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IMPACT OF TRADE AND FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN UZBEKISTAN

MASTER'S THESIS DISSERTATION

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IMPACT OF TRADE AND FOREIGN DIRECT INVESTMENT ON ECONOMIC GROWTH IN UZBEKISTAN

Objectives of thesis:

The study aimed to examine the impact of trade and FDI on the economic growth in Uzbekistan. The specific objectives were to:

- Analyze the scope for economic activities in enhancing the role of trade in Uzbekistan.
- Determine how Foreign Direct Investment contributes to the economy of Uzbekistan.
- Determine the potential sources of trade and its inputs in Uzbekistan's economy.

Methodology:

To estimate the impact of trade and FDI on economic growth in Uzbekistan, the data was obtained from various sources which included published articles of related studies from the Web of Science, Google Scholar, Pub med, Scopus, and other online sources. Further, data was collected from the World Bank, Ministries of Finance, Economic Development, and Poverty Reduction in Uzbekistan.

The proposed extent of the thesis

60 – 80 pages

Keywords

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Recommended information sources

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DECLARATION

I, Nabiev Zuhriddin hereby declare that I have written this thesis entitled ‘Role of Trade and Foreign Direct Investment on Economic growth in Uzbekistan’ Moreover, I declare that thesis includes the original text, and all sources used have been quoted and acknowledged according to the citation rules of PEF. I state that the work has not been submitted for any other degree to this or any other university within and outside Czechia.

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ABSTRACT

Economic growth from a globalization point of view is seen as being affected to a large extent by two phenomena – foreign direct investments (FDI) and trade. FDI brings many positive spillovers such as technological progress and improved human capital. Trade can help improve the efficiency of production allocation in which the comparative advantage lies. Uzbekistan is the most populous of the five Central and West Asian Republics. Based on current knowledge there are no long-term studies combining both FDI and Trade influence on economic development in Uzbekistan. The study aimed to analyze the scope for economic activities in enhancing the role of trade and to determine how Foreign Direct Investment contributes to the economy of Uzbekistan. The study revealed that the Uzbekistan trade to GDP ratio for 2020 was 63.05%, a 9.21% decline from 2019. The trade to GDP ratio for 2018 was 66.63%, a 20.95% increase from 2017, and for 2017 was 45.68%, a 15.93% increase from 2016. Moreover, Uzbekistan's foreign trade turnover reduced from $42.2 billion in 2019 to $36.3 billion in 2020 – of which exports amounted to $15.1 billion and imports to $21.2 billion. Remarkably, Uzbekistan's trade deficit was reduced only by $0.3 billion. The machinery and transport sectors alone contributed to 37.6% of the total volume of imports. However, the export of gold items in 2020 contributed to 38.3% of exports or $5.8 billion. FDI in Uzbekistan averaged 349.51 USD million from 2010 until 2020, reaching an all-time high of 876.65 USD Million in the second quarter of 2020 and a record low of -1.74 USD million in the second quarter of 2018. In the past ten years, there has been an extraordinary inflow of FDI to various sectors of the national economy. Also, it can be attributed to sustainable growth in production due to efficient organization of the investment environment and public policy agenda initiated to support it. Further, against the background of a 40% fall in the global volume of FDI and a 25% decline in the volume of world trade in 2020, in Uzbekistan at the end of 2020, the volume of attracted FDI was at $ 6.6 billion, which is more than the previous year, and the volume of exports – at the level of 15.1 billion dollars. As the world becomes progressively mutually dependent through international trade and flow of investments, the relationships between these two strategies become increasingly important

Keywords: COVID-19: Exports: Foreign Direct Investment: Gross Domestic Product: Imports: Trade

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CHAPTER ONE

1. INTRODUCTION

In the late 20th century, developing countries changed their trade systems, eradicating or significantly reducing high taxes that were common for most of the 2nd half of the century (Dollar, 2001; IMF, 2001). These were caused by factors such as the general failure of import substitution policies, the downfall of the Soviet Union. As an economic model challenging with democratic capitalism, the export dominated successes of economies like China and the Republic of Korea, and the reform agenda integral to structural adjustment programs that many countries executed in the context of increasing debts (Hamada, 2000). The importance of trade and increased fragmentation of global production in many countries were recognized when globalization of supply chains through the decline of transport cost and spread of information and communication technologies.

The amount of the latest bilateral and regional trade agreements also grew rapidly, and lots of existing ones expanded in scope. Global incorporation essentially reshaped industries and significantly realigned political dynamics within and between countries (Hoekman and Douglas, 2019). The opening of economies was simultaneous with a way greater role of trade. From 1988 to 2019 trade contribution to the gross domestic product (GDP) in developing countries increased from about 33% in 1988 to 49% in 2019. In this period the GDP growth in low- and middle-income countries averaged 4.4% per year. This change contributed to an unparalleled decline in poverty: the worldwide extreme poverty rate (under US$1.90 per day) reduced from about 36% in 1990 to 9.2% in 2017. Hence, the number of people in extreme poverty dropped from almost 2 billion to 689 million (Irwin, 2019).

Uncertainties about the future of trade since the 2008 financial crisis grew in most international economies (Engel et al., 2021). The growth of international trade improved sharply after the economic crisis in 2008 but has slowed since 2014. The economic pressure caused by the COVID-19 pandemic has heightened the current worries, raising questions about over-dependence on foreign suppliers and the vulnerability of global value chains (Engel et al., 2021). Moreover, understanding trade flows during the pandemic will be vital for delivering access to

critical food and medical supplies, and reducing the negative impacts on jobs and poverty and the sustenance of global economic activity (World Bank, 2020).

Trade plays a vital role in the manufacturing and delivery of the vaccine at the global level and in assisting the economic recovery by improving the resistance of economies to future blows (OECD, 2020). Government attempts to promote reshoring through subsidies for domestic sourcing could damage productivity and incomes, especially in developing countries where growth and poverty reduction were increased by their participation in global value chains (World Bank, 2020). To ensure sustained support for trade, it is vital to communicate how trade affects welfare across all segments of the population and its potential role in reducing global disparities.

Meanwhile, Foreign Direct Investment (FDI) is among the key elements of globalization and of the world economy. FDI has a great impact on employment, technological progress, productivity advancements, and eventually economic growth. FDI influences the most duties by filling the development, foreign exchange, investment, and tax revenue openings in particularly, developing countries (Abdulghader, 2014). FDI can play a vital role in the development efforts of Uzbekistan and other Asian countries, including augmenting domestic savings, employment creation and growth, incorporation into the global economy, transfer of modern technologies, improvement of efficiency, and raising skills of local manpower. Moreover, FDI has great social, cultural, economic, and political effects for the host countries. Foreign Direct Investment as a growth-enhancing component has received great interest from developed countries in general and less developed countries in recent times (Abdulghader, 2014). It has been a matter of great concern for many economists how FDI affects the economic growth of the host country. In an economy that do not trade outside its economies, and usually do not have any means to foreign savings, investment is funded exclusively from domestic savings. However, in an open economy, investment is supported both through domestic savings and foreign capital flows, including FDI.

The investments in form of FDI support receiving countries to attain investment levels above their capacity to save. Over the past thirty years, FDI has remained the biggest means of the movement of money for the purpose of investment, trade, or business operations in developing countries far greater than portfolio equity investment, private loans, and official assistance. In

1997, FDI accounted for 45% of net foreign resource flows to developing countries, compared with 16% in 1986 (Perkins, 2001). Most developing countries now consider FDI as a vital source of development, but its economic effects are almost impossible to either predict or measure with precision. However, many empirical studies have shown a significant role of FDI in the economic growth of host developing countries, through its contribution to human resources development, technological transfer, capital formation, and international trade (World Bank, 2002). It is recognized that foreign direct investment affects economic growth in host economies both directly and indirectly (Baiashvili and Gattini, 2020). FDI supports employment, capital, exports, and new technology in the host country (Blomström et al., 2001).

Additionally, local firms may benefit indirectly through increased productivity (Gorg and Greenaway, 2004). Therefore, there is considerable competition among governments to attract inward FDI using all kinds of incentives. For instance, many governments, particularly in emerging economies, have accepted policies targeted at drawing foreign investors. This is based on the belief that the benefits from multinational corporations (MNCs) can affect productivity, improve a country's trade performance, and upgrade the technological progress of the host country.

One of the major reasons for developing countries to attract FDI from developed countries is to obtain advanced technology to establish these countries' innovation capability. The invention is widely considered as the central process of economic growth that can enhance the competitiveness of a nation. The published model of endogenous innovation-driven growth by Grossman and Helpman (1991) has highlighted the importance of knowledge spillovers for economic growth. Many professionals and policymakers consider that the ability to emulate new technologies from developed nations is one of the main factors in controlling the rate of economic growth (Romer, 1990). Nowadays FDI typically accounts for more than 60% of private capital flows to developing countries (Carkovic and Levine, 2005). This worldwide explosion of FDI was accompanied by a shift in emphasis among policymakers in developing countries to attract more foreign capital. Many nations have cut impediments to FDI and many insistently provided tax incentives and subsidies. The simple motives for the increased efforts to attract FDI stems from believing that FDI promotes growth (World Bank, 2006).

Among the Eurasian countries Uzbekistan has the highest population. In 2018 its population got to 32.4 million, which is around 80% of the combined total number of people in the Eurasian region (Schroder et al., 2020). Uzbekistan is also a landlocked country among the few in the world. Its economy is reliant on on essential exports and is part of the International Monetary Fund's group of 29 resource-rich developing countries. In the years immediately after gaining independence from the Soviet Union in 1991, Uzbekistan depended heavily on cotton production. More recently, however, gold, and natural gas are its major exports whereas wheat, meat, and most produced goods are imported. Following the break-up of the Soviet Union, Uzbekistan transitioned from central planning to an economy based on market principles, albeit to a rather limited extent. President Islam Karimov led the country through the post-independence era until he died in 2016. Thus, his approach to economic reform was one of "gradualism". It involved cautiously liberalizing prices, especially those of energy and fuel, and maintaining a high level of state control (Bendini, 2013).

Uzbekistan has also become active in trade policy. The average tariff rate stood at 30% as of July 2017 one of the highest in the world (International Trade Administration, 2017). There are signs that the government is committed to pushing for integrating the Uzbekistan economy into world markets. Based on this, the most noteworthy is the reopening of discussions for Uzbekistan to agree to the World Trade Organization. Furthermore, effective 1 October 2017, Uzbekistan reduced import duty rates for 1,154 commodity items, where half were set at zero. In 2018 the authorities canceled duties on imports of vehicles for transporting agricultural products, electric vehicles, and cars produced no longer than 2 years ago and worth more than $40,000. More gradual tariff reductions for cars and other items are expected in 2019. Uzbekistan also plans to abolish tariffs on textile imports from the European Union (Bendini, 2013).

FDI and trade have been acknowledged for their effect on economic growth and development in developing countries including Uzbekistan. They are known to enhance economies, lead to technological advances and increase the nation's income in general. This thesis, therefore, seeks to assess the role of trade and FDI on the economic growth in Uzbekistan.

1.1 AIMS AND OBJECTIVES

The study aimed to examine the impact of trade and FDI on the economic growth in Uzbekistan. The specific objectives were to:

(a) Analyze the scope for economic activities in enhancing the role of trade in Uzbekistan.

(b) Determine how Foreign Direct Investment contributes to the economy of Uzbekistan.

(c) Determine the potential sources of trade and its inputs in Uzbekistan's economy.

CHAPTER 3

3. METHODOLOGY

In this research work, several analytical tools and methods were used to achieve the main objectives. I will conclude my thesis with status of Uzbekistan's trade performance and future expectations based on this analysis. All data have been taken from various resources in the period of 2000-2020.

Statistical analysis. Statistical analysis is a technique we use to find patterns in data and make inferences about those patterns to describe variability in the results of a data set or an experiment. Statistics is a set of methods used to analyse data. The statistic is present in all areas of science involving the collection, handling and sorting of data, given the insight of a particular phenomenon and the possibility that, from that knowledge, inferring possible new results. One of the goals with statistics is to extract information from data to get a better understanding of the situations they represent. Thus, the statistics can be thought of as the science of learning from data. Currently, the high competitiveness in search technologies and markets has caused a constant race for the information. This is a growing and irreversible trend. Learning from data is one of the most critical challenges of the information age in which we live. In general, we can say that statistic based on the theory of probability, provides techniques and methods for data analysis, which help the decision-making processing various problems where there is uncertainty (Sarmento and Costa, 2017)

There are two major types of statistical data analysis: descriptive and inferential.

At first, it is important to say that statistics are not necessarily used in all field of research and science. In the field of research where no numerical or categorical data (values) are provided statistics has no usage. On the other hand, experimental research provides such data which should be statistically analysed. In these research areas, statistics are used to provide a numerical or graphical overview of measured data or illustrate the significance of the difference between achieved new results and stateof-the-art results.

Balance of Trade. The balance of trade, also known as the trade balance, refers to the difference between the monetary value of a country's imports and exports over a given time period. A positive trade balance indicates a trade surplus while a negative trade balance indicates a trade deficit. The balance of trade is an important component in determining a country's current account.

Trade balance - the difference between the values of all exported and imported goods and services. It is calculated for a quarter and for a year. If exports exceed imports, then this difference is called a trade surplus. And if more goods and services are imported than exported, then the balance is considered negative (Afontsev, 2005, p.20).

Balance of Trade = Value of Exports – Value of Imports

- Value of Exports is the value of goods and services that are sold to buyers in other countries.
- Value of Imports is the value of goods and services that are bought from sellers in other countries**.**

It's important to note that the balance of trade is typically measured in the currency of the country whose trade balance is being calculated. For example, if the country in the above example is Uzbekistan, the balance of trade would be measured in Sum.

I would like to supply a brief overview of trade balance of Uzbekistan with this analysis within 2000-2020. In addition, it allows us to assess the reliability of debtor states, which affects the cost of borrowing in international markets, particularly the prices of government bonds.

Balassa index. The Balassa Index, also known as the Revealed Comparative Advantage (RCA), is an economic indicator that calculates a country's export performance in a specific good or service relative to the world's export performance in the same good or service**.** The Balassa Index is calculated as the ratio 17 between the share of export of a certain product in the total volume of export of a country and the share of this product in the total volume of world export (Balassa, 1979, p.245)

The proposed index is called the Revealed Comparative Advantage (RCA) coefficient, since the calculation is based on existing data on the export of goods from a given country or group of countries (Balassa, 1965 p.100)

$$BI=(Eij/Ej)/(Wi/W)$$

- BI is the Balassa Index
- Eij is the export of a specific product from a specific country.
- Ej is the total export of the specific country.
- Wi is the world export of the specific product.
- W is the total world export

$$RCA_1 = \left(\frac{\frac{x_{Lj}}{x_{it}}}{\frac{x_{n_j}}{x_{nt}}} \right) = \left(\frac{\frac{x_{i_j}}{x_{n_j}}}{\frac{x_{it}}{x_{nt}}} \right)$$

where x is export, i is the country under the research, j is the product (or industry), t is the group of goods (or industries) and n is the group of countries.

The proposed index is called the Revealed Comparative Advantage (RCA) coefficient, since the calculation is based on existing data on the export of goods from a given country or group of countries (Balassa, 1965 p.100).

The index is calculated as the ratio of the export of a single product by a given country to the total export of a given product by a group of countries:

$$RCA_1 = \frac{x_{ij}}{x_{nj}}$$

where x is export, i is the country being studied, j is the product (or industry) and n is the number of countries

SWOT analysis. SWOT Analysis is a tool used for strategic planning and strategic management in organizations. It can be used effectively to build organizational strategy and competitive strategy. (Swot analysis: Theoretical review. August 2017). A SWOT analysis is employed to assess aspects of business in terms of the strengths, weaknesses, opportunities, and threats (Jackson et al., 2003;

Kim, 2005). SWOT recognizes the important internal and external aspects of attaining a business's goals. The SWOT matrix can be summarized as follows:

- SO strategies: taking advantage of opportunities.
- ST strategies: avoiding threats.
- WO strategies: introducing new opportunities by reduction of weaknesses.
- WT strategies: avoid threats by minimizing weaknesses.

The SWOT analysis is a simple analysis method that can provides a realistic interpretation of the strengths and weaknesses of a business. As well as, it helps in having an overview of differences between the actual and future plan, and analyses the current competition situation (Armstrong, 1982; Robinson & Pearce, 1988). Moreover, SWOT analysis is very familiar, user friendly, and does not require computer systems or software (Beeho & Prentice, 1997).

Strengths **S**	**Weaknesses** **W**
O **Opportunities**	**T** **Threats**

Complete the four quadrants of a SWOT analysis:

- Strengths: To identify your strengths, ask yourself what you're doing well and what your customers and employees like about your business.
- Weaknesses: To identify weaknesses, look at places where you have fallen short of projections. Read reviews of your business and pay attention to critical customer feedback.
- Opportunities: To identify opportunities, start with your long- and short-term goals. Ask yourself if there are new products or services you can add to your lineup to set you apart, any gaps in the market you can fill, or any areas that could benefit from a different allocation of resources.
- Threats: To identify threats to your business, keep an eye on your competition, upcoming legislative changes, and financial records and projections. Pay attention to the potential for negative media and social media coverage due to your business practices, as well.

CHAPTER FOUR

4. THEORETICAL PART

4.1 International trade theories

International trade is the buying and selling of goods and services between countries (Investopedia, 2021). International trade allows countries to sell their goods that are produced domestically to other countries for economic profit. Hence, trading with other countries brings a positive influence on economic growth (Abdullahi et al., 2013).

International trade theories can be separated into three cycles namely classical, neoclassical, and modern trade theories. Classical theories suggest that countries can benefit economically if they all employ free trade. The most common classic theories are the absolute advantage theory developed by Adam Smith and the comparative advantage theory of David Ricardo. Neoclassical theories imply that countries can benefit through free trade by creating goods in which they specialize but with efficient use of resources. The most common Neo-classical theory is the Hecksher-Ohlin Trade Theory (Usman, 2011).

Modern theories are mainly in line with the comparative advantage theory by discovering economies of scale as a vital means of economic growth (Berkum and Beijl, 1998; Usman, 2011). Before Adam Smith, there was a mercantilism theory developed in the 16th century. Based on this theory, the country's wealth is controlled by encouraging exports and discouraging imports. Free trade was not encouraged by this theory and the world wealth was fixed because countries could not at the same time benefit from trade (Berkum and Beijl, 1998).

4.1.1 Absolute advantage trade Theory

The idea of absolute advantage was previously established by Adam Smith in his book "Wealth of Nations" to show how countries can gain from trade by focusing on producing and exporting the goods that they create more efficiently than other countries and importing goods other countries produce more proficiently. In his theory of absolute advantage, Adam Smith mentions

that with free trade, countries can manufacture and export goods and services in which they could produce more effectively than the other countries and import those goods in which it could create less efficiently, so that at the end that help bring the gains to all countries. Furthermore, absolute advantage indicates the ability of a country to manufacture a product or service at a lower absolute cost than another country that produces the same good or service. Based on the absolute advantage trade theory, labor is only an aspect of production (Nyasulu, 2013; Smith, 1776, 1997).

4.1.2 Comparative advantage trade Theory

Adam Smith's theory raised a question if there is a gain from international trade to countries that have or do not have an absolute advantage on both goods. David Ricardo responded and answered this question through his theory which says that a country benefits from foreign trade by exporting goods which has the greatest comparative advantage in productivity and importing goods that have the least comparative advantage. In this theory, the factor of production is labor and production technology. Generally, a country can still benefit from international trade by investing all its resources into its most profitable productions though other countries have an absolute advantage in these goods. Hence, the comparative advantage trade theory can make a nation to manufacture goods and provide services at a lower opportunity cost (Berkum and Beijl, 1998; Nyasulu, 2013).

4.1.3 Hecksher-Ohlin Trade Theory

The theories of Smith and Ricardo were unable to answer questions on what factors can influence the comparative benefit and what impact foreign trade has on the factor income in the trading countries. In the early 1900s, two Swedish economists, Eli Heckscher and Bertil Ohlin centered their interest on how a country could benefit from a comparative advantage by making products that employed factors that were in large quantity in the country. Their theory is focused on a country's manufacturing factors such as land, labor, and capital, which offer the funds for investment in plants and equipment. Based on the H-O model, a country could export capital-intensive goods and import labor-intensive goods (Nyasulu, 2013).

4.2 Economies of scale

The existence of economies of scale is another explanation countries may trade together with each other. This theory expatiates on the trade between countries with related attributes. This theory mentions that countries focus on producing and exporting a regulated range of goods taking advantage of economies of scale (reduction of average cost because of increasing the output). Similarly, economies of scale indicate that production at a large scale (more output) can be accomplished at a lower cost. Exports and imports are fundamentals of production and if employed efficiently can lead to more rates of returns for the economy and improve the scale of productivity (Nyasulu, 2013; Ram, 1990).

4.3 Major theories of economic growth

Economic growth is an increase of a national output income that can be maintained over a long period. It is the stable means by which the productive ability of the country is improved over time to take about increasing levels of national output and income (Clunnies, 2009). Economic growth comprises three components: capital accumulation, population growth, eventual growth in the labor force, and technological development. Capital accumulation occurs when some suggestion of personal income is saved and invested to strengthen future output and income. A bigger labor force means more productive workers, and a big general population rises the possible size of domestic markets. Technological advancement comes from new and enhanced ways of achieving traditional tasks. Technological advancement protects labor and capital-saving (Usman, 2011).

4.3.1 Harrod-Domar Growth Model

This is the economic mechanism by which more investment leads to more growth. The model states the economic means whereby more investments result in economic growth. The model says that the economic growth of a country is not only based on its rate of savings but also on the degree to which it can reduce its existing consumption levels and improve investments.

Investment generates income and enhances the productive ability of the economy by raising capital stock (Ray, 1998).

Ghattak (1978) mentioned that in the least Developing countries (LDCs) the basis of requesting loans and foreign aid is to deal with inadequate resources because of low saving rates and elevated consumption levels which reduce the GDP growth rates. The advancement of exports can assist to reduce the gap between the interest rate on foreign loans and foreign exchange profits. Domar model also claimed that imports can also promote economic growth if a country imports capital goods and technology that can improve the country's capital stock which advances to the growth in GDP. These capital goods may be in the form of productive plants and machinery (Ghattak, 1978).

Generally, this economic model shows that foreign trade could affect economic growth positively through export profits that help savings in the financial advancement of the country. Additionally, the model also claims that import-related economic growth is possible when it comes from the importation of capital goods from foreign countries that expands productivity while growing the GDP.

4.3.2 Two gap economic growth model

This model supports the Harrod-Domar model by claiming that economic growth originates from filling saving holes and the foreign exchange gap. This implies that to grow its economy, the country must produce adequate savings on investments and at the same time foreign exchange revenue from international trade (Ghattak, 1978).

Many LDCs do not attain economic growth because either the savings and/or the foreign exchange gap is huge. Therefore, international trade (exports and imports) is encouraged as the key to fulfilling that gap. The aim why trade policy once set must take into account export-led growth policy which is known to promote resources to improve the country's revenues which supports a country's growth process, and at the same time refund external loans and improve a country's foreign currency reserves. Additionally, imports may be beneficial if they are valuable

capital goods and not consumption of goods which may even improve the exchange difference (Krueger, 1985).

4.3.3 Traditional (old) Neoclassical Growth Theory

The model here is a modified form of Harrod-Domar invention by including a second factor, labor, and creating a third technology variable, to the growth equation. Based on the traditional neoclassical growth theory, output growth comes from the growth in labor quantity and quality (through population growth and education), raise in capital (through investment), and enhancements in technology (Todaro and Smith, 2009).

Aside from the factors mentioned above the theory also foresees that some other means such as foreign trade (exports and imports) have a substantial part to play in the growth of the economy. The model mentions that trade-led GDP growth comes from inter-country activities of foreign capital and investments. Similarly, these capital movements can influence growth both from the export and import sides because the exportation of foreign capital generates earnings on investment for the exporting country whereas the importation of foreign capital can improve the capital stock and increase productivity in the importing country, ceteris paribus (Ghattak, 1978).

4.3.4 Solow's neoclassical growth model

Solow's theory suggests that the economy meets to a stable growth way where the output per capita growth rate results from the rate of technological advancements. Solow's model includes the neoclassical economic growth tradition by examining economic growth as growing through production function comprising factors namely labor, capital, and technological level, by reducing marginal returns on labor and capital regarding output (Solow, 1956).

The theory implies that foreign trade contributes immensely to economic growth. Through foreign trade, the importation of foreign technology and skills increases the effectiveness and efficiency of domestic labor and capital which allows a country to expand its comparative advantage and allow its benefit from trade to improve the level of GDP (Gunter et al., 2005).

The major benefit of Solow's model is that it describes GDP growth through not only fixed capital coefficient as Harrod-Domar model but integrates other factors such as labor, technology, and other exogenous factors such as international trade (Todaro and Smith, 2009). Although Solow's model is a traditional model, it is still very important in examining the economic growth of a country since it has been used as a building block to advance other growth theories (Easterly, 2001; Perkins et al., 2006).

4.3.5 Endogenous Growth / New Growth Theory

The endogenous model, also known as the new growth theory, is a variant improvement of the traditional neoclassical model which stresses the principle of reducing marginal returns to scale of the inputs to the level of output. Generally, factors of production in Solow's model show mostly constant marginal returns to output and capital formation, and this neoclassical growth method fails to control the causes of the enormous inequalities in the amounts of national income between developing and developed nations.

Based on this model, an increase in GDP comes from internal production processes (Dasgupta, 1998). Moreover, endogenous models argue that the level of technology in the country comes from international capital transfers between developed countries and LDCs (Todaro and Smith, 2009).

4.4 The role of Trade on economic growth

Most classical and neo-classical economists placed so much importance on foreign trade in the development of a nation that they viewed it as a core to growth. Over many decades, the world economy has become deeply related through international trade and globalization. Foreign trade has been recognized as the most important part of a country's external economic relations. It performs a crucial and central role in the development of a modern global economy. Its influence on the growth and advancement of countries has improved substantially over the years and has provided to the advancement of the world economy (Omoju and Adesanya, 2012). The influence

of foreign trade on a country's economy is not only reduced to the quantitative benefits but also a fundamental change in the economy and assisting of international capital flow.

Trade improves the efficient creation of goods and services through the distribution of resources to countries that have a comparative advantage in their production. Foreign trade has been recognized as a tool and driver of economic growth (Frankel and Romer, 1999). The foundation for foreign trade lies in countries varying in their resource endowment, preferences, technology, the scale of production, and the ability for growth and progress. Countries participate in trade with one another because of these key changes and foreign trade has opened opportunities for nations to exchange and consume goods and services which they do not generate. Changes in natural endowment show a situation where countries can only spend what they can generate, but trade allows them to consume what other countries create (Omoju and Adesanya, 2012). Therefore, countries participate in trade to appreciate the diversity of goods and services and enhance their people's standard of living. Over the past decades, the amount of foreign trade between nations of the world has increased substantially.

The interaction of international trade and economic growth takes place through many different channels. It is the task of empirical work to identify which are the important ones. Existing literature has continually documented a strong correlation between trade and growth. It has also revealed a fundamental impact on imports (though not essentially exports) on growth in simultaneous equation models but to a smaller extent in Granger-causality tests. Debate continue to explode over the connections between trade and economic growth. Favorable arguments concerning trade can be traced to the classical school of economic thought that started concerning trade can be traced to the classical thought that started with Adam Smith and subsequently enriched by Ricardo, Torrens. Mill and Stuart in the nineteenth century. Since then, the justification for free trade and various undisputed benefits that international specialization brings to the productivity of nations have been widely discussed in economic literature for example by Bhagwati (1978) and Krueger (1978).

4.5 The raw correlation between trade and growth

Over the last centuries, the economy of the world has undergone continued progressive economic growth, and over the same period, this way of economic growth has been complemented by even quicker progress in global trade. Likewise, the country-level data from the last 50 years revealed that there is also a relationship between economic growth and trade: nations with better rates of GDP growth also have greater rates of growth in trade as a share of output (Fouquin and Hugot, 2016). Amid the likely growth-improving factors that may come from a better global economic corporation are Competition (firms that do not use new technologies and reduce cost are more likely to fail and may be replaced by more dynamic firms); Economies of scale (firms that can export to other countries face larger demand, and under the conducive conditions, they can work at bigger scales where the price per unit of product is lower); Learning and innovation (firms that trade obtain more knowledge and acquaintance to progress and adopt technologies and industry standards from foreign competitors) (Fouquin and Hugot, 2016).

In 2003, the OECD carried out research on the effect of trade that had on the average income per population. According to the findings, the elasticity of international trade was 0.2, which was statistically significant. Maizels (1963) revealed the positive link between international trade and economic advancement by correlation analysis among seven advanced countries. Kavoussi (1984), after studying 73 middle and low-income developing countries, found out that higher rates of economic growth were strongly correlated with greater rates of exports. He demonstrated that the positive correlation between exports and growth stands for both middle- and low-income countries, but the effects are likely to reduce according to the degree of development.

Balassa (1986) and Dollar (1992) contended that outward-oriented developing economies achieve more quick growth than inward-oriented developing ones. Sachs and Warner (1995) created a policy index to examine the economic growth rate and discovered that the average growth rate in the period after trade liberalization is considerably higher than that in the period before liberalization. Keller (2001) argued that international trade which implies importing intermediate goods of a better quality triggered the distribution of technology. Frankel and Romer (1999) designed means of the geographic element of countries' trade and utilized those ways to achieve

instrumental variables estimates of the impact of trade on income. The result demonstrated that trade has a quantitatively huge and robust positive effect on income even though it is only marginally significant statistically. Coe and Helpman (1995) studied the international R&D diffusion among 21 OECD countries and Israel for 1971-1990 and discovered that international trade is a vital channel of transferring technology (Sun and Heshmati, 2010).

In summary, most empirical studies encourage the positive effects of openness on economic growth. From literature, both static and dynamic benefits from trade could be found. The static benefits from international trade refer to the improvement in output or social welfare with a fixed amount of input or resource supply (Sun and. Heshmati, 2010). They are mainly the outcomes from the growth in foreign reserves and national welfare. Firstly, opening to the global market suggests an opportunity to trade at international prices rather than domestic prices. This opportunity offers a benefit from the exchange, as domestic consumers can buy cheaper imported goods and producers can export goods at higher foreign prices. Furthermore, there is a gain from specialization. The new prices created in free trade promote industries to reallocate production from goods that the closed economy was generating at a moderately high cost (comparative disadvantage) to goods that it was delivered at a relatively low cost (comparative advantage). By employing its comparative advantage in international trade, a country could increase the total output and social welfare.

4.6 Recent developments in global trade

Up to the Great Recession, global trade usually extended faster than global GDP. The income elasticity of trade was above unity on average before the Great Recession. Global trade developed almost two times as fast as global GDP from 1980s until 2007. The financial crisis caused large shifts in global trade. The crisis and subsequent recovery between 2009 and 2011 were shown by clear differences in trade in relation to GDP (Figure 1). The reduction in trade was more evident during the Great Recession than the decline in global output. Going forward trade expanded and grew at more than 12% in 2010, above global GDP growth.

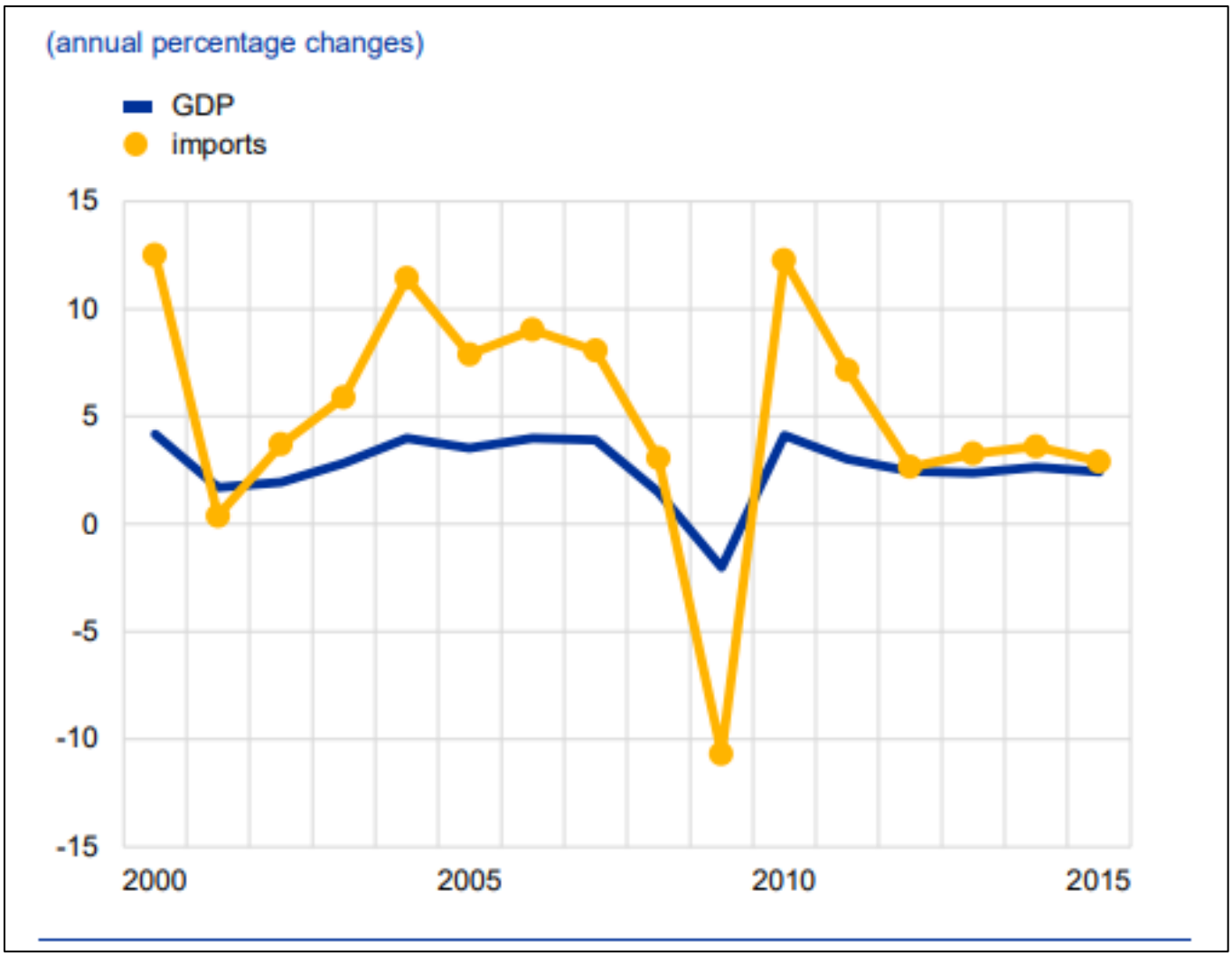

Figure 1. Global imports and GDP growth. Source: IMF (WEO). NB: Imports of goods and services. Global GDP is aggregated with market exchange rates

However, from 2012, world trade deteriorated considerably again. Global import growth reduced to almost 3%, about half of the pre-crisis average and near the GDP growth rate. The deline has affected both advanced and emerging economy accumulates; import weakness has also been general across regions (Figure 2). The weakness in global trade, specifically in relation to GDP growth, was unanticipated and manifested in continual downward changes to trade predictions in recent years by the Eurosystem, international organizations, and private forecasters.

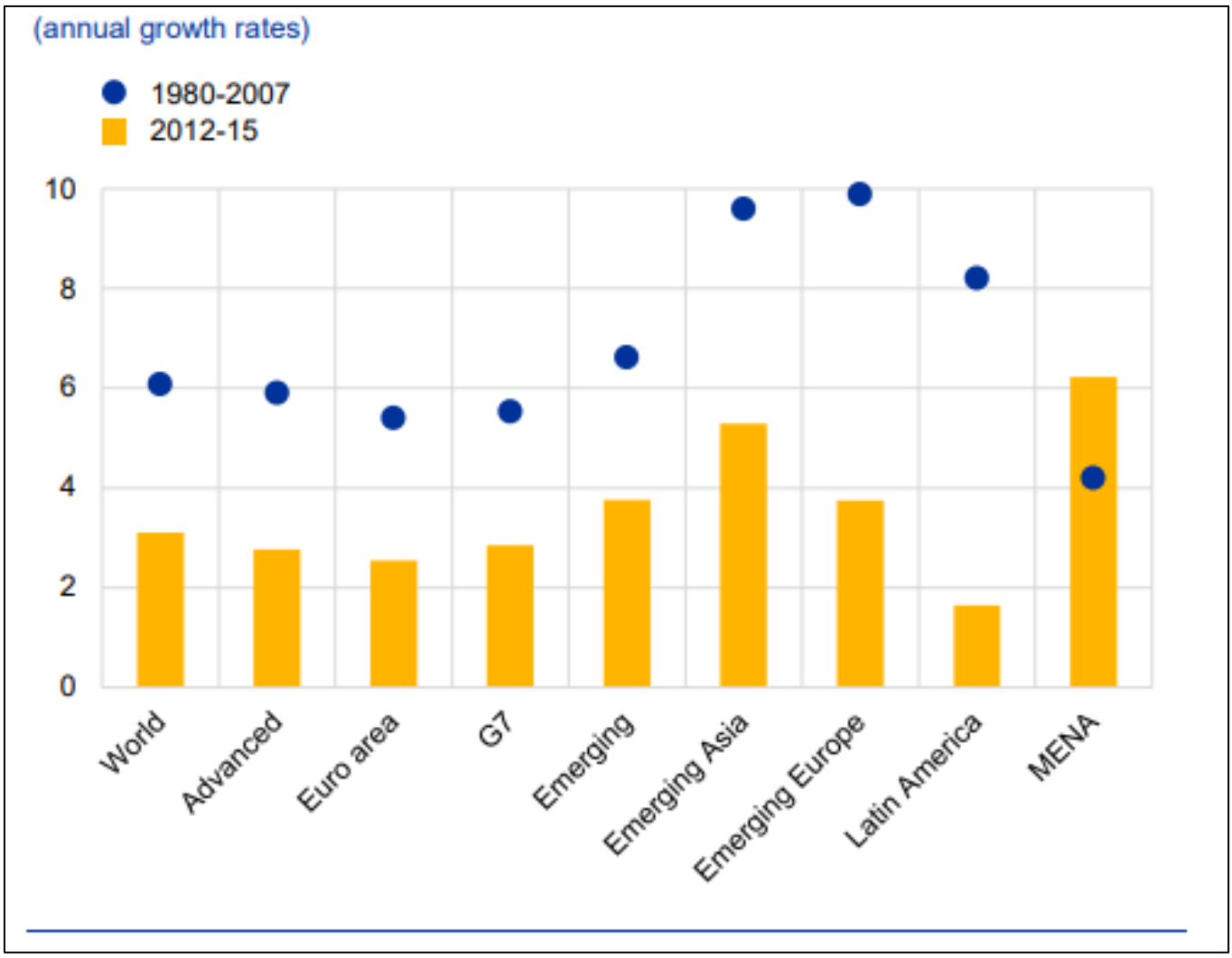

Figure 2. Average import growth across countries. Source: IMF (WEO). NB: Imports of goods and services. (MENA) refers to the Middle East and Northern Africa.

4.7 Foreign Direct Investment (FDI)

FDI usually shows a long-term relationship between a direct investor and a direct investment enterprise between two countries (IMF, 1993). Mostly, FDI is used to explain a business decision to obtain a considerable share in a foreign business or to purchase it entirely to develop its operations to a new region. It is not typically used to explain a stock investment in a foreign company. There are three components of FDI – equity capital, reinvested earnings, and intercompany debt transactions. Equity capital includes equity in branches, all shares in subsidiaries and associates, and other capital contributions such as the provision of machinery.

Reinvested earnings consist of the direct investors' share of earnings not distributed as dividends and earnings not remitted to the direct investor. Debt transactions between companies includes the borrowing and lending of funds between direct investors and subsidiaries, branches, and associates.

4.7.1 Overview of FDI

Economic theory provides conflicting predictions about the effects of FDI on growth. The presence of Multinational Enterprises (MNEs) may create spillovers which lead to increased benefits from productivity or efficiency in the host country's local firms and the MNEs are unable to internalize the full worth of these benefits (Kokko 1996). Also, the influx of FDI may lead to negative externalities which may cause loss of productivity or efficiency among domestic firms and where in most cases foreign partners do not have to compensate domestic firms for their loss (Mutenyo, 2008). For that matter, resource allocation and slow growth will arise when pre-existing trade, price, financial, and other distortions occur with FDI. Foreign companies are likely to compete well particularly, big domestic firms because the former are expected to possess non-tangible productive assets such as technological knowledge, marketing, and managerial skills, export contacts, synchronized relationship with suppliers and customers, and reputation (Aitken and Harrison 1999). This knowledge is transmitted from parental firms abroad to a host country through their partners which leads to an increase in the productivity of domestic firms.

However, there is increasing debate about the technological spillover of FDI even if the general agreement is that multinational companies have more advanced technology, such that when they go into a new economy through Direct Investment (DI), they bring along the advanced technology and bigger managerial practice to compete with local firms that are accustomed to consumer preferences. These may result in the crowding out of local firms or an increase in their productivity. Aitken and Harrison (1999) assumed that some of the technology may diffuse to the local indigenous companies of the host economies via demonstration and imitation effect. Furthermore, relationships with these foreign firms may provide opportunities for the domestic firms to know more hence decreasing their innovation costs thus enhancing total factor productivity. Also, the process is through a mixture of human capital growth and labor turnover.

For example, workers employed by foreign firms acquire knowledge and this knowledge may be applied in their domestic firms along with the accumulated human capital that increases the production of the domestic firms.

On the other hand, the productivity of firms may increase when local firms are subjected to new products, production, and marketing strategies or obtain technical skills through upstream and downstream foreign firms. All these networks which bring domestic firms closer to their foreign counterparts end up increasing the productivity of domestic firms. By this theoretical overview, agreement in the literature reinforced by theoretical evidence seems to be that foreign firms through FDI do transfer technology to their associates; a process which can correspondingly permit spill overs to unaffiliated firms in the receiving economy which in turn surges growth through output and efficiency advances by local firms.

4.7.2 Types of FDI

Dunning (1993) described the primary intentions for a firm to participate in foreign production are to strive for natural resources, pursuing the market, seek efficiency, and seeking strategic assets. FDI is grouped into four types based on the intentions of investing abroad.

4.7.2.1 Natural resource seeking FDI

Many firms invest outside their home countries to have access to resources unavailable in their countries or at a lower cost compared to their home countries. In the end, the production of these resources is mostly exported to developed countries. There are three types of resources in a foreign country that a firm may want to obtain. The first include physical resources such as minerals, raw materials, agricultural products, etc. This sort of investment requires significant capital expenditure and is location-bound. The second type of investment is to seek a cheap labor force in labor-intensive manufacturing and service sectors. Most areas of this type of investment are developing countries. In the third type, a firm takes out foreign production to obtain technology, information, managerial skills, and others (Dunning, 1993).

4.7.2.2 Market seeking FDI

Market-seeking FDI is an investment that is commenced in a foreign country to supply goods and services to the foreign market and the other markets in neighboring countries. The reasons why multinational enterprises (MNEs) involve in market-seeking FDI are because MNEs invest in a foreign country as their main suppliers and have established production facilities in that country. Moreover, MNEs carry out production abroad to adjust to local customers‟ tastes, business customs, legal obligations, marketing processes, investment environment, etc. Therefore, they position themselves well to effectively compete with local firms and to help the local market. Lower production and transaction costs may also be another motivation for market-seeking FDI. MNEs can develop economies of scale in a foreign country with a big market size. Furthermore, outward FDI may thwart trade impediments imposed by the host country's government such as import controls. The final reason is that MNEs might view it as a global production and marketing scheme. MNEs can obtain strategic assets from their local and foreign competitors and increase their competitive advantages (Dunning, 1993).

4.7.2.3 Efficiency seeking FDI

The efficiency seekers are mostly big MNEs, which have experience in investing in different countries. There are two types of efficiency-seeking FDI. The first one is that big MNE uses the endowments in different countries such as natural resources, labor, and technology. Investment in labor-intensive manufacturing industries and primary product industries is carried out in developing countries, whereas investment in technology-intensive and information-intensive industries occurs in developed countries. The second one is that MNE uses the opportunity of economies of scale and scope, create assets and capabilities, the nature of consumer demand, the quality of supporting industries and the government policies, etc. This type of investment is happening in countries with almost equal income levels and economic structures. Moreover, investors, MNEs can gain from the normal governance of geographically dispersed activities such as cross-border risk expansion, process specialization, arbitraging cost, price differentials due to exchange rates, etc (Dunning, 1993).

4.7.2.4 Strategic asset seeking FDI

Here, MNEs try to find strategic foreign assets to improve their competitive position in the international market. These assets may include technology, innovatory capacity, organizational systems, management, and marketing services. Moreover, the MNEs benefits from advantages associated with foreign production. Most strategic asset-seeking FDI focus on the technology and information-intensive sectors (Dunning, 1993).

4.7.3 Causality between FDI and Economic Growth

Different studies have produced different findings of the nature and magnitude of causality between these two variables i.e., uni-directional, bi-directional, heterogenous, and no causality. (Kyrkilis and Moudatsu, 2011) reported that the relationship is path-dependent and country-specific subject to unique conditions of individual countries. (Choe, 2003) found a two-way relationship between the two variables and a weak directional causality from FDI to growth. Similar results were reported by (Hansen and Rand, 2004) from a sample of 31 developing countries. From his tests based on an error correction model on 11 countries using time series data, (Zhang, 2001) reported a strong connection between the two variables while (Chowdhury and Mavrotas, 2006) did not find any evidence to support such causation in Chile but found two-way causation in Malaysia and Thailand. (De Mello, 1999), used time series on data from 32 countries (17 non-OECD) and found the relationship to change across countries. Using panel data estimations, however, no relationship occurred in the non-OECD countries.

Similar results were obtained by (Jensen 2006); (Carkovic and Levine, 2005), from a study of 72 countries between 1960 and 1995; (Shabbir and Naveed, 2006) from a panel study of 23 developing countries between 1970-2001. (Lyroudi, 2004) from his Bayesian analysis on panel data of a sample of transition economies from 1995 to 1998 and (Tobin and Kosack, 2006) whose study conclude that FDI negatively affects the growth of skills in developing economies.

4.7.4 Impacts of FDI

While neo-classical growth models suggest that the influence of FDI on growth is only short-term (Brems, 1970). (Lee et al., 1998) indicate that the increased capital stock as enhanced by inwards FDI improves the short-term diminishing returns to capital through skill acquisition, labor training, and technological spillovers, and hence host economies are prolonged along a long-term growth path. According to (Bornschier, 1980), FDI-influenced growth decreases in the long run as foreign companies contract their economic contribution overseas. Domestic growth models correct this by seeing FDI as a means for technology and knowledge transfer whose positive externalities and productive spillovers have long-term effects on growth. (DeMello, 1997) reports FDI as important in addressing the inadequacy of capital and productivity in many developing economies as it leads to efficiencies in allocations, knowledge and technology transfers, diversification of risks. After the 1988 debt crisis, (Sumner, 2005) reported that the capital positions for developing economies (which generally face insufficiency of resources to fund development) deteriorated as commercial bank lending dried up and aid fell.

Therefore, FDI was progressively regarded as a solution to these capital problems and economies took cautious efforts to attract it (Tobin and Kosack, 2006). FDI supports economic growth directly through funding of development initiatives, and indirectly through knowledge and technology transfers (Liargovas and Angelopoulou, 2014). According to (DeMello, 1997) inwards, FDI enhances the implementation of new products and production techniques in the host economy (technological spillovers), accelerates knowledge transfers, (human resource training), and creates better managerial capacities (Kyrkilis and Moudatsu, 2011). Higher quality requirements for the transitional inputs acquired from the local manufacturers, economies of scale, better competitiveness of domestic downstream industries, and the new manufacturers are the major means through which technology is moved amongst economies.

FDI leads to technology capacity development and narrows the savings shortfalls (difference between savings mobilized locally and the required savings for a given level of investment). Also, a collaboration between domestic and foreign firms leads to productivity spillovers (Blomstrom, 1983). The presence of MNC increases competition and this forces local firms to

increase efficiency while technology and know-how are distributed through business transactions, imitation, and employing workers qualified by MNCs (Tobin and Kosack 2006) and (Shabbir and Naveed, 2006). Moreover, MNCs expose host economies to the global economy through export trade and the advancement of infrastructure and the business environment (Mwega, 2009). Eventually, this resulted in economic incorporation which based on Liargovas and Angelopoulou (2014), lead to not only improved coordination of the member country's trade policies and parts of their economic and fiscal policies but also creates prospects for internal efficiency and economic stability which further stimulates FDI. At the firm level, FDI leads to increased labor productivity and total factor productivity as MNCs introduce knowledge and firm-specific assets (Dunning, 1993). The extent of benefits relies on circumstances in the local markets (Blomstrom, 2003). Their effect may be increased if FDI intake is measured and if they are extended beyond the short-term horizon (Konings, 2001).

4.7.5 Conditions affecting FDI impacts on Economic Growth

The effects of FDI are only obvious in economies that have accomplished substantial development levels for: education, infrastructure, financial development, and trade openness. Economies will gain better growth and stability benefits from FDI if their financial markets and other government organizations are established and have appropriate macro-policies. From his study of sixty-nine developing countries between 1970 and 1989, Lee et al. (1998) established that the level of human capital development positively influences the inward FDI economic growth. According to (Tobin and Kosack, 2006), human development positively influences the organizational ability to implement new technologies, production functions, and economic turnouts. An adequate and well-educated labor force (DeMello 1997); good infrastructure services (Balasubramanyam et al., 1996), developed financial markets/systems (Hermes, 2003), and high per capita incomes of the host economy (Blomström et al., 1994) contribute to the positive growth effect of FDI spillovers. Host countries that are open to international trade derive better from FDI.

Balasubramanyam et al. (1996) studied 46 economies and determined that FDI affects positively growth in countries that hold export orientation as trade improves the transfer of benefits of industrialization and technology. Levin and Raut (1997) confirm this finding in their study of 30

semi-industrialized developing countries that high trade and education expenditure were required requirements if FDI was to influence the growth of recipient countries. Adeolu (2007) revealed that FDI-induced growth is obvious in economies open to trade and have an improved labor force. On the other hand, Shabbir and Naveed (2006) attribute diffusion of technology to product imports, adoption of technology, superior organization practices, and human capital development. Indeed, Sahoo et al. (2006) attribute China's economic reforms that opened it to the world economy in 1979 to the reported increase in inwards FDI from less than 5 A direct relationship with trade openness is the level of a host country's incorporation with other economies into regional blocks has an effect to the degree of FDI flows into the country. Liargovas and Angelopoulou (2014) established that the level of the economic integration of the receiving economy with other economies affects the predictors of foreign investments. Specifically, they noted that in many of the integrated countries (European Monetary Union member countries), FDI inflows are generated by the growth in research activities and expenditure in the improvement of new products and technologies of production. According to their study, increases in taxes cause FDI inflows in the less integrated countries (European Union member countries). In Countries with low or no levels of integration, in this case, those that are transiting at several levels of economic development, FDI inflows are attracted mainly through increases in levels of local capital accumulation, product origination, and development as well as by a decrease in the levels of inflation.

Kyrkilis and Moudatsu (2011) stated that cooperation leads to the coming together of economies towards similar growth patterns, economic structures, and policies, and most importantly, market size increase. This brings more efficiency-seeking foreign investors who are keen on exploiting the integration opportunities including coordinated production and supply chain functions. The level of the host country's development influences the FDI's impact on growth. Blonigen (2005) stated that the growth impacts of FDI are more evident in developing countries that have a sufficient skill base. This, however, was not the case for developed countries. This view is substantiated by (Johnson, 2006) who declares that FDI corrects low productivity and capital stock deficiencies in developing economies. According to (Blomström, 2001), most developing economies depend on foreign capital with little or no host government's effort to enhance FDI's support towards economic success. This is refuted by (Sumner 2005), who felt that the growth

benefit from inwards FDI is more known in developed economies as their supply chains and human resource capacities are more developed.

4.7.6 Relationship between FDI and Capital flows

Foreign direct investment (FDI) in many cases is robust during financial crises. For example, in East Asia, such investment was extremely stable during the 1997-98 financial crises. However, other types of private capital flow, portfolio equity and debt flows, and especially short-term flows were dependent on the large reversals during this time (see Dadush et al., 2000; Lipsey, 2001). The strength of FDI during financial crises was also apparent during the Mexican crisis of 1994-95 and the Latin American debt crisis of the 1980s. This made many developing countries choose FDI over other forms of capital flows, promoting a trend that has been proven for decades.

Many economists prefer the free flow of capital across different countries because it permits capital to seek out the highest rate of return (Loungani and Razin, 2001). Unlimited capital flows may also offer several other opportunities, as noted by Feldstein (2000). The international capital flow lessens the risk confronted by owners of capital by letting them expand their lending and investment. Also, the global integration of capital markets can promote the increase of best practices in corporate governance, accounting rules, and legal traditions. The global mobility of capital limits the capacity of governments to engage in bad policies. Additionally, Feldstein (2000) noted that the benefits to host countries from FDI can take several other forms:

- FDI acknowledges the technological transfer especially in the shape of new varieties of capital inputs that cannot be obtained through financial investments or trade in goods and services. FDI can also encourage competition in the domestic input market.
- FDI recipients often gain employee training while operating the new businesses, which promotes human capital development in the host country.
- Profits generated by FDI encourage corporate tax revenues in the host country.

Many countries choose to cut corporate taxes to attract FDI from other locations. An example is the decline in corporate tax revenues in some of the member countries of the Organization for

Economic Cooperation and Development (OECD) may be due to such competition. Therefore, FDI should promote investment and growth in host countries through these various channels.

Despite numerous benefits of free capital flows, traditionally it is believed that many private capital flows pose counteracting risks. Hausmann and Fernández-Arias (2000) reported that why many host countries, even when they are in favor of capital inflows, view international debt flows, especially of the short-term variety, as "bad cholesterol":

> It [short-term lending from abroad] is caused by speculative considerations based on interest rate differentials and exchange rate expectations, not on long-term considerations. Its progress is often the result of moral hazard alterations such as implicit exchange rate guarantees or the commitment of governments to bailout the banking system. It is the first to track for the escapes in case of trouble and is accountable for the boom-bust cycles of the 1990s''.

On the other hand, FDI is regarded as "good cholesterol" because it can give the benefits stated earlier. An additional advantage is that FDI is thought to be "bolted down and cannot leave so easily at the first sign of trouble." Unlike short-term debt, direct investments in a country are instantly priced again in the case of crisis. A comprehensive study by Bosworth and Collins (1999) provides proof of the effect of capital inflows on On domestic investment for 58 developing countries during 1978-95 (Figure 3). The sample includes almost all of Latin America and Asia, as well as many countries in Africa. There are differences among three types of inflows: FDI, portfolio investment, and other financial flows (primarily bank loans).

Bosworth and Collins (1999) discovered that a rise of a dollar in capital inflows is associated with a rise in domestic investment of about 50 cents. Here, the capital inflows and domestic investment are used as % of Gross Domestic Product.) This finding, however, masks significant differences among types of inflow. FDI appears to bring about a one-for-one increase in domestic investment; there is practically no distinct relationship between portfolio inflows and investment (little or no impact), and the impact of loans is between domestic investment and capital inflow. These results hold both for the 58-country sample and a subset of 18 emerging markets. Bosworth and Collins (1999) established that "are these advantages of monetary inflows sufficient to compensate for the evident consequences of permitting markets to freely allocate

capital across the borders of developing countries? The response would seem to be a strong yes for FDI." Furthermore, Borensztein et al. (1998) found that FDI improves economic growth when the level of education in the host country—a measure of its absorptive capacity is high.

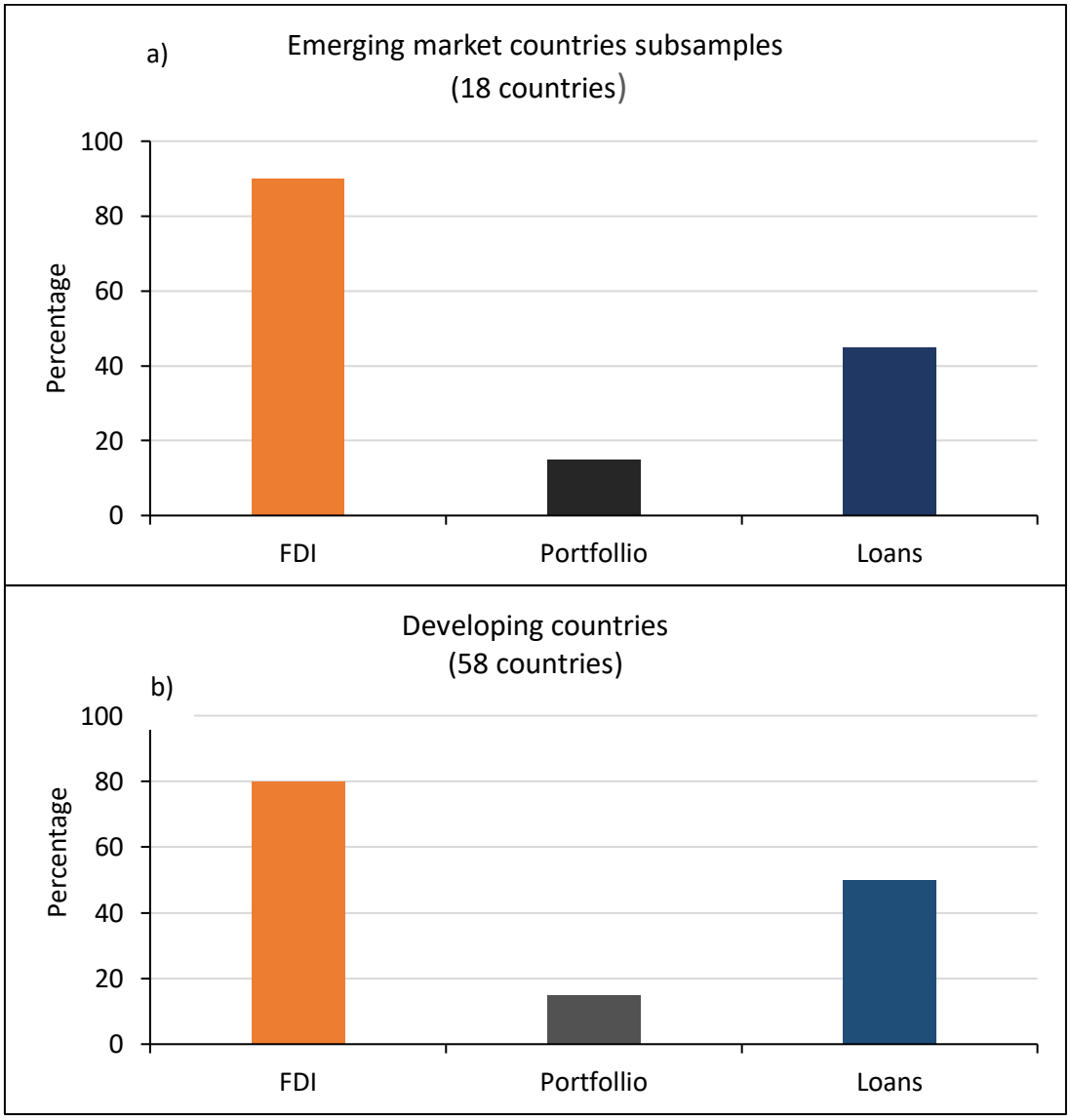

Figure 3. Impact of FDI, Loans, and Portfollio investment on domestic investment. Source Bosworth and Collins (1999). Note: The height of each bar represents the estimated impact of the indicated capital flow on domestic investment. For example, in Figure a) every dollar of FDI increases domestic investment by an average of 80 cents is by 80% of the amount of FDI.

CHAPTER FIVE

5. PRACTICAL PART

5.1 Definition of the Problem

The impact of trade and foreign direct investment on the economic growth of Uzbekistan is known to fluctuate over the years. In some years there is a negative impact and in other years positive impacts on the growth of the economy are recorded. According to available literature, there are no studies on the long-term trends of the impact of trade and FDI on economic growth in Uzbekistan. Most of the studies that focus on trade and FDI's impact on economic growth are either done separately or usually use short-term data (Burkhanov et al., 2015; Burhonovich, 2020). To fill this knowledge gap, the thesis focuses on 20-years data to assess the trends on the impact of trade and foreign direct investment on the economic growth of the country. Possible reasons for the fluctuations will also be discussed including recommendations.

5.2 Case study Object

As stated earlier in the introduction, Uzbekistan is a resource-rich country with a relatively young population of 33 million, the largest in Central Asia. Uzbekistan is at the center of almost all central Asian countries including Afghanistan. As a double landlocked country, it is exclusively reliant on these transport connections outside the country and on how these transport connections are effective. In Central Asia it has the most possibility to become the largest market and due its young population and enormous agricultural and manufacturing ability, a potential regional exporter. Uzbekistan has expanded strongly for more than 20 years without creating sufficient employment for its increasing working-age population. This expansion was caused by utilising its gas and mineral resources and less by using its huge labor force or its land more productively. In Uzbekistan public entities usually carry out the economic activities involving the mining and manufacturing sectors whereas farmers were subjected to planned land alloction for crops. Though the public and resource sectors grew, they were unable to generate adequate employment resulting in substantial emigration and domestic unemployment. In 2018 the GNI per capita was

US$2,020 whereas poverty is projected to affect around 9.2% of the population (measured at the PPP US$3.2/day international definition for lower.

However, Uzbekistan has a big industrial labor force with good manufacturing abilities, which is by far better than most countries in Central Asia. This was established based on the fact that a large state-run protected manufacturing sector that was not very competitive internationally. Nevertheless, manufacturing was well-diversified, including producing chemicals, fertilizer, cotton fiber and textiles, telecom equipment, motor vehicles, locomotive, aircraft assemblies, and so on.

Notwithstanding its rich resources as well as the agricultural and manufacturing capacity, the country's trade performance has remained below its potential. The proportion of GDP in relation to total trade has been declining since the global financial crisis, be an average of only a quarter of GDP in 2015-16, though there has been signs of recovery since. Hence, shifting in the direction of a more competitive manufacturing and agricultural sectors could assist in utilizing its full trade potential. In 2017, the government declared a significantly different policy by employing changes and suggesting more reforms to create an open and market-focused economy. This reduced the value of the local currency and combined the exchange rate system. The prices of many goods were slackened whereas energy prices were raised in various steps to more suitable levels. The tax system is being reformed. The new National Development Strategy (created from 2017-2021) comprises specific obligations to WTO compliance and the further simplification of customs taxes and processes. The government's current goal is to grow at an average annual rate of 6 percent to attain upper-middle-income status by 2030 and to create 500,000 new jobs annually during that period. For this purpose, it plans to provide greater freedom to the private sector and farmers and to liberalize its trade and FDI regimes. Among the policy several most important areas of action includes a reduction in the government participation in the economy and boosting infrastructure

Figure 4. Map of Uzbekistan showing major towns and neighbouring countries.

5.3 Main Data Collected

The data used in this study were: (i) foreign direct investment net inflows (% of GDP), (ii) exports of goods and services (% of GDP), (iii) imports of goods and services (% of GDP), (iv) the GDP growth (annual %), (v) trade balance, (vi) and trade to GDP ratio. The data sample of the present study is from 2000-to 2020. Data are in current U.S. dollars. Dollar figures for all variables are converted from domestic currencies using single-year official exchange rates.

Where possible we will compare our results with other research works in developing countries especially in Asia.

5.4 Analyses and Discussion

The data were analyzed using time series graphs from 2000 to 2020. All monetary evaluations used in the analyses are presented in US dollars. Bar charts were also used in the study to show trends in GDP, exports and imports of goods and services, and Foreign Direct Investments in Uzbekistan.

Analysis of Balassa index (RCA).

Period	Uzbekistan's total gold export to Russia (US $)	Uzbekistan's total exports to Russia (US $)	World's total gold exports to Russia (US $)	World's total exports to Russia (US $)	RCA
2000	115,146,438	336,455,320	998,882,451	42,751,112,693	14.64
2001	67,392,226	344,167,662	887,350,596	46,176,985,039	10.18
2002	316,778,814	613,352,405	1,556,226,903	57,345,988,014	19.03
2003	381,795,779	584,169,421	2,857,687,169	41,865,361,958	9.57
2004	236,703,199	904,022,945	3,907,451,329	75,569,014,526	5.06
2005	275,076,279	1,459,557,046	6,054,128,981	98,707,255,772	3.07
2006	472,244,603	1,290,420,312	6,221,666,610	199,725,954,506	11.74
2007	236,703,199	1,298,016,853	3,907,451,329	137,811,059,897	6.43

2008	348,482,725	846,344,209	6,054,128,981	170,826,590,309	11.61
2009	130,320,344	1,290,420,312	7,695,166,876	228,911,658,149	3.00
2010	275,076,279	1,513,472,151	7,695,166,876	277,511,859,190	6.55
2011	67,998,206	1,390,799,227	9,244,565,266	267,051,243,546	1.41
2012	33,344,147	869,828,736	8,438,655,031	228,911,658,149	1.03
2013	88,303,177	575,837,496	9,283,685,409	316,192,918,041	5.22
2014	27,126,023	761,041,220	5,835,868,677	306,091,490,306	1.86
2015	99,030,771	1,021,516,973	5,248,257,859	314,945,094,987	5.81
2016	67,392,226	1,063,375,312	2,857,687,169	286,648,776,878	6.35
2017	10,079,471.00	1,298,016,853	5,127,321,541	182,781,964,814	35.64
2018	10,919,011.73	1,256,885,427	6,488,088,038	182,257,213,910	10.24
2019	14,929,506.69	1,022,375,002	6,934,710,185	228,212,749,973	10.48
2020	13,280,562.71	1,112,255,712	5,834,210,007	240,225,755,863	10.49

Source: Author's analysis based on statistics of UzStat

The above table illustrates Revealed comparative advantage of Uzbekistan in exported product of Gold to Russian Federation from 2000 to 2020. Balassa index analysis demonstrates that RCA reached its highest peak during 2017-2020. Uzbekistan's Gold had highly advantage at that period. According to this analysis, the lowest point was shown up during 2011-2012 where RCA degree dropped between 1-2. It can be connected that Russian Federation faced difficulties in its economy because of economic sanctions. Uzbek export to Russia also decreased accordingly at that time. Overall, Uzbekistan's Gold to Russia has high advantage and it involves specialization.

SWOT Analysis. Republic of Uzbekistan is a country located in central Asia with variety of landscape that includes a rolling sandy desert, mountains along the border and surrounded by Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, and Turkmenistan. The country is not only well-known for its architecture, art & crafts and especially the textile industry (Uzbekistan is in the core of the legend Silk Road), but also the richness in resources like cooper, gold, oil, natural gas and uranium. The economy of Uzbekistan is limited private freedom, but it is still being control by the government which are seem really good according to the fact that it is one of only three nations in the Europe and Central Asia has a positive economic growth in 2020 while still fighting with the virus as the others.

Strengths: • Rich Natural Resources: Uzbekistan boasts significant reserves of gold, cotton, natural gas, and other commodities, providing a strong foundation for exports. • Strategic Location: Situated at the crossroads of Central Asia, Uzbekistan benefits from access to major trade routes and potential as a regional trade. • Government Initiatives: The Uzbek government actively promotes foreign trade through reforms, free trade agreements, and investment incentives. • Established Textile Industry: Uzbekistan has a well-developed textile industry with a strong reputation for quality and established international partnerships.	Weaknesses: • Reliance on Commodities: Uzbekistan's exports heavily depend on raw materials like gold and cotton, making them vulnerable to price fluctuations. • Limited Diversification: The export basket lacks diversification, with finished goods and high-tech products making up a smaller share. • Outdated Infrastructure: Transportation and logistics infrastructure require modernization to improve efficiency and competitiveness in global trade. • Skilled Labor Shortage: A gap exists in skilled labor, particularly in advanced manufacturing and technology sectors.
Opportunities: • Growing Regional Markets: Expanding economies in neighbouring countries present opportunities for increased trade within Central Asia. • Investment and Technology Transfer: Attracting foreign direct investment (FDI) can bring advanced technology and expertise to boost exports of higher-value goods. • Free Trade Agreements: Signing new trade agreements with major economies can open wider access to international markets. • Development of New Industries: Uzbekistan can leverage its resources and location to develop new industries like renewable energy or tourism.	Threats: • Global Economic Fluctuations: Economic downturns and trade wars can negatively impact demand for Uzbek exports. • Geopolitical Instability: Regional tensions and political instability can disrupt trade routes and investor confidence. • Competition from Other Producers: Uzbekistan faces stiff competition from other countries exporting similar commodities and textiles. • Climate Change: The impact of climate change on agricultural production could affect cotton exports, a key sector for Uzbekistan.

Source: Author's analysis.

By capitalizing on its strengths and opportunities, Uzbekistan can address its weaknesses and mitigate threats. Diversifying exports, improving infrastructure, and attracting investment can help the country achieve sustainable growth in foreign trade.

5.5 Evaluation of Results

5.5.1 Impact of Trade on Economic Growth in Uzbekistan

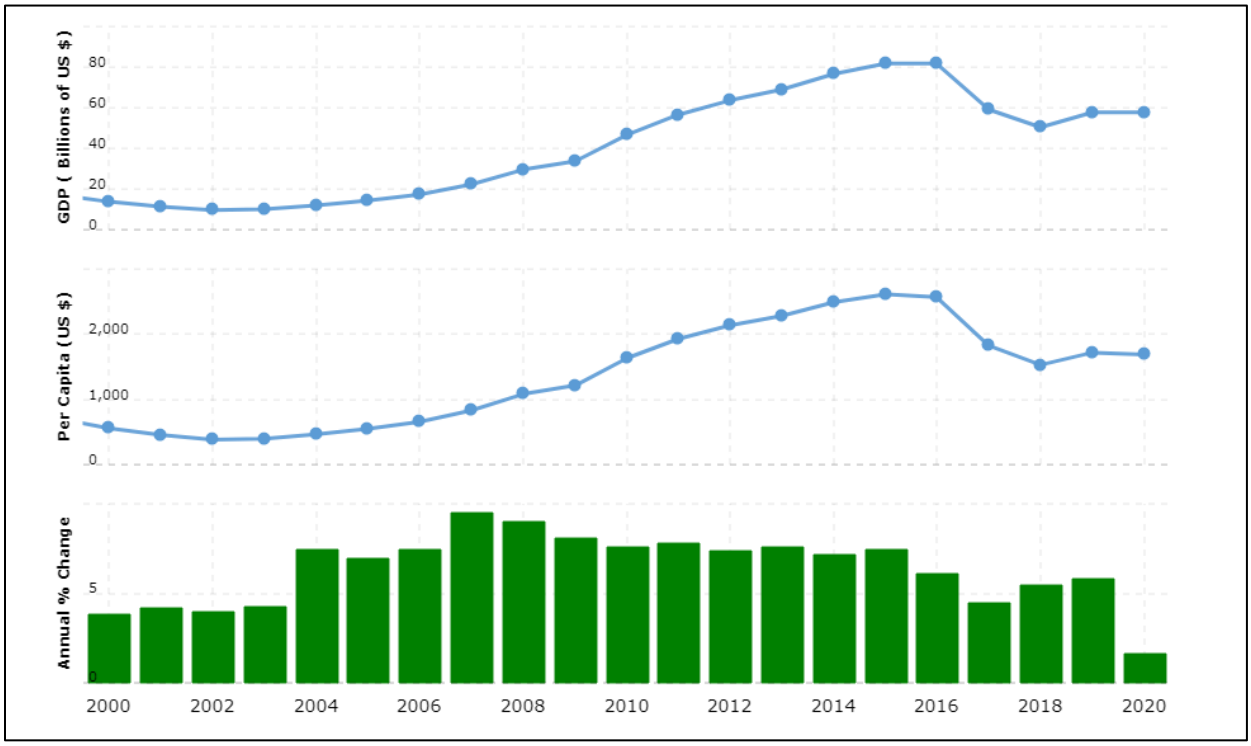

Figure 5. Trends of GDP in Uzbekistan from 2000-2020. (Source: World Bank)

The GDP of Uzbekistan fluctuated between 2000-2020. The growth of GDP was highest in 2015 ($ 81.5 billion and growth rate of 7.45%) and lowest in 2020 ($ 57.71 billion and growth rate of 1.65%). The major reason for the decline in GDP growth was the difficulties encountered in trade due to the COVID-19 pandemic. Trade and others including health care systems, investments, and consumption have been affected due to the pandemic. Moreover, the pandemics affecting major causes of economic growth in Uzbekistan and almost all countries in the world. These include reduced remittances, oil and mineral exports, and the service sector. Food price inflation raised in the first 7 months of 2020, while inflation for other goods and services in the same period slowed.

Meanwhile, depreciation of the currency of Uzbek raised against the US dollar from 2.5% to 7.7% of GDP in the first half of 2020 from 6.8% in the same period last year. This is mainly due to travel restrictions and weakness in the Russian Federation's cut remittances. Also, the exports of goods fell by 19.7% with lower demand and prices for natural gas and copper. The differences in the supply chain reduced imports of goods by 14.1%, with significant drops in imports for construction and industry. Exports of services reduced by 38.6%, and imports by 28.4%. However, according to the State Statistics Committee, the construction sector grew by 7.3%, mainly because of the ongoing construction work at major industrial facilities. Also, the agricultural sector grew by 2.8%. In comparing the GDP growth with other neighboring countries, the Eurasian Development Bank reported that most of these countries have been affected by prevalent social and economic upsets due to the COVID-19 pandemic.

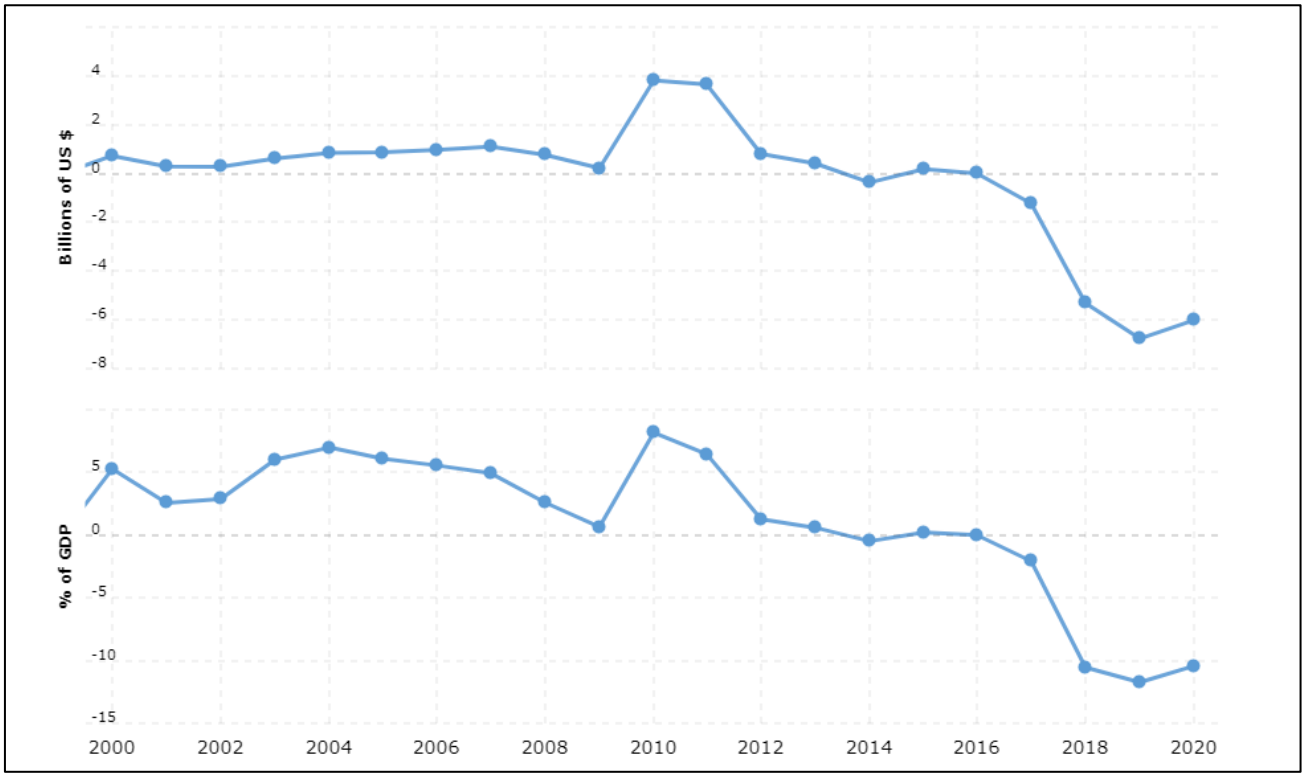

Figure 5. Trade balance of Uzbekistan between 2000-2020.

For example, the GDP of the economy of Armenia reduced by 6.4%; the Belarus economy also reduced by 1.5%; the Kazakhstan economy by 3.0%; the Kyrgyzstan economy by 7.5%; and the Russian economy by 4% (Eurasian Development Bank, 2021).

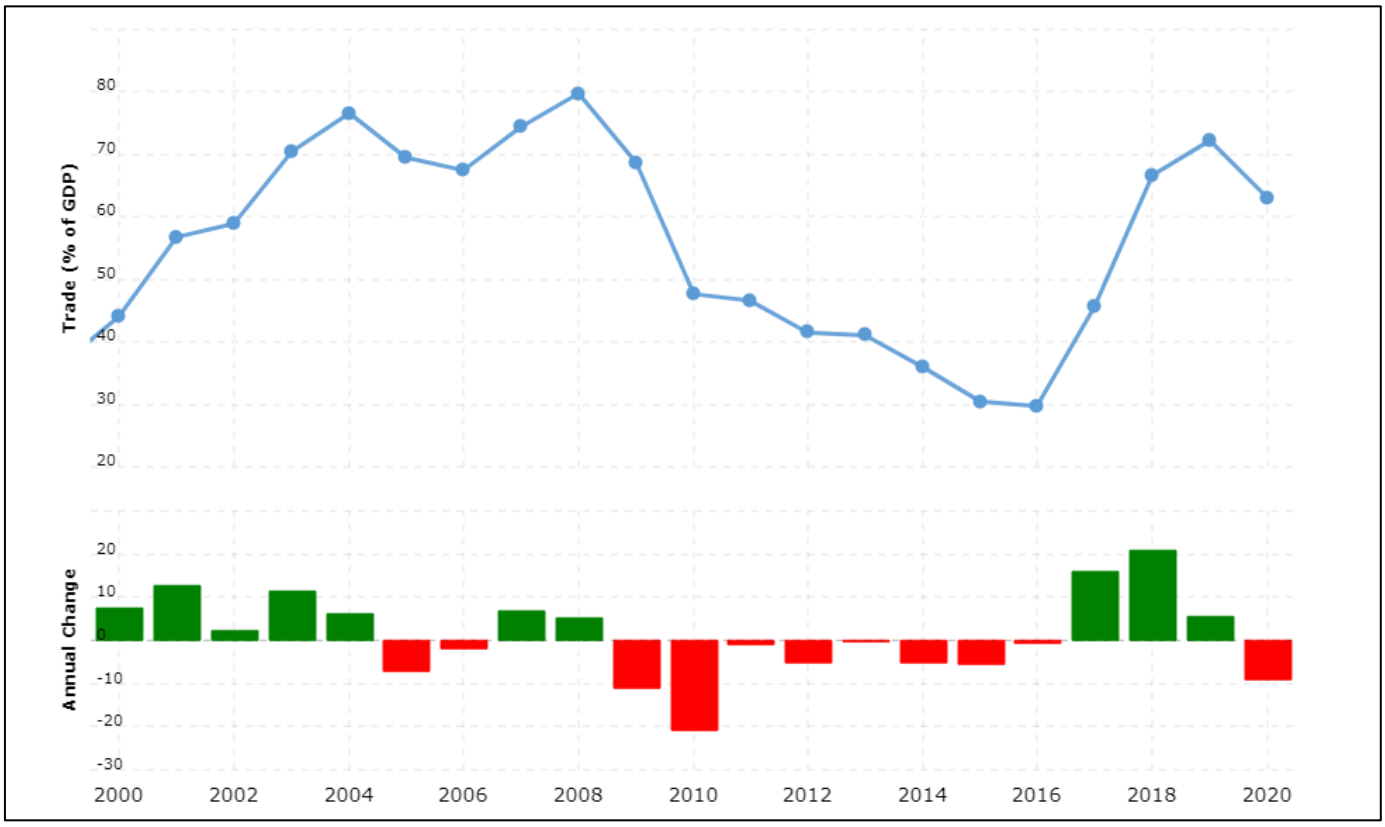

Figure 6. Trade to GDP Ratio between 2000-2020 in Uzbekistan.

The trade balance in Uzbekistan showed fluctuations overall years. However, it was highest in 2010 and has been on a decline since 2017. In 2010 the trade balance was $ 3.81 billion and was 8.17% of GDP (Figure 6). The lowest, in this case, was in 2019 which was -11.73% of GDP. According to figure 6, the Uzbekistan trade to GDP ratio for 2020 was 63.05%, a 9.21% decline from 2019. The trade to GDP ratio for 2018 was 66.63%, a 20.95% increase from 2017, and for 2017 was 45.68%, a 15.93% increase from 2016.

Moreover, Uzbekistan's foreign trade turnover reduced from $42.2 billion in 2019 to $36.3 billion in 2020 – of which exports amounted to $15.1 billion and imports to $21.2 billion.

Remarkably, Uzbekistan's trade deficit was reduced only by $0.3 billion. To explain the fluctuations in the trade balance, it was revealed that even in 2019 when the pandemic was at its peak, the government continued its industrialization policy of importing new capital equipment to enhance its manufacturing sector and infrastructure. The machinery and transport sectors alone contributed to 37.6% of the total volume of imports. However, the export of the gold item in 2020 contributed to 38.3% of exports or $5.8 billion. On the other hand, the decline in foreign trade activity is supported by a decline in revenue with China (by 17.5%), Kazakhstan (by 13.7%), and Korea (by 22.1%) (Ziyadullaev et al., 2020). A decline in external demand and a fall in commodity prices on world markets was indicated in a further decline in export trend. The decrease in exports is estimated at 11-12% compared with 2019. Between January and March 2019, Uzbekistan lost $ 400 million in export revenue (Ziyadullaev et al., 2020) indicating the impact of the pandemic on trade in the economy of Uzbekistan.

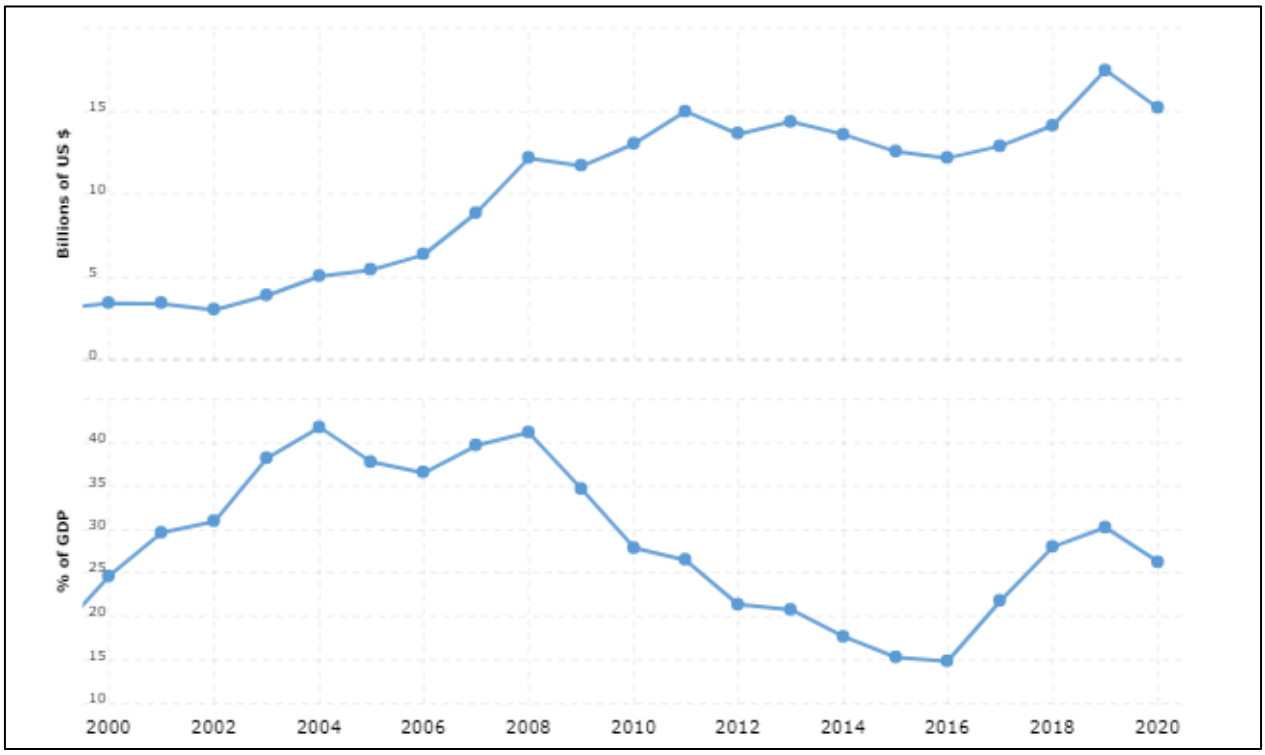

Figure 7. Exports of goods and services in Uzbekistan between 2000-2020.

It must be indicated that Uzbekistan's export effectiveness has seen a decline over the past decade (Figure 8). For example, exports from Uzbekistan for 2020 were $15.18B, a 13.08% decline from 2019, and exports for 2019 were $17.47B, a 23.62% increase from 2018. Exports in Figure 8 included the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services, such as communication, construction, financial, information, business, personal, and government services. They do not include employees compensation and investment income and transfer payments. Meanwhile, from 2000 to 2008 the importance of exports for the Uzbek economy improved rapidly. For example, because of the government's export-promotion policies introduced in 2003, there were structural changes in the shares of exports in GDP. As of the first four months of 2008, the nominal volume of exports got to 60.8% of the country's GDP. By the end of the last quarter of 2008, this was only 21% which is almost two times lesser than that in 2007. This can be regarded as initiating effects of the 2008 global financial crisis. However, in 2009, the impact of exports marginally improved when its share in GDP was average 36%. Generally, exports are influential in the economic development of Uzbekistan for the analyzed period.

The poor business environment and the differences in the gap to the global markets have inhibited Uzbekistan from incorporating quickly into global value chains. In the meantime, neighboring Kazakhstan's competitiveness has grown by 14%, while in East Asia and the Pacific region it has grown by an average of 42%. The weak trade competitiveness of Uzbekistan represents an enormous lost chance given the development of a growing consumer class in Asia. Together with an enhanced economic environment, Uzbek goods and services will have bigger markets in Western Europe and East Asia to provide and better conditions to reach them. Recently, the growth of the Uzbek economy happened in the setting of adaptation to the effects of the global economic crisis, the decrease in the progress of the world economy as a whole, and the major trading partners of the country. Based on the current data of the International Monetary Fund (IMF), in 2019-2023 the world economy will increase at a moderate rate of 3.8% per year on average (Kurpayanidi, 2020).

It must be stated clearly that the variations in export growth rates are obvious especially during three periods 1) During 2001-2002 – when the commodity prices declined significantly in

international markets; 2) during 2008-2009 – when the demand side factors shrank when the global economy was subject to consequences of the financial crisis; and 3) after 2019- to date – during which the Covid-19 pandemic has caused a decline in exports. Specifically, the crisis has negatively impacted foreign economic activity, as in other countries where restrictions were applied earlier. For the first four months of 2020, the foreign trade balance amounted to almost negative USD 1.4 billion. Moreover, a decline in demand for exports from Uzbekistan due to poor growth for the major trading partners including China, Russian Federation, and Kazakhstan. The countries as stated earlier account for about 42% of Uzbekistan's exports (Ministry of Investment and Foreign Trade of Uzbekistan, 2022).

The impact of the pandemic on trade and export is not only limited to Uzbekistan but also in many countries of the world. For instance, world trade levels reduced by 21% between March and April 2020, while during the financial crisis the maximum monthly decline was 18%, in September and October 2008. The export growth rate for the period December 2019– March 2020 was -7%, whereas for the time between July 2008 –February 2009 it was -0,8%. However, the 2020 decline was less lengthy than that caused by the financial crises. Trade levels around the world in August 2020 only showed a 3% decrease compared to March 2020 (Barbero et al., 2021).

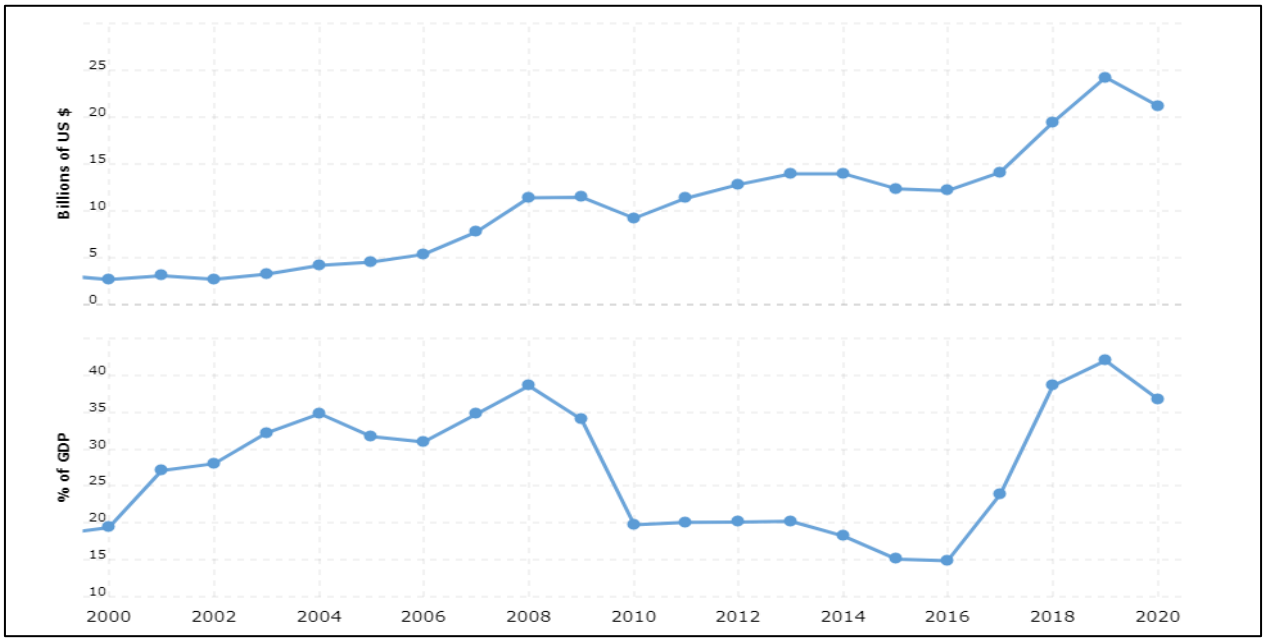

Figure 8. Imports of goods and services in Uzbekistan between 2000 to 2020.

Figure 9 shows the imports of goods and services which represent the value of all goods and other market services received from other parts of the world. These include the value of merchandise, freight, insurance, transport, travel, royalties, license fees, and other services. Moreover, communication, construction, financial, information, business, personal, and government services are part of the imports of services in Uzbekistan from 2000-2020. Imports into Uzbekistan for 2020 were $21.20B, indicating a 12.55% decline from 2019. In 2019 the value of import was $24.24B, a 24.66% increase from 2018. The major goods and services that the country import are movable, intangible commodities, agricultural raw materials, fuel, food, ores and metals, ICT goods, merchandise, and manufactures. Among these agricultural raw materials, food, ICT goods, merchandise, and manufacture imports recorded a gradual increase in imports over the study period. The remaining declined especially between 2017 and 2020.

In Uzbekistan, the import policy is focused on meeting the demand for domestic products instead of using it for exports. Among the major products imported, only vehicle parts are used in the manufacturing of cars that are exported which are produced by General Motors Uzbekistan owned by the state. Moreover, the government of Uzbekistan uses a strict import protection policy. This may favor the smaller domestic firms/ industry but in the world, it is evident that import protection does not only influence the import of goods but also harms exports of goods (Abdurakhmonov, 2020).

However, governments that have control over their borders and the flow of goods, products, and commodities in and out of their country use the protectionist measure because of several reasons. For example, in Uzbekistan, the strict protection of imports policy was adapted due to: (1) Protecting jobs and industries. This is based on the premise that protecting workers' income and the industries and the firms that employ them are critical to the nation's economic growth and well-being; (2) Protecting consumers from unsafe imported products; (3) The infant industry argument. This means that new industries or companies may have extreme difficulties competing with well-established, rich, huge profitable companies from other countries. New industries in developing countries may not have the economic and financial resources, including technology, physical equipment, and research and development capabilities to compete with well-established

companies elsewhere. For new industries to compete effectively with well-established on the global market, the governments introduced short-term support structures for these 'infant' industries until they can compete well with these foreign companies. A typical example of the protectionist system in Uzbekistan is the implementation of high tariffs on imported cars for protecting the domestic state firm, General Motors (GM) Uzbekistan (Abdurakhmonov, 2020).

However, trade protectionism has its detrimental effect on the macroeconomy of Uzbekistan which includes (1) Consumers' restricted choice and more payment for goods and services. Many consumers will have access to a few products and goods in the market to select from since there may be limits on how much can be imported. These lead to consumers having a limited choice as to the quantity, quality, and kind of product that would have been accessible to them without trade protectionism. By these consumers must make use of possible lower quality products and pay more for a specific product. In inference, consumers may then either pay that amount, but less of that product, or will eventually decide against buying the product at all.

It must be pointed that although many other factors contribute to consumers paying more for products, trade protectionist policy play a key role in such circumstances (Mah, 2010). For instance, the prices of goods and services in the consumer sector as of January 2020 in Uzbekistan reached 11.6%. Specifically, the price of food products increased by 15.5% for 2020. The prices of non-food products increased by 9% and the services sector increased by 8.2% both in 2020 (State Statistics Committee, 2021). (2) Infant industries may never expand because of government trade protection policies. The main questions that must be asked are: For how long will a small (infant) industry need protection from its government? At what time will small companies be considered mature that can compete with foreign companies and the global markets? The protection of a small industry may lead to the government spending a substantial amount of money and financial resources to protect such industries. (3) In many countries that adopt strict import protection policies, they decrease the value of their currency so that they can sell their products and goods at lower prices in foreign markets. In this case, prices of foreign products in such markets will increase. Consumers will, therefore, pay higher prices for goods, products, and commodities. This is also evident in the increase in prices of goods and services in Uzbekistan over the years.

5.5.2 Impact of Foreign Direct Investment on Economic growth in Uzbekistan.

Figure 10 shows that FDI in Uzbekistan averaged 349.51 USD million from 2010 until 2020, reaching an all-time high of 876.65 USD million in the second quarter of 2020 and an all time low of -1.74 USD million in the second quarter of 2018.

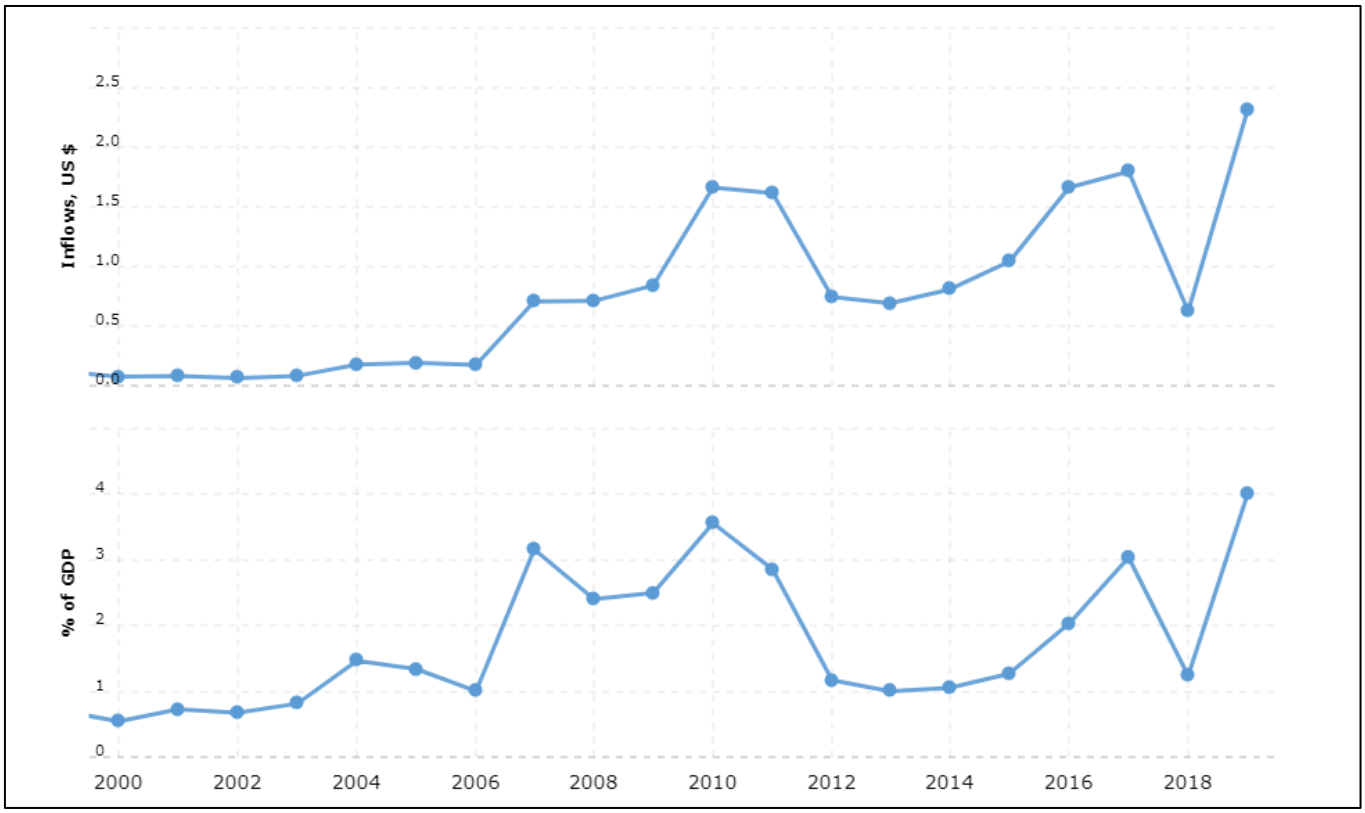

Figure 9. Foreign Direct Investment in Uzbekistan between 2000 to 2020.

Since independence Uzbekistan changed from a centrally planned economic system to one focused on market forces by following the footprints of more advanced economies. Freely regulated price structure, private ownership, and authorization to operate a private business completely expanded socio-economic conditions (Abdullaeva, 2015). Expanding of economic transformations led to new ways of advancement which is evident in the continuous economic growth, economic diversification, and ongoing foreign economic dealings. Specifically, the foreign economic relations of Uzbekistan have been reinforced with high FDI attractiveness and

the increasing volume of foreign trade. In the past ten years, there has been an extraordinary inflow of FDI to various sectors of the national economy. Also, it can be attributed to sustainable growth in production due to efficient organization of the investment environment and public policy agenda initiated to support it. Consequently, numerous FDI-based firms improved their share and expansion among optimized sectors (Pulatova, 2016).

It is frequently claimed that effective FDI-encouraging policies should result, including others, a substantial increase in the receiving country's exports (Kutan and Vukšić, 2007). For a good and effective plan towards economic growth, the Uzbek government signed a law modifying foreign investment rules, including the initiation of a one-stop-shop for foreign firms, the softening of migration regulations for investors from foreign countries, an assurance of investors' rights to repatriate funds and a pledge of steady tax legislation and customs tariffs for foreign investors for 10 years after registration of the firm (United Nations Conference on Trade and Development [UNCTAD], 2015).

Consequently, the number and share of FDI-based firms in gross export increased further regardless of the bad economic condition in international markets due to the recovery period from the global financial crisis and its long-term implications. Considering the current situation in global markets, expansion, and performance of FDI-based firms, their position in foreign trade is essential in regarding the incorporation of Uzbekistan's to global economic community and competitiveness. However, it should be noted that against the background of a 40% fall in the global volume of FDI and a 25% decline in the volume of world trade in 2020, in Uzbekistan at the end of 2020, the volume of attracted FDI was at $ 6.6 billion, which is more than the previous year, and the volume of exports was close to 15.1 billion dollars. Despite the pandemic, these figures were reached through the execution of large investment projects in the production of building materials, information and communication sectors, electrical, chemical, and light industries, as well as a substantial increase in the export of goods and services in the textile, agricultural, mining, and metallurgical and transport sectors.

5.5.3 Potential sources of trade in Uzbekistan

The increasing public and private investments stemming from the government's focus on exports and import-substituting industrialization programs may offer more prospects for U.S. businesses and companies. Here, the expanding opportunities can be realized in the following areas:

Banking: There must be plans for the government to change the banking sector from public to private capital. There is enough evidence that state ownership is fundamentally less efficient than private ownership (Motalebi Asl, 2006). Many state-owned banks face numerous political and economic backlashes which include the lack of motivation for managers and supervisors, lack of required commitments to improve performance, and non-economic goals. The privatization of banks is one of the main difficulties confronted by most governments around the world. However, if the government's aim is to generate a more effective and market-oriented economy, it is vital to decrease the government's impact on the distribution of credit decisions (Motalebi Asl, 2006). It is encouraging to note that the government of Uzbekistan has set a target of privatizing 60% of the banking industry by 2025. State-owned banks will soon be in the process of modernizing their client service systems, switching to international financial reporting standards, and enhancing corporate governance to encourage foreign investors.

Education: Mughal and Vechiu (2011) assert that a country's growth rate exerts a strong positive impact on education. By this, the Uzbekistan government must increase the number of university students and build more universities. These governments can attract foreign universities interested in establishing branches in Uzbekistan or creating double degree programs with local universities.

Tourism: Developing tourism should be among the main concern of the government. However, due to the pandemic, the number of foreign tourists decreased in almost all tourist destinations around the world. In Uzbekistan, tourist visits fell by more than 77% since the pandemic. Still, the government must focus on improving tourist and tourism activities through, for example, the construction of first-class hotels and other infrastructure in the Great Silk Road cities of Samarkand, Bukhara, and Khiva and connect them to the capital city.

Oil and Gas: Many projects in the oil and gas industry are expected to draw about $36.5 billion in investment from many sources through 2030. However, these projects may serve as good export prospects for U.S. suppliers of oil and gas extraction, transportation, processing technologies, and other oil services.

Public-Private Partnerships (PPP): PPP is certainly a useful tool for improving the competitiveness of the national economy by drawing substantial investments to modernize current and generate new production facilities, and learn most recent technologies, as well as management. As the most crucial way for answering the issues of producing and applying PPP as a major means of modernizing the national economy, it is prudent to create an integrated state approach, which should form the main basis for the idea of the development of PPP in Uzbekistan. Meanwhile, since 2018, potential foreign investors have signed PPP agreements to initiate several fossil fuels and renewable energy projects. More is to be done in terms of other sectors of the economy.

Food Processing and Packaging: Growing external demand for food products produced in Uzbekistan and efforts to expand the productivity of the agricultural sector create export opportunities for suppliers of food preservation, processing, and packaging technologies including transportation and logistics solutions.

Construction: Construction is one of the most encouraging industries in Uzbekistan, which showed a continual growth rate of 15-20% per year until the pandemic. However, it is among the few industries that grew by 9.1% in 2020 and have continued to push the wider economic growth. Government can, therefore, use this sector to create more jobs and ensure its contribution to the growth of the economy.

ICT: ICT allows economic growth by expanding the access of technologies such as high-speed Internet, mobile broadband, and computing; increasing these technologies promotes growth, and most importantly technologies make it simpler for people to interact and make workers more productive. According to the World Bank’s statistics, the share of ICT is more than 5.5 % of the

world GDP. Scientific research shows that the more the share of ICT, the more the GDP growth is. For example, the expansion of wideband lines for 10% in economy networks, increases the growth of GDP by 1.4%. However, the operation of ICT and the Internet in business activities, in exporting and sharing of information, and the return from investment targeted at the economy is still low. Therefore, the Uzbek government must aim to develop an information-communication system and possibly upgrade communications infrastructure to the 5G standard generates continuous demand for IT solutions in the public and private sectors of the economy.

Chemical industry: According to the International Council of Chemical Associations (ICCA), the chemical industry is estimated to be worth $5.7 trillion which contributes to world Gross Domestic Product (GDP) through direct, indirect, and induced impacts, equal to seven percent of the world's GDP, and supporting 120 million jobs worldwide. For example, the biggest contributor to GDP and jobs is the Asia-Pacific chemical industry, producing 45% of the industry's total annual economic value, and supporting 69% of all jobs. Europe made the next most vital contribution (USD 1.3 trillion total GDP contribution, 19 million jobs supported) followed by North America (USD 866 billion total GDP contribution, 6 million jobs supported). The government of Uzbekistan must, therefore, see this industry as an opportunity to create more jobs thereby improving economic growth. It is encouraging to note that between 2019-2030, a national program for the growth of the chemical industry has found 31 projects with a total value of $12 billion. The government has the intention to expand the production of higher value-added goods through the processing of raw materials.

It must be stated unequivocally that along with the prospects that Uzbekistan stands for investors, there are also issues to consider. The country still has issues concerning its reputation to overcome. in Transparency International's 2019 Corruption Perceptions Index, Uzbekistan ranked 153rd out of 180 countries. The index rated countries from zero to 100, with zero indicating being completely corrupt and 100 indicating being clean of corruption. Uzbekistan scored 25 on the scale and was one of the three lowest-rated countries in eastern Europe and the Central Asia region. Most sectors of the economy of the country are affected by corruption or nepotism. A recent report by German Bank Bayern Landesbank concluded that a huge amount of the foreign exchange that goes into the country through earnings from exports and foreign

investment are transferred into foreign bank accounts of the leadership hierarchy.' It is known that corruption affects the rate of FDI in a country. Corruption can raise the cost of carrying out business to the level of making it unprofitable, which decreases FDI flows. Corruption in that sense falls within the broader negative effects of being a rent-seeking activity that enhances the cost of transactions in the economy. Although FDI is increasing in Uzbekistan and there are still many more sectors that require investments, the government must take stringent measures to tackle this issue for it not to negatively affect the flow of investments in the future.

CHAPTER SIX

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Conclusions

FDI and trade have had a positive impact on economic growth. However, the export effectiveness of Uzbekistan has seen a decline over the past decade. This was due to the poor business environment and the differences in the gap to the global markets which have inhibited Uzbekistan from incorporating quickly into global value chains. Moreover, the study revealed that the differences in export growth rates were clear especially during three periods 1) During 2001-2002 – when the commodity prices declined significantly in international markets; 2) during 2008-2009 – when the demand side factors shrank when the global economy was subject to consequences of the financial crisis; and 3) after 2019- to date – during which the Covid-19 pandemic has caused a decline in exports. Specifically, the crisis has negatively impacted foreign economic activity, as in other countries where restrictions were applied earlier. For the first four months of 2020, the foreign trade balance amounted to almost negative USD 1.4 billion. Moreover, a decline in demand for exports from Uzbekistan due to poor growth for the major trading partners including China, Russian Federation, and Kazakhstan.

Concerning FDI, foreign economic relations of Uzbekistan have been reinforced with high FDI attractiveness and the increasing volume of foreign trade. In the past ten years, there has been an extraordinary inflow of FDI to various sectors of the national economy. Also, it can be attributed to sustainable growth in production due to efficient organization of the investment environment and public policy agenda initiated to support it. Despite the pandemic, these figures were reached through the execution of large investment projects in the production of building materials, information and communication sectors, electrical, chemical, and light industries, as well as a substantial increase in the export of goods and services in the textile, agricultural, mining, and metallurgical and transport sectors.

As the world becomes progressively mutually dependent through international trade and the flow of investments, the relationships between these two strategies become increasingly important.

6.2 Recommendations

Below are some of the issues and suggested recommendations (solutions) concerning trade in Uzbekistan. The solutions were based on some of the models used in Brazil and South Korea.

The minor role of the private sector in international trade. In Uzbekistan, the domestic sector shows the very little part in international trade. Both import and export are controlled by the government. In Uzbekistan, for domestic firms, exporting is not a condition for survival, so they have very limited motivation to grow their competitiveness. They are mainly competitive domestically. In terms of competing globally, most of these firms are protected from external competition.

Solution: Domestic firms should be the pillar of international trade, not the state. For example, in Korea, chaebols, the large conglomerates like Samsung, Hyundai, and LG are the main exporter of electronics, cars, and machines (Pae, 2019). To improve competition smaller firms must be able to increase their capabilities and skills (Giuliani et al., 2005; Awate et al., 2012; Kumaraswamy et al., 2012). However, in developing countries like Uzbekistan, there are limited technologies to develop skills. Hence, they should be obtained externally. Governments in developing economies must try to attract multinational enterprises by FDI reforms because multinational enterprises can assist domestic firms to improve their technological capabilities and skills through the transfer of sophisticated knowledge and best practices (UNCTAD, 2001; Ivarsson and Alvstam, 2005).

One more way to attract technological capabilities is to follow OEM (Original Equipment Manufacturer). For underdeveloped and developing countries, the best way is to go for OEM to learn technological capabilities.

Poor classification of quality terms for exportable products. There have been many disputes between the classification of quality terms of Uzbekistan and its trading associates. One common example is that in the previous years, many exported vegetables and fruits had been returned from Russia because trade officials in Russia found the quality of vegetables and fruits not

correspondent to its standards. As a result, perishable products were either sold at low prices illegally, or they were rotting away leaving no value for Uzbekistan.

Solution: The solution would be to implement strict quality standards for exportable goods. For example, in the case of vegetables, the FAQ (Fair Average Quality) standard can be used. "This term binds the seller to deliver products, that, at the time of delivery, are in the best condition to be sold". This kind of strict quality standardization would avoid problems like returning goods.

Unchanged export composition and economic structure. Over the past decade, Uzbekistan's export composition structure has remained the same: main exports have always been mineral products, natural resources, and vegetables which are the raw products without any added value. It means Uzbekistan has failed to react actively to the demands of the international market.

Solution. The best way is not to continue repeating the same export composition and economic structure over years. For example, in terms of exportable products, Korea changed its focus many times. From the 1960s to 1970s, the main export products were labor-intensive textiles, then the focus changed into HCI (Heavy and Chemical Industry) industry and then starting from 1980s, the focus again changed to Research and Development and from 1995s it again changed into capital goods industry (Mah, 2010).

Inappropriate use of imports. For over 10 years, Uzbekistan used imports mainly to meet national demand for certain products. Woods, irons, pipes, and other raw materials have been imported because of construction projects in Uzbekistan. However, none of them, except for vehicle parts have been used in the production of exportable products, which implies inappropriate use of import policy.

Solution: Uzbekistan's only importable that was used in the production of exportable in 2017 was vehicle parts (The Economic Complexity Observatory, 2019). In 2017, Uzbekistan imported $574-million valued vehicle parts and exported only $121-million valued cars (The Economic

Complexity Observatory). If we have a look at the profile of Korea, in 2017, Korea imported $56 billion valued crude petroleum (an unrefined petroleum product), and having refined crude petroleum and distributed some of them for domestic use, Korea exported $32.6 billion valued refined petroleum (The Economic Complexity Observatory, 2019). Even though Korea is resource-poor and has nearly no natural resources, Korea is one of the top exporters of refined petroleum. So, the suggestion for Uzbekistan is that the government should not see the import only as a way of meeting national demand, it should also start viewing imports to improve export.

These findings present important policy recommendations. The current trade shock caused by COVID-19 is still reforming the world economy. Yet, the current influence on trade can be deemed as less detrimental than in the first wave from March to May 2020. The cause is dependent on countries' ability to adapt to the different phases of the crisis. Countries may need to lessen this trade shock by applying public expenditure programs, including promoting private investment. Such governmental measures may need further institutional programs, because of the importance of the latter's substantial influence on trade flows (e.g., Nunn and Trefler, 2014). Nonetheless, most countries' interest at this time has changed towards vaccines, which may decide the future creation of policies that focus vaccines on a small group of producers (Evenett et al., 2021). The transition to a non-COVID-19 context is likely to differ strongly on the vaccination attempts that are being carried out by most countries. Countries need to stay competitive during the COVID-19 pandemic, at the same time rebuilding wherever possible their trade relationships.

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