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FOREIGN INVESTMENT IS AN IMPORTANT FACTOR OF ECONOMIC GROWTH

CHET EL INVESTITSIYALARI IQTISODIY O‘SISHNING MUHIM OMILI

ИНОСТРАННЫЕ ИНВЕСТИЦИИ — ВАЖНЫЙ ФАКТОР ЭКОНОМИЧЕСКОГО РОСТА

Mamatov Bahadir Safaralievich
Tashkent State University of Economics, Professor.
ORCID: 0009-0004-6227-5103

Abstract

This article demonstrates that foreign investment is a vital factor in economic development. It examines the scientific and theoretical foundations of foreign investment, particularly the views of mercantilism, classical economists, Keynesian theory, and neoliberalism. It highlights the role of foreign investment in the economy and its international flows globally. It describes and classifies the key and distinctive features of foreign investment. It analyzes the volume and dynamics of global gross domestic product and global foreign direct investment in 2015–2025, identifying relevant trends. Based on the research findings, proposals and recommendations for increasing the attractiveness of foreign direct investment for the economy are developed.

Key words: investments, foreign investments, foreign direct investments, international flow of foreign investments, gross domestic product, investment climate, infrastructure, developed countries, investment resources, profit, investment risk, reinvestment.

Ushbu maqola xorijiy investitsiyalar iqtisodiy rivojlanishda muhim omil ekanligini ko‘rsatadi. Unda xorijiy investitsiyalarning ilmiy va nazariy asoslari, xususan, merkantilizm, klassik iqtisodchilar, Keyns nazariyasi va neoliberalizm qarashlari o‘rganiladi. Unda xorijiy investitsiyalarning iqtisodiyotda va uning xalqaro oqimlarida global roli ta’kidlanadi. Unda xorijiy investitsiyalarning asosiy va o‘ziga xos xususiyatlari tavsiflanadi va tasniflanadi. Unda 2015-2025 yillarda global yalpi ichki mahsulot va global to‘g‘ridan-to‘g‘ri xorijiy investitsiyalar hajmi va dinamikasi tahlil qilinadi, tegishli tendensiyalar aniqlanadi. Tadqiqot natijalari asosida iqtisodiyot uchun to‘g‘ridan-to‘g‘ri xorijiy investitsiyalarning jozibadorligini oshirish bo‘yicha takliflar va tavsiyalar ishlab chiqiladi.

Kalit so‘zlar: investitsiyalar, xorijiy investitsiyalar, to‘g‘ridan-to‘g‘ri xorijiy investitsiyalar, xorijiy investitsiyalarning xalqaro oqimi, yalpi ichki mahsulot, investitsiya muhiti, infratuzilma, rivojlangan mamlakatlar, investitsiya resurslari, foyda, investitsiya xavfi, qayta investitsiya.

В данной статье показано, что иностранные инвестиции являются важнейшим фактором экономического развития. Рассматриваются научные и теоретические основы иностранных инвестиций, в частности, взгляды меркантилизма, классических экономистов, кейнсианской теории и неолиберализма. Подчеркивается роль иностранных инвестиций в экономике и их международные потоки в глобальном масштабе. Описываются и классифицируются ключевые и отличительные особенности иностранных инвестиций. Анализируются объемы и динамика мирового валового внутреннего продукта и мировых прямых иностранных инвестиций в 2015–2025 годах, выявляются соответствующие тенденции. На основе результатов исследования разработаны предложения и рекомендации по повышению привлекательности прямых иностранных инвестиций для экономики.

Ключевые слова: инвестиции, иностранные инвестиции, прямые иностранные инвестиции, международные потоки иностранных инвестиций, валовой внутренний продукт, инвестиционный климат, инфраструктура, развитые страны, инвестиционные ресурсы, прибыль, инвестиционный риск, реинвестирование.

The role of foreign investment in the economy is a key topic in modern economic science and practice. First, foreign investment (primarily direct investment) contributes to economic growth. It provides an influx of capital, which is used to develop industry, infrastructure, agriculture, and other sectors. Second, the technological impact is important. Foreign companies bring modern technologies, management experience, and innovation, which increases the productivity and competitiveness of the national economy. Third, foreign investment creates new jobs, contributes to increased incomes and improved living standards. Fourth, it strengthens the country's integration into the global economy, develops export potential, and strengthens foreign economic ties.

The relevance of foreign investment is particularly heightened in today's context: the globalization of the global economy; increased competition between countries to attract capital; the need to modernize and digitalize the economy; the consequences of global crises (such as pandemics), which require additional financial resources; and the desire of developing countries to accelerate economic development. Thus, foreign investment is an important factor in sustainable economic growth, structural transformation, and increased competitiveness, making this topic extremely relevant today.

As noted in the report of the United Nations Conference on Trade and Development (UNCTAD) and the World Investment Report, “The volume of foreign direct investment in the world in 2025 increased by 14%, to 1.6 trillion dollars. The growth of investment took place mainly in developed economies. Thus, the inflow of foreign direct investment into developed countries increased by 43%, to 728 billion dollars. In particular, the level of foreign direct investment into the countries of the European Union increased by 56%, and the most significant growth was observed in Germany, France and Italy. According to the report, the inflow of investment into developing countries decreased by 2%, to 877 billion dollars. Nevertheless, it amounted to 55% of the total volume of foreign direct investment in the world. It is noted that in 75% of the least developed countries of the world there was a stagnation or a decrease in the inflow of foreign direct investment” [1].

International experience shows that foreign investment is a key driver of economic growth. It has a positive impact on the economy by creating new businesses, modernizing production, increasing export potential, and creating jobs. At the same time, investment helps address the capital shortage in the economy. Another important aspect of foreign investment is technology transfer. Foreign investors bring modern technologies, innovative production methods, and management experience to the country's economy. This enhances the economy's competitiveness. Therefore, improving the investment climate, attracting foreign capital, and cooperating with international financial institutions are becoming priorities for the country's economic policy.

Many foreign and domestic economists and scholars have conducted research on attracting foreign investment into the economy.

Mercantilists (16th-17th centuries), such as Thomas Mann, Jean-Baptiste Colbert, and Antoine de Montchretien, "believed that foreign investment should be used to increase a country's gold and foreign exchange reserves. They encouraged the import of technology and capital, but limited the export of capital abroad" [2]. "The ideas of scholars of the mercantilist school about the role of investment and the active participation of the state had a significant influence on the economic policies of many countries of the time" [3].

Representatives of the classical school A. Smith, D. Ricardo, J. Mill, J.B. Say, T. Malthus in their scientific works: “clearly distinguished the characteristics of the concepts of money and capital; defined the role of capital accumulation in the formation of investment resources; studied the role of credit money in the development of investments; demonstrated the objectivity of the process of reducing the level of profitability of invested capital as its use increases; determined the mechanism of the relationship between the increase in the volume of investments and the economic growth of the country; determined the scale of state unproductive investments and proposed a scheme for optimizing the distribution of investment resources within the national economy; created the basis for studying the mechanism of international investment migration” [4].

According to Keynesian theory, “investment is a means of expanding production and consumption and restoring lost national scale. The quantitative relationship between the value of investment and national income is determined by the application of the multiplier principle. Accordingly, any increase in investment ensures a more proportionate increase in income, employment and production, given the larger relative share of consumption and the rate of growth. The effectiveness of government regulation of economic processes depends on finding funds for investment, ensuring the highest possible full employment of the population and strict setting of interest rates. The lower the interest rates, the greater the incentive for investment, the greater the investment demand, the higher the employment and the lower the unemployment rate” [5]. According to the concept of the marginal efficiency of capital developed by John Maynard Keynes, “net profit is the motivating factor in the demand for investment. Keynes defined it as the net income remaining after covering current expenses and depreciation. Since investments yield results not at the time of their implementation, but in the future, it is necessary to take into account the expected profit throughout the entire service life of fixed assets” [6].

Some neoliberal views on investment include: support for lowering capital gains taxes – neoliberals believe that this is necessary to stimulate investment and develop a dynamic economy; opposition to raising taxes on investment income – neoliberals believe that such an increase can slow down investment and economic growth; freedom of capital movement – neoliberals believe that complete freedom of capital movement between regions leads to economic growth and improved access to resources. According to proponents of neoliberalism, such as Walter Euken, Ludwig Erhard, Alfred Müller-Armack, Milton Friedman, and Friedrich Hayek, “foreign investment is considered an important factor in economic growth. It supports the creation of an open economy and the free movement of capital” [7].

This article uses comparative analysis, statistical analysis, comparison, scientific abstraction, analysis, synthesis, and econometric modeling to analyze the state of attracting foreign investment into the economy.

The free movement of capital in the global economy, along with stronger economic cooperation between countries, contributes to a more efficient international division of labor. In particular, foreign investment in developing countries allows them to compensate for the lack of domestic financial resources, develop infrastructure, and create new production capacities. In economic literature, foreign investment is defined as the process of capital investment by residents of one country into the economy of another. These investments are made with the goal of developing economic activity and generating income.

According to the International Monetary Fund, "foreign direct investment is direct investment in any sector of the economy outside the investor's home country with the aim of obtaining long-term benefits. The investor also seeks to obtain significant voting rights in the management of the foreign enterprise. If the investor owns at least 10 percent of the voting shares, it is considered to have significant influence over the management of the enterprise located in the foreign country" [8].

According to economists V.V. Komarov and N.I. Litvina, "foreign investment is all types of property and intellectual property invested by foreign investors in entrepreneurial and other activities for the purpose of generating income. Foreign investment is divided into direct, portfolio, and other types" [9]. According to this definition, foreign investment is all types of property and intellectual property invested by foreign investors in entrepreneurial and other activities for the purpose of generating income. This definition can also be further expanded from a scientific perspective. In particular, one of the important aspects of foreign investment is its impact on the development of the national economy, that is, its connection with such factors as the creation of new jobs, the introduction of modern technologies, an increase in export potential, and the stimulation of economic growth.

In the monograph by A.V.Alekseev, A.O.Baranov and N.P.Dementyev, a foreign direct investor is defined as "an institutional unit that can exercise direct (immediate) or indirect control or significant influence over another institutional unit (direct investment enterprise) that is a resident of another country" [10]. According to the definition, a foreign direct investor is an institutional unit that has the ability to exercise direct or indirect control or exert significant influence over an institutional unit that is a resident of another country. This definition is consistent with the main approaches adopted in international economic relations from a scientific point of view and is of great importance for revealing the essence of foreign direct investment. At the same time, from a scientific point of view, this definition can be further supplemented. In particular, a foreign direct investor should be considered not only as an entity investing capital, but also as a participant in economic activity, importing technology, management experience and innovative solutions. These factors play an important role in increasing the competitiveness of the national economy.

Uzbek legislation defines the following concepts: "foreign direct investment—investments using a foreign investor's own or borrowed funds under risk-bearing conditions, without government guarantees" and "foreign investment—material and intangible assets and rights thereto, including intellectual property rights, as well as reinvestments made by a foreign investor in social, entrepreneurial, scientific, and other activities."

Based on the above definitions, the important features and characteristics of foreign investment can be classified and described as follows (Figure 1):

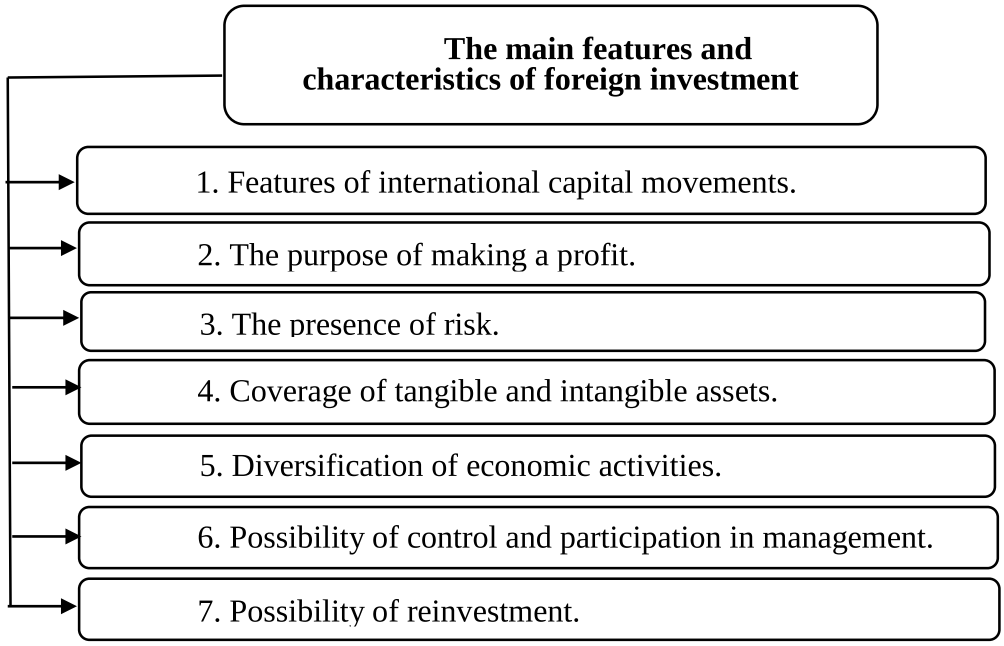

Figure 1. Main features and characteristics of foreign investments [11]

Thus, foreign investment is an economic process based on the international movement of capital, undertaken for the purpose of generating income, associated with a certain level of risk, and involving both tangible and intangible resources. These characteristics are of great importance for the development of the national economy, technology transfer, and the expansion of international economic cooperation.

In recent decades, the flow of foreign investment into the global economy has grown significantly. This process has been significantly influenced, in particular, by globalization, the expansion of international trade, and the increased activity of transnational corporations. The main investor countries in the global investment market are developed countries—the United States, the European Union, and Japan. However, in recent years, countries such as China, India, and South Korea have also become significant investors. Among the countries receiving investment, the leaders are countries with a high level of industrialization and those rich in natural resources. At the same time, many developing countries are actively attracting foreign capital, improving their investment climate.

According to a preliminary report from the United Nations Conference on Trade and Development (UNCTAD), "global foreign direct investment flows are projected to increase by 14% in 2025, reaching $1.6 trillion" [12]. This growth comes after two years of declining investment volumes, but we believe that the positive figures mask a fragile situation. A significant portion of the growth is due to transactions through global financial centers. "Transit flows" account for over $140 billion of the total increase. Without these transactions, real growth in foreign direct investment would have been only around 5%, indicating an insufficient recovery in investment activity. Nevertheless, key indicators of investor sentiment remain low. "International project financing fell by 16% in value and by 12% in number of deals, marking the fourth consecutive year of decline, returning to levels seen in 2019. “The number of new greenfield projects fell by 16%, with only a few large projects accounting for the strong performance” [13]. Interestingly, foreign direct investment flows to developed economies increased by 43%, reaching $728 billion. Europe and its financial hubs were the main drivers of this growth. In the European Union, the increase was 56%, driven by large cross-border deals and a recovery in countries such as Germany, France, and Italy. At the same time, investment in developing countries fell by 2%, reaching $877 billion. Least developed countries were hit hardest: three-quarters of them experienced either stagnation or a decline in foreign direct investment inflows.

International infrastructure projects also declined by 10%. This was primarily due to a significant decline in renewable energy investment amid a reassessment of yield risks and regulatory uncertainty. Domestic investors are becoming increasingly important, but this could exacerbate the gap in countries dependent on external financing for large projects.

We believe that with improved financial conditions and a revival of cross-border transactions, foreign direct investment could increase slightly. However, actual investment activity will be limited by geopolitical tensions, political uncertainty, and the fragmentation of the global economy. Without coordinated action, global investment could be concentrated in only a few regions and sectors.

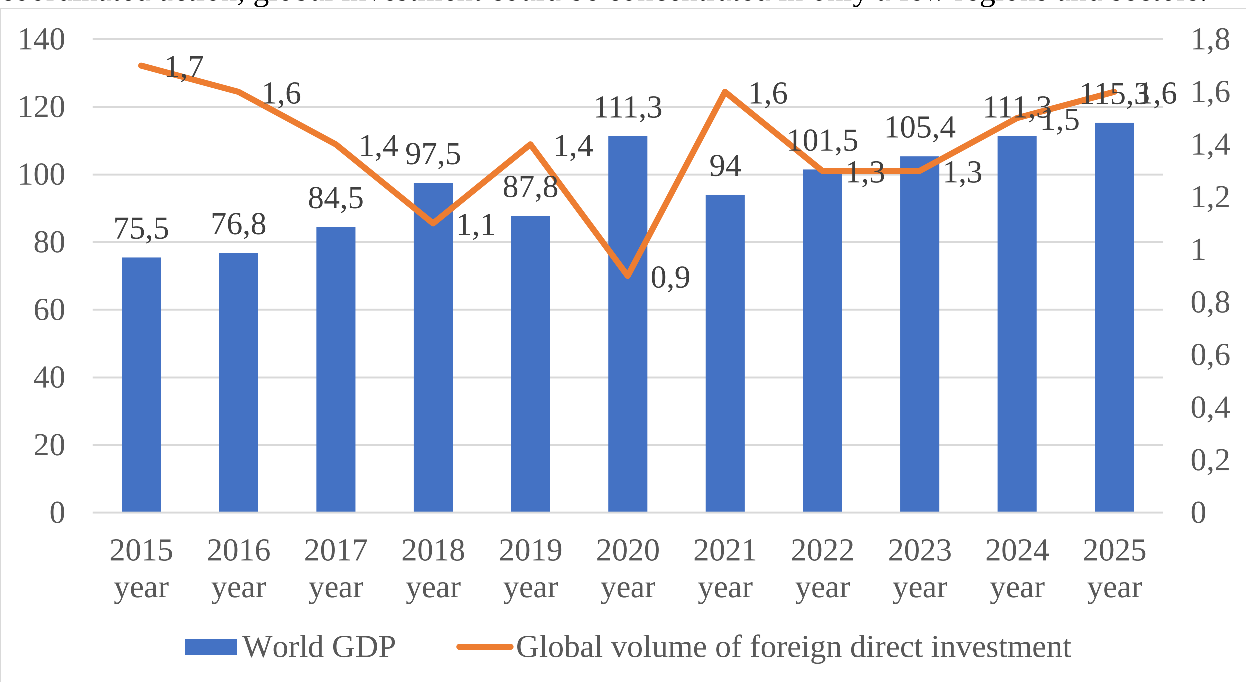

Figure 2. World GDP and Foreign Direct Investment (US$ trillion) [14]

Foreign direct investment is one of the most important macroeconomic indicators of the global economy, as it facilitates the exchange of capital, technology, and knowledge between countries. The period 2015-2025 was challenging and uncertain for the global economy, which was reflected in FDI flows.

The dynamics of the global GDP volume show that in 2015-2018 there was a trend of stable growth (from US$75.5 trillion to US$97.5 trillion), a decline in 2019 (US$87.8 trillion), a sharp increase in 2020 (US$111.3 trillion), a further decline in 2021 (US$94 trillion) and stable growth in 2022-2025 (from US$101.5 trillion to US$115.3 trillion). The volume of global GDP grew in accordance with the general trend. Particularly noticeable growth was observed in the period from 2017-2018 and since 2020. Only in 2019 and 2021 was there a slight decline. Global foreign direct investment flows are volatile, with a downward trend observed from 2015 to 2020, reaching their lowest point in 2020. Investments have recovered since 2021 and will resume growth in 2024–2025. In short, while global GDP has a long-term upward trend, global foreign direct investment flows are more volatile and appear to be highly dependent on external factors. In 2022–2023, foreign direct investment remained stable at $1.3 trillion. During this period, the following factors negatively impacted investment activity: international geopolitical conflicts; rising inflation and interest rates; and increased global uncertainty. As a result, investment processes have stagnated.

In 2024-2025, foreign direct investment flows once again demonstrated an upward trend. However, this growth is not entirely sustainable, as a significant portion of investment is generated through transactions through financial centers. Furthermore, investment is concentrated primarily in high-tech sectors such as digital infrastructure, artificial intelligence, and the semiconductor industry. This indicates a decline in investment diversification.

According to global experience, foreign investment serves such purposes as stimulating GDP growth, increasing foreign trade turnover, and ensuring stability in the national economy. Furthermore, investment contributes to the development of infrastructure, energy, industry, and services. Foreign investment plays a significant role in diversifying economic sectors. In particular, it is of great importance in areas such as industrial modernization, the development of a "green economy," and the upgrading of the energy sector and infrastructure. This increases the country's economic resilience to external shocks.

Global foreign direct investment flows from 2019 to 2025 demonstrate the high sensitivity of this type of investment to global economic shocks. During the pandemic, there was a sharp decline followed by a rapid recovery. At this stage, investment growth is qualitatively problematic, and activity in the real sector is limited. Geopolitical factors and economic fragmentation have a strong impact on investment flows. Developing countries are lagging behind in the global distribution of investment.

The decline in foreign direct investment in developing countries limits their economic growth potential, slows job creation and makes it more difficult to achieve sustainable development goals.

We believe it is appropriate to use the following proposals and recommendations to enhance the role of global foreign direct investment in the country's economy.

1. It is necessary to improve the institutional environment, specifically by strengthening the protection of property rights, ensuring investor rights based on international standards, and making the judicial system independent and transparent, as the quality of the institutional environment is the main factor determining the inflow of foreign direct investment.

2. It is necessary to increase the country's investment attractiveness, i.e., optimize tax and customs policies, introduce tax incentives (with a limited duration, depending on effectiveness), create a "one-stop shop" for investment services, and develop free economic zones.

3. It is necessary to develop infrastructure, including transportation and logistics, energy supply, digital infrastructure, etc. This will reduce transaction costs and simplify entry for investors.

4. It is necessary to strengthen international cooperation. This requires bilateral investment agreements, free trade agreements, and mutually beneficial cooperation with international organizations.

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