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# Foreign Direct Investment – An Important Factor of Economic Progress

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**Abstract:** The article examines the role of foreign direct investment as a catalyst for economic growth. It analyzes the mechanisms of foreign capital's impact on technological innovation, human capital development, and the integration of national economies into global production chains, as well as the dynamics of investment, foreign investment, and direct foreign investment. Special attention is given to the "spillover effects" and their significance for the modernization of developing markets. Based on the research findings, the article presents conclusions and recommendations for improving the attraction of foreign direct investment.

**Keywords:** Investment, Foreign Direct Investment, Gross Domestic Product, Fixed Capital Investment, Capital Expenditures, Foreign Capital, Investment Attractiveness, Growth Rate, Investment Climate, Macroeconomic Stability, Economic Liberalization, Transnational Corporations, Technology Transfer, Spillover Effect, Global Value Chains, Development Strategy, Localization of Production, Investment Hub



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## 1. Introduction

The topic of foreign direct investment (FDI) remains one of the most discussed in economic science and practice, as FDI is not just "money from abroad" but a comprehensive resource for modernizing the national economy. According to a preliminary report by the United Nations Conference on Trade and Development (UNCTAD), published in January 2026, "global flows of foreign direct investment increased by 14% in 2025, reaching \$1.6 trillion. FDI inflows to developed countries increased by 43%, to \$728 billion. In particular, FDI inflows to European Union countries increased by 56%, with the most significant growth in Germany, France, and Italy. In developing countries, FDI inflows decreased by 2%, to \$877 billion, but accounted for 55% of global FDI inflows" [1].

FDI is the main channel for the transfer of advanced technologies and management experience. Unlike portfolio investments, FDI involves the long-term participation of an investor in the capital of an enterprise, which stimulates the introduction of modern production lines, the digitalization of business processes, and the improvement of local personnel skills through training in international standards.

In the context of globalization, no country can effectively develop in isolation. FDI allows national companies to become part of global production networks. This opens up access to new sales markets, international logistics chains, and global brands and marketing strategies. The arrival of major foreign players forces local manufacturers to increase efficiency in order to remain

competitive. This leads to lower production costs, improved quality of goods and services for the end user, and optimization of the structure of the domestic market [2-5].

The relevance of the topic of FDI in 2026 is due to the need for structural transformation of the economy. In the context of a shortage of domestic resources, foreign capital acts as a catalyst for the transition from a raw materials-based development model to an innovative and high-tech one. It is important to understand that FDI is a "smart capital" that brings not only financial liquidity but also knowledge that cannot be purchased with conventional credit funds[6].

### Literature

It should be noted that, according to the definition of the International Monetary Fund, FDI can be considered such if "a foreign owner owns at least 25% of the authorized capital of a joint-stock company (at least 10% in the United States, Russia, and Ukraine; 20-25% in the European Union; and 50% in Canada, Australia, and New Zealand)" [7]. As a result of these discrepancies, international statistics on foreign direct investment do not always reflect their actual state.

Alekseev, A. Baranov, and N. Dementyev note that "FDI not only provides an influx of financial resources, but also often brings new technologies and knowledge in the fields of production and management. Direct investments are usually made for long periods, which strengthens the economic stability of recipient countries. Large multinational corporations with established markets often act as direct investors, making it easier to gain access to international markets" [8].

"FDI is a component of a country's balance of payments and international investment position" . There are many different definitions of this term in domestic and foreign literature. However, we believe that the definition provided by Russian economist A. Kireev is the most logical and widely accepted. According to Kireev, "Foreign direct investment is the investment of capital by a resident of one country (the direct investor) in a resident of another country (the enterprise with direct investment) in order to acquire a long-term economic interest and gain effective control over the investment object" .

According to Dang Mai Anh, "FDI is a key element in the transfer of new technologies and know-how in the Socialist Republic of Vietnam. Foreign-owned enterprises are better equipped, which contributes to improving product quality, expanding product range, and overall increasing industrial output."

Исходя из состояния развития национальных экономик развивающихся стран, требуется проведение глубоких исследований причин, которые сдерживают приток иностранных инвестиций в эти страны, анализ перспектив активизации инвестиционного процесса и создания благоприятных условий для привлечения ПИИ [9].

## 2. Materials and Methods

In the modern architecture of the global economy, FDI is not only a financial flow, but also a fundamental tool for transferring intellectual property, technologies, and management competencies. Unlike portfolio investments, FDI is characterized by its long-term nature and the investor's desire for direct control over the investment's operations, making it a more sustainable driver of economic progress.

One of the most significant channels of FDI influence is technology transfer. As the main FDI donors, multinational corporations (MNCs) bring innovative production methods to the host country that are often unavailable in the domestic market, such as equipping enterprises with modern equipment and software. Local companies, interacting with foreign subsidiaries (as suppliers or competitors), are forced to adopt advanced quality standards and technical regulations.

## 3. Results and Discussion

Economic progress is impossible without a qualitative change in the workforce. Investors invest significant resources in staff training, implementing:

1. International management standards. Transition from hierarchical structures to flexible

management methods.

2. Vocational training. Formation of highly specialized competencies that increase the overall productivity of the country.

3. Corporate culture. Increasing responsibility, business ethics and environmental standards (ESG) [10].

FDI allows national producers to expand beyond their local market. The presence of foreign capital often means that products produced domestically become part of a complex international network.

This table reveals the key mechanisms through which foreign direct investment transforms the host economy, turning local production into an element of the global system. This process addresses one of the main challenges faced by developing economies, which is the limited domestic demand and the difficulty of accessing closed international markets. The investor already possesses the necessary logistics infrastructure, quality certifications, and consumer trust abroad. Local products are exported under the umbrella of the investor's brand, significantly reducing marketing costs and risks for national producers [11].

**Table 1.** Some advantages of foreign direct investment

Advantage	Description of the process
Export expansion	The use of the investor's established distribution channels to bring local products to global markets.
Economies of scale	Increased production volumes due to the global needs of multinational companies.
Currency stability	Inflow of hard currency and improvement of the country's balance of payments.

The benefits analyzed show that FDI provides a comprehensive effect: it simultaneously solves trade (export), production (scale), and financial (currency) problems. This confirms the role of FDI as a catalyst that transforms a national economy from an extensive to an intensive and export-oriented state [12].

The country's desire to attract high-quality FDI encourages the government to implement institutional reforms. Investors prioritize the protection of property rights, the rule of law, transparency in the tax system, and the reduction of administrative barriers. As a result, the competition for foreign capital drives improvements in domestic legislation, benefiting the entire national business community [13].

An analysis of the dynamics of investment processes in the Republic of Uzbekistan for the period 2019–2025 allows us to draw conclusions about the deep structural transformation of the economy and a qualitative leap in attracting foreign capital [14].

**Table 2.** Dynamics of investment, foreign investment and foreign direct investment in Uzbekistan (million US dollars)

Indicators	Years						
	2019	2020	2021	2022	2023	2024	2025
<b>GDP volume</b>	67294	66440	77340	90125	102634	121400	147080
<b>Investments in fixed assets</b>	21500	20158,5	23100,1	23647,2	28691,3	38373,6	49 157,9
<b>Investments and loans</b>	9803,5	8647	9863,7	10200	16100	26400	33500
<b>Foreign direct investment</b>	4205,4	2872,7	2850,8	3366,3	7219,7	11697,8	22360,0

Uzbekistan's economy has shown steady GDP growth, which has more than doubled over the period under review, from \$67,294 million in 2019 to a projected \$147,080 million in 2025. 2019-2021

saw some volatility and a slowdown in FDI growth, which correlates with global trends during the pandemic. In 2020, FDI decreased by 31.7%.

Since 2022, the growth rate of FDI has outpaced the growth rate of GDP. This is particularly notable in 2023, when FDI increased by 114.5% compared to the previous year [15].

Foreign direct investment is becoming the foundation of the country's economic progress. While FDI accounted for only 3.7% of GDP in 2021, it is expected to reach a historic high of 15.2% by 2025. This indicates the country's strong integration into global value chains. The share of FDI in total fixed-asset investment has shown an upward trend, increasing from 12.3% in 2021 to 45.5% in 2025. This means that almost every second dollar invested in modernizing the country's production facilities and infrastructure is direct foreign investment.

There has been a qualitative change in the nature of external financing: the total volume of foreign investments and loans will reach \$33,500 million by 2025, with FDI accounting for more than 66% of this volume (\$22,360 million). The predominance of direct investments over credit resources is a positive factor, as FDI does not create a debt burden on the budget and is accompanied by the transfer of technology and management experience.

Scientific data analysis confirms that FDI has become a key driver of Uzbekistan's economic progress.

1. The exponential growth of FDI in 2023-2025 indicates the success of ongoing reforms and increased confidence among international investors.
2. The high concentration of FDI in fixed assets (almost 46% by 2025) ensures technological upgrades in the industry.
3. The shift from debt capital to direct investment strengthens the country's macroeconomic stability.

If these rates continue, by 2025, Uzbekistan's investment landscape will be characterized by a high share of innovative and private foreign capital, creating a multiplier effect for all sectors of the economy.

Despite the obvious benefits, the role of FDI requires a balanced approach. Strong foreign players can suppress fragile local enterprises. The transfer of environmentally harmful industries to countries with lax regulations. The risk of abrupt shutdowns in the event of a change in the global economic situation.

#### 4. Conclusion

Foreign direct investment is a crucial factor in economic progress, providing a synergy of capital, technology, and talent. However, to maximize the positive impact, government policies should focus not only on attracting funds in quantity, but also on creating conditions for deep integration of foreign businesses into the national economic fabric. Only in this way can FDI become a foundation for sustainable innovation rather than a temporary financial injection.

FDI is considered the most "stable" type of capital. During periods of economic crises, direct investors are less likely to withdraw their funds than speculative investors, as their capital is invested in factories, equipment, and infrastructure. For developing countries, FDI is a way to cover the deficit of domestic capital without increasing external government debt. FDI is directly linked to social progress. New enterprises create thousands of jobs with competitive wages. Increased enterprise profits generate budget revenues that can be used for healthcare, education, and infrastructure.

FDI has transformed from an additional source of capital to a major driver of economic progress, providing almost half (45.5%) of all fixed-asset investments by 2025. There has been a shift from a credit-based financing model to direct foreign capital participation (the share of FDI in total foreign earnings exceeded 66%), which has reduced the burden on external debt. The exponential growth of FDI (especially in 2023 and 2025) demonstrates the effectiveness of institutional reforms and the growing confidence of global investors in Uzbekistan's jurisdiction. The direct correlation between FDI inflows and GDP growth confirms the role of foreign capital as a catalyst for industrial modernization.

#### Recommendations:

1. Stimulating technology transfer: it is necessary to shift the focus from quantitative indicators to qualitative ones. Priority should be given to projects that involve the creation of research and development centers and the transfer of unique technologies (know-how).

2. Deepening localization. It is important to develop mechanisms that integrate small and medium-sized local businesses into the production chains of foreign multinational companies in order to maximize the "knowledge spillover" effect and quality standards.

3. Developing human capital. It is recommended that joint educational programs be implemented between investors and national universities to train personnel in accordance with international technical regulations.

4. Monitoring the risks of "overheating". Given the rapid growth of investments, the government needs to improve the system for assessing the environmental and social risks of projects (ESG standards) in order to prevent the accumulation of imbalances in certain sectors.

5. Digitalization of the investment process. Further simplification of administrative procedures through digital platforms will help maintain a high level of capital inflow and reduce transaction costs for investors.

Uzbekistan has successfully passed the stage of attracting initial capital and is entering the phase of deep integration into the global economy. Further success will depend on the country's ability to convert financial flows into long-term technological superiority.

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