

Foreign Direct Investment in Uzbekistan:

Experience, Role and Nowadays Trends

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1. History: economic conditions of early 1990 s in Uzbekistan

As experience shows no market reforms can be conducted without foreign capital, bringing in know-how, technology transfer, management skills and others.

Before moving to the foreign investment analysis let us remember some history and the economical preconditions of early 1990 s.

Since 1991 the Republic of Uzbekistan started efforts to attract and use all possible kinds of foreign investment: credits and loans of international organizations and governments, official development assistance (ODA) and others. But the foreign direct investment is becoming a key point in (of) the national investment policy. Some programs in order to enter into competition to attract foreign direct investment (FDI) to Uzbekistan have been also introduced.

The economic conditions of early 1990s affected the structure of foreign investments in Uzbekistan very much, as well as the volume and the forms of

investment themselves. Among the difficulties it is to highlight one aspect only: Uzbekistan has had a hypertrophied economy structure, where the raw resources share accounted about 98% of the total exports. The Republic had no experience in using foreign capital, so in 1991 there were 57 enterprises with foreign investment only covering 5200 employees in total having a 0,009% share in a country's GDP.

In the last 20 years Uzbekistan achieved some progress in attracting foreign direct investment. Today more than 4000 enterprises with foreign investment are involved in several (key) industries of the national economy, and about 40% of them are wholly owned foreign enterprises. Traditionally they think that natural resources are of great interest for foreign investors. But in the case of Uzbekistan we can argue, that some other factors play a key role in the FDI attracting as well as political stability, geostrategic location, business environment, human capital and others.

2. Foreign investments for a country in transition

Each recipient country used to expect not only finance, modern equipment, management skills from a foreign investors, but also know-how and innovations. This depends mostly of the form of a an enterprise with foreign investment. The enterprises with foreign capital were functioning historically in a form of a joint venture only¹. This is very useful for many countries in a development or in a transition, including Uzbekistan. But consequently the improvement of the legislative base for the foreign capital and of the investment climate for foreign investors in the Republic led consequently to the positive changes in the structure of the enterprises too. And the share of foreign enterprises grew from 4,6% in 2001 to 37,2% in 2010 (table 1).

¹ The legislation in some Latin America countries of 1970s allowed foreign investment in a form of a Joint Venture only.

Table 1

Enterprises with foreign capital in the Republic of Uzbekistan

	2001	2003	2005	2007	2009	2010
Number of working enterprises with a foreign capital, of which	1795	2087	2412	2919	3995	4057
Foreign enterprises (100% owned)	83	359	527	826	1307	1513
%	4,6	17,2	21,8	28,3	32,7	37,2
Joint Ventures	1712	1728	1885	2093	2688	2544
%	95,4	82,9	78,2	71,7	67,3	62,7

Source: State Statistic Committee of Uzbekistan.

The praxis of Uzbekistan says that worldwide and too in Uzbekistan the Joint Venture as a form of FDI is losing its role as a once unique form and is replacing by others – fully owned foreign enterprises and “Greenfield” investment forms. All of these three forms are important but each one is depending on the many factors in a recipient country – on the priorities and goals of a national state, investment frame, investor’s strategies and financial possibilities. Our studies show that the more the differences in cultural, economic, technological development between the countries are the more is the demand for the establishment of a JV (table 2). This testifies a need for the further development potential of the frame conditions for the business in the Republic.

Table 2

Forms of enterprises with foreign investment in the Republic of Uzbekistan

Name of the Country	Number of enterprises with a foreign investment	Incl. foreign enterprises (100% owned)	Percent
Republic of Uzbekistan, of which	4057	1513	37,2
Great Britain	419	104	24,8
India	62	11	17,7
China	347	57	16,4
Korea of South	400	60	15,0

	USA	241	61	25,3
	Japan	10	3	30

Source: on the base of various mass media of Uzbekistan.

The next indicators of the business conditions could be some figures for FDI-inflows in Uzbekistan. Based on the national investment programs the Republic improved some results in attracting FDI volumes, which annual amount grew up from \$50-60 \$ Mio in 1990s to \$2 000 Mio in 2007-2011².

The table 3 demonstrates some figures on FDI stocks in the CIS countries. Our studies reflect that there is a need to compare and coordinate the data of Uzbekistan with the data of the international statistics. Many recipient countries have the same problems in FDI calculations in particular cases when they compare them with the data of the donor countries. In our view there is a problem to find out a real solution in a definition what a foreign direct investment (a FDI-source) is. In our view this can improve the figures of Uzbekistan's FDI-inflows in international reports by 2 times approximately. For example the USA FDI stock who does not belongs to the biggest investor countries of Uzbekistan surpassed 2 000 Mio only³.

Table 3

FDI stocks in CIS countries, in \$ Bio, 2007-2011.

country	FDI Inflows					FDI outflows				
	2007	2008	2009	2010	2011	2007	2008	2009	2010	2011
CIS countries as total	433,6	354,9	419,8	611,4	672,2	268,3	221,2	269,4	464,1	397,0
Armenia	2,4	3,5	3,6	4,1*	5,0	0,01	0,02	0,08	0,08*	0,16
Azerbaijan	6,6	6,6	9,0	9,5	9,1	4,7	5,2	6,1	5,8	6,3
Belarus	4,5	6,7	8,4	9,9	12,9	0,04	0,05	0,08	0,2	0,28
Georgia	5,2*	6,9	7,5	7,8	9,3	0,08	0,13	0,12	0,15	0,7
Kazakhstan	43,4	58,3	72,3	81,3	93,6	2,1	5,8	6,8	16,2	19,9
Kyrgyzstan	0,8	1,0	1,1*	0,9	1,7	0,02	0,02	0,01*	0,01	0,002
Moldova	1,8	2,6	2,6	2,8	3,2	0,04	0,07	0,06	0,07	0,088
Russia	324,0*	213,7	253,4	423,1	457,5	255,2*	202,8	248,9*	433,6*	362,1
Tajikistan	1,0*	0,8	0,8*	0,9	0,9*	-	-	-	-	--

² State Statistic Committee of Uzbekistan, various mass media of Uzbekistan.

³ Reception in the Oqsaroy Residence, Pravda Wostoka, 2012r, July, 16.

Turkmenistan	3,9*	4,7	6,1*	8,1*	16,6*	-	-	-	-	--
Ukraine	38,0	47,0	52,0*	57,9	65,2*	6,1	7,0	7,2	7,9	8,1
Uzbekistan	1,6*	3,0	3,6	4,5*	6,8	-	-	-	-	-

*- estimates

Source: World Investment Report-2008, p.257-260; World Investment Report-2009, p. 254; World Investment Report-2010, p.176; World Investment Report-2011, p.194; World Investment Report-2012, p.176.

The structure of a foreign capital in the Republic has been changed strongly. So in the 1990s a share of the FDI in a foreign investment accounted for about 10 %; it means that 90% of the foreign investment was attracted through credits, loans, official development assistance (ODA) and others. Nowadays a share of FDI is about 75% ⁴ which is a key factor for a sustainable and independent economic development minimizing risks in the post-crisis time.

Foreign direct investment became an important source in financing of state's investment programs in Uzbekistan. Some branches – light and textile, food industry, chemical, construction materials and some others - have been developed by foreign direct investment. New industries like repairs and restoration services for Boeing and Airbus planes of the Uzbek Airways national company (and some foreign clients), car assembling and construction has been founded. There are new clusters which produce and supply some components for a car assembling in Uzbekistan. Today more than 200 enterprises are involved in this process, and over 18 000 jobs have been created in the automobile industry sector. As a result of the car engine production in Uzbekistan the local content of the JV “GM Uzbekistan” reached 82% ⁵

The country's sources of finance as well as the export structure have been diversified. So the share of cotton in the export volume of Uzbekistan has sharply been reduced from 50% in 1990 s to 8-10% today.

⁴ State Statistic Committee of Uzbekistan, various mass media of Uzbekistan.

⁵ In the Approach to the Independence Day: Pride, Prawda Wostoka, 2012, September, 19.

In the table 4 we can see the share and the role of some countries in the investment process in Uzbekistan. Among the biggest investors we can see Russia and China. But Uzbekistan is trying to diversify a geographical structure of the investor countries by improving the investment cooperation with the USA, Germany and Republic of Korea, involving new investor countries as France, Italy, Japan, Singapore, Malaysia, and others.

Table 4

Foreign investment and credits of the biggest investor countries in Uzbekistan, 2006-2010, in \$ Million

Country	Amounts, years, \$ Mio.						
	2006	2007	2008	2009	2010	2006-2010	share of a country
Uzbekistan as a total	438,2	953,7	1764,7	2583,8	2391,5	8130,9	
Great Britain	22,3	19,4	103,8	72,1	81,8	299,4	3,68
Germany	11,7	27,1	8,8	12,6	33,5	93,7	1,15
Kazakhstan	0,6	8,9	11,1	14,9	48,7	84,2	1,03
<i>China</i>	<i>12,2</i>	<i>8,1</i>	<i>77,6</i>	<i>1286,6</i>	<i>1173,7</i>	<i>2558,2</i>	<i>31,46</i>
Republic of Korea	7,3	17,6	77,1	29,0	24,9	145,9	1,79
Netherlands	7,1	12,2	185,5	154,2	168,3	527,3	6,48
<i>Russia</i>	<i>91,7</i>	<i>553,8</i>	<i>633,2</i>	<i>371,9</i>	<i>675,5</i>	<i>2326,1</i>	<i>28,63</i>
USA	24,0	10,5	8,6	49,5	27,3	119,9	1,47
Turkey	43,9	39,3	50,4	35,9	33,9	203,4	2,50
Swiss	120,3	217,7	523,7	470,9	53,8	1386,4	17,05

Source: Use of investment in non financial assets for 2006-2010. State's Statistic Committee of Uzbekistan.

3. Efficiency and results of FDI use in Uzbekistan

The Republic experienced some results in using FDI, first of all as an additional source of budget financing, and also as the FDI influenced the GDP formation (table 5). The state property constituted a 100% GDP of Uzbekistan in early 1990s and its share has been reduces to 17, 5% in 2011 as an important indicator of the market oriented reforms in the Republic.

Table 5

Role of property forms in a GDP of the Republic of Uzbekistan, in %

Property forms	Years						
	2005	2006	2007	2008	2009	2010	2011
<i>State property</i>	24,2	22,2	21,8	20,4	18,7	18,3	17,5
Non state property, of which	75,8	77,8	78,2	79,6	81,3	81,7	82,5
Citizen property	16,9	33,1	34,1	31,3	30,8	30,4	31,3
Farms	25,0	7,3	7,1	6,6	6,7	6,7	6,5
Business associations	22,4	24,6	24,1	24,2	24,3	27,4	27,0
Joint Ventures	6,8	8,6	7,6	14,5	16,2	14,2	13,9
Others	4,9	4,2	5,3	3,0	2,9	3,0	3,8

Source: Statistic Review of the Republic of Uzbekistan for 2005-2011. State's Committee of Uzbekistan.

The enterprises with foreign investment (EFI) contribute to the GDP formation very much. So the EFI share in a GDP constituted 23,0 % in 2010 and grew by two times comparing to 2001 (table 6).

Table 6

Share of enterprises with a foreign investment in the GDP of Uzbekistan

	2001	2005	2006	2007	2008	2009	2010
Gross domestic product (GDP) in Bio UzSum as total	4925,3	15923,4	21124,9	26190,0	36939,4	48097,0	61831,2
Value added by EFI in Bio UzSum	610,2	2523,9	3849,8	5786,3	9230,0	11928,7	14198,3
<i>Percent</i>	<i>12,4</i>	<i>15,9</i>	<i>18,2</i>	<i>22,1</i>	<i>25,0</i>	<i>24,8</i>	<i>23,0</i>

Source: Statistic Yearbook of Uzbekistan for 2008, p.355; Uzbekistan in Figures, 2010, p.165, National Statistic Committee of Uzbekistan. Note: \$1= 1800 UzSums

Foreign investment in Uzbekistan assists not only the opening of new industry sectors and developments in some economy branches, but also helps to diversify the economy itself. Transport and communication is the biggest beneficiary sector attracting foreign investments and credits, its share grew from 12,4% in 2001 to 50, 6% in 2011, following by fuel and energy sector (23,1%)

and light industry which demonstrates a little growth last time - from 2,3% in 2009 to 6,2% in 2011⁶.

Enterprises with a foreign investment are playing an important role in the foreign trade developments (table 7), especially in their imports.

Table 7

Share of enterprises with a foreign capital in foreign trade of Uzbekistan, \$ Mio

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Foreign trade turnover as total in \$ Mio, of which	5700	6689	8669	9501	11171	15719	19077	21209	21844	25537
Enterprises with foreign capital	1147	1423	2941	2416	2988	5198	7292	8100	5385	6795
%	20,1	21,3	23,5	25,4	26,8	33,1	38,2	38,2	24,6	26,6
Export as a whole, of which	2988	3725	4853	5408	6389	8991	11573	11771	13044	15027
Enterprises with foreign capital	443,0	564,4	785,2	823,1	1133	2063,4	2863,4	3262,3	1793,8	2437,8
%	14,8	15,1	16,2	15,2	17,7	22,9	24,7	27,7	13,7	16,2
Import as a whole, of which	2712	2964	3816	4091	4781	6728	7504	9438	8799	10510
Enterprises with foreign capital	704,8	858	1166	1593	1855	3134	4429	4836	3591	4358
%	26,0	29,0	30,5	38,9	38,8	38,8	59,0	51,2	40,8	41,5

Source: Statistic Review of the Republic of Uzbekistan for 2002-2011, National Statistic Committee of Uzbekistan; Ministry of Foreign Economic Relations, Trade and Investments of Uzbekistan, www.mfer.uz.

FDI is helping to diversify the structure of Uzbek national exports (decreasing the share of cotton fiber or energy sources) and imports by increasing the role of machines and equipment, which contributes the national industrial policy (table 8).

⁶ Statistic Review of Uzbekistan for 2001-2011. State's Statistic Committee of Uzbekistan.

Table 8

Structure of foreign trade in Uzbekistan, in \$ Mio

	1992	2002	2008	2009	2010	2011
Foreign trade turnover as total, in \$Mio	4456,6	5700,4	19077,0	20623,5	21708,5	25537,9
%	100,0	100,0	100,0	100,0	100,0	100,0
Export	52,3	52,4	60,6	59,2	58,7	58,8
Import	47,7	47,6	39,4	41,8	41,3	41,2
Export	100,0	100,0	100,0	100,0	100,0	100,0
<i>Cotton fiber</i>	47,9	22,2	9,3	8,6	12,1	9,0
Food	3,2	3,5	4,5	6,0	9,7	13,2
Chemical goods and goods from it	4,0	3,0	5,6	5,0	5,1	5,6
<i>Energy sources and mineral oil</i>	14,8	8,1	24,7	34,2	22,8	18,5
black and colored metals	9,4	6,4	7,0	5,0	6,9	7,4
Machines and equipment	9,4	3,9	7,6	2,9	5,5	6,7
<i>Services</i>	0	15,9	10,4	8,8	10,2	11,8
Others	11,3	35,7	30,9	29,5	27,7	27,8
Import						
%	100,0	100,0	100,0	100,0	100,0	100,0
<i>Food</i>	36,8	12,5	8,3	9,0	10,5	12,4
Chemical goods and goods from it	7,5	15,1	11,6	11,1	13,8	13,3
<i>Energy sources and mineral oil</i>	25,5	1,3	4,6	3,5	7,1	8,1
Black and colored metals	8,1	8,0	7,7	6,3	8,1	8,1
<i>Machines and equipment</i>	9,2	41,4	52,4	56,5	44,0	41,3
Services	0	10,6	4,4	4,4	5,3	5,3
Others	12,9	11,1	11,2	9,2	11,2	11,5

Source: Statistic Review of the Republic of Uzbekistan for 2002-2011, National Statistic Committee of Uzbekistan; Ministry of Foreign Economic Relations, Trade and Investments of Uzbekistan, www.mfer.uz.

During our studies we observed the links between several economic factors and indicators and can claim that there are direct links between FDI, foreign investment in general and GDP growth and these links are linear. But in a case of Uzbekistan we can see that not FDI and not foreign investment caused an economic growth, but the economic growth in Uzbekistan since 2005 became the most principal factor of FDI attracting in the Republic.

4. Conclusion: Problems and proposals

In order to meet the aims of the modernization of the national economy and increasing its technological level Uzbekistan has to attract greater FDI volumes as there is a huge investment potential to be increased and used. The technological level of FDI also has to be improved.

The enterprises with foreign investment play a very important role in the foreign trade of the Republic, and a greater one in its imports. It means intending that there is a need to improve the local content by better information and contact to local producers and suppliers or starting new capacities in the Republic.

The sectoral distribution of foreign investment largely needs to be diversified. The geographical distribution of FDI needs to be developed through improvement of the comparative advantages in the regions of Uzbekistan.

Some problems in a definition and classification of foreign investment including FDI have to be solved in order to make them closer to the international standards.