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Research on FDI Strategy in Terms of Attracting Investors for the Republic of Uzbekistan:

Cases from CIS (Russia, Ukraine, Kazakhstan, Azerbaijan, Belarus)

URMONBEKOV Diyor

Research purpose and background

The aim of the research is to identify the determinants of foreign direct investment (FDI) inflow to former Soviet Union Republics. In particular, it analyzes the potential factors that caused less FDI inflow to the Republic of Uzbekistan after its independence compared to other Commonwealth of Independent States (CIS) countries such as Russia, Ukraine, Kazakhstan, Azerbaijan, and Belarus.

The research is motivated by my own experience as well as FDI theory. I am from Uzbekistan, am familiar with the situation in the region, and have been working on the FDI project to develop a strategy to attract FDI to Uzbekistan since 2015. However, while working for the project, I have been frequently asked a question from various Japanese and other foreign companies' managers in Finland, Estonia, Switzerland: "Why is Uzbekistan is still struggling to attract FDI compared to other CIS nations?" Considering the potential of Uzbekistan in terms of the size of its economy and human capital, the answer was not straightforward.

Various scholars investigating FDI have worked on policies and their impacts on the recipient states; for example, Colen et al. [2008], Pompei et al. [2008], and others have analyzed the potential positive and negative impacts of FDI on economic and political development. However, few studies have extended their research to the CIS region. To the best of my knowledge, there is no study which analyses the five CIS states as case studies to analyze how they attract FDI compared to Uzbekistan.

Methodology

A qualitative approach consisting of case studies, interviews, and comparative analyses across 6 countries is applied. Data were from both primary and secondary sources. The former were collected from the interview based survey of embassies, university professors, trade organizations, and small private companies. The latter were obtained from academic papers, journals, books, and official government materials.

To analyze the FDI determinants Dunning's eclectic paradigm [Dunning 1977; Dunning and Lundan 2008] is primarily applied. The overarching framework is based on the internalization theory,

industrial organization theory, and location theory to explain the behaviors of multinational companies (MNCs) from the concepts of ownership, location, and internalization (OLI).

From the review of the literature on FDI theories and statistics on the 6 CIS countries, the main factors that potentially attract FDI were determined: natural resources, size of the economy, human capital, geographic location, policies, profit transmission, and level of corruption.

To determine the most influential factors, I conducted 18 interviews with professionals from universities, embassies, and the government, and created surveys to obtain a trustable set of primary data. To evaluate the potential factors of natural resources, size of the economy, human capital, geographic location, policies, profit transmission, and level of corruption. Structured interviews were also conducted using a numerical scale from 1 to 5. After obtaining the preliminary findings, three field research experts evaluated the final assessment according to the interview and survey results. Moreover, results from the 6 embassies to those from the three universities were compared.

Conclusion

The case study results confirmed that each of the 7 factors (natural resources, size of the economy, human capital, geographic location, policies, profit transmission, and level of corruption) can have fundamental influences in attracting FDI in the 6 CIS countries. The results also revealed that policy (regulation) and geographic location are the main impediments to FDI inflow to Uzbekistan. The Soviet-based system and communistic thinking government officials did not carry out the necessary reforms on time, which eventually affected economic growth and the FDI inflow to Uzbekistan compared to neighboring countries. Going forward, institutional reforms such as implementing foreign investor-friendly regulations and policies, and improving the rule of law and enforcement will help the country attract significant FDI.

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