

Implementation of Irish Foreign Direct Investment Policy in Uzbekistan

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Abstract— It is well known that governments in developing countries such as Uzbekistan are actively looking at ways to improve their FDI policy. Developing nations often look toward other developed countries FDI policy based on its positive effects in the country's economy. In many ways in this globalised world, if we look around the world and see what policies are successful, there are not many effective policies that could be implemented. However, it is acknowledged within the literature that the main factors influencing FDI policy in Uzbekistan are unfortunately negative. The main aim of this study is to look for possibilities to implement the Irish FDI policy in Uzbekistan. In the process, the study sought to investigate the main factors influencing FDI policy in Uzbekistan. The study also sought to discover the reasons why Uzbekistan should implement the Irish FDI policy. Data was collected using qualitative methods. The research was conducted through the use of semi-structured interviews of two existing government bodies, the IDA Ireland and Uzininvest, and experts and senior managers in Uzbekistan and Ireland. This research concludes that restrictions on currency conversion, uncertainty of the rule of law, corruption and bureaucracy have been preventing multinationals from investing in Uzbekistan. There also appears to be a lack of a good track record of existing long-term companies.

Keywords— Foreign Direct Investment, Uzbekistan, Ireland.

I. LITERATURE REVIEW

The literature review covers the period between protectionism era and the Celtic tiger in Ireland and since independence to the end of 2000s in Uzbekistan. The author found a lack of research has been done since 2008 on Uzbekistan FDI, therefore comparisons with the Irish FDI in this period are problematic.

Ireland

There was a progressive evolution from the 1930s to 2008 which shaped Ireland into a developed economy and Ireland has faced three different stages since becoming one of the richest countries. Barry & Bradley (1997) describes Irish economic development over three phases. Which are; the failure of protectionism, economic structural changes and industrialisation process.

Uzbekistan

Uzbekistan was one of the former Union of Soviet Socialist Republics (USSR) and had no history as an independent nation before 1991. Uzbekistan, the most populated country among Central Asian countries, was administered politically and economically from Moscow during the Soviet Union era.

In the early 1990s, the suspension of the USSR was unexpected in Central Asia and the new independent countries were not well prepared. The collapse of the Soviet Union and unexpected challenges interrupted export and import relations inherited from the integrated USSR economy.

Pomfret (2003) concluded that the new Uzbek government faced three phases of interconnected economic shocks before and after independence; the effect of economic reforms in the late 1980s, dissolution of the USSR and the building of a new economy.

Due to the fact that Uzbekistan has only been independent since 1991, little research has been carried out on FDI. One of the key researchers in this area is Professor Richard Pomfret, and other key reports are from the World Bank and the International Monetary Fund (IMF).

Comparing Ireland and Uzbekistan

The Irish model of policies towards FDI took 70-80 years of gradual improvements to reach a high level of success. However, the Irish policies were aggressive in their targeting and also Irish policies were flexible over the years in developing a favourable business climate offering low corporation taxes, a beneficial fiscal policy strategy and all of the above have been consistently implemented or applied to attract FDI for multinationals (Velde, 2001). According to Barry (2003) the existence of an investment agency, the IDA, which could reanimate the Irish economy with flexible and attractive policies, renewed industrial policy which was supported by consistent macro-economic planning. Irish history has faced three different stages since becoming one of the richest countries.

The Uzbek model of policies towards FDI has existed only 15-20 years since independence. Uzbekistan announced its own route of transformation from centralized to basic market principles in the early years of independence (European Union, 2013). However, the Uzbek policies had gradual improvements, such as macroeconomic and trade policies. According to Pomfret (2003) despite having better economic performance and attracting foreign investors, the Uzbek government policies towards restrictions on foreign exchange, caused the establishment of a black market. Additionally, bureaucratic procedures and corruption affected the track record of the country's profile globally. It is believed that the economy may have performed even better with better and more aggressive targeting of certain sectors. In fact, in

comparison with former Soviet Union countries the Uzbek Government had a better economic performance.

Uzbekistan had developed three industrial economic zones with the intention of attracting FDIs. The Uzbek history had faced three different stages similarly to Ireland, but it remains to be seen how successful Uzbekistan will be in attracting FDI.

II. METHODOLOGY

Interviews were secured with experts and senior figures in FDI in both Ireland and Uzbekistan. Overall, five interviews were carried out and all were conducted on an individual basis. The interviews ranged between thirty minutes and two and a half hours in duration.

A semi-structured interview was designed and divided into three phases with ten questions as shown in table 1. The first part explored the overview of Irish FDI, history and its significance. It also included factors influencing FDI, why Ireland was successful and whether Ireland implemented any form of FDI policy from other countries. Lastly, questions are designed to investigate whether the Irish story can be replicated or not.

The second part explores what Uzbekistan can do to attract more FDI, barriers to FDI in Uzbekistan, what lessons can be used and whether Uzbekistan has implemented any form of FDI from other countries.

Finally, the last part focuses on the future and explores where global FDI is moving.

TABLE 1
Semi-Structured Interview Scheme

Interview Theme	Ideas Explored
Relating to Ireland	Overview of Irish FDI, history and its significance
	The main factors influencing FDI
	Why Ireland was so successful
	Whether Ireland implemented any form of FDI and was Ireland influenced by neighbouring countries
	Whether the Irish story can be replicated
Relating to Uzbekistan	What Uzbekistan can do to attract more FDI
	How FDI will help the economy
	The main barriers to FDI
	What lessons can be learned from the Irish experience
	Whether Uzbekistan implemented any form of FDI and was Uzbekistan influenced by neighbouring countries

III. ANALYSIS OF FINDINGS

Throughout the semi-structured interviews with the experts the author has outlined findings into economic policies mainly under the control of governments. This category can be

classified into industrial policies, specifically relating to FDI, and more general macro-economic policies. As the majority of interviewees stated, industrial policies have been a key factor to attract FDI. The author has developed a table of policies and factors affecting inward foreign direct investment (see table 2) from the research findings as key experts were not familiar with the Irish and Uzbek FDI.

TABLE 2
Policies and Factors Affecting Inward Foreign Direct Investment

	Economic policies mainly under government control	
	Industrial Policies	Macro-economic Policies
Affecting potential multinationals	<ul style="list-style-type: none"> - Financial and fiscal incentives - Promotion, targeting and profile building - Developing export platform 	<ul style="list-style-type: none"> - Availability of infrastructure - Sound macro-economic performance - Privatisation opportunities - Development of financial institutions
Affecting existing multinationals	<ul style="list-style-type: none"> - Importance of R&D - Taxation - Interaction with local institutions 	<ul style="list-style-type: none"> - Trade policies - Global economic integration - Export promotion and infrastructure

Source: Author

IV. DISCUSSION

The focus of this thesis is to investigate possibilities implementation of the Irish FDI policy into Uzbekistan. The outcome of the research objectives were gained from the semi-structured interviews by the researcher. The results (see table 3) represents the overall points and views that were mentioned by most of the experts.

TABLE 3
Outcomes of Research Objectives

Research Objectives	Results
To investigate the main factors influencing on FDI policy in Uzbekistan	i. The lack of currency conversion
	ii. Issues related to the rule of Law
	iii. Corruption
	iv. Bureaucracy
	v. Opportunities in Natural Resources
	vi. Diversified Economy
To ascertain the reason why Uzbekistan should implement the Irish FDI policy	i. Has legal system, very similar to the UK and US
	ii. Financial Services
	iii. The IDA is very prestigious organisation
	iv. Infrastructure
	v. Pro-business climate
	vi. A good Track record
	vii. Competitiveness

Source: Author

V. CONCLUSIONS

This research thesis has provided a vast and varied collection of data and information, from which the author has drawn the following conclusion.

The authors` desire from this research was to look for best-practise policies in developed countries towards Foreign Direct Investment (FDI) into Uzbekistan. It is proven that governments in developing countries and Uzbekistan one of them are looking for other countries experiences towards FDI based its positive effects in the country`s economy.

In many ways in this globalised world, if we look around the world and see what policies were successful, there are not many effective policies that could be implemented. However, which FDI policies are important in which countries mostly depends on the targeted country`s characteristics, position and strategy. Additionally, in practise there are some common elements within all countries.

The author`s findings suggests that until the mid-1990s the Uzbek government was able to produce policies that kept overall economic stabilisation in the country. Moreover, the economic performance was better within former Soviet Union countries. In the early years of independence, the Uzbek government`s policy of gradual change was effective with the economic situation of the country and this policy has been helpful in avoiding economic shock and uncertainty. The gradualism approach in the economy provided a better and clearer understanding of implemented policies and the feedback from the realised projects helped the restructuring of certain FDI policies in time. However, restriction on foreign currency exchange and inherited corruption and bureaucratic obstacles had significantly affected the progress on the FDI and foreign trade. Foreign companies experienced difficulties in repatriating their profits. While neighbouring Kazakhstan and even China with existing corruption and bureaucratic system performed better. These countries have also protected indigenous industries, but encouraging exporting industries through admitting a fully foreign owned FDI concerning exports.

In fact, Uzbekistan has high potential to attract more FDI. Uzbekistan`s potential is far greater than that of other countries in Central Asia as the country still holds the regional power over existing natural resources. Only Uzbekistan has diversified economy within the region, which allows the country to produce automobiles, agricultural machineries, construction materials and electronics. Additionally, Uzbekistan has relatively developed workforce skills with a cheap wage rate. Moreover, Uzbekistan`s geopolitical position and 32 million domestic market makes Uzbekistan more attractive to the FDI. Unfortunately, the current situation in

Uzbekistan remains unchanged since a decade ago and is far from being ideal in attracting FDI. The corruption, bureaucratic procedures, the lack of sufficient infrastructure, restriction in currency conversion and uncertainty of the rule of law are the negative factors for investors.

An important contribution of this research is to classify the Irish policies towards FDI that can be implemented in Uzbekistan. FDI brought positive effects in the Irish economy (market access, technology, finance, etc.), Ireland became one of the successful countries in attracting FDI. Moreover, the Irish experience suggests that the positive effects are not only associated with low corporation tax but also depend on other policies and other environmental factors in the country. The Irish experience proposes that a large quantity of FDI alone is not sufficient and other environmental factors such as educational, financial institutions, availability of infrastructure and a skilled workforce, competition are plays a key role for the objective of generating growth and poverty reduction.

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