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Abstract

Assessing investment climate of Republic of Uzbekistan in perspective of South Korea

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The economic theory and practice show that foreign investments when they are combined with the correct set of investment policy, promote, in general, economic development of host countries. It occurs not only by injection in economy of the supplementary capital, and also in the form of a transfer of modern technologies and innovations, positive impact on the competition in the domestic market, improvements of human resources and development of international trade.

The medium-term purposes of development of economy of Uzbekistan provide preserving rates of economic growth at the level of at least 8% annually. The solution of this task is impossible without essential growth in volumes of investments into national economy, including foreign investments.

In the Republic of Uzbekistan where in recent years the share of foreign investments and the credits in the total amount of investments into fixed capital varies within 20 - 30%, special significance is attached to attraction of foreign investments for further development of economy. As it was noted in a speech of the first President of the republic Islam Karimov on the celebrations devoted to the celebration of the 23 anniversary of Independence of the country, "for the purpose of development of our country by so high rates, its upgrade and updating, implementation of large-scale reforms in economy more than 180 billion dollars of capital investments were mastered, from them over 60 billion dollars are foreign investments. Certainly, it is possible to give a set of examples of the fact that due to these investments ample opportunities, first of all for radical structural restructurings in economy, constructions of the most modern, high-technology entities, productions of products, competitive in the world market, the high-quality growth of capacity of Uzbekistan in general were created".

This thesis is devoted to analyzing an investment climate of Uzbekistan in perspective of South Korea by comparing it to Korean main outward investments source country - Vietnamese investment climate. This research will cover the reasons of the extremely high unequal distribution of FDI among these countries and, according to the study, will give relevant recommendations for Uzbekistan for further development of the country economy for attracting larger amounts of FDI.

Keywords: Foreign direct investment, Competitiveness of nations, Investment climate, Uzbekistan, Vietnam, Porter’s diamond model,

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Table of Contents

Chapter One

1.1. Introduction

Globalization and integration of economic national ties between the states created prerequisites to increase in capital mobility. Now the international movement of the equity created amounts of the international investment, big by the sizes, especially to developing countries.

Today commodity exportation less profitable method of capital export abroad in comparison with any of cash forms. It is shown in withdrawal of a certain part of the equity from national economy and injection of this part in economy of other country. Therefore, we can say, that process of creation of profit abroad is transferred.

This phenomenon acquired the greatest scope in the second half of the 20th century that became especially noticeable after the II World war. It occurred due to internationalization of production in the capitalist countries and its transfer to developing countries.

Because of formation of the international economic relations appeared and the international separation of various production factors (the earth, work and the equity), appeared historically developed specialization of various countries on production and trade in certain goods and services. Requirement of one states for different goods and services which are made in other states creates a prerequisite for an international movement of the equity. Moreover, at the same time by movement of the equity is understood all forms which are necessary for creation of these material benefits.

Foreign investments are a certain form for an equity exit from the national market on international.

Thus, value of foreign investments can be explained as the international separation of the equity and searches of more profitable ways of profit earning from economic activity abroad in comparison with similar in the country of the investor.

The role of foreign investments comes down to development of national economy generally and receivers of these investments (the entities, productions, etc.) in particular. It is very profitable to country to receive from abroad foreign investments since they develop their productions, there are new innovative productions, workplaces, and also taxes are paid to the national budget and at the same time from it nothing is spent for it.

The Foreign Direct Investments (FDI) became a key source of growth in many countries with economies in transition. With respect thereto one of the purposes of investment policy of many developing countries and countries with economies in transition is attraction of FDI in national economy. It is supposed that FDI will positively influence development of economy, will bring new technologies, will open the new markets and will improve methods of management and conducting economic activity. The main result achieved by the countries receivers of investments consists in a covering of a considerable part of the equity necessary for implementation of investments at the expense of a capital inflow from abroad. Many countries have no potential to completely cover the needs for financial resources only at the expense of own means, as leads to use in national economies of foreign investments. So, for 2014 in economy of Uzbekistan it is attracted foreign investments and the credits of $2,5 billion that constitutes nearly 22% of the total amount of capital investments[1].

[1] Keynote speech of first President of the Republic of Uzbekistan Islam Karimov at extended meeting of The Cabinet of Ministers of the Republic of Uzbekistan about outcomes of socio-economic development in the country in 2014 and the crucial priorities of economic program for the year. Press service of president of Republic of Uzbekistan. URL:http://www.pressservice.

In world economic literature the set of works is devoted to a problem of a research of influence of direct foreign investments. For example, Solow (1957)[2] in the theory of economic growth is based on a neoclassical production function, specifying that not only the equity and human resources, but also technological progress exert a great influence on economic growth. On the basis of work of Solow, Findlay (1978)[3] made a model that reflects positive influence of FDI on national economy to which they are sent. The author showed that inflow of FDI increases the level of technological progress, and claimed that the main reason of positive influence of FDI is connected with the fact that FDI are the channel on which there is a modulation of new methods of management and technologies to the country. Unlike Solow considering technological progress of an exogenous variable, Blomstrom and Kokko (2003)[4] based thier work on model of endogenous growth of Romer, (1986)[5]. Analyzing incentives for attraction of FDI, authors concluded that the most important is not growing role of the foreign companies, but a modulation of technologies and skills, which comes from them to the domestic companies. However, according to authors, attraction of the foreign equity shall be followed by stimulation of domestic investment and educational process as only in this case the entities will have motives for insertion of means in new technologies, methods of management and knowledge. The subject of general influence of FDI on the economic growth of the country is not new and rather widely researched on macro and micro levels. One of those who studied the matter are Aitken and Harrison (1994)[6]. Considering behavior of the Venezuelan firms, they concluded that the entities in which foreign investments were enclosed are more productive in comparison with domestic, that increase in a share of the foreign equity leads to

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[2] Solow, R., 1957. 'Technical Change and the Aggregate Production Function', Review of Economics and Statistics. Vol. 39, no. 3, pp. 312-320, viewed 11. July 2009,The MIT Press.
[3] Findlay, R, 1978. 'Relative Backwardness, Direct Foreign Investment and the Transfer of Technology: A Simple Dynamic Model', Quarterly Journal of Economics, vol 92, no. 1, pp. 1-16, viewed 7 May 2012, DOI 10.2307/1885996
[4] Blomstrom, M, Kokko, A 2003. The Economics of Foreign Direct Investment Incentives, National Bureau of Economic Research, Working Paper 9489, viewed February 2003, < http://www.nber.org/papers/w9489>
[5] Romer, P 1986, 'Increasing Returns and Long-Run Growth', Journal of Political Economy, vol. 94, no. 5, pp. 1002-1037, viewed 3 February 2008, JSTOR.
[6] Aitken, B., Harrison, A., 1999. 'Do Domestic Firms Benefit from Foreign Direct Investments? Evidence from Venezuela', The American Economic Review, vol. 89, no. 3, pp. 605-618, viewed 01 Oct 2007, JSTOR

increase in efficiency of economy. However the received results also showed that performance of domestic enterprises decreases because of growth of productivity of joint businesses, i.e. revealed a negative impact of FDI on performance of an industry. The same question was brought up by Bitzer and Gorg (2005)[7]. Authors tried to determine what is the effect of investment attraction to the country. The analysis of these 10 industries of 17 countries showed that the attracted foreign capital improves performance of economy. Borensztein and Lee (1998)[8] in the course of the research of a question of influence of FDI on economic growth on the example of 69 countries came to a conclusion that the direction of effect of attraction of FDI depends on the level of development of a human capital in the country. Besides, it turned out that FDI increase the total amount of the equity in economy due to stimulation of domestic investment. Alexynska (2003)[9] studied the same question on the example of 18 countries with economies in transition. The received results showed availability of a stable positive link between the level of foreign investment and performance of national economy, and also the fact that the direction of effect of the involved investments depends on the level of development of a human capital in the country.

1.2. Inflows of FDI by economy sectors

There are three main sectors of economy: primary, secondary (industrial) and tertiary (service sector). Production of raw materials and food belongs to primary sector of economy: rural and forest farms, fishery, mining, geological works, etc. Usually it is very difficult to divide a production process in this sector into parts and it requires great efforts and the equity. The investments involved in this sector usually are made in

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[7] Bitzer, J and Görg, H 2005. The Impact of FDI on industry performance, Research paper / Leverhulme Centre for Research on Globalisation and Economic Policy, Nottingham [No.:] 2005, 09, viewed May 2005, <http://www.nottingham.ac.uk/gep/documents/papers/2005/05-09.pdf>.

[8] Borensztein E., De Gregorio J., Lee J-W., 1998. 'How does foreign direct dnvestment affect economic growth?' Journal of International Economics, vol., no 1, pp. 115-135, viewed 20 June 2012, DOI 10.1016/S0022-1996(97)00033-0

[9] Aleksynska, M 2003. Foreign Direct Investment and Economic Growth in Economies in Transition, thesis, National University of "Kyiv-Mohyla Academy" Economics Education and research Consortium, viewed 2003, KSE students' MA Theses.

large volumes, and foreign investors are stronger located to regard them as inter-company loans or export of money in connection with restrictions for foreign ownership of property. Therefore communication of this sector with other sectors of economy is rather weak. To crown it all, because the equity amount attracted in primary sector is very big, there is a possibility of development so-called Dutch disease[10]. the Investments directed to primary sector of economy can cause growth of earnings in this sector and therefore to stimulate inflow of a labor power from other sectors of economy. In turn, it can lead to deindustrialization and as result, other sectors of economy and secondary sector in particular will become less competitive. Therefore, inflow of FDI to primary sector of economy doesn't promote development of national economy to which they are sent, and the effect of such investments can exert a negative impact on economic growth.

The secondary or industrial sector of economy deals with transformation of raw materials in end product. The activities connected with secondary sector include metallurgy, automotive industry, the chemical and petrochemical industry, the light and food industry, and also a construction. Unlike primary sector of economy, impact the exerted FDI on industrial sector is much more notable, also as well as communication of this sector with other types of activity in economy. The secondary sector usually uses the different types of products made by other sectors as intermediate materials in the production process. Besides, foreign investors aim to invest the money in various entities of the country in which they plan the activities, for the purpose of profit earning more likely from their functioning in the domestic market, than from export. With respect thereto, achievement of an effective objective stimulates foreign investors on creation of new workplaces, development of new technologies and methods of management, holding various trainings for workers that

[10] Dutch disease is the negative impact on an economy of anything that gives rise to a sharp inflow of foreign currency, such as the discovery of large oil reserves. The currency inflows lead to currency appreciation, making the country's other products less price competitive on the export market.

as a result raises general competitiveness of sector. Thus, inflow of FDI to secondary sector usually has positive effect on increase in competitiveness of national economy.

The tertiary sector of economy or service sector includes such industries as transport and communication, information technologies, health care, finance, restaurant business, education, etc. Foreign investors can increase efficiency of this sector due to attraction of new knowledge, technologies and approach of the general level of development of a service sector to the international standards due to improvement of quality of the rendered services and cost reduction. However, many industries rather capital-intensive, for example, telecommunications entering a service sector and banking sector, and, therefore, are less competitive in comparison with industrial sector. With respect thereto there is a probability of replacement by foreign competitors of the domestic companies from the market. Therefore the legislative and regulating systems which are correctly functioning, and also the favorable situation which developed in the market of services in the country attracting the foreign capital are very important for receipt of cumulative positive effect from inflow of FDI to a tertiary sector.

Despite a huge role which is played by FDI in the modern world there is also a row and negative consequences from attraction of FDI. One of them is connected with a capability of foreign investors to use a difference in the international compensation. Because the foreign companies have an opportunity to pay higher salaries, they aim to attract more skilled labor force. Therefore, less skilled workers should work at domestic enterprises with lower compensation that leads to inequality, and, eventually, to social tension within the country. The second is that the entities financed by foreign investors have an opportunity for control of the most part of the market and coercion of domestic enterprises to leaving from the market. Similar actions negatively influence competitiveness level, therefore, FDI cannot have expected positive effect on national economy to which they were directed (Lipsey and Sjoholm 2004)[11]. Thus, influence of foreign investments differently affects economic achievements of the countries receivers of investments. In certain cases, it can be more or less obvious. Sometimes even, depending on many factors, main of which are negative the policy pursued by multinational company and the economic policy pursued by each of the countries receiving investments.

1.3. Defining Investment climate

The investment climate is created under the influence of the interconnected complex of the economic, organizational, social, legal, political and other factors determining conditions of investing activities in the region and determined by indicators of investment attractiveness and activity.

At the same time investment attractiveness can be determined as set of objective signs, means, opportunities, factors (availability of the investment resources and directions of their use) causing the need for investments for the region (investment demand and the offer). Generally, in literature allocate several components of level of investment attractiveness – the level of an investment potential and level of investment risks, also as competitiveness of the country and public administration.

Investment activity of the country reflects development of the national investment process performed by means of own and attracted investment resources (intensity of investment attraction in fixed capital).

In the publications on economic subject devoted to questions of investment appeal and its use for increase in activity of investment processes qualitatively various scientific developments are provided to both a theoretical, and practical orientation as authors are

[11] Lipsey R., Sjoholm F. 2004. Host Country Impacts of Inward FDI: Why Such Different Answers? The European Institute of Japanese Studies, Working Paper Series with number 192.

oriented to achievement of various purposes. They can be grouped as follows: Research of the investment climate, investment attractiveness, management of an investment potential, risks, choice of priority spheres of investment and others.

For the first time, studies of the investment climate or investment attractiveness were developed and began to be used by the western experts in the sixties of the last century.

Nowadays the most popular ones are complex ratings of investment attractiveness of the countries published by the leading economic magazines. Besides, foreign investors in case of decision making substantially are guided by the financial or credit ratings of the countries of the expert agencies.

Inward FDI Potential Index by UNCTAD, which includes 12 economic variables, is one of most representable studies. The Inward FDI Potential Index catches a few variables (aside from market size) expected to affect an economy's attractiveness to foreign investors. It is an average of the values (normalized to yield a score between zero, for the lowest scoring country, to one, for the highest) of 12 variables, (no weights are attached in the absence of a priori reasons to select particular weights). Another rating published by UNCTAD is FDI Attraction Index, which ranks countries by the real FDI received in absolute and relative terms to their economy. Therefore, FDI Attraction Index is the revealed competitiveness in attracting FDI, while Inward FDI Potential Index is the potential competitiveness in attracting FDI.

World Competitiveness Yearbook (WCY) by the International Institute for Management Development (IMD) was the first study to quantify and rank nations overall competitiveness. It defines National competitiveness as a country’s ability to create and maintain an environment that facilitates the firms’ value creation and people’s prosperity. WCY evaluates around 60 economies, and most of them are advanced economies, and Uzbekistan is not listed.

According to Global Competitiveness Report (GCR) by the World Economic Forum (WEF) national competitiveness is defined as the set of institutions, policies, and factors that determine the level of productivity of a country.

National Competitiveness Research (NCR) by the Institute for Industrial Policy Studies (IPS) defines the national competitiveness as a nation's relative competitive position in the international market among the nations with similar size and competitiveness.

1.4. Foreign direct investments in countries with economies in transition

By attracting foreign direct investments, countries with economies in transition are expecting a capital inflow for development financing of economy. For measurement of a share of FDI can be used such indicators as a percentage share of inflow of FDI in the total amount of investments into fixed capital and a percentage share of cumulative FDI in GDP. However, the specified indicators need to be compared with such absolute measures as GDP, size of annual inflow and cumulative FDI for getting complete idea of FDI value as development financing source. In general in countries with economies in transition, FDI play more significant role in forming of fixed capital in comparison with developed and developing countries. Especially considerable the share of cumulative FDI in GDP in the region of Eastern and Southeast Europe which by two-three times exceeds average value in developed, developing countries, and also in the region of the CIS. An indicator of a percentage share of cumulative FDI in GDP in the countries of Eastern and Southeast Europe the highest (more than 50%), generally in those countries which have rather high amounts of FDI per capita (Bulgaria, Estonia, Hungary, the Czech Republic, Slovakia). The analysis of FDI as source of development financing of economy in the CIS countries, shows that in Russia which is the leader in inflow of FDI in the region, direct foreign investments constitute about 20% of the total amount of investments into fixed capital, and cumulative FDI — a quarter of GDP. Concerning other countries there is an ambiguous situation. In the countries which are lagging behind on FDI per capita, FDI share in the total amount of investments into fixed capital and in GDP can be very high (Georgia, Kyrgyzstan), average (Moldova, Ukraine, Armenia, Uzbekistan), low (Azerbaijan, Tajikistan) that depends on activity of domestic investors and size GDP of the country.

Considering a situation with attraction of foreign direct investments in economy of Uzbekistan, It should be noted that at the beginning of the 2000th inflow of FDI to the country was insignificant, and their cumulative amount by 2004 did not exceed 1 bln. dollars. (Figure 1). FDI share in structure of investments into fixed capital hardly reached 10%, and they had no significant effect on process of structural transformations of economy, development of industrial production and a growth in volumes of foreign trade. Dynamics of foreign investments in 2006-2011 shows that in process of development of world financial and economic crisis of 2008-2009 foreign investors not only did not leave Uzbekistan, but also continued expansion of the presence in the market of the country. The period of rather low investment activity of the beginning of the 2000th years which was caused both internal problems of economy of Uzbekistan, and in general a pre-crisis situation in the world market, was replaced in 2006-2009 by expansion of demand for investment resources, and then, in 2010-2011, rapid growth of investment into economy of Uzbekistan. The cumulative amount of foreign investments in economy of Uzbekistan for the end of 2014 exceeded 10 bln. dollars.(Pic.1) The growth in volumes of foreign investments demonstrated improvement of characteristics of the investment climate of Uzbekistan, and also increase in trust to economy of Uzbekistan from investors in recent years. Some decrease in inflow of foreign investments to Uzbekistan in 2011 reflects a general situation in world economy.

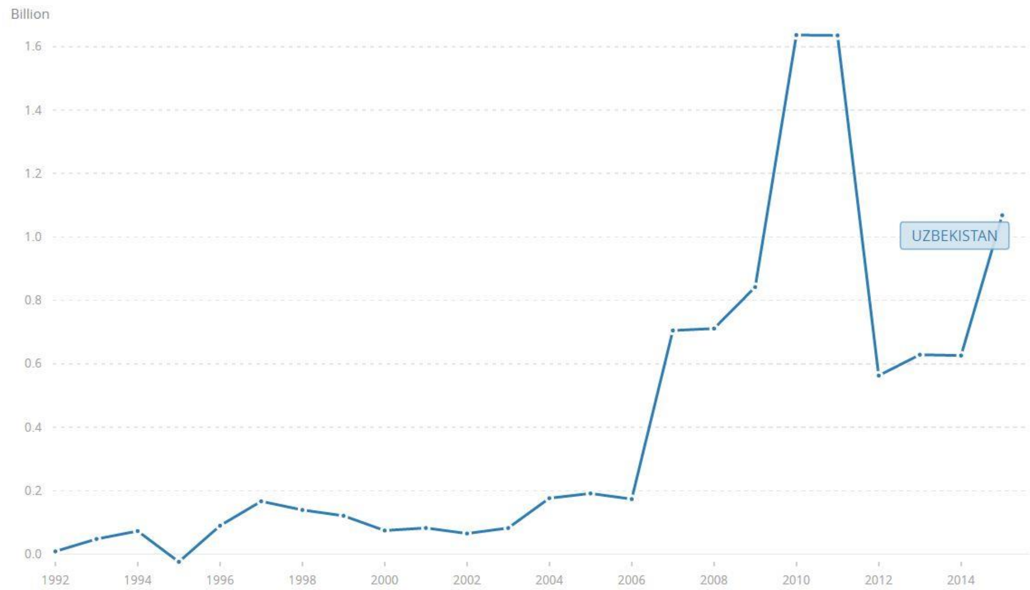


Figure 1. Foreign direct investment, net inflows to Uzbekistan since independence. (World Bank data)

The analysis of the investment climate and dynamics of foreign investments in economy of the Republic of Uzbekistan, shows that for the last 5-6 years the country achieved significant progress in forming of the positive business and investment climate, in reforming of a legislative and administrative system of the country that is confirmed by an appreciation from the international rating agencies and a number of the known international organizations. The third year in a row the international rating agencies as Standard & Poor's, Moody's and Fitch Ratings appropriate to a bank system of Uzbekistan rating assessment at the stable level, and the number of the commercial banks of the republic having such assessment grows from year to year. If in 2010 13 commercial banks of the country received rating "stable", then today their quantity reached 28 which assets constitute more than 98 percent from total assets of all bank system of the republic[12]. For a decade of reforms the amount of annual foreign investments increased from 0,7 bln. dollars in 2000 up to 2,5 bln. dollars in 2012. The share of direct investments in them increased from 14,4% in 2000 to more than 79% in 2012, having constituted about 2 bln. dollars[13]. The fact that if over the last 10 years the volumes of investment into national economy increased in general, by 3,2 times, then the amount of direct foreign investments grew for this period more than by 20 times[14] attracts attention. All this specifies outstanding performance of the measures of economic policy which are carried out by the Government of the country in the conditions of a world economic crisis.

1.5. Policy of Uzbekistan in attraction of FDI

Estimating position of Uzbekistan as recipient country of foreign direct investments in the long term, it is possible to say that with abundance of natural resources, in the country infrastructure security is insufficiently developed, specific risks are increased. As a result, investments to Uzbekistan perform generally the largest multinational corporations specializing in resource industries and also the companies interested in the capacious domestic market of the Central Asian region.

The economy of Uzbekistan which is dynamically developing within the last several years, has high potential for attraction of foreign investments in the conditions of deficit of the internal investments giving the chance of access to new technologies and increases in product competitiveness.

[12] Keynote speech of first President of the Republic of Uzbekistan Islam Karimov at extended meeting of The Cabinet of Ministers of the Republic of Uzbekistan about outcomes of socio-economic development in the country in 2014 and the crucial priorities of economic program for the year. Press service of president of Republic of Uzbekistan. URL:http://www.pressservice.

[13] Submitted on basis of analysis of speeches of first president of Republic of Uzbekistan about result of years (2010-2012)

[14] Keynote speech of first President of the Republic of Uzbekistan Islam Karimov at extended meeting of The Cabinet of Ministers of the Republic of Uzbekistan about outcomes of socio-economic development in the country in 2014 and the crucial priorities of economic program for the year. Press service of president of Republic of Uzbekistan. URL:http://www.pressservice.

Along with growth of inflow of foreign investments, there is a problem of "quality" of investments, that is the investment attraction directed to creation and development of new effective productions, redirections of investment flows from the extracting sector in sector of productions with a high value added and high-tech industries, increase in competitiveness of national economy.

A necessary condition of strengthening of competitive fields of the country and expansion of inflow of direct foreign investments is diversification of forms of attraction of FDI and optimization of their use. Attraction of foreign investments in economy of Uzbekistan for the purpose of development and upgrade of the production and infrastructure sphere, technical and technological updating of productions on the one hand, with necessary guarantees for investors, with another, can be realized by means of mechanisms of public-private partnerships. The environment, favourable for economy of Uzbekistan, which developed as a result of long increase in prices for the goods exported by the country during 2008-2012 promoted accumulation of the considerable equities which part was directed to forming of Fund of Reconstruction and Development of the Republic of Uzbekistan. Resources of Fund of Reconstruction and Development of the Republic of Uzbekistan goes on implementation of the largest infrastructure projects jointly with the state and foreign business.

So far, the Government of Uzbekistan approved for implementation with provision of resources from Fund of reconstruction and development of the Republic of Uzbekistan more than 34 projects that has important social economic value for various regions of the country on the amount of 780 million dollars, first of all those objects which are built together with foreign partners[15]. The public-private partnership, thus, allows

[15] Keynote speech of first President of the Republic of Uzbekistan Islam Karimov at extended meeting of The Cabinet of Ministers of the Republic of Uzbekistan about outcomes of socio-economic development in the country in 2014 and the crucial priorities of economic program for the year. Press service of president of Republic of Uzbekistan. URL:http://www.pressservice.

realizing expensive projects with involvement of private investors and without excessive load of the budget of the country[16].

The perspective direction of stimulation of a capital inflow is removal of excessive restrictions for their activities in economy of Uzbekistan. In case of implementation of long-term investment policy Uzbekistan more relies on fiscal, i.e. tax and customs privileges. However it is necessary to pay attention also to increase in information openness about opportunities and conditions of an investment into regions and industries of economy of Uzbekistan. At the moment measures in this direction are already undertaken. In particular the Comprehensive program corresponding to the methodology developed by the World Bank and directed to further liberalization, simplification, reduction in cost and ensuring transparency of all procedures connected with business in the country is adopted[17].

[16] A. F. Sinyakova. Foreign direct investment as a factor of competitiveness in Russia. New mechanisms of capital attraction.
[17]Keynote speech of first President of the Republic of Uzbekistan Islam Karimov at extended meeting of The Cabinet of Ministers of the Republic of Uzbekistan about outcomes of socio-economic development in the country in 2014 and the crucial priorities of economic program for the year. Press service of president of Republic of Uzbekistan. URL:http://www.pressservice.Uzbekistan

Chapter Two

2.1. General overview of Uzbekistan

Uzbekistan is located in Central Asia neighboring with Kazakhstan in north, Kyrgyzstan in east, Tajikistan in southeast, Afghanistan in south and Turkmenistan in south-west. Uzbekistan has an area of 447,400 square kilometers. Among the CIS countries, it is the fifth largest by area and the third largest by population with 31,560.000 people living (estimated 2016). Uzbekistan is a dry, doubly landlocked country. It is one of two doubly landlocked countries in the world meaning that a country surrounded by landlocked countries.

From the days of independence in historically short terms the economy of Uzbekistan has grown more than by 5,5 times, the real income per capita – almost by 9 times. Such absolutely new to the country industries as automotive industry, the oil and gas-chemical industry, oil and gas and railway mechanical engineering, production of modern construction materials, consumer electronics, pharmaceutics, the modern food and textile industry have been created. Real confirmation of more and more increasing welfare of the people is that in comparison with 1990s when the considerable part of need of the population of the republic for foodstuff as in grain, potatoes, meat, dairy and confectionery products, was satisfied due to import, – now 96 percent of necessary food production are made in Uzbekistan. In days of independence consumption of meat has per capita increased by 1,3 time, milk and dairy products – in 1,6, potatoes – in 1,7, vegetables – more than twice, fruit – almost by 4 times. (State Committee of Uzbekistan on statistics)

Gaining of the Uzbekistan's independence created favorable conditions and many opportunities for defining of own way of social and economic development. The sovereign Republic followed a way of formation of socially oriented market economy (since the state planned economy existing before showed the frailty), reconstruction of the industry, creation of the modern enterprises answering to the market relations and capable to compete in the world market, stimulation of perspective industries began.

The basic principles of creation of the democratic society based on the market relation, developed by the President I.Karimov formed base for elaboration of strategy of economic reforms. Its major task is definition of an ultimate goal of social and economic transformations, transition from the economy centralized, based on administrative system, to the market relations, from one qualitative condition of society to another. At the first stage of transition to the modern market relations, it was necessary to solve two interconnected problems: to finish serious consequences of administrative and bureaucratic system and to create bases of the market relations. I.A. Karimov defined the most important directions of economic reforms: formation and further strengthening of a constitutional and legal basis of reforms; formation of new forms of ownership; need to suspend decline in production. For this purpose already in an initial stage of independence, it was accepted about hundred legislative and the regulations, which gave rise to broad business, foreign investments, privatization of property.

1991-1994 was one of the most difficult periods of development of Uzbekistan in the conditions of independence. Transition to the new market relations was followed by a sharp economic crisis both in the country, and in all former Soviet Union. The matter is that the old control system and productions could not provide the population with food, goods and services, and the industry - raw materials, agricultural industry - fertilizers, equipment, fuel. But new only arose, and sometimes by trial and error. The world practice did not know cases when from underdeveloped socialism the country entered the capitalist relations, and specifics of Uzbekistan said that mechanisms which Russia, Ukraine, the Baltic states used did not approach east society.

In the conditions of stage-by-stage replacement of old elements by market there was an economic development of Uzbekistan. Thanks to concentration of resources, adoptions of the relevant decisions at the level of the government and authorities on places it was succeeded to avoid the sharp social conflicts, to reduce rates of falling of production. Of course, it is not enough, however it was necessary to consider that during this period yet mechanisms of effective change of property and managing were not fulfilled, neither labor collectives, nor new owners knew how it is necessary to work in new conditions. Therefore process of privatization and privatization began with objects of a social infrastructure while the sphere of production of goods demanded special approach.

With development of the heavy industry the state paid attention to formation of the consumer market and decrease in a shortage level which clearly began to be felt during a transition period. In this regard various government programs provided support of the branches making consumer goods.

Uzbekistan began to declare itself in foreign markets more and more. In 1993 the foreign trade turnover made $1,9 billion, of them export of $919,2 million, and import - $980,9 million. In commodity structure of export cotton-fiber occupied 61,8%, cars and the equipment - 11,2%, mineral fertilizers - 3,8%, non-ferrous and ferrous metals - 3,7%, consumer goods - 0,9%, other - 18,6%. As for import, the part suppressing it - 52,7% were the share of food and flavoring goods, 4,3% - TNP, 2,4% - TV and radio equipment, 1,5% - ferrous and non-ferrous metals, 39,1% - other.

1996. For this period the state continued active formation of national model of economy. For the purpose of achievement of positive effect there were deep structural transformations.

All this allowed to fix and develop success, reached in the field of power independence, to enter new types of communication in various regions of the country (cellular, fax), systems of transfer of package information, including on the Internet, to increase quality of work of communication systems. Besides, it was succeeded to strengthen positions of the “Uzbekiston Havo Yullari” national company in the international market of freight and passenger traffic.

Change occurred also in the social sphere. During 1996 the steady rise of the real income of the population was observed. Development of the market relations brought changes in structure of the income more and more. So, natural and monetary receipts from personal subsidiary farms made on the end of the year more than a quarter of all cumulative income of families and a quarter more of the cumulative income was formed at the expense of an entrepreneurial activity.

In 1997 the serious stage in liberalization of the prices and foreign economic activity of the country began. At the same time drastic measures on financial stabilization were carried out. It should be noted that during this period Uzbekistan switched to own currency, having refused participation in a zone of Russian ruble. It allowed the state to pursue own monetarist policies that, in turn, promoted strengthening of monetary circulation.

In this period the government paid special attention to creating favorable conditions for foreign investments. The total amount of direct foreign investments in capital development reached nearly 1 billion and increased in comparison with 1995 more than twice.

Agricultural industry - traditional and economically important branch of the Uzbekistan economy. It is basic not only from the point of view of functioning of real sector, but also in sense of the fact that the Asian way of production was under construction in the millennia on this branch. Despite the available difficulties (including social and psychological character, cultural and community), necessary organizational and legal and political and economic prerequisites for reforming of the relation of property and formation of multistructure economy were created here.

At the same time authorities took measures for development of agricultural production, updating of technical equipment of the agro sphere, implementation of the program of agricultural mechanical engineering. The foreign companies in the solution of these difficult questions were attracted. The program of modernization of a cotton breeding financed by the World bank proceeded.

Besides, it was necessary to improve depreciation policy and more stoutly to use attraction of credit resources on modernization of the enterprises and the organization of production, capable to compete with the best world firms. Along with it there was a task of activation of the deadened fixed capital.

From 2002 year Uzbekistan economic growth demonstrated positive shifts in the sphere of reforming of republican economic system. Achievement of such indicators became possible thanks to the existence of rich natural resources and considerable state support of industrial sector, which extremely needs direct assistance and the credits. These actions were financed, mainly, by export earnings of cotton and gold.

The measures for industrialization, modernization, technical and technological modernization of branches of economy, creation of such new industries accepted in 2000 - 2011 years as automobile, oil and gas-chemical, railway mechanical engineering, also within implementation of the Program about the priority directions of development of the industry of the Republic of Uzbekistan for 2011-2015 provided growth of total productions of an industrial output and share of the industry in GDP to 24 percent by 2011.

For 2000-2011 the share of agricultural industry in GDP of the country at a steady rise of absolute outputs decreased from 30,1 to 17,6 percent. On this indicator the national economy approaches structure of economies of dynamically developing states of the world where agrarian production in structure of GDP does not exceed 10 percent.

Other important characteristic of the happening high-quality changes in economy - fast development of service trade. For years of independence in structure of services there were such branches of service, almost new to Uzbekistan's economy, as a modern banking system, audit, insurance, leasing, consulting, services of cellular communication, video telephony, the Internet, etc.

In 1990 - 2011 years the volume of realization of services increased by 2,7 times. The tendency of the advancing growth of services in comparison with GDP was in recent years created, increase in a contribution of this branch to national economy is as a result observed. If in 1990 the share of services in GDP made 33,8 percent, then following the results of 2011 this indicator made 50,5 percent.

Chapter Three

3.1. **Objectives and methodology**

This research is aimed to scrutinize the investment climate of Uzbekistan in the perspective of foreign investors and government supports, and ultimately to reason out the implications to Korean business schemes in future. At glance, the term 'investment climate' seems to be straightforward as simply defined in Wall Street terminology, where it notes as the overall environment for investments . It postulates that there is a close nexus between economic soundness and investment vitality. In addition to it, other elements outside the realm of economic indicators are also likely to affect, whether directly or indirectly, the performance of investment, as they lay a foundation firmly for the economic activities.

Seen as such an angle, the factors to take into account to determine the levels of investments can vary in accordance with the objectives and concerns of each country. Therefore, this study is urged first, above all things, to make out a framework through which the assessment of Uzbek investment climate is to be carried out. Then, the examination on the current situation as well as the progress over a certain period, based on the assigned criteria, is implemented in order to figure out a comparative advantage/disadvantage of Uzbekistan for investment in comparison with Vietnam. This step has a significance in a sense that the evaluation can denote whether a country has succeeded in developing its own strength and targeting a lucrative niche using its endowed resources and capacity. The attraction of more investment does not necessarily require an absolute value of high capacity in all relevant areas, but rather lies in the efficient focus on their own favorable strategies thus providing more incentives to investors abroad.

Accordingly, this study contains main research questions as following:

How is the condition for investment toward Uzbekistan in the perspective of foreign public and private sectors? What does the Uzbek circumstance have as incentives or obstacles for the attraction of investment?

There have been several approaches to evaluate a country's investment climate by different organizations and countries. In fact, it is found that there is a huge spectrum of principal indicators that each institution puts emphasis on. The assessment is inevitably controversial and rarely self-fulfilling in nature, since a favorable condition to a certain firm or country can never be as beneficial as to others thus little chance to generalize a uniform tool. That reveals the method of investment climate assessment does not exist as a 'one-size-fits-all' tool to satisfy each and every objective, but rather does it make an eclectic selection of key indicators in accordance with ends and purposes.

Making an appropriate framework for the assessment of investment climate, therefore, is contextual, and it demands two prior inquiries: who are the targets and for what purpose are they aimed? As earlier noted, this research makes its way solely to the interests and concerns of Korean investors and government. Korea, which is located in the Far East and is innately deprived of natural resources and energy sources, might view the geo-political and economic values of Uzbekistan as great incentives for inter-dependence each other. On the other hand, Korea, the export-oriented country, might find unfavorable the Uzbeks' low level of real purchasing power. That is to say, the analytical prism that will be used in this study should dwell on the Korean perspective exclusively. The comparison between two nations' industrial structures demonstrates which factors can serve as an apparent merit or demerit in the current or near future investments.

However, as the investment to a country in the long-run is dependent on the factors affecting macroeconomic performances in general, the narrow focus on particular indicators doesn’t explain the full picture of risk premium that investors take into account for a long-term. The economic stability and institutional layout in the corresponding country can affect directly the financial inflows and outflows of all participating players. If the economy is not sustainable thus other investors claw back their seeds from the country later, the immediate high returns from the investment do not guarantee an unwearying business cooperation in a constant manner. Accordingly, most of investment climate assessment reports contain similar indicators to evaluate a general economic performance of a country. To name a few, not only a number of economic indicators but also systematic requisites such as political stability and rule of law are part of many other considerations.

3.2. Comparison through Porter’s diamond model

Professor of the Harvard business school Michael Porter in 1990 issued his book "Competitive advantage of the Nations". He tried to establish the reasons of success of the country in the international competition in one or other industry by using system of four indicators — "a competitive diamond". These indicators have general character and create field in which local firms compete.

"The competitive diamond" consists of the following system of indicators: factor conditions, demand conditions, the related and supporting industries, and structure, strategy and firm.

Factor conditions

M. Porter included next groups of conditions in the list of factor conditions:

1) Human resources, they are divided into separate employee groups, including scientists of the highest category;

2) Natural resources, including a geographical position of the country and climate;

3) The equity, considering remained national a differences in financing terms and a variety of the national capital markets;

4) Scientific and information potential, i.e. all knowledge accumulated by the country related to production and services, scientific, market, technical etc.

5) Infrastructure, type, quality and a cost of infrastructure, which affects competitiveness. To this group applies everything that influences quality of life in the country also doing it attractive place for a living.

The main idea of M. Porter is the idea that factors, crucial for competitiveness, are not inherited, but created. Moreover, rates of creation and mechanisms of enhancement of factors, i.e. efficiency of their use is essential.

Classification of factors on basic and developed, general and specialized is also plays great importance. The international competition for the country begins with the competition on the basis of basic factors — an unskilled labor or natural resources. But M. Porter considers that the competitiveness based on basic factors is fragile because other countries with cheaper natural resources or work can enter the world market, production process can change and etc. For example, New Zealand grew up a kiwi and from the exclusive domination in the world market gained considerable income. But later Italy and Chile began to sell a kiwi, and New Zealand lost an exclusive benefit. It together with other reasons created great economic difficulties. Most often the developed factors are created on the basis of basic, which are much more difficult to duplicate.

In the knowledge-intensive industries, basic factors do not give decisive advantage. Besides multinational corporations can receive them in other countries due to foreign investments. To provide competitive advantages in the world market, the factor shall be

Criteria of factor conditions:

	Variable	Explanation	Uzbekistan	Vietnam
1.	Minimum wage		$124.3	$142.5
2.	Labor force	Million people	13,606.260	54,206.650
3.	Working hours	Weekly	40	44
4.	Natural resources endowment	Oil production	64,810 bbl/day	298,400 bbl/day
5.		Gas production	59.63 billion cu m	8.8 billion cu m
6.	Land area		447,400 sq km	331,210 sq km
7.	Pop. density	per sq km	71.2	304.6
8.	Rental price	% of NYC cost	12.51	16.34
9.		3 bed apt. rent per month	865$	875$
10.	Labor force with tertiary education enrolment	% of total labor force	9%	25%
11.	Researchers	Per mln. Inhabitants	17.06	1.24
12.	Journal and articles	1 article per person	90,200	49,623

Sources: CIA World Factbook, https://www.cia.gov/

World Bank data, http://data.worldbank.org/

UN database, http://www.un.org/en/databases/

UNESCO Institute for statistics, http://data.uis.unesco.org/

highly specialized, adapted for needs of specific field of the industry. Therefore, the lack of specific basic factors can be not weakness, but strength in competitive struggle, inducing the companies to perform innovations and enhancements.

Demand conditions

Despite globalization of the competition, a condition of the internal demand still are of great importance. At the same time, the major role is played not by amount of the internal demand, but its quality and compliance to tendencies of development of demand in the world market. Countries win in competitive struggle, where the bigger attention paid to development of a certain segment of the market because of special internal conditions, when at the same time demand for these products in other countries was still small. For example, Japan after war, were recovering infrastructure, and began to develop transistor communication (it was promoted also by mountainousness of the country, as cable communications were more expensive). Other countries were slowly refusing cable network. Thus, Japan took leading positions.

Quality of production and private consumers matters more than segment structure of demand. If consumers by the international standards are the most demanding and qualified, the companies of the country are wins. If the Japanese firm can sell videorecorder in his country, they will sell it in every spot on the globe.

The companies can finance innovations and be enhanced depending on the conditions of demand characteristic of this country. For example, in Japan "easy, thin and small" products are welcomed as people live in small houses, with small sound insulation. Conditioners shall be silent, unlike conditions in the USA. In addition, national hobbies tell much about demanding and experienced buyers. Sometimes occurs on the contrary when these national hobbies are a consequence of development of a high-competitive national industry.

It is desirable that this national increased demand advances the future demand of the world market. For example, high requirements to environment protection in Scandinavia subsequently promoted development of appropriate technologies that created for the industry a priority niche in a world market.

Criteria of demand conditions:

	Variable	Explanation	Uzbekistan	Vietnam
1.	GDP	Billion USD	66.733	193.599
2.	GDP growth index		8%	6.7%
3.	Domestic market size	Market size index (1-7)	3.85	4.14
4.	Foreign market size		4.75	5.22
5.	Domestic competition		4.15	4.33
6.	Foreign competition		3.9	3.9
7.	Consumer sophistication		3.54	3.93
8.	Exports of goods & services % of GDP		20.7%	89.8%
9.	GDP per capita	$ USD	2,132.1	2,111.1

Source: World Bank data, http://data.worldbank.org/

Global competitiveness index historical dataset 2005-2015. WEF

If the structure of demand also difficult and advances international, the amount and nature of development of the internal demand can increase competitive advantage of an industry. The large domestic market exerts impact on investment decisions in those industries where big economy of scales, high degree of uncertainty and the big needs for Research and Development. Merit of large market also is presence on it the internal competition. In other conditions, the large domestic market can be the negative phenomenon as firms lose incentives to fixed updating and enhancement.

Related and supporting industries

The related and supporting industries — also important indicator of national competitive advantage. These industries provide the service equipment and high-quality semifinished products. M. Porter noted one feature of this determinant: most often, not separate industries, but "groups", or "clusters", industries where the companies are integrated across and vertically are competitive. And these groups tend to concentrate within limited geographical space. For example, in the USA automotive industry was traditionally concentrated near Detroit, Silicon Valley in California — the center of the computer industry. Also interaction of related industries can positively influence international competitiveness.

Criteria of related and supporting industries:

	Variable	Explanation	Uzbekistan	Vietnam
1.	Transportation	No of airports	53	45
		Km of railroads	3,645	2,600
		Km of roads	86,496	195,468
2.	Communications	Telephones	2,507,711	5,900,000
		Mobile phone subscriptions per 100 people	78	147
		Internet users %	43.5	48.3
3.	Finance	Credit rating	BBB	BB-

4.	Clustering	No of special economic zones	3	3
5.	Literacy rate		99.99%	93.52%
6.	Medical service	Health expenditure per capita	124	142
7.	Language capability	English proficiency index	47.04	53.81
8.	Social safety net	Scale 0 = no provisions, 8 = all provisions	8.00	7.00
9.	Political stability			

Sources: CIA World Factbook, https://www.cia.gov/

UNESCO Institute for statistics, http://data.uis.unesco.org/

Ministry of economic relations trade and investment of Republic of Uzbekistan

Strategy and structure of firms

Strategy and structure of firms, intra-branch competition — group very different from each other, but especially important for understanding competitive advantages of factors. The purposes, methods and organization strategies of firms significantly differ in the different countries. National peculiarities exert impact on a method of management of firms and types of the competition. In the world, there are no universal systems of management. Since recent time, differences in business culture of the different countries began to rank to the factors of the international competitiveness. For example, "image" of Germany and Italy in the world market strongly differ. Italy takes priority in design, in some fragmented industries (furniture, lamps, packing machines, woollen fabrics, footwear). Germany is in the lead in industries with an important technical component of products. Until recently, the administration, as a rule, had technical education. It is extremely important that specialization of the country in the international job specialization corresponded to its business culture.

Criteria of business context:

	Variable	Explanation	Uzbekistan	Vietnam
1.	Quality of electricity supply	WEF index	4.62	4.11
2.	Cooperation in labor-employer relations		4.51	4.32
3.	Corporate ethics		4.26	3.57
4.	Accountability		4.58	3.40
5.	Trustworthiness & confidence		3.79	4.20
6.	Property rights	Property rights index	15.0	15.0
7.	Public trust in politicians		3.99	3.18
8.	Favoritism in gov’t decisions		3.42	3.18
9.	Organized crime		4.90	4.75

Source: Global competitiveness index historical dataset 2005-2015. WEF

The temporary prospect has important value for the international company competitiveness in which activities are based, and it depends first of all on the list of its investors.

It is possible to call an intra-branch competition the catalyst of all system of these factors as presence of competitors stimulates production development much stronger, than a foreign competition. Within the country the companies are on an equal footing concerning the cost of a labor power, raw materials, the legislation therefore they should think out something new.

Government criteria

M. Porter did not include government criteria in the main determinants of a diamond. He considered that direct state intervention negatively influences competitiveness. The state plays a catalyst role. It does not create competitive industries. The state anyway shall force the companies to set to itself higher purposes and to rise by new, higher levels of competitiveness. But the role of the state, except for the first stages of the international competitiveness, shall be indirect.

Criteria of Government

	Variable	Explanation	Uzbekistan	Vietnam
1.	Ease of doing business	Rank in Ease of d b	87	90
2.	Registering property	Time (days)	46	57
		Procedures	9	5
		% Cost of property	1.4	0.6
3.	Recovery rate	Cents on dollar	41.3	20.1
4.	Personal income tax		22%	35%
5.	Corporate income tax		8%	22%

6.	Corruption	Corruption perception index	32	31
7.	Burden of government regulations		3.67	3.23
8.	Government efficiency		3.96	3.40

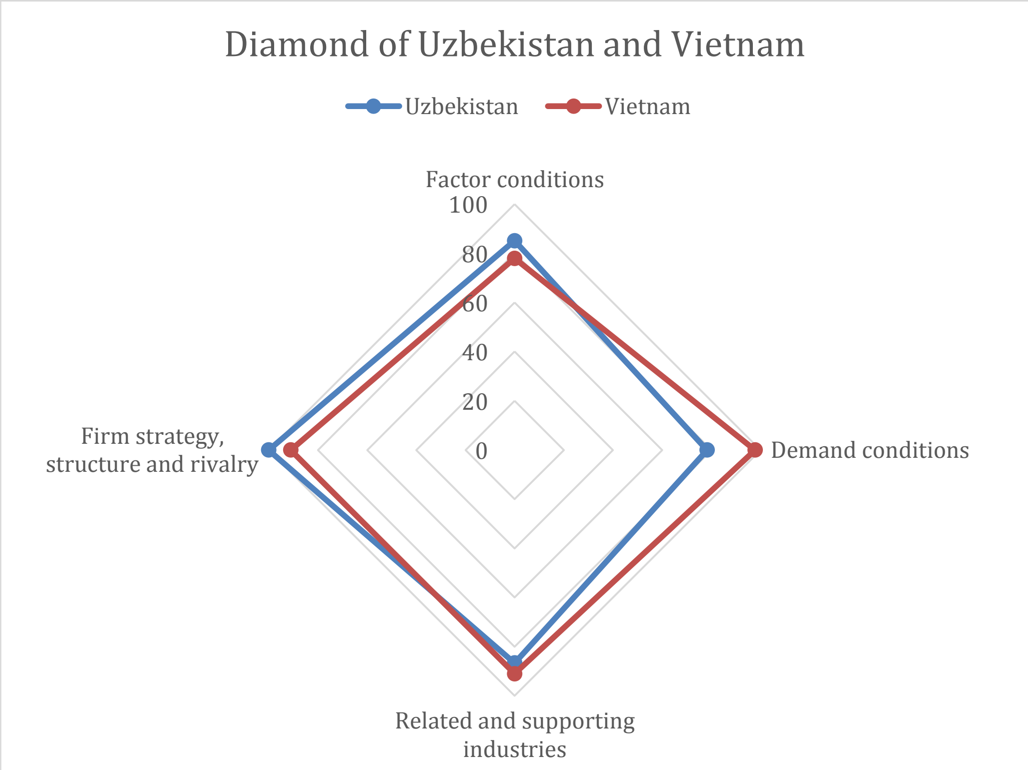
Source: Global competitiveness index historical dataset 2005-2015. WEF
Transparency international 2016
Tax foundation 2016
Doing business, 2016 The World Bank Group,

3.3. Empirical results of analysis

Each category of proxies that composes the variables is distributed with scores according to the weight of each proxy. Then between the proxies of Uzbekistan and Vietnam, the proxy that has a higher amount according to the descriptive data is given a full score and the other proxy is given a lower score in proportion.

Diamond	Uzbekistan	Vietnam
Factor conditions	85.11	77.9
Demand conditions	78.3	97.8
Related and supporting industries	86.65	90.96
Firm strategy, structure and rivalry	100	91.01
Government criteria	92.4	83.1

Each proxy has a distributed weight and for the purpose of making a score scale from zero to ten we have multiplied a value of ten to each weight.



From figure above, we can see almost identical diamonds of Uzbekistan and Vietnam except for demand conditions. This means that Uzbekistan is almost as competitive as Vietnam except demand conditions. From given data we can see several interesting points. First, Uzbekistan has advantage on factor conditions, especially in basic factors. However, as Porter argues that lack of specific basic factors can be not weakness, but strength in competitive struggle, inducing the companies to perform innovations and enhancements.

Second, Uzbekistan and Vietnam has different strategies in attracting investment. Uzbekistan focuses on first of all, localization of production of specific strategic industry sectors, and after that other sectors. High import duties causes absence of internationally competitive suppliers, which in other way leads to lack of competitiveness in international market of end products. Abundance of resources lead

Uzbekistan to focus on export of raw materials and agriculture. In other hand, Vietnam successfully attracting FDI from world class IT companies such as Samsung and LG. Geographic location of Vietnam is another major advantage over Uzbekistan because of closeness to global value chains and opportunity for MNCs to diversification of their manufacturing base in Asia to be less dependent in Chinese government policies.

Third, in criteria of demand conditions Vietnam has an absolute advantage over Uzbekistan. Mainly this result is not surprising because of location of Vietnam. Access to markets worldwide and neighboring countries whose population is around 50% of global population gives huge advantage over Uzbekistan.

Another position where Uzbekistan is weaker than Vietnam is related and supporting industries criteria. As mentioned earlier, Vietnam has easy access to Chinese supply market. However, from perspective of infrastructure Uzbekistan has a legacy of Soviet Union, as well established railroad transportation system and education system.

Criteria of government policies toward attraction of FDI shows that Uzbekistan is dealing with upcoming challenges more efficiently than Vietnam.

Chapter four

4.1. Conclusion

There is much to consider when evaluating a country’s competitiveness, mainly because country has a wide spread of activities across national borders. Porter's diamond is a good paradigm to start with for analyzing a country’s competitiveness. Since the diamond model in this paper allows us to distinguish, with relative ease, the competitiveness of Uzbekistan and Vietnam through the comparison based on the size and shapes of diamonds, major strategic differences between the two countries can be revealed. From our analysis, it is evident that Vietnam is more advanced than Uzbekistan in terms of investment attraction with a better balance.

4.2. Limitations of the Study and Suggestions for Further Studies

While our methodology is comprehensive in a sense that a number of proxies were used to measure the competitiveness of Uzbekistan and Vietnam, it can be further improved. First, it can be emphasized that a more rigorous statistical justification on proxy selection and quantitative data should be made. Therefore, our study is adequate for a relative comparison only. Absolute measurements using statistically significant data can improve the content of this paper. Second, while this paper has focused on competitiveness at the country level, a further study on the aggregate competitiveness of specific industries at the industrial level may shed light on the relationship between a country’s competitiveness and the industry's competitiveness.

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