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Foreign Experience and Use in Achieving Effective Use of Investments

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Abstract: Formation of an effective strategy of competitiveness of the enterprise. A country's national competitiveness and investment are closely and directly related: the more competitive a country is, the more it attracts direct investment.

Keywords: Enterprise competitiveness, effective strategy, direct investment, world economy, economic development.

INTRODUCTION.

The experience of developed countries in the world economy shows that private entrepreneurship, especially entities in the service sector, is one of the main factors that ensure social and economic stability in all aspects of society's development. The development of this sector leads to the enrichment of the country's population, economic development, saturation of the consumer market, increase in state budget revenues, and reduction of unemployment. It is worth noting that some problems are encountered in the formation and development of service sector entities and in ensuring their high efficiency. Eliminating these problems, solving not only practical, but also a number of theoretical issues requires conducting research aimed at the sustainable development of the socio-economic development of our country in exchange for increasing the effectiveness of this field.

Today, the service sector occupies a special place in solving the problems of economic growth. Satisfying the growing and expanding needs of the population for various services as fully as possible is a priority task of the socio-economic policy that is being pursued in our country. The main strategic goal of the Republic of Uzbekistan is the formation of an open market economy. In this regard, III. In the priorities of economic development and liberalization, rapid development of the service sector, increasing the role and share of services in the formation of the gross domestic product, fundamentally changing the composition of the services provided, first of all, at the expense of modern high-tech types, and rapid development of the industry and service sector, subsidized districts and it is important that the tasks of reducing cities and expanding the income base of local budgets are defined.

In developing and transition countries, FDI is increasingly seen as a source of economic development and modernization, income growth and employment. Countries have liberalized their regimes for attracting direct investment and are implementing new policies to attract investment. To date, economists in each country have considered how best to conduct domestic policies to maximize the benefits of foreign investor participation in the domestic economy.

FDI for Development attempts to shed light on the second issue, focusing first on the general effects of FDI on macroeconomic growth and other welfare-enhancing processes, and on the directions in which these benefits are channeled. Many studies have been conducted on the overall benefits of direct investment for the economies of developing countries. Given appropriate host country policies and the underlying level of development, the preponderance of research suggests that FDI enables technology diffusion.

In addition, the investment involved in the country's economy helps to form human capital, contributes to the integration of international trade, helps to create a more competitive business environment, and increases enterprise development. All these contribute to higher economic growth, which is the most

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powerful tool for poverty alleviation in developing countries. Also, apart from strictly economic benefits, FDI can help improve environmental and social conditions in the host country through technology transfer and more socially responsible corporate policies.

The study does not focus solely on the positive effects of direct investment for development. It also considers the risks related to possible disadvantages for the economic and non-economic activities of the host countries. The study also shows that while many of the so-called "costs" issues reflect weaknesses in host countries' domestic policies, significant problems arise when these weaknesses cannot be easily overcome.

Among the possible disadvantages are the deterioration of the balance of payments due to the return of profits, the lack of positive relations with the local community, the accelerated commercialization of direct investment, especially in developing countries, the potential environmental damage in extractive and heavy industries, and the impact on competition in national markets. . In addition, some host governments perceive increasing dependence on internationally operating enterprises as a loss of political sovereignty. In particular, if the host economy cannot take advantage of the technology or know-how transferred through FDI in its current state of economic development, even some of the expected benefits may be difficult to achieve.

The volume of FDI inflows to the world economy continued to set records for the past decade before declining in 2000. In 2020, global income reached US$1.1 trillion (USD), a fourfold increase from five years ago. More than 80% of the recipients of these flows and more than 90% of the initiators of outflows are located in "developed countries". The outflow of funds from the member countries of the Economic Cooperation and Cooperation Organization is presented in Table 1.

Table 1. OECD Foreign Direct Investment Flows by Region[2]

million in US dollars					**Total interest**			
	1990	1995	2010	2020	1990	1995	2010	2020
WORLD	61277	235836	335194	1068786	100	100	100	100
from which:								
OECD countries	42055	189166	263716	904349	68.6	80.2	79.7	84.6
Non-OECD countries	19222	46670	71437	137747	31.4	19.8	21.3	12.9
from which:								
Africa	404	195	3100	7267	0.7	0.1	0.9	0.7
Asia *	2171	12650	25106	29494	3.5	5.4	7.5	2.8
Europe *	8	408	3570	14026	0.0	0.2	1.1	1.3
Latin America and the Caribbean *	9101	18948	23632	68374	14.9	8.0	7.1	6.4
Near and Middle East	212	1056	1936	1571	0.3	0.4	0.6	0.1
Not distributed	7325	13413	14093	17015	12.0	5.7	4.2	1.6

* Except for OECD countries.

The limited share of FDI directed to developing countries is very unevenly distributed, with 2/3 of FDI flows from OECD countries to non-OECD countries going to Asia and Latin America. Within the regions, there are strong concentrations in a few countries such as China and Singapore. Even so, FDI flows represent significant values for many developing countries, several of which record FDI relative to the size of the domestic economy.

[2] OECD international direct investment statistics

Table 1 shows that the entire African continent (excluding South Africa) received approximately US$7.2 billion in FDI inflows in 2020. For comparison, this is equal to the volume of foreign direct investment attracted by Finland this year, which is only 0.6% of direct investment in the world economy. According to the analysis, the main factors attracting direct investment to Africa in recent decades have been the availability of natural resources in the host countries (for example, investments in the oil industry of Nigeria and Angola) and, to a lesser extent, the size of the domestic economy. The reasons for the decline in FDI in many other African countries are probably the same factors that have contributed to the low levels of private investment in GDP across the continent.

Research suggests that while the gross return on investment in Africa can be very high, this impact is more than balanced by higher taxes and the risk of capital loss.

As for the risk factors, currently three of them are macroeconomic instability, loss of assets due to non-fulfillment of contracts and physical destruction due to armed conflict. The latter can be particularly discouraging to foreign-based investors, as they are generally excluded from the informal networks of transactions and obligations that develop in the absence of a transparent[3] judicial system.

Recent studies have suggested several other factors deterring FDI, notably the stability of national economic policies, poor quality of public services, and closed trade regimes[4]. FDI, especially greenfield investment, contains an important element of irreversibility, so where investors' risk perception is heightened, the induction should be large to force them to accept FDI as opposed to delaying their decisions[5]. This problem is compounded when there is a lack of democracy, or other forms of political legitimacy that make the system of government prone to drastic changes. Finally, the lack of effective regional trade integration efforts is highlighted as a factor[6]. Therefore, national markets remained small and grew at modest rates, in some cases even shrinking.

However, some countries have been able to attract FDI due to the quality of the local business environment. In the late 1990s, countries such as Mozambique, Namibia, Senegal, and Mali were perceived[7] as having relatively favorable investment climates, primarily due to government policies aimed at trade liberalization.

Also, consider the consequences of launching privatization programs, modernizing the investment code and adopting international agreements on foreign direct investment, developing several priority projects with a wider economic impact, and engaging in high-level publicity efforts aimed at informing investors about these news. possible

In recent years, a growing share of FDI flows has been through mergers and acquisitions (M&A). This partly reflects the wave of transatlantic corporate takeovers that took place in much of the world in the 1990s and partly the large-scale privatization programmes. In developing countries, greenfield investment is the main entry method for direct investors, and this is followed by the participation of foreign companies in privatization.

The study focuses on the impact of net direct investment flows to developed and developing countries. The reason for focusing on developing countries is that they have been net importers of FDI.

High-income and "oil-exporting" developed countries are probably not typical of developing countries. showed. The first sub-period was 1990-2010, following the Latin American debt crisis, when net FDI was small but relatively stable. The second sub-period is 2010-2020, during which the flow showed a significantly sharp and stable growth trend. To correct the ideas, it is useful to look at the simple accounting identifier for any country:

[3] E. Hernández-Catá (2000), “Raising Growth and Investment in Sub-Saharan Africa: What Can Be Done?”, IMF Policy Discussion Paper, PDP/00/4.
[4] See, for example, D. Dollar and W. Easterly (1998), “The Search for the Key: Aid, Investment and Policies in Africa”, World Bank Working Paper.
[5] . L. Serván (1996), “Irreversibility, Uncertainty and Private Investment: Analytical Issues and Some Lessons for Africa”, World Bank Working Paper
[6] N. Odenthal (2001), “FDI in Sub-Saharan Africa”, Technical Paper No. 173, OECD Development Centre.
[7] J. Morisset (2000), “Foreign Direct Investment in Africa: Policies also Matter”, World Bank Working Paper

DI+NFDI=DS+NFDI+NFR–CIR (1)

where: DI - investments of local entrepreneurs (including national governments);

DS - internal fund;

NFDI - net flow of direct investment (= input - output);

NFR - net flow of financial resources without direct foreign investment (= input - output);

CIR is the change in international reserve. We remove the complications of exchange rates by considering all values in current US dollars. NFR includes net inflows of private capital, private loans, loans and grants from bilateral and multilateral sources. The left side of the identity represents total investment in the economy. According to NFDI's definition, an investment that appears on both sides of the equation states that it is self-financing.

It is easy to see that gross investment exceeds domestic saving when NFDI>DS–DI, equals domestic saving when NFDI=DS–DI, and less than domestic saving when NFDI<DS –DI. Thus, any positive net foreign direct investment inflows will necessarily raise gross investment above domestic savings only if domestic savings are fully used to finance domestic investment under all circumstances. Since FDI inflows can in principle be used to finance domestic investment, the upper limit for DI is given by DS+NFR. When DI<DS+NFR, CIR must be positive.

Part of the domestic savings and foreign direct investment net proceeds that are not used to finance domestic investment will eventually finance the accumulation of foreign exchange reserves. Once any variable is assumed to be exogenous, identification can be used to study the adjustment dynamics. Traditionally, domestic investment is treated as an exogenous variable. Starting with the absence of foreign capital and domestic investment equaling national investment and domestic savings, it is easy to understand any attempt by domestic entrepreneurs (including the government) to increase the rate of investment.

The economy requires a positive NFDI or a positive NFR or a negative CIR or some combination thereof. Investments in excess of domestic savings lead to current account deficits, which must be financed through external resource flows. The standard view of capital flows occurring in developing countries to meet the unmet demand for investment finance stems from this perspective; capital flows finance the current account deficit, which reflects that the expected investment rate is higher than the actual savings rate. In this context, both NFDI and NFR are endogenous variables; NFDI is simply additional investment made by foreign investors, and NFR is a certain amount of foreign funds that can be used by domestic entrepreneurs. Hence, net capital inflows necessarily mean that total investment in the receiving economy exceeds domestic savings.

However, this view is inconsistent with some basic facts about capital flows. In several developing countries that received significant net inflows of both FDI and non-FDI financial resources between 1990 and 2020, even gross investment (not just inward investment) has steadily declined, often significantly, in domestic savings. Studies show that China, which is now rapidly developing, has not only been the largest recipient of foreign capital in the developing world for many years, but has also been continuously generating surplus domestic savings. But focusing on the analysis, China's performance is not positive as shown in Table 2.

2- table. Net capital inflow, domestic saving and total investment[8]

	1990-2010			2010-2020		
	NCI/Y	(DS/Y – I/Y)	DS/Y	NCI/Y	(DS/Y – I/Y)	DS/Y
Brazil	-0.022	0.039	0.240	0.011	0.012	0.201
Chile	-0.014	0.042	0.216	0.018	0.024	0.259
Mexico	-0.039	0.072	0.256	0.020	0.026	0.210
Uruguay	-0.020	0.056	0.173	0.001	0.021	0.160

[8] Author's estimates based on data from the World Bank

China	0.016	0.055	0.349	0.048	0.082	0.408
Indonesia	-0.015	0.063	0.310	0.007	0.043	0.320
Cameroon	0.007	0.035	0.244	0.013	0.031	0.188
Congo, Rep.	0.031	0.037	0.296	0.027	0.024	0.271
Côte d'Ivoire	-0.038	0.070	0.195	0.017	0.050	0.158

Note: NCI(=NFDI+NFR) - net capital flow, I=(DI+NFDI)- total investments in the economy, Y - GDP.

The nine countries listed in the table were major recipients of FDI; They accounted for 55 percent of net direct investment flows to all 37 countries in 1990-2010 and 70 percent in 2010-2020. Table 2 shows that in most cases countries received significant net inflows of foreign capital, even though their savings were not fully used to finance investment.

In other cases, revenues were smaller than outflows of national financial resources (to repay past loans and/or to pay interest on past loans), so in cases where there was a net outflow of domestic savings, the amount of unused domestic savings was larger. This means that even in such cases, the available domestic funds were not fully used to finance investments. Such results, it may be noted, had very little to do with the level of domestic savings; they are observed in both high and low austerity countries.

In general, there is evidence that capital flows often finance the accumulation of foreign exchange reserves rather than investment in recipient developing countries. Studies have shown that in the 1990s, 30-60 percent of gross capital flows to developing countries ended up financing the reserve fund. In the context of our study countries, the growth of global international reserves in the 1990s was as impressive as the growth rate of global capital flows. Here is a striking difference between developing and developed countries. The accumulated stock of developed countries grew much more slowly than that of developing countries.

As a result, the share of developed countries in the world reserve decreased from 77 percent in 1989 to 48 percent in 2000. In 1990-2020, the share of international reserves in relation to GDP remained stable, remained around 3 percent in developed countries, but increased. 5 percent to 15 percent for developing countries. For 37 major developing countries, foreign exchange reserves increased from US$90 billion (4% of GDP) in 1990 to US$563 billion (12% of GDP) in 2020. Their share of global reserves increased from 14 percent to just 14 percent. In 1990, it was 33 percent in 2000.

Hence, in the presence of FDI inflows, we should expect domestic entrepreneurs to use both domestic savings and non-FDI inflows as sources of investment financing. However, it should be noted that the net proceeds of foreign direct investment in any country are generally not available to domestic entrepreneurs to finance investment. This is because such a flow tends to increase the short-term external payment obligations of the receiving country.

In conclusion, any perception in the financial markets that the country concerned has not allocated sufficient foreign exchange reserves to meet these obligations can lead to a sudden change in the flow of private foreign direct investment, thereby triggering a financial crisis. Thus, the receiving country usually has to use a large part of the entry to accumulate foreign exchange reserves to prevent panic in the financial markets.

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