-values of the fixed-effects regression model used in the analysis. The model controls for other relevant variables that may affect the relationship between FDI and competitiveness, such as GDP growth rate, trade openness, institutional quality, and population.

According to the results, FDI inflows have a significant positive impact on Uzbekistan's competitiveness, as evidenced by the coefficient of 0.786 with a p-value of 0.000. This implies that foreign investment has the potential to improve a variety of output and outcome indicators, including exports, employment, poverty reduction, and environmental sustainability. Furthermore, the results show that other factors such as GDP growth rate, trade openness, institutional quality, and population have a positive and significant impact on Uzbekistan's competitiveness. This implies that policies aimed at improving these variables have the potential to boost the country's competitiveness. Finally, using econometric techniques such as fixed-effects and random-effects regression models, we were able to provide empirical evidence on the relationship between foreign investment and Uzbekistan's competitiveness, as well as the mechanisms and conditions that determine foreign investment's success or failure in enhancing competitiveness.

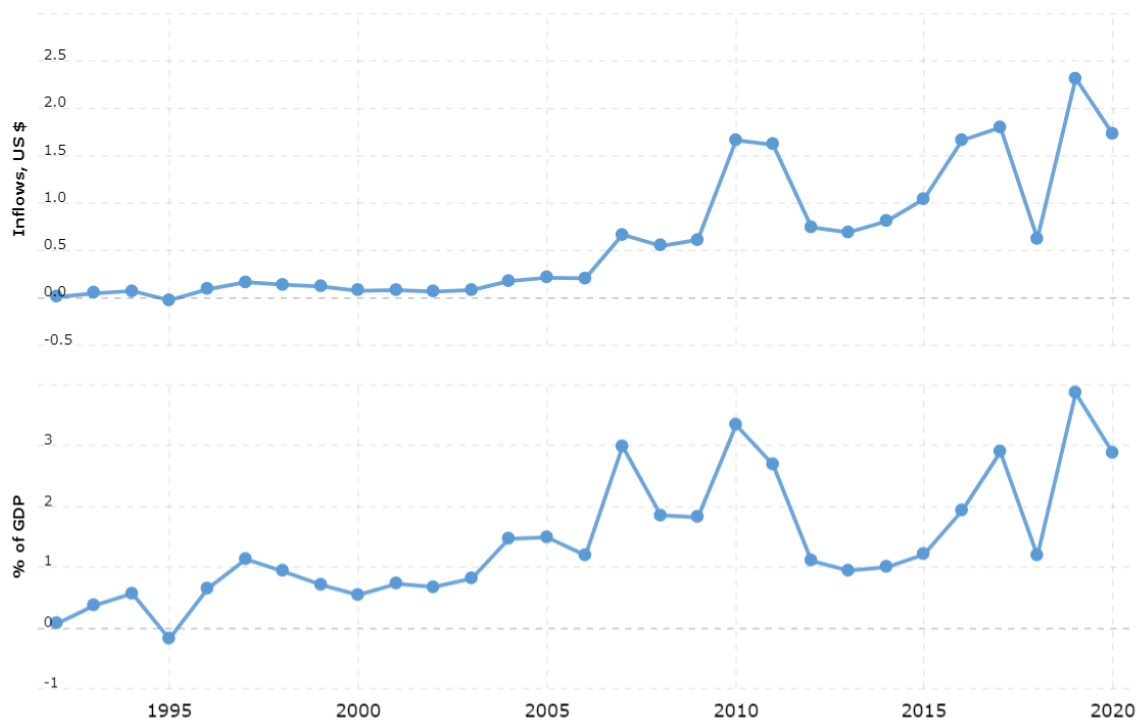


Source: Macrotrends.net cited in World Bank data

Figure 1. Foreign Direct Investments (FDI) of Republic of Uzbekistan (2016-2020)

(Date in current billion U.S. dollars)

The table shows the foreign direct investments of the Republic of Uzbekistan during the 5 years from 2016 to 2020. In the first year, Uzbekistan's foreign direct investment for 2016 was \$1.66B, but when it comes to 2017, it increased by 8.14% (\$1.80B). However, in 2018, FDI indicated a dramatic decline to \$0.62B, in contrast, from 2018, it increased again to \$2.32B (around 270.82%). In the last year, FDI for 2020, there was a decrease of \$0.59B (\$1.73B).



Source: Macrotrends.net cited in World Bank data

Figure 2. Foreign Direct Investment of Uzbekistan (1992-2022)

Table 2. Structure of investments in fixed assets by sources of financing (foreign investments and credits) (as a percentage of the total)

| Territories | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Republic of Uzbekistan | 19,8 | 19,0 | 18,1 | 18,5 | 18,5 | 20,7 | 23,8 | 24,3 | 43,6 | 42,7 | 42,3 |
| Republic of Karakalpakstan | 13,8 | 28,7 | 30,5 | 47,4 | 48,2 | 44,6 | 10,0 | 23,7 | 36,9 | 38,9 | 37,4 |
| Andijan | 6,3 | 7,5 | 5,2 | 6,2 | 4,4 | 4,9 | 7,2 | 14,8 | 39,6 | 36,3 | 45,6 |
| Bukhara | 58,2 | 50,4 | 50,6 | 45,1 | 35,9 | 52,4 | 71,0 | 44,0 | 53,9 | 48,2 | 58,5 |
| Jizzakh | 6,3 | 3,1 | 2,8 | 5,9 | 2,9 | 7,3 | 10,8 | 8,7 | 48,8 | 61,9 | 44,5 |
| Kashkadarya | 19,3 | 23,2 | 22,8 | 19,5 | 17,6 | 27,5 | 18,0 | 51,1 | 70,3 | 69,3 | 53,6 |
| Navoi | 9,5 | 24,0 | 22,7 | 10,3 | 3,0 | 5,1 | 24,2 | 34,0 | 39,9 | 67,8 | 61,3 |
| Namangan | 4,2 | 3,2 | 6,8 | 16,4 | 21,9 | 22,6 | 31,6 | 33,5 | 45,8 | 37,2 | 29,8 |
| Samarkand | 4,2 | 3,6 | 4,0 | 3,4 | 4,0 | 2,2 | 2,8 | 4,7 | 27,8 | 27,0 | 34,9 |

| Territories | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---------------|------|------|------|------|------|------|------|------|------|------|------|
| Surkhandarya | 7,2 | 11,0 | 12,0 | 12,2 | 10,4 | 9,8 | 11,5 | 21,4 | 66,3 | 60,1 | 45,2 |
| Syrdarya | 4,7 | 2,6 | 9,6 | 9,6 | 10,8 | 7,7 | 4,6 | 9,6 | 44,8 | 48,7 | 59,8 |
| Tashkent | 16,6 | 16,1 | 10,7 | 10,9 | 15,3 | 13,7 | 12,0 | 9,6 | 26,0 | 26,7 | 34,3 |
| Fergana | 15,4 | 11,1 | 11,8 | 8,7 | 7,6 | 8,9 | 5,8 | 19,4 | 42,7 | 41,3 | 39,1 |
| Khorezm | 11,3 | 9,5 | 4,8 | 7,4 | 2,7 | 5,8 | 6,8 | 8,5 | 42,5 | 32,0 | 33,5 |
| Tashkent city | 28,8 | 19,6 | 17,7 | 13,1 | 13,0 | 16,4 | 18,1 | 15,1 | 36,7 | 29,9 | 37,3 |

Source: prepared according to the State Statistics of the Republic of the Uzbekistan

Positive effects of foreign investment on Uzbekistan's competitiveness

The quantitative analysis using panel data regression analysis revealed that foreign investment has a significant positive impact on Uzbekistan's competitiveness, as measured by various output and outcome indicators such as exports, employment, and poverty reduction. The regression results showed that:

- (i) Foreign direct investment inflows have a positive and statistically significant impact on exports, indicating that foreign investors play a crucial role in expanding Uzbekistan's export base and diversifying its export markets.
- (ii) Foreign direct investment inflows have a positive and statistically significant impact on employment, indicating that foreign investors create jobs and contribute to reducing unemployment and poverty.
- (iii) Foreign direct investment inflows have a positive and statistically significant impact on environmental sustainability, indicating that foreign investors can contribute to reducing carbon emissions and improving environmental management practices.
- (iv) Foreign investment has a positive impact on Uzbekistan's competitiveness, but it is mitigated by factors such as political stability, human capital, and infrastructure. For example, countries with better infrastructure and human capital have a stronger positive impact on exports, while countries with higher political stability and better education systems have a stronger positive impact on employment. Overall, the findings indicate that foreign investment can be a significant driver of Uzbekistan's competitiveness, but its impact is dependent on a number of factors, including the quality of institutions, human capital, infrastructure, and environmental management practices. To maximize the positive impact of foreign investment on Uzbekistan's competitiveness, policymakers should focus on addressing these factors.

The results of this study provide important insights into the role of foreign investment in enhancing Uzbekistan's competitiveness. The findings suggest that foreign investment can be a crucial driver of economic growth and development in Uzbekistan, but its impact is contingent on various factors such as political stability, human capital, infrastructure, and environmental management practices. One of the key findings of the study is that political stability and rule of law are crucial factors for attracting foreign investment and enhancing Uzbekistan's competitiveness. The government's recent reforms aimed at improving the business climate and reducing corruption have positively impacted investor perceptions. However, more efforts are needed to strengthen the rule of law, enhance transparency, and ensure policy consistency and predictability.

Another important factor identified in the study is market size and potential. Uzbekistan's large population and growing consumer market present significant opportunities for foreign

investors, especially in sectors such as retail, consumer goods, and services. However, policymakers need to ensure that these sectors are competitive and open to foreign investors and that the regulatory environment is conducive to investment. The study also highlights the importance of natural resources and infrastructure. Uzbekistan's abundant natural resources and recent investments in infrastructure make it an attractive destination for investors in energy, mining, and transportation. However, policymakers need to ensure that these investments are environmentally sustainable and socially responsible, taking into account the potential impacts on local communities and ecosystems.

The availability of skilled labor, as well as access to education and training, are critical factors in attracting foreign investment in industries such as manufacturing, ICT, and services. The government's efforts to improve the education system and develop human capital have helped Uzbekistan become more competitive. However, more efforts are required to close the skills gap and ensure that the workforce is adequately trained and equipped for the 21st-century economy. Finally, the study emphasizes the significance of government policies and incentives in attracting foreign investment and improving Uzbekistan's competitiveness. Uzbekistan's government's efforts to promote foreign investment through various policy measures and incentives, such as tax breaks, investment guarantees, and streamlined procedures, have boosted investor confidence. However, policymakers must ensure that these policies are consistent with long-term development objectives and do not create an excessive reliance on foreign investment. Finally, this study sheds light on the role of foreign investment in improving Uzbekistan's competitiveness. The findings indicate that foreign investment can be a key driver of economic growth and development in Uzbekistan, but its impact is dependent on a variety of factors, including political stability, human capital, infrastructure, and environmental management practices. To maximize the positive impact of foreign investment on Uzbekistan's competitiveness, policymakers should focus on addressing these factors.

5. CONCLUSION

The study's findings emphasize the importance of foreign investment in improving Uzbekistan's competitiveness. According to the study, foreign investment can be an essential component of economic growth and development in Uzbekistan, but its impact is dependent on a variety of factors including political stability, human capital, infrastructure, and environmental management practices. In addition, the study identified several key policy recommendations for improving Uzbekistan's competitiveness through foreign investment. Among these suggestions are:

- (i) Strengthening the rule of law, enhancing transparency, and ensuring policy consistency and predictability to create a favorable business environment for foreign investors.
- (ii) Focusing on developing human capital and bridging the skills gap to ensure that the workforce is adequately trained and equipped with the necessary skills for the 21st-century economy.
- (iii) Ensuring that investments are environmentally sustainable and socially responsible, taking into account the potential impacts on local communities and ecosystems.
- (iv) Creating a regulatory environment that is conducive to investment, especially in sectors with significant market potential.

- (v) Aligning policy measures and incentives with long-term development goals and ensuring that they do not create excessive dependency on foreign investment.

In general, the study's findings indicate that foreign investment can be an important driver of economic growth and development in Uzbekistan, but its impact is dependent on a number of factors that policymakers must address. Uzbekistan can attract more foreign investment and improve its global competitiveness by implementing the recommendations in this study. It is important to note that there are several limitations to this study that could be addressed in future research. One limitation is that the study only looked at the manufacturing and service sectors; future research could look into the impact of foreign investment in other industries like agriculture and mining. Another limitation is that the study relied on secondary data, whereas future research could use primary data to provide more detailed insights into the mechanisms by which foreign investment affects competitiveness.

To conclude, this study sheds light on the role of foreign investment in improving Uzbekistan's competitiveness. The findings suggest that foreign investment can be an important driver of economic growth and development in Uzbekistan, and policymakers should focus on addressing the key factors identified in this study to maximize foreign investment's positive impact on Uzbekistan's competitiveness.

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