THEORETICAL FOUNDATIONS OF FOREIGN INVESTMENT AND ECONOMIC GROWTH

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Foreign investment has become one of the most significant factors shaping economic development trajectories in the modern global economy. The deepening integration of national economies, the expansion of international trade, and the development of global financial markets have substantially intensified cross-border capital flows, transforming foreign investment (FDI) into a central instrument for stimulating economic growth, technological progress, and international economic cooperation. According to the joint methodology of the World Bank and the International Monetary Fund, foreign investment refers to investment equity flows in the reporting economy, comprising the sum of equity capital, reinvestment of earnings, and other capital. investment is a category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise resident in another economy. Ownership of 10 percent or more of the ordinary shares of voting stock is the criterion for determining the existence of a investment relationship. This threshold allows FDI to be distinguished from portfolio investment, which is typically characterized by a lower degree of management participation and greater liquidity. [1]

Forms of Foreign Investment. The economic literature identifies several principal forms of FDI, which differ in terms of their implementation mechanisms and the strategic objectives of the investor.

The first form - greenfield investment - involves the establishment of entirely new productive capacities in the host country: the construction of factories, offices, and infrastructure objects from the ground up. This form is especially significant for developing economies, since it directly leads to job creation, expansion of productive capacity, and technology transfer. According to UNCTAD data, greenfield investment project announcements grew by 15% in 2022, rising across most regions and sectors.[2]

The second form - mergers and acquisitions *(M&A)* - involves the purchase of existing foreign enterprises or equity stakes therein. This form provides the investor with rapid access to established markets, customer bases, technologies, and human resources in the host country. In 2023, the global value of M&A transactions was $280 billion lower than in 2022, directly depressing FDI flows worldwide.[3]

[1] World Bank (2024) Foreign Direct Investment — Glossary, World Development Indicators. Washington, D.C.: World Bank. Available at: https://databank.worldbank.org

[2] UNCTAD (2023) World Investment Report 2023: Investing in Sustainable Energy for All. Geneva: United Nations.

[3] UNCTAD (2024a) World Investment Report 2024: Investment Facilitation and Digital Government. Geneva: United Nations.

The third form - international project finance - is oriented primarily towards large-scale infrastructure projects in energy, transport, water supply, and telecommunications. In 2024, the number of international project finance deals dropped by 29%, continuing the downward trend from 2023. This trend is particularly damaging for developing countries, which rely heavily on this instrument to finance infrastructure development.[4]

The fourth form - joint ventures - involves the pooling of capital, technologies, and managerial expertise by a foreign and a domestic investor. This arrangement is frequently preferred in the presence of regulatory constraints or when investors seek to share market risks. By the direction of investment flows, a further distinction is drawn between horizontal and vertical FDI. Horizontal FDI occurs when multinational enterprises undertake the same production activities in multiple countries- typically with the objective of accessing new consumer markets. Vertical FDI, by contrast, involves the relocation of individual stages of the production chain to countries offering more favorable production conditions, such as lower labor costs, abundant raw materials, or advanced logistical infrastructure.

Within his framework, Dunning identified four types of FDI motives: resource-seeking, efficiency-seeking, strategic asset-seeking, and market-seeking. This classification retains considerable analytical relevance for examining the investment strategies of multinational corporations in developing economies, including Uzbekistan - where energy and natural resource projects have historically attracted the majority of inward FDI.

Global Trends in FDI Dynamics. An analysis of global tendencies reveals significant volatility in FDI flows in recent years, driven by geopolitical factors, global financial conditions, and structural shifts in the world economy. After a strong rebound in 2021, global FDI fell by 12% in 2022 to $1.3 trillion, due mainly to overlapping global crises - the war in Ukraine, high food and energy prices, and soaring public debt. In 2023, global FDI flows fell a further 2%, again reaching $1.3 trillion, as trade and geopolitical tensions weighed on a slowing global economy.

In 2024, according to UNCTAD, global FDI edged up 4% to $1.5 trillion - though this headline figure masks sharp underlying weaknesses, as it was inflated by volatile financial transactions through several European conduit economies; excluding these flows, global FDI fell by 11%. Against this backdrop, FDI inflows rose in least developed countries by 9%, while falling by 10% in landlocked developing countries, with investment remaining highly concentrated in just a few economies within each group.[5]

[4] UNCTAD (2023) World Investment Report 2023: Investing in Sustainable Energy for All. Geneva: United Nations.
[5] UNCTAD (2024b) Global Investment Trends Monitor No. 46. Geneva: United Nations, January.

Against this challenging global backdrop, a number of developing economies - Uzbekistan foremost among them in the Central Asian context - demonstrated sustained growth in foreign capital inflows, driven primarily by proactive investment climate reforms and targeted policies for attracting foreign investors. FDI in Uzbekistan's economy increased by 53.6% in 2024, reaching $11.9 billion, with its share of GDP growing by 2.4 percentage points to 10.3%. This performance stands in sharp contrast to the prevailing global downward trend and underscores the importance of institutional and legislative reforms as key determinants of investment attractiveness.[6]

The theoretical analysis of the concept, forms, and determinants of FDI presented in this section therefore provides the necessary methodological foundation for examining the role of foreign investment in the economic development of Uzbekistan - a subject developed in detail in subsequent sections of this chapter.

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[6] UzDaily (2025) Uzbekistan's Investment in Fixed Capital Grows by 27.6% in 2024. Tashkent, February.

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The modern concept of foreign investment began to develop actively in the 1950s include and 1960s, reveals when also multinational management corporations determine started evidence expanding effects production economic activities endogenous beyond that their innovation national role borders. During foreign this taken period, between international economic companies indicating increasingly economic established investment subsidiaries based and role production training facilities observations in investment foreign impact countries influence in normality order also to Uzbekistan access main new need markets, economic reduce into production with costs, over and utilize according local attract resources.

Foreign investment is widely considered the most important form of foreign investment for long-term economic development. Mahembe and Odhiambo emphasize in their theoretical framework on foreign investment and economic growth that FDI involves a long-term relationship between the investor and the enterprise located in the host country. In practice, this relationship is usually defined by ownership of at least ten percent of the voting shares of a foreign enterprise, which allows the investor to influence management decisions and production activities.[7]

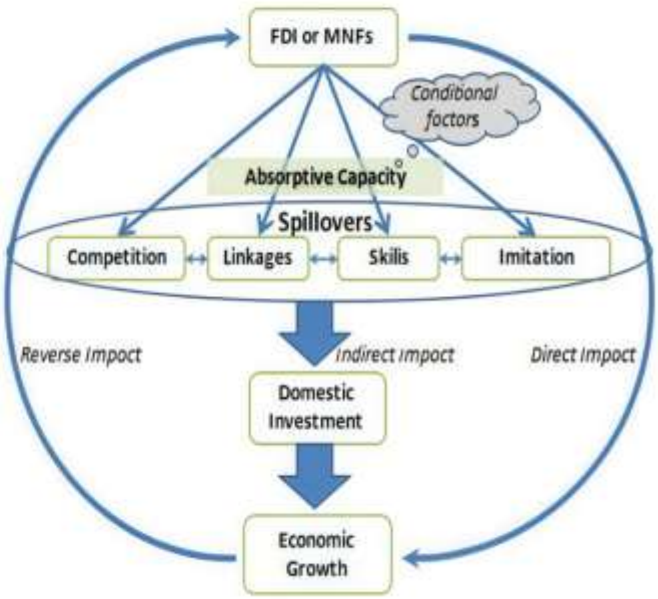

Figure 1.1: Channels from FDI to economic growth[8]

[7] Mahembe, E. and Odhiambo, N.M. (2014) 'Foreign investment and economic growth: A theoretical framework', Journal of Governance and Regulation, 3(2), pp. 63–70.
[8] Nowbutsing, B. (2009) 'FDI, domestic investment and economic growth: A theoretical framework', FDI and Economic Growth Channels – A Review. University of Technology Mauritius.

Foreign investment can take different forms. These include the establishment of new enterprises, commonly referred to as greenfield investments, acquisition of existing companies, joint ventures with domestic firms, and reinvestment of profits generated by foreign subsidiaries.

Economic theory emphasizes several channels through which foreign investment can influence economic development. In the theoretical model analyzing the relationship between FDI, domestic investment, and economic growth, Nowbutsing explains that foreign capital directly increases the stock of physical capital in the host economy. According to Nowbutsing’s framework, this increase in capital contributes to higher levels of production and stimulates economic growth.[9]

Conclusion

Foreign direct investment remains one of the most important drivers of long-term economic growth and structural transformation, particularly in developing economies. As demonstrated throughout this chapter, FDI contributes not only to capital accumulation but also to technology transfer, productivity improvement, human capital development, and deeper integration into global value chains. Theoretical approaches developed by Dunning, Mahembe and Odhiambo, Nowbutsing, and other scholars consistently indicate that foreign investment generates both direct and indirect effects on economic performance through multiple transmission channels, including increased physical capital, employment creation, knowledge spillovers, and enhanced competitiveness.

The analysis also shows that foreign investment takes diverse forms—including greenfield investments, mergers and acquisitions, joint ventures, and project finance–each of which affects host economies through different mechanisms. Recent global trends reveal that international investment flows remain highly sensitive to geopolitical uncertainty, financial market volatility, and changing economic conditions. Despite these global challenges, Uzbekistan has demonstrated a remarkable increase in FDI inflows, reflecting the positive impact of investment climate reforms, improvements in the regulatory framework, and policies aimed at attracting foreign investors. These developments underline the growing importance of institutional quality and macroeconomic stability in strengthening investment attractiveness.

Overall, the theoretical foundations examined in this chapter provide a solid conceptual framework for understanding the relationship between foreign direct investment and economic growth. They confirm that the benefits of FDI depend not only on the volume of foreign capital but also on the host country's ability to absorb new technologies, maintain a favorable business environment, and implement effective economic policies. Consequently, these theoretical insights serve as the basis for the

[9] Nowbutsing, B. (n.d.) ‘FDI, domestic investment and economic growth: A theoretical framework’, FDI and Economic Growth Channels – A Review. University of Technology Mauritius.

subsequent empirical analysis of the impact of foreign direct investment on Uzbekistan's economic development.

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