FDI DETERMINANTS IN UZBEKISTAN

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Abstract

Foreign direct investment is a powerful tool for shaping foreign economies and practices, and can therefore take the form of public or private expenditure. Private investment is the main form of FDI today, but it is also regulated by investor countries' policies, and plays a role in conducting foreign policy in a region. In the interests of policy relations, the use of international private investment by firms in their own countries is based on various political and economic processes that decide the ties between foreign capital's participation and shifts in host state politics. FDI appeal is more difficult in developing countries than developed countries. Furthermore, in this case the regional factors play a role. Economists are trying to define FDI determinants. A developing country like Uzbekistan aims to attract more foreign investment, which studies FDI determinants with linear regression. In addition, other guidelines were formulated on the basis of the findings of the study.

Keywords: FDI, GDP, Inflation rate, Exchange rate, Uzbekistan

INTRODUCTION

In recent decades, foreign investor currency and trust in Uzbekistan have increased, as the country took a number of measures in building investment-friendly infrastructure; developing the energy sector; providing the necessary facilities and promoting the establishment of industries; and simplifying regulations and rules. In 2017, FDI inflows decreased slightly to 96 million US dollars in the UNCTAD Foreign Investment Report 2018. In fact, the World Bank reports that investment growth declined from 9.5% in 2016 to 7.1% in 2017. This reflects a decline of 27.82 percent (133 million) from 2016 rates, however high renewable energy expenditure continues to see significantly stronger FDI estimates in future (FDI rise 444 percent between 2017 and

2018). To Russia, South Korea, China and Germany, the FDI has historically arrived, but Canada increased its financial footprint to 2018. The energy sector, particularly sustainable / renewable energy, has been based on investments throughout recent years. The total amount of FDI in 2017 was 9.3 billion USD (13.5% of GDP).

In the 2019 World Bank, Uzbekistan ranked 76th, with the 12th lightest company-building region. In the Transparency International ranking 2018, the country ranks 158th out of 180 nations. The government's policy of setting up seven special economic zones with fiscal opportunities has drawn international capital. Examples include Syrdarya Commercial Free Zone and a provisional President's decree dated October 2018, Shavkat Mireyeoy (FDI Intelligence), which calls for "further steps to accelerate and extend the operations in accessible commercial zones." Uzbekistan offered Eurobonds in 2018 to manufacture and services (Bloomberg) for up to 300 million dollars. Russia ordered the development of a nuclear power plant through the Russian Nuclear Energy Corporation (TASS) Rosatom through Saudi Arabia and Uzbekistan in these nations. The Russian Central Bank posted on the 2017 transfer of funds from Russia to Uzbekistan. The privatization of large state-owned companies and entrance into the WTO will strengthen Uzbekistan's FDI request, but in these areas the country is moving gradually.

LITERATURE REVIEW

FDI is described as an investment package in which a resident business maintains a long-term interest in a company outside its country borders in one country (OECD 2008). FDI shall be considered the possession or management of a non-corporate holding company or the equal value in 10% or more of its voting shares (Griffin 2007). Farrell (2008) described FDI as an encouraging entity to function and provide goods and services in a foreign market as a bundle of money, technology, administration and entrepreneurship. FDI can be separated into two groups, from theoretical perspective: horizontal and vertical. The Horizontal FDI (HFDI) is a type of investment which either in the same international industry that is in operation at home, or which provides the same services and is only tailored for local or original markets without the export of large amounts of output to host countries (Mask 2002) Japanese MNE are commonly used in their international expansion as they assume that this model would allow them to reduce the risk and share experiences, expertise, and reputation already established at home (Botrić 2006). There is still no general census on these determinants and it is direct contribution to the influx of these economies, where many research studies still are in attempt to assess them. FDI has long-term ties between economies which are good stimulus for economic growth and development (Ghostal M 2012). They also found out that GDP per capita is the main indicator of

the market size in Artige and Nicolini (2005). In fact, the technology and specialist workers are the main drivers of FDI's successful productivity increase (Kinda, 2010). The market opening as described by exports and imports as GDP is a calculation of the acceptance rates of foreign investors as regards studies by Root and Ahmed (1979).

During the country's developing stage, in another study by Dawar and Frost (1999) its natural resources kit as raw materials call for FDI influxes to be promoted. Bagchi-Sen and Wheeler (1989), on the other hand, consider in their research, that in the United States human capital is the main driver for expenditure in immigration as a highly skilled workforce. It is important to note at the same time its effect on the FDI and the political environment. Therefore, the high level of political instability drawbacks of investment in developing countries, specifically, were shown in Kisunko (1999) in his studies of 3500 companies and 74 countries.

The national currency uncertainty on the international market is one of the other influences. According to the Buch and Kleinert (2008) any shift in the currency of the host country directly impacts the competitiveness of the organization, in which way it encourages and discourages FDI inflows, or depreciates the national currencies.

In line with the Hines(1996) reports, he tried to analyze the relationship between taxation and the FDI level as regards the following main concern: the effect of host country taxation on the inversion system. He states, meanwhile, that foreign investors have a large number of FDI influxes from countries with tax incentives, usually about 9 percent higher than from others.

RESEARCH OBJECTIVES

The primary objective of conducting this study is to determine the determinants of foreign direct investment (FDI) in Uzbekistan. Based on the theoretical framework and research questions of this study, the research objectives of this research study had been constructed. The followings are the research objectives of this research study:

1. To investigate the relationship between exchange rate and foreign direct investment (FDI) in Uzbekistan. 2. To examine the relationship between population growth and foreign direct investment (FDI) in Uzbekistan.

3. To investigate the relationship between market size and business climate and foreign direct investment (FDI) in Uzbekistan.

4. To examine the relationship between inflation and foreign direct investment (FDI) in Uzbekistan.

METHODOLOGY

A panel data from 2007 to 2017 has been collected and the paper "DETERMINANTS OF FOREIGN DIRECT INVESTMENT (FDI) IN AGRICULTURE SECTOR BASED ON SELECTED HIGHINCOME DEVELOPING ECONOMIES IN OIC COUNTRIES: AN EMPIRICAL STUDY ON THE PROVINCIAL PANEL DATA BY USING STATA, 2003-2012" by Intan Maizura Abdul Rashid and et al has been chosen as a benchmark paper. The availability of data is one of the justifications behind choosing these periods. The variables that have been taken as the independent variable are exchange rate, population growth, market size, inflation, the logistics performance unlikely the benchmark paper, whereas the dependent variable is foreign direct investment. The sample of data that has been taken for empirical analysis will take credit on 11 years data in annually basis. Expected Outcomes in the study is to estimate the effect of several factors on the FDI inflow. Therefore we study the relationship between FDI and these factors and their significance level to the FDI inflow into Uzbekistan

Table 1: Unit Measurement for all variables

Variable	Abbreviation	Unit of Measurement	Sources
Foreign Direct Investment	FDI	FDI (USD)	World Bank Data
Exchange Rate	EXC	Inflation, GDP deflator (annual %)	World Bank Data
Market Size	GDP	GDP per capita growth (annual %)	World Bank Data
Population growth	POPGR	Growth in population	World Bank Data
Inflation	INFL	Inflation Rate	World Bank Data

Figure 1: Research Frameworks of the Determinants of

Foreign Direct Investment (FDI) in Uzbekistan
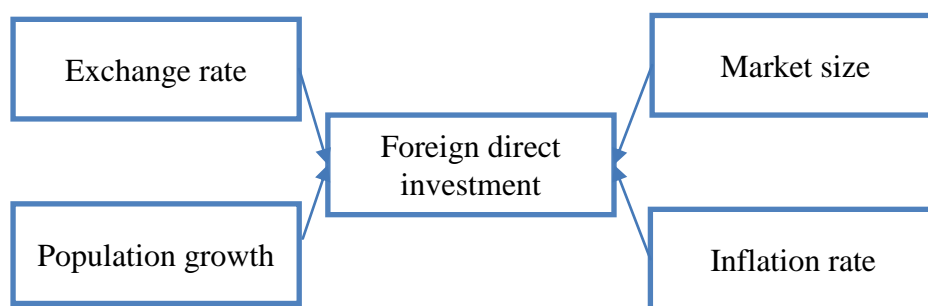
The study context is important to understand the relationship between dependent variable and indigenous variables, as shown in Graph 1, which describes the determinants of FDI in agricultural sectors between OIC countries. The component plays a key role in promoting work and in any other aspects. Here is a samples of the FDI in Uzbekistan.

Regression model is specified as:

$$FDI = \alpha + \beta_1 GDP_i + \beta_2 INFL_i + \beta_3 POPGR_i + \beta_4 EXC_i + \varepsilon_i \quad (1)$$

Based on equation (1), the positive GDP symbol, INFL, POPGR and EXC are a result of the positive effects on foreign direct investment in Uzbekistan of market size, development, population increase, exchange rate and logistics indicators. In Uzbekistan, GDP growth, INFL, POPGR, EXC cause FDI and vice versa.

Results and Principles Firstly, it is believed to be natural and uncorrelated to predictor or independent variables in the model when evaluating Panel results, including the form of random effects used for variance between items. The tool used to evaluate the impact of time-consuming factors. Combined OLS–If a single influence does not occur, an efficient and accurate parameter approximation is given by the normal smallest square (OLS). Summarize GLS focused on the production of rough covariance measures of proportional journal threats and the estimation of the modified linear pattern. Summarize the minimum square technique. All these measurements are conducted and data used in a STATA Comprehensive analytical framework is built for data analyzing which indicates the number of observations required for observation on the basis of the data collected. An overview of the FDI, market size, inflation, population growth and exchange rates, focused on descriptive statistics to assess the statistics of each component. The mean of each of the factors was then also included and the square root of the standard deviation. Furthermore the data which is performed have a minimum and maximum meaning.

RESULTS

Descriptive Statistics

Table 2: Descriptive Statistics of Determinants and FDI

Variables	Exchange rate	Market Size	Population growth	Inflation rate
Observations	11	11	11	11
Mean	16.12	6.1263873	1.827837	12.21939
Std.Dev	0.054993496	1.1931205	0.470105	1.565411
Min	7.98	3.5465823	1.423475	9.399636
Max	26.83	8.3675377	2.82285	14.11765

According to the table above, exchange rate has the highest mean and the highest maximum and the lowest mean belongs to the population growth, exchange rate has the lowest standard deviation of 0.150761702 while inflation rate has the highest standard deviation of 1.565411.

Market size, population growth and inflation rate have middle range Std.Dev 1.1931205, 0.470105, 1.565411 respectively. In addition this table includes the data about the minimum and maximum points of the collected data.

Correlation between variables

Variable correlation is the relationship between each variable included in the dependent variable and the independent variable analyzed in the study.

	FDI	Exchange rate	Market size	Population growth	Inflation rate
FDI	1.0000				
Exchange rate	0.3694	1.0000			
Market size	0.3213	0.1991	1.0000		
Population growth	0.4395	-0.0679	-0.3976	1.0000	
Inflation rate	-0.1575	0.2571	-0.1302	-0.3654	1.0000

The presence of a high correlation between the independent variables will lead to the problem of multicollinearity on the estimates. Still consider these variables because of the evaluation of the panel data, which takes care of collinearity issues. The highest correlation value means a very good relationship between the two variables in this study. It also shows that an aspect has emerged between the two variables that can be used for future research. Based on the above table, the correlation between variables is determined by the value for each variable between other variables. The highest correlation rate is FDI and population growth and it is 0.4395. In addition we see there is a slight positive correlation between exchange rate and FDI (0.3694). It can be seen that market size and population growth has the negative correlation (-0.3976). Negative correlation exists between inflation rate and population growth too (-0.3654).

Regression output

Table 4: Determinants of FDI inflows: Panel data Estimation Results

based on linear regression on STATA

Variables	Coefficient	Standard error	t-statistics
Exchange rate	2.40495	2.468131	0.97
Market size	.2274241	.1265234	1.80*
Population growth	.7356233	.3319358	2.22**
Inflation rate	.0335291	.0964266	0.35
R squared	0.5862	Adj. R squared	0.3103

Note: *, **, *** are significant respectively to $p < 0.05$, $p < 0.01$, and $p < 0.001$

The table 4 includes the coefficient, t-statistic value and P value that want to determine which of the variables is acceptable using the regression. The value for t-Statistic being rejected is above 1.64 that mean below than 1.64 is acceptable. Results show that market size and population growth are considered to be significant determinants of FDI in Uzbekistan.

CONCLUSIONS

According to regression results if market size increases FDI inflow to the country increases as well. These two indicators have positive relationship. In addition, total population growth increase in a country will cause FDI inflow to increase. However, exchange rate and inflation growth do not have statistical significance to the FDI to Uzbekistan. Considering limitation of the study, the regression has fewer observations than required. It may influence the results of regression.

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