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# **ANALYSIS OF INTERNATIONAL EXPERIENCE OF ATTRACTING FOREIGN INVESTMENTS**

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**Abstract:** The article considers foreign experience of attracting foreign investments by the example of the countries that most successfully attract foreign investments, and at the same time are the main countries investing in the economy of the Republic of Uzbekistan. The policy of attracting foreign investments to the Republic of Uzbekistan is being considered. Analyzed regulatory legal acts, considered free economic zones, as a method of attracting foreign investment in the Republic of Uzbekistan. The conclusion of a comparative analysis of the effectiveness of investment policy and their features in the context of countries is given.

**Key words:** investments, foreign investments, tax privileges, financial incentives, foreign investor, investment climate, special economic zones, 'Grandfather's clause', investment policy.

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It is known that foreign investments play a major role in the economic development of both the developed state and the developing one. Previously, it was believed that foreign investment wanted to 'capture' the national economy and deprive part of the national wealth. In the 1980s and 1990s, investment was seen as the main way of integrating countries into the world economy. Countries began to develop an active stimulating investment policy. It was revealed that, the inflow of foreign capital is influenced, in the main, by the following factors:

- Political stability in the country;
- Macroeconomic policy;
- Level of infrastructure development;
- Dynamics of the exchange rate;

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- Local market capacity;
- Tax and other incentives, as well as a number of other factors that determine the attractiveness of the country's investment climate.

Foreign experience shows that countries have made significant attempts to improve the investment climate and attract foreign capital. Here it is appropriate to mention some of them:

- Simplification of the procedure for registration of an investment (the principle of 'one window'). For example, according to the rating of the World Bank Doing Business 2014 Singapore ranks first in ease of doing business. The process of company registration is carried out through the Internet and takes from several hours to 3 days.

- Permission to own private property to foreign investors. After the 1990s, companies completely belonging to foreign investors began to appear in China. Previously, this situation was not observed in China.

- Exemption from certain taxes, the provision of tax holidays;
- The introduction of a 'grandfather's clause' to protect the interests of foreign investors, in the event of adoption of legislative acts worsening the situation of foreign investors.

- Introduction of accelerated depreciation.

- The existence of a legal framework protecting the interests and expected income of foreign investors.

Any country, protecting the interests of foreign investors and stimulating the further inflow of foreign capital, can consolidate the order and rules of investing in legislative acts. But, as is known, in the developed countries there are no special laws for foreign investors, since foreign investors and domestic investors have equal rights to conduct business. In 1946, **Japan** adopted the Law on Foreign Investment, and later the law was repealed. In 1973, the Law on Foreign Investment was enacted in **Canada**, and was later amended to the Investment Law of **Canada**.

Unlike developed countries, developing countries and countries with economies in transition have developed a legal framework that protects the interests of foreign investors and provides special incentives for doing business. According to UNCTAD classification, there are 3 groups of benefits for foreign investors:

- 1) Tax (fiscal) benefits, including tax holidays, investment discounts, tax credit, accelerated depreciation, investment subsidies and exemption from customs duties. In **India** there are five-year 'tax holidays' for companies working in transport infrastructure, in the field of water supply and water treatment. In **Australia**, there is no customs duty on goods that are not produced domestically.

2) Financial benefits. They include subsidies, loans, and guaranteed loans.

3) Other benefits (non-financial) – development of transport, other types of communication and infrastructure; creation of free economic zones; special government programs for foreign investors; The application of protectionist policies to protect investors from imported products. In **Kazakhstan**, one of the measures for attracting foreign investment is the creation of special economic zones. There are 10 special economic zones in the republic – ‘Astana – new city’, ‘Aktau seaport’, ‘Alatau’ Information Technologies Park, Ontustik, National Industrial Petrochemical Technopark, Burabai, Saryarka, Khorgos – Eastern Gate, Pavlodar and ‘Chemical Park Taraz.’ A standard set of benefits is provided for all participants of the FEZ: exemption from payment of CIT, land tax and property tax, as well as fees for the right to use land plots, but not more than 10 years from the date of allocation of land plots. Goods that are necessary for production in the territory of free economic zones are subject to VAT at a zero rate (according to a certain list approved by the government).

In all countries, one or another form of incentive for attracting foreign investment is used. However, it was possible to identify the fact that developed countries prefer financial incentives, while developing countries and countries with economies in transition often use tax incentives to attract foreign capital. Each country applies the above measures based on the economic and political situation, strategic objectives, availability of financial resources, etc. Before looking more closely at the experience of some countries that attract foreign investments most successfully, it is advisable to mention investment activity in the Republic of Uzbekistan.

During the years of independence, the Republic of **Uzbekistan** has undertaken economic reforms to transition to a market economy and efforts to attract foreign investment into the country's economy. It can be noted that Uzbekistan has favorable conditions and factors for business development. The volume of foreign investments in the economy of Uzbekistan in 2017 amounted to about 2.4 billion dollars (Gazeta.uz, 2018).

In Uzbekistan, a system of normative legal documents has been created to ensure the attraction of foreign investment and the protection of the rights of both national and foreign investors. The main legislative and legal documents are the laws ‘On investment activity’, ‘On foreign investments’, ‘On guarantees and measures to protect the rights of foreign investors’, ‘On bankruptcy’, ‘On the protection of investors' rights in the securities market,’ ‘On the agreement on the division of production.’ Along with these documents, the decrees of the President of the Republic of Uzbekistan and decrees of the Cabinet of Ministers were also adopted.

At the moment, the draft Investment Code is being developed. The Code will greatly facilitate the investment process, will allow to define clear guarantees of investment security and increase the attractiveness of Uzbekistan in the eyes of investors, and will become the basis for improving the terms of taxation, lending, granting privileges and preferences to investors.

Proposed innovations in the investment sphere

1. Revision of key concepts of investment activity ('investment', 'investor', etc.).

For reference: at present, these concepts are regulated by the Law 'On Investment Activities'.

2. The introduction of a single legal regime for both domestic and foreign investors.

3. New guarantees against discrimination and unfavorable changes in legislation.

4. Introduction of such innovations as:

- visa of the investor;
- investment loan;
- investment tax credits;
- investment subsidies;
- revised terms of concessions and PSAs;
- foreign investment;
- additional guarantees for foreign investors (Investment code project, 2017).

For foreign investors, the Republic can be attractive to the hard-working and hospitable people, convenient geographical location, as well as an abundance of natural resources.

In the world, Uzbekistan is 11th in terms of natural gas production, third in exports and sixth in cotton production, in seventh place in uranium reserves (4% of world uranium reserves). Uzbekistan also ranks fourth in overall reserves and ninth in terms of gold production.

By the law 'On foreign investments' of the Republic of Uzbekistan foreign investors can make investments in the territory of the Republic of Uzbekistan by:

1. Equity participation in statutory funds and other property of business companies and partnerships, banks, insurance organizations and other enterprises established jointly with legal entities and (or) individuals of the Republic of Uzbekistan;

2. Creation and development of economic societies and partnerships, banks, insurance organizations and other enterprises wholly owned by foreign investors;

3. Investment of intellectual property rights, including copyrights, patents, trademarks, utility models, industrial designs, brand names and know-how, and goodwill;

4. Acquisition of concessions, including concessions for the exploration, development, extraction or use of natural resources;

5. Acquisition of ownership of the objects of trade and services, living quarters together with the land plots on which they are located, as well as the rights to own and use land (including on a lease basis) and natural resources.

6. Acquisition of the right to search, exploration of deposits and extraction of minerals in subsoil areas in accordance with production sharing agreements. (Law 'On foreign investments', 1998)

By the Law 'On guarantees and measures of protection of rights of foreign investors' there are guarantees for the foreign investors:

1. The state guarantees and protects the rights of foreign investors;

2. Guarantees of nationalization;

3. Guarantees from requisition, except for cases of natural disasters, accidents, epidemics, epizootics;

4. Guarantee of the use of funds;

5. Guarantees of funds transfer;

6. Guarantees of return of foreign investments in connection with the termination of investment activity (Law 'On guarantees and measures of protection of rights of foreign investors', 1998).

In order to create the most favorable conditions for attracting investments, especially foreign direct investment, 17 free economic zones were created on the basis of studying the best practices of leading, industrialized countries of the world: 'Navoi', 'Angren', 'Djizak', 'Urgut', 'Kokand', 'Gijduvan', 'Khazarasp', 'Nukus Farm', 'Zomin Farm', 'Kosonsoy-farm', 'Syrdaryo-Pharm', 'Boysun Farm', 'Bustonlik Farm', 'Parkent Farm'.

The FEZ participants are exempted from: land tax, property tax on legal entities, tax on improvement and development of social infrastructure, customs payments for equipment, raw materials, components and components imported for their own production needs, customs fees for construction materials. (Decree of the President, 2008)

Analyzing the investment policy of the Republic of Uzbekistan it is not difficult to notice that the state sets the main goal to increase the investment attractiveness of the country and stimulate the inflow of foreign investments.

Although there are effective attempts to improve the investment climate and attract foreign investment in the Republic of Uzbekistan, it is possible to apply world experience to create a more perfect investment environment of the country. Here it is necessary to analyze the methods and instru-

ments used in foreign countries to attract foreign investment. It is advisable to consider countries that actively attract and at the same time are the main countries investing in the economy of the Republic of Uzbekistan.

Among the developing countries, **China** is a great example of a country that has succeeded in attracting foreign investment. As a result of the government's policy to stimulate foreign investment, over the last decade, China has received about 25% of total investment sent to developing countries. The volume of foreign direct investment in the economy of China in 2014 amounted to \$ 128 billion (Katasonov, V, 2016).

It was decided to attract only effective foreign investment, resource-saving and environmentally friendly. Here it is appropriate to give the following characteristics for stimulating the inflow of foreign investment:

1) The Chinese Government ensures the economic and political stability of the country. The economic policy of the state is predictable and consistent.

2) Step-by-step access to all regions of the country, to new branches and spheres of the national economy has been formed for foreign investors.

3) The government raises the level of diversity of forms of ownership for foreign investors. At the beginning of the reforms, the main form of attracting foreign investment was joint ventures with foreign partners. Since the 90s of the 20th century, enterprises belonging to foreign capital began to appear. In 2001, China became an official member of the WTO. Accession to the WTO contributed to the emergence in China of a form of investment through mergers and acquisitions. This method of investment has not previously been applied in this country. Another form is the concession granted to a foreign company for the construction and operation of infrastructure facilities. Previously, this form implied government guarantees to investors, now commercial banks are taking financial risks (Berger, 2004).

4) The state in every possible way supports the process of attracting foreign investments. In the 1980s and 1990s, the state provided a number of preferences for foreign investors to support the growth of foreign investment, which included special privileges and tax breaks, such as a reduction in the profit tax and tax holidays (Elizavetin, 2004).

5) Foreign investments are concentrated in more significant regions, both for the state and for foreign investors. In 1980, four special economic zones (FEZ) were established: Shenzhen, Shantou, Zhuhai (Guangdong Province) and Xiamen (Fujian Province). The main purpose of these SEZs was the absorption and use of foreign investment. The management of the FEZ provided special preferences for the business of foreign investors. In 1984, new 14 SEZs were established in China: the cities of Dalian, Qinhuangdao, Tian-

jin, Yantai, Qingdao, Lianyungang, Nantong, Shanghai, Ningbo, Wenzhou, Fuzhou, Guangzhou, Zhanjiang and Beihai (Tehnokonsalt, 2000).

6) The authority of the FEZ to support the attraction of foreign investment is decentralized. The economic independence of FEZ authorities in solving economic issues and a flexible management system are ensured. The Chancellery of the State Council of the People's Republic of China on FEZ affairs administers the FEZ (Karlusov, 2004).

7) The Government of China regularly monitors the results to stimulate the attraction of foreign investment.

8) China has a good regulatory and legal framework. The Government of China adopted a package of legislative acts regulating the attraction of foreign investments and the functioning of enterprises with their participation, numbering about 20 laws, regulations and rules, the earliest of these legislative acts – the Law of the People's Republic of China 'On Enterprises with Foreign Capital' – was adopted in 1986.

Despite many positive results, until 1996, **South Korea's** population was against attracting foreign investment. People were against foreign investors managing Korean firms and entering the Korean domestic market. In 1998, a new law on the promotion of foreign investment was adopted. After the adoption of the law, a number of measures were taken to liberalize the spheres of business. A simplified system for processing foreign investments began to operate, and a one-stop-service system was created.

There are several characteristics of the South Korean government's efforts to attract foreign investment:

1. To improve the legal environment of investment activities, a number of activities are carried out in such areas as administrative regulation and labor relations. The Government of South Korea enters into agreements at the international level to protect the interests of foreign investors. Foreign investors are given the right to a fair attitude of public authorities; the right to compensation of liability for non-essential violations of business in the initial stage of activity.

2. The new tax policy stimulated the growth of FDI in South Korea. Changes in the tax policy for foreign investors include: a reduction in the profit tax and local tax for legal entities, a reduction in the rental rate of state property, an increase in the maximum lease terms from 20 to 50 years (Gil Kyun Suk, 2004).

3. The creation of a free export zone is another means to attract foreign investment. In 1970, such zones were established in the cities of Masan and Iksan. Since 1998, such zones have been created in all regions of the country. In such zones, low tax rates are applied, assistance is provided when purchas-

ing equipment, and construction costs are reimbursed. In the FTA there are no restrictions on the export and import of goods and services.

4. In 2001, the Korean government completely liberalized the foreign exchange market. In 2009, the plan for the development of the currency market was presented. In financial transactions, document circulation was simplified, and the movement of capital became much freer.

5. To stimulate attraction of foreign investments, state and local authorities operate: KOTRA - Trade and Investment Promotion Agency, INVEST KOREA - Investment Management Association, Office of the Investment Ombudsman. 'INVEST KOREA' offers assistance to new foreign investors starting a business in South Korea, provides advice to safely settle in the local market. The Office of the Investment Ombudsman helps foreign investors overcome bureaucratic obstacles and also facilitates the consideration of complaints from foreign investors, which mainly relate to customs tariffs, tax policies, labor market regulations.

Despite the success in increasing the flow of FDI, the Republic of Korea still faces the challenge of improving its image in the business community, since it is still considered difficult to conduct business in Korea. Bureaucratic costs must be reduced and the population must change the negative opinion about FDI. If you compare it with other countries and cities in the region, such as Singapore, Hong Kong and Shanghai, you can see that the country needs a comprehensive range of infrastructure for receiving FDI. For example, the increased use of English, the improvement of the program for newcomers and assistance for foreigners (Foreign Investment in Latin America and the Caribbean, 2006).

The investment climate in the **US** is very favorable. With a huge market potential, the US remained a net exporter of investments for several decades. Since the 80s, the United States has become an important recipient country for foreign investment. This is due to many factors, such as economic and political stability, the diversification of the national economy, sustained economic growth rates, and the internationally recognized role of the national currency. However, in addition to these objective factors, we can also add the following:

- The large territory of the country also plays an important role in the inflow of investments, since foreign investors have a large sales market in the country, there is also the possibility to export abroad;

- The country has a developed transport infrastructure. In the USA there is a network of airports, ports, roads and railways. The country is well connected with other countries of the world through its well-developed transport network.



- In the United States there is no discrimination for foreign investors. They, like domestic investors have the same rights to conduct business.

- Special economic zones have been created in the poorly developed regions of the country, to attract foreign investors.

- The state authorities provide tax incentives and tax incentives for foreign investors.

- The US legal system is assessed as qualitative, fair and stable. This, in turn, attracts foreign investors, as they are confident in the prosperity and development of their business.

- Intellectual property rights are protected. Since innovations are well protected, intellectual property owners have the opportunity to make greater profits.

- The leading universities of the world are located in the USA, moreover there are more than 4000 universities and colleges in the country. Universities help companies in the training and retraining of personnel. For this purpose, special programs exist in universities and colleges.

- According to the World Bank report, Doing Business 2014 ranked 4th in the Doing Business 2014 ranking, and it takes only 5 days to open a business.

- The US Department of Commerce established the program 'Invest in America'. Since 2011, this program is called SelectUSA. The program encourages and helps increase investment in the country.

The bulk of foreign investment is coming to the US from Britain, Japan, the Netherlands, Canada, Germany and France, and recently India, South Korea and Brazil have expanded their investments in the United States.

Foreign investments in the US are mainly carried out in the form of 1) subsidiaries, 2) mergers and acquisitions, 3) strategic alliances.

Foreign capital has a huge impact on the national economy of the United States. Foreign investors, in turn, being confident of economic and political stability, in the safety of business and profits, invest in various sectors of the national economy. Here it is appropriate to note that the US is still the leader in attracting FDI. In 2012, this figure was 166 billion US dollars.

In 2013, **Russia** took the third place in terms of investment attractiveness (after the US and China) on the findings of the European Attractiveness Survey. It should be noted that Russia ranks first among the CIS countries in attracting foreign capital. Russia is attractive to foreign investors thanks to highly qualified specialists, rich natural resources and a large consumer market. In 2012, accession to the WTO also had a favorable effect on the investment climate of the Russian Federation.

In Russia, a good regulatory and legal framework for the settlement of foreign investment has been formed. One of the most important legislative

acts is the Federal Law 'On Foreign Investments in the Russian Federation'. This law gives the right to foreign investors to invest and receive income in the territory of the Russian Federation. Under the Law 'On Foreign Investments in the Russian Federation', a 'Grandfather's clause' is provided, which does not worsen the tax regime for foreign investors for a term of up to 7 years. There are also a number of legislative acts such as the Law 'On PSA', 'On Subsoil', 'On Free Economic Zones'.

The Russian Federation actively applies tax incentives in attracting foreign investments. In the regions of Russia, a number of instruments and measures are being implemented to attract foreign capital, such as the provision of concessional loans, loans and investment tax credits, the provision of guarantees and tax holidays to investors.

In Russia, the following types of special economic zones have been created:

- Industrial: Moglino, Lyudinovo, Lipetsk, Alabuga, Togliatti, Titanium Valley.
- Technological: St. Petersburg, Dubna, Zelenograd, Innopolis, Tomsk.
- Tourist: Turquoise Katun, Altai Valley, Baikal Gate, Baikal Harbor.
- Logistic: 'Ulyanovsk', 'Soviet harbor'.

In the SEZ, there are tax, customs and administrative incentives for investors, as well as services in principle 'one-stop shop'.

In June 2011, the Russian Direct Investment Fund was established. The main purpose of the fund is to attract foreign investment to the Russian company.

The achieved results can also be related to the macroeconomic stability of the country. Recent years, GDP growth is above 4%.

As you can see, there is no single system for attracting foreign investment, each country is building its own scheme for attracting investments, depending on the circumstances, conditions, availability of natural resources, people's mentality, demand and consumption. Based on the analysis of world experience, you can try to apply some tools and ways to attract and stimulate the flow of foreign investment in a particular country.

In Uzbekistan foreign investments are attracted by granting tax privileges and exemption from customs duties; creation of free economic zones; special government programs for foreign investors; the application of protectionist policies to protect investors from imported products; as well as the provision of state guarantees by including investment projects in the state investment program. After 2006, the inclusion of investment projects in the state investment program is of secondary importance, as foreign investment projects are granted financial incentives. Financial preferences are mainly in

the form of equity participation from the government of Uzbekistan, which is a convincing motive for guaranteeing protection for foreign investors.

As a result of the active investment policy of the Government of Uzbekistan foreign investments amounting to 56 billion US dollars were attracted for the period from 1993 to 2014. During this period, the total amount invested in the economy of Uzbekistan is estimated at \$ 162 billion, of which 34% is foreign investment, which is 56 billion US dollars. However, the investment policy of Uzbekistan can be characterized as selective and cautious, which is dictated by the priorities of maintaining macroeconomic stability and sustainability and high development rates in the long term. In our opinion, it would be advisable to use such an instrument of attracting foreign investments in Uzbekistan, such as financial support for retraining and staff development. In Uzbekistan there are labor-surplus regions, there is a mass of labor that is highly qualified with higher and professional education, but has training in the currently unclaimed traditional industries of Uzbekistan. Therefore, the government's measures to finance the training of employees will serve as an incentive for investors. Here it is possible to involve higher educational institutions of the Republic in the training and retraining of personnel, providing courses of retraining, as in the case with the United States. On the other hand, the government is interested in raising the level of qualifications of employees, and these investments will serve to develop the personnel potential of the republic. Also, the experience of opening the office of the investment ombudsman, which exists in South Korea, is interesting. Such a service will help to reduce bureaucratic barriers and improve mutual understanding. Efforts are being made in the republic to simplify bureaucratic barriers.

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- 5. Rules for footnote:** When citing sources, authors should observe the requirements of **APA Style** at <http://www.apastyle.org/> or at <http://owl.english.purdue.edu/owl/resource/560/01/> or at <http://www.calstatela.edu/library/guides/3apa.pdf>.  
Each author is responsible for promoting ideas, content and technical layout of the text.
- 6. Manuscripts of lecturers without an academic rank** should be accompanied by a transcript of the minutes of the Department meeting at which the proposed paper was discussed.

**From 1st of January 2017 the English language title of the journal is changed from “Narodnostopanski arhiv” (transliterated from Bulgarian) to “Economic Archive”.**

**Authors of papers published in Narodnostopanski arhiv journal are responsible for the authenticity of the materials.**

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