THE ECONOMIC ESSENCE, CLASSIFICATION AND ROLE OF FOREIGN INVESTMENT IN ENSURING ECONOMIC GROWTH

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Foreign investment plays a significant role in the development of national economies by connecting domestic production with international financial resources, technologies and markets. For developing countries, attracting external capital can help overcome the gap between domestic savings and investment requirements. However, an increase in financial inflows does not automatically produce sustainable growth. The economic contribution of foreign investment depends on whether it expands productive capacity, improves efficiency and creates opportunities for domestic enterprises.

The economic essence of foreign investment consists of the allocation of capital by non-resident investors to assets and economic activities in another country with the expectation of receiving future income. From the investor's perspective, this activity provides access to new markets, resources and business opportunities. From the recipient country's perspective, it can provide financing for industrial development, infrastructure and technological modernization. These interests can support each other when investment projects generate commercial returns while strengthening the productive potential of the host economy.

Foreign investment should be classified according to the nature of the financial relationship. Foreign direct investment involves a lasting relationship and significant influence over an enterprise in another economy. According to the OECD's 2025 benchmark definition, ownership of at least 10% of voting power establishes a direct investment relationship. Ownership exceeding 50% normally indicates control. Therefore, direct investment does not necessarily

require majority ownership, although it involves a more substantial relationship than a purely financial holding.

Portfolio investment generally involves investment in shares and debt securities without establishing a direct investment relationship. It can improve access to finance and support the development of domestic capital markets. Nevertheless, portfolio flows may respond rapidly to changes in interest rates, exchange rates and investor expectations. Foreign borrowing represents another channel of external financing. Loans can support productive projects, but repayment obligations mean that their contribution must be assessed alongside debt servicing capacity. Consequently, foreign investment, portfolio flows and foreign loans should be distinguished when evaluating economic outcomes.

Direct investment can also be classified by the method used to enter the host economy. Greenfield investment establishes new facilities, whereas cross-border mergers and acquisitions involve purchasing or combining existing businesses. Greenfield projects can directly increase production capacity and employment. Acquisitions may improve management, financing and technology, but the ownership transaction itself does not necessarily create additional productive assets. Both forms can contribute to development, although their immediate economic effects differ.

Another classification concerns investor motivation. Market-seeking investment aims to serve domestic or regional consumers. Resource-seeking investment focuses on access to natural resources or other production inputs. Efficiency-seeking investment organizes activities across countries to improve productivity and reduce costs. Strategic asset-seeking investment targets technologies, brands, research capabilities or specialized knowledge. These motivations influence the location of investment and the benefits that recipient economies can reasonably expect.

The international investment environment reported in 2025 demonstrates why careful interpretation of investment statistics is necessary. UNCTAD's World Investment Report 2025 recorded global FDI of approximately USD 1.5 trillion in 2024. Although the headline total increased by 4%, flows declined by 11% when volatile financial flows through conduit economies were excluded. These figures describe 2024 outcomes published in 2025, rather than full-year 2025 results. They illustrate how changes in recorded financial flows can differ from changes in underlying productive investment.

Foreign investment can contribute to economic growth through several connected mechanisms. The first is capital accumulation. New equipment, factories, logistics facilities and energy infrastructure can increase the amount and quality of capital available to workers. Where inadequate infrastructure restricts production, investment can also reduce costs across several industries. However, the growth effect depends on project efficiency, demand for output and the availability of complementary domestic resources.

The second mechanism is technological and organizational upgrading. Foreign enterprises may introduce modern machinery, production methods, quality standards and management practices. Domestic firms can benefit through supplier relationships, employee mobility and commercial cooperation. Such benefits are conditional: local enterprises need sufficient technical knowledge, finance and skilled personnel to absorb new technologies. Investment policy should therefore connect capital attraction with education, vocational training and enterprise development.

Employment and international trade provide further channels of influence. New investment projects can create direct jobs and increase demand for transport, maintenance, construction and professional services. Export-oriented enterprises may help domestic producers enter international supply chains. Yet employment effects vary across sectors. A highly automated facility may involve substantial expenditure while creating relatively few permanent

jobs. Evaluation should therefore consider job quality, training, domestic purchasing and value added alongside the total amount invested.

Uzbekistan's investment statistics demonstrate the importance of external financing for capital formation. According to the National Statistics Committee's release of 21 October 2025, total foreign investment and loans reached USD 34.5 billion in January–September 2025. Of this amount, USD 24.9 billion, equivalent to approximately UZS 318.3 trillion, was directed towards fixed capital. These are combined foreign investment and loan figures and should not be presented as FDI alone.

Using those reported amounts, approximately 72.2% of total foreign investment and loans was directed towards fixed capital. This author's calculation indicates the scale of external financing allocated to fixed assets, but it does not measure its independent contribution to GDP growth. Establishing that contribution would require analysis of project completion, productivity, employment and other factors affecting economic performance.

For Uzbekistan, the main policy implication is to strengthen the relationship between foreign investment and domestic productive development. Predictable regulations, reliable infrastructure and transparent administrative procedures can improve project implementation. Supplier development programmes and workforce training can help local businesses participate in investment projects. Public support should be assessed against measurable outcomes, including additional production, skilled employment, export development and technological upgrading.

In conclusion, foreign investment can support economic growth by supplementing domestic capital, introducing knowledge and strengthening access to international markets. Its classification matters because direct investment, portfolio investment and borrowing create different opportunities and obligations. Evidence available in 2025 highlights the need to assess both the volume and the quality of external financing. For Uzbekistan, sustainable

benefits depend on converting investment inflows into productive assets, competitive domestic enterprises and lasting improvements in labour productivity.

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