CONDITIONS FOR THE IMPLEMENTATION OF INVESTMENT PROCESSES

Amirov L.
Candidate of Economic Sciences(PhD), Dotsent
Tel: +998977218282

Safarov S. A.
Student of TSUE
Tel: +998932403308 E-mail: safarovsindorbek@gmail.com

ANNOTATION

This article discusses the conditions necessary for the implementation of investment processes: the satisfaction of motives, the need for the state to provide tax benefits for production, and the research of various scientists. Relevant examples and recommendations on investment processes have also been developed.

Keywords: participants in the FDI process, motives of foreign investors, various tax incentives, entry of foreign companies into the host country through FDI are the three main strategies.

ENTRANCE

The motivations of the host country to attract FDI are reflected in a number of scientific studies, in particular, to stimulate economic growth, expand the privatization program, access to advanced technologies and modern management methods, create new jobs, develop new products (services) for local producers incentives, reduction of public expenditures related to the construction of infrastructure facilities, etc..

For all developing and transition economies, the Republic of Uzbekistan's main source of economic growth and development is the accumulation of domestic capital in the economy and the provision of fixed capital, which makes it a priority for the government and local governments to attract FDI. In particular, as the President of the Republic of Uzbekistan Sh. Mirziyoyev said: "... it is necessary to consistently pursue an active investment policy for the rapid development of the economy."

THE MAIN PART

Not only foreign investors, but also the government of the host country and manufacturers of the host country are actively involved in the FDI process. (Figure 1)

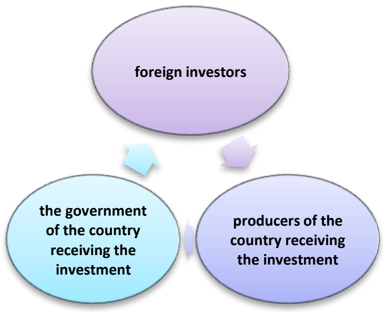

Figure 1. Participants in the FDI process

Therefore, the motives expected through investment are very important for all three entities, and the motives of all parties should be appropriate and consistent in terms of goals. Also, the motives of each subject should be consistent with, complement, and satisfy the motives of the other parties. If the motives of each party fully satisfy the other subjects, the process of involving FDI will take place. If the original motives of some parties or all parties waiting for the investment are hidden, in such cases there are cases when the investment process does not take place.

For example, in 2018, a foreign company ELQ-Uzbekistan was registered in Karshi, and in the initial negotiations, the founder of the company reached an agreement to launch a project to produce transformers and heating boilers in Karshi with the introduction of $ 100.0 million FDI. However, at the project stage, the main goal of the foreign investor is not to start production, but to provide investors with free allocation of premises and trade activities by importing transformers and boilers from the Republic of Poland in the form of finished products using tax and customs benefits. and given that these motives run counter to the economic interests of our country, the project has been suspended by the local authorities.

In the context of increased competition between countries to attract FDI, there is a practice of governments providing various benefits and incentives for foreign investors, based on the motives of foreign investors and in order to further increase their interest in investing in the country's economy. For example, a system of benefits is provided for foreign investors in the form of exemptions from certain types of taxes, granting tax holidays, reduction of tax burdens, tax refunds, reduction of value added taxes.

In particular, in order to increase the interest of foreign investors in the Republic of Uzbekistan, a number of tax incentives have been applied. In particular, in accordance with the Decree of the President of the Republic of Uzbekistan dated April 11, 2005 No. PF-3594 "On additional measures to encourage foreign private investment", the following amounts of foreign direct investment Specific features of the application of benefits are provided:

- From 300 thousand US dollars to 3 million US dollars - for a period of 3 years;
- More than USD 3 million and up to USD 10 million - for a period of 5 years;
-10 million US dollars when it exceeds - for a period of 7 years.

In the world experience, many industries and sectors are offered by many governments in order to increase investment attraction, removing all barriers for foreign investors. In addition to tax benefits for foreign investors, various forms and types of benefits and preferences are used, in particular, financial benefits (soft loans and grants), infrastructure and market benefits. As the economist F. Rakhmatullaeva noted, "The global investment market is a fiercely competitive area in which countries that offer a free and stable investment regime to foreign investors will win."

In accordance with the Decree of the President of the Republic of Uzbekistan dated April 10, 2012 No PF-4434 "On additional measures to encourage foreign direct investment" in the framework of investment projects worth more than $ 50 million and the share of foreign investors is at least 50% , construction of the necessary external engineering and communication networks outside the production area will be carried out at the expense of budget funds and other sources of internal financing.

In accordance with the Decree of the President of the Republic of Uzbekistan dated August 1, 2018 No PF-5495 "On measures to radically improve the investment climate in the Republic of Uzbekistan", the minimum share of foreign investment in the charter capital of enterprises with foreign investment was reduced from 30% to 15%. The requirement for a foreign legal entity to participate as a participant of a joint venture has been abolished, the minimum charter capital of enterprises with foreign investment has been reduced from 600 million to 400 million soums, the state fee for state registration of enterprises with foreign investment has been reduced threefold. The minimum amount of the authorized capital is set at 400 million soums. Also, multiple three-year visas for foreign citizens and stateless persons who have invested in the Republic of Uzbekistan in the form of purchase of shares and stakes of business entities in the amount of not less than 8,500 times the basic calculation amount established in the Republic of Uzbekistan at the time of investment. and the right to extend its validity indefinitely without the need to leave the territory of the Republic of Uzbekistan.

In accordance with the Resolution of the President of the Republic of Uzbekistan dated May 7, 2020 No PQ-4707 "On measures to further support export activities" made.

Benefits provided to foreign investors have declined in importance as the host country's market size factor, highlighted as a key factor in FDI, has increased due to increased focus on the preference factor, and increased competition from smaller countries to larger countries to attract foreign investment.

Local manufacturers in the host country also have certain motives for attracting FDI. In particular, they attract foreign investment in search of strategic assets, purchase of brands for use in domestic and foreign markets, further economic development of the enterprise.

Many enterprises in the Republic of Uzbekistan are distinguished by their obsolete equipment, technology and outdated management methods. To succeed in the competitive struggle in the market, these enterprises want to master modern equipment, technology and advanced management methods. Foreign companies have the opportunity to strategically re-equip local enterprises with the necessary financial and technological know-how.

Technology and know-how also come to local enterprises through FDI, who benefit from the involvement of FDI by organizing the production process on the basis of advanced technologies brought by foreign companies. For example, the joint venture ERKAN MACHINERY, established in Kitob district by local and Turkish entrepreneurs, launched a project for the production and maintenance of spare parts for flour and feed mills, along with the prevention of foreign exchange outflows for local enterprises in this area. , offers quality and fast service.

Local businesses can directly and indirectly achieve the expected efficiency through FDI. For example, they can have a certain positive impact by mastering the technologies brought in by foreign investment, by hiring staff trained in TCs.

According to the research of H.Gorg and D.Grinavey, local enterprises have a positive impact on FDI through 4: competition, human capital, imitation (assimilation), export channels. In particular, certain inefficient methods, shortcomings in local enterprises through the competition channel are eliminated, they quickly adapt to new technologies. Through the human capital channel, the productivity of employees of local enterprises will increase and unique knowledge and skills will be acquired. New production and management techniques will be explored through the imitation channel. Through the export channel, the scope of activities of local enterprises will expand and technological differences will be eliminated.

Local research has also explained the positive impact of FDIs on the economy through the focus of local funds on investment activities, management, marketing and advanced technologies that increase labor and capital efficiency. According to the research of economist B.Valiev, FDI is developing and expanding the range of products based on modern technologies, upgrading the production apparatus and introducing innovative technologies, training and retraining, increasing the share of science-intensive and high value-added products and creates opportunities.

Most research on foreign investment states that the entry of foreign companies and entrepreneurs into the host country through FDI is based on 3 main strategies: through the establishment of a joint venture between a local enterprise (entrepreneur) and a foreign enterprise (entrepreneur) (Joint Venture); mergers of local enterprises and foreign enterprises (Mergers) and shares of local enterprises through the acquisition of a controlling stake by a foreign company (entrepreneur) (Acquisitions); through the organization of production by a foreign company (entrepreneur) in the host country with the state registration of the enterprise (Greenfield investment). Regardless of the investment strategy, foreign investors in the host country operate as a joint venture (shares in a share or controlling stake are determined by mutual agreement of local and foreign entities) and a foreign entity (a 100 percent stake or controlling stake belongs to a foreign investor). The fact that local and foreign firms are doing business in the form of joint ventures can be explained by a number of reasons. The main reasons are the exchange of technology and marketing know-how between the two firms, the joint use of research and development and special resources.

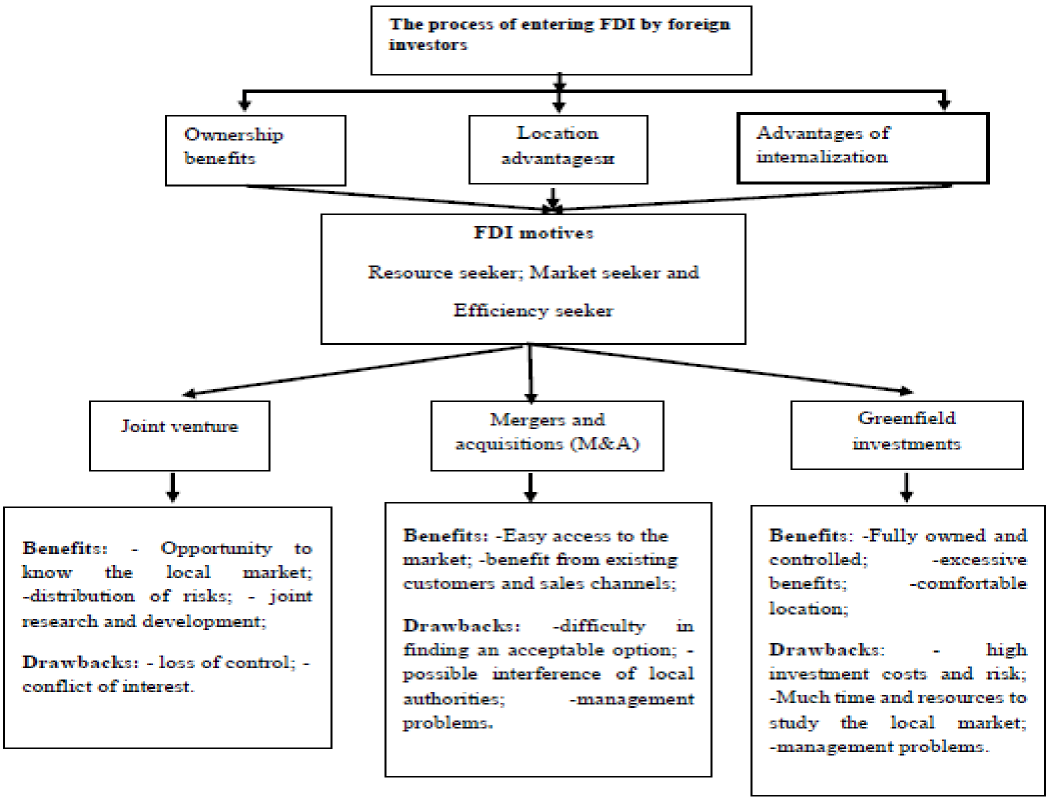

Figure 2. FDI-motive-cause-effect relationship

As a result of research, doing business in the form of a joint venture has certain positive effects for both parties - domestic and foreign enterprises. These positive effects can be explained by the availability of financial resources for local enterprises, modern new equipment, technologies, advanced management methods, knowledge of local market opportunities for foreign enterprises, risk sharing, joint research on business development.(Figure 2).

Of course, in practice, a number of negative aspects of operating in the form of joint ventures have been observed, and these negative situations can occur mainly for the foreign party in the form of loss of business control in the host country, conflict of interest over time, income distribution.

According to the study, although the merger and acquisition strategy (M&A) of foreign investors to host countries is used as a single word in the general case, there are certain differences between them due to the emergence of FDI. A merger (Mergers) occurs when two or more companies merge and become one company. From the point of view of FDI, it is understood that by merging resources to achieve a common goal, it will become a single enterprise through the merger of a local enterprise with a foreign company.

Acquisitions are slightly different from mergers in that they are an agreement between a local and a foreign company in which a local company acts as a seller and a foreign company acts as a buyer. A foreign entity acquires a local entity for the purpose of partial or full control.

CONCLUSION

Research can lead to the conclusion that the introduction of FDI through mergers or acquisitions (ownership) occurs mainly in countries where financial markets are developed and developing. This strategy will have a positive impact by providing investors with easy access to foreign markets, pre-existing sales channels, and seeing benefits through customers. The disadvantages of this strategy are also the presence of asymmetric data on the objects to be merged or acquired, the difficulties for foreign investors in choosing the optimal option, the emergence of some non-transparent probabilities as a result of the influence of local authorities in the property acquisition system.

Greenfield investment is the beginning of a new production (business) process in a host country based on 100% ownership and control by a foreign company through FDI. Greenfield investments are made primarily to benefit high-growth transition economies and less competitive markets in developing countries. However, these countries are characterized by high levels of risk due to uncertainties in credit ratings, political instability, and unfavorable investment climate.

The existence of low transaction costs can be noted as the main motivation for greenfield investments in transition economies and developing countries. Foreign investors - Greenfield will have a number of positive effects through investments. In particular, through 100% full ownership and control, it will be able to make independent management decisions on branding, technology, organization of the production process, diversification of products (services). Greenfield investments are also characterized by the provision of a system of many benefits and preferences by host countries. Also, foreign investors - through greenfield investment - will be able to locate a new plant or enterprise under construction in a convenient location, based on the advantages of raw materials, sales, distribution channels for their activities.

For foreign investors, greenfield investments also have some negative effects. In particular, factors related to the construction process - the construction of buildings and structures, connection to infrastructure, staffing - the selection of staff, training, retraining and other factors lead to high investment costs. Also, a full study of local market opportunities requires a lot of time and financial resources, as well as some inconveniences in the management of production activities abroad.

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