Implementation of Irish Foreign Direct Investment Policy in Uzbekistan

By

Shahboz Babaev

“This research project is submitted in partial fulfilment of the Degree of Masters of Business at the Athlone Institute of Technology”

Masters of Business

School of Business

Athlone Institute of Technology

Research Supervisor: Paul O’Meara

Submitted: August 2015
DECLARATION

I have read the Institute’s code of practice on plagiarism. I hereby certify that this material, which I now submit for assessment on the programme of study leading to the award of Master of Business is entirely my own work and has not been taken from the work of others, save and to the extent that such work has been cited within the text of my work.

Student ID Number: A00226783
Name of Candidate: Shahboz Babaev
Signature of Candidate: _____________
Date: August, 2015
PERMISSION TO LEND AND/OR COPY

I agree that Athlone Institute of Technology Library may lend or copy this dissertation upon request.

Signed: ______________________
Name: Shahboz Babaev
Date: August, 2015
ACKNOWLEDGMENT

I would like to express my sincere gratitude to my supervisor, Paul O’Meara, for all his advice help and encouragement through what was a challenging process. Special thanks to my mentor Prof. Ciarán Ó Catháin for all his endless help, motivation and spirit.

I would like to thank my parents for all their support and encouragement throughout my academic life but particularly over the past months since my arrival in Ireland.

I would like to take this opportunity to thank all the interviewees that participated in my research project.

Finally, my gratitude goes to all those who willingly devoted some of their valuable time to this research. I particularly want to thank Nick Wrey, Una O’Connor, Miriam Croke and Linda Reidy for their academic support.
TABLE OF CONTENT

DECLARATION ..................................................................................................................................................... I
PERMISSION TO LEND AND/OR COPY ............................................................................................................. II
ACKNOWLEDGMENT ............................................................................................................................................ III
LIST OF TABLES .................................................................................................................................................. VII
LIST OF FIGURES ................................................................................................................................................ VIII
ABBREVIATION & TERMS ................................................................................................................................... IX
ABSTRACT ............................................................................................................................................................. 1
INTRODUCTION ................................................................................................................................................... 2
  1.1 Introduction ................................................................................................................................................... 3
  1.2 Research Aim and Objectives ......................................................................................................................... 3
  1.3 Research Rationale ......................................................................................................................................... 3
  1.4 Thesis Structure ............................................................................................................................................ 4
  1.5 Method of Gathering Information .................................................................................................................. 5
  1.6 Conclusion ................................................................................................................................................... 6
LITERATURE REVIEW .......................................................................................................................................... 7
  2.1 Introduction ................................................................................................................................................... 8
  2.2 Ireland ............................................................................................................................................................ 8
    2.2.1 The failure of protectionism policy 1930s to the late 1950s ................................................................. 8
    2.2.2 The Economic structural changes ........................................................................................................ 9
    2.2.3 The Industrialisation Process ............................................................................................................... 13
    2.2.4 “The Celtic Tiger” ................................................................................................................................ 14
  2.3 Uzbekistan ....................................................................................................................................................... 16
    2.3.1 The Independence shock ...................................................................................................................... 16
    2.3.2 The Uzbek Model .................................................................................................................................. 19
    2.3.3 The Uzbek Puzzle .................................................................................................................................. 20
    2.3.4 The development process .................................................................................................................... 23
  2.4 Comparing Ireland and Uzbekistan ................................................................................................................ 30
METHODOLOGY ...................................................................................................................................................... 31
  3.1 Introduction ................................................................................................................................................... 32
  3.2 Research Aim ................................................................................................................................................ 32
  3.3 Research Objectives ..................................................................................................................................... 32
  3.4 Research Philosophy .................................................................................................................................... 32
  3.5 Research Classification ................................................................................................................................. 33
  3.6 Research Approach ..................................................................................................................................... 33
6.3.2 Recommendations to Uzinfoinvest Agency ................................................................. 60
6.3.3 Recommendations for Areas of Future Research .......................................................... 60
6.4 Research Limitation .......................................................................................................... 61
6.5 Personal Reflection ........................................................................................................... 62
REFERENCES ......................................................................................................................... 64
APPENDICES .......................................................................................................................... 67
Appendix: 1.0 Interview Questions ......................................................................................... 68
Appendix: 2.0 Interview Transcript ......................................................................................... 69
  Appendix: 2.1 Interview one ................................................................................................. 69
  Appendix: 2.2 Interview two ............................................................................................... 72
Appendix: 3- Interview with Uzbekistan President - Islam Karimov (2009) ......................... 84
Appendix 4- Interview Participant Consent Form .................................................................... 85
LIST OF TABLES

Table 2.1 Shannon Trade 1964-1969.................................................................11
Table 2.2 Free Trade Zones ........................................................................11
Table 2.3 Estimated Benefit of Shannon Free Trade Zone (SCD) ................11
Table 2.4 Growth in Real GDP 1989-2000 (%) ...........................................21
Table 2.5 FDI trends in Uzbekistan by year 2003-2013 ...............................27
Table 2.6 Top 10 countries; FDI trends by source country 2003-2013 ..........28
Table 2.7 Top 10 Companies: Capital Investment........................................29

Table 3.1 Research Choices .........................................................................34
Table 3.2 Semi-structured interview scheme ..............................................36
Table 3.3 Details of Interviews ..................................................................37

Table 4.1 Profile of the Interviewees ............................................................43
Table 4.2 Policies and factors affecting inward foreign direct investment ......46

Table 5.1 Outcomes of Research Objectives ...............................................55
LIST OF FIGURES

Figure 2.1 Ireland’s population with tertiary education................................................................. 12
Figure 2.2 General government consolidated gross debt as percentage of GDP, Ireland
    and EU11 ......................................................................................................................................... 13
Figure 2.3 World Cotton Prices (Cotlook A Index), January 1995 to January 2015................. 23
Figure 2.4 Regional distribution of foreign direct investment in the economy of
    Uzbekistan ........................................................................................................................................ 26
Figure 2.5 Foreign investment distribution among the sectors of the economy of
    Uzbekistan ........................................................................................................................................ 26
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIEZ</td>
<td>Free Industrial Economic Zone</td>
</tr>
<tr>
<td>FIZ</td>
<td>Free Industrial Zone</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>IDA</td>
<td>Industrial Development Authority</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>NFIEZ</td>
<td>Navoi Free Industrial Economic Zone</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-Operation Development</td>
</tr>
<tr>
<td>GNP</td>
<td>Gross National Product</td>
</tr>
<tr>
<td>SCD</td>
<td>Shannon Free Airport Development Company</td>
</tr>
<tr>
<td>SIZ</td>
<td>Special Industrial Zone</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republic</td>
</tr>
<tr>
<td>Uzbek</td>
<td>Uzbekistan</td>
</tr>
<tr>
<td>UZINFOINVEST</td>
<td>The Uzbek Equivalent of the IDA Ireland</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organisation</td>
</tr>
</tbody>
</table>
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 and Uzinfoinvest, and experts and senior managers in Uzbekistan and Ireland. The findings which were presented and discussed by the author.

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. The author concludes that these are the main factors influencing on FDI policy in Uzbekistan.
INTRODUCTION
1.1 Introduction

This chapter’s aim is to provide the reader with a brief background and an overall understanding of the research – Implementation of Irish Foreign Direct Investment Policy into Uzbekistan. This chapter also included the research aim and objectives, the author’s rationale for undertaking this research and summarising the key components of each chapter within this research project. Lastly, methods of gathering information also will be outlined by the author.

1.2 Research Aim and Objectives

Research Aim:

The author believes that Uzbekistan has high potential to attract more FDI. The country holds far greater potential than that of other countries in Central Asia. As a country Uzbekistan still holds the regional power over existing natural resources. However, to date no empirical research has been conducted regarding the possibilities to implement FDI policy from a developed nation. The main aim of this study is to look at the possibility of implementing the Irish FDI policy in Uzbekistan. The author believes that the Irish FDI policy would be a good example of development model that could be used by the Uzbek government. In conducting this research the author aspires to recommend the appropriate steps for the Uzbek government which may provide a valuable foundation to gradual implementation of the Irish FDI policy.

Research Objectives

The author has identified the following two objectives in order to answer the research aim:

1. To investigate the main factors influencing on FDI policy in Uzbekistan.
2. To ascertain the reasons why Uzbekistan should implement the Irish FDI policy.

1.3 Research Rationale

The context of the author’s work is to investigate what are the main factors influencing FDI policy in Uzbekistan and address the important issues Uzbekistan faces in order to attract foreign investors.
The author wishes to explore the effects of FDI in Uzbekistan economy and to see if the Irish FDI policy experience will be worthwhile or not. Moreover, the author would like to suggest the Irish FDI policies that can be implemented in Uzbekistan.

In addition, the author feels that this research project can help the Uzbek government and Uzinfoinvest learn about the Irish FDI policy experience over the last fifteen years and allow them to understand the effects of FDI which can be of benefit to economy. These benefits include having a legal system similar to developed countries, financial services, and infrastructure available, having a pro-business climate, and a high-skilled workforce as these all can build a good profile for the country.

The author is concerned that if the issues are not addressed, then the Uzbek government will face major problems in its economy. This will affect the country’s profile in terms of attracting FDI in the future. Lastly, the author hopes to gain invaluable knowledge in the chosen research area which will provide career opportunities in the future.

1.4 Thesis Structure

This thesis is organised in accordance with the guidelines as set out in the ‘Athlone Institute of Technology, Masters of Business Studies’. The thesis has been divided into six chapters.

Chapter 1 – Introduction

The researcher will introduce the research aim and objectives for this thesis and provide a rationale as to why the researcher elected to carry out implementation of the Irish FDI policy in Uzbekistan as the subject area for this research.

Chapter 2 – Literature Review

This chapter will focus on studying literature from two main researchers in the Irish and Uzbek FDI and other various authors on this research topic. It will focus on literature relating to the history of the Irish and Uzbek economies and comparison of the two country’s attitudes towards FDI. Additionally, the author will provide a context and background for this research topic.
Chapter 3- Research Methodology

The research methodology, the third part of this thesis, explains how the author plans, conducts and analyses primary research. Classification, philosophies, approach and strategy used within this research are examined and justified. Moreover, alternative methods that may have been applied to this research are evaluated. Finally, existing limitations are discussed, and ethical considerations are addressed within this research thesis.

Chapter 4 – Analysis of Findings

The purpose of this chapter is to present the key findings derived from the primary research carried out by the author in relation to the Irish and Uzbek FDI. The data presented in this chapter was conducted through the use of semi-structured interviews with the experts on the Irish and Uzbek FDI and senior managers of prestigious organisations.

Chapter 5 – Discussion of Findings

Chapter five is a detailed discussion of findings. This chapter will be analysed by the author to the relevant literature discussed in chapter two. The primary findings from the semi-structured interviews will address the two existing objectives and in turn the findings from each objective will address the research aim.

Chapter 6 – Conclusion

This final chapter will present the conclusion and recommendation of the research, and will state whether the researcher believes the aim and objectives have been satisfied. Moreover, the research limitations and suggestions for possible future research on the topic area will also be outlined with this chapter. Lastly, the author will conclude with a personal reflection on the journey involved in completing this master thesis.

1.5 Method of Gathering Information

The literature review within this research project was accessed online and in person throughout by utilising the library at Athlone Institute of Technology. Multiple methods were included in order to organise Chapter 2 which included accessing books, newspapers, journal articles and websites. Additionally, the content of the literature was structured from relevant, recent materials which has been published internationally by leading experts within their respective fields. Moreover, the literature review was organised from the valuable information and
unpublished papers obtained by the author during personal interaction with the expert professors, Frank Barry and Richard Pomfret, on the Irish and Uzbek FDIs for the purpose of thesis research.

1.6 Conclusion
Within chapter one, the author has presented the key background information to gain an understanding of the research conducted. Additionally, the main aims and objectives of the research introduced within this chapter. The following chapter will review the existing empirical research available on the Irish and Uzbek FDI.
LITERATURE REVIEW
2.1 Introduction

This literature review sets out to explore the extant literature. The author has organised this chapter into four areas: in the first and second parts the history of the Irish and Uzbek economies are discussed, in the last section the author compares Irish and Uzbek FDI policy. 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.

2.2 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.

There have been various reviews of Irish FDI policy and the impact of FDI in the Irish economy (see e.g. Barry and Bradley 1997, Willem 2001, Barry 2003). One of the key researchers in this area is Professor Frank Barry. For this reason, this section of literature review focuses on his work.

2.2.1 The failure of protectionism policy 1930s to the late 1950s

Tiernan & Morley (2013, p. 40) described that after Fianna Fail came to power, they began to pursue a totally different approach to industrial policy. The new industrial policy was economically and politically motivated. In the entire period of the Irish government as an independent nation it pursued a protectionist economic policy. Protectionism and self-sufficiency was supported by Arthur Griffith, and was based on Friedrich List who advocated protectionist policies. These policies were designed to promote growth of local companies. Ireland used trade barriers on imported goods, increasing their cost more than domestic products. In this period the Irish economy focused on the agricultural sector and new industries, such as car assembly. During this period Irish industries showed success due to the tariff
barriers. At that time the Irish major partner was the UK. Around 90% of Irish exports were to the UK and more than 80% of its imports came from the UK (Forfas, 2005). However, Economic War ensued between these countries in 1932 up to 1937 causing the Irish economy to decline during this period. The Economic War was mainly because of the Wall Street Crash in 1929 where after that the Irish government had a huge annual debt payment to the UK and withheld payment. The two countries reacted by imposing tariffs on each other on importing goods. As a result farm incomes dropped, unemployment and emigration were increased.

Barry (2007) said that, as happened frequently around the world by that time, the Irish economy went in to deep balance of payment (BOP) crisis. There were several factors that caused BOP, such as high rates of emigration, the Economic War with the UK and the effects of the Second World War.

O’Malley (1989) admitted that by the late 1950s it was understood that protectionism had outlived its usefulness and only a few industries had matured and become competitive enough to export. At this time Irish economic growth was 4.33%, which was less than total average rate of other Western European countries. Therefore, Ireland began a transformation from protectionist policies into a more relaxed economic model (Barry, 2003).

2.2.2 The Economic structural changes

Barry (2003) shows that several factors forced the Irish policy-makers to make many economic structural reforms in the late 1950s. The reason for these reforms was the late Irish transformation from protectionism compared to the rest of the Western European countries, which caused Ireland to miss out on the post-war boom. In comparison with Western Europe, Ireland’s annual economic growth was half as much, less than 2%, while Western Europe recorded almost 6%. These led the Irish government to create two significant public bodies, whose intention was to facilitate finding foreign markets for exporters and to support foreign direct investment (FDI). These two public bodies, the Export Promotion Board and the Industrial Development Authority (IDA) played a significant role in the Irish economy.

Barry & Bradley (1997) said that several reforms by these public bodies, such as The Control of Manufactures Act, which strictly prohibited foreign ownership, were eliminated and in 1956 replaced by zero tax and ten years` suspension of corporate tax on manufactured exports. During that period low corporation tax was called – “export profits tax relief” this means, engaging companies with export did not need to pay corporation tax on their exports. So it
started first slowly, and then rapidly grew to benefit the Irish Economy. The EU companies started to come in, and mainly it was because Ireland had free trade with the UK. So EU companies could use Ireland as an export platform to export to the UK. The policy began to be successful and additional jobs were created.

Tierman & Morley (2013, pp. 40-42) noted that in 1950, the IDA was assigned responsibility for foreign multinational companies. The main strategy for developing indigenous capabilities is to develop sub-supply industries along the value added chain, not only for foreign multinationals in Ireland but also for exporting, thereby also reducing the dependence on multinationals. Many indigenous companies had reached a critical scale to be able to compete globally.

In 1959, a free industrial zone (FIZ) known as Shannon Free Airport Development Company (SCD) was founded. According to Velde (2001) this creative decision was a good example of the influence of policy through a regional agency (SCD) that produced positive results for the FDI and was helped by attracting and benefiting from foreign multinationals. The SDC, as the regional agency was responsible for attracting FDI to Shannon, and for the provision of investment incentives in the Shannon region.

Callanan (2000, p. 83) admitted that the development of the Shannon area was needed because planes flying between the United States and Europe that landed at Shannon to refuel, no longer had to do this after the development of long-distance jets. The importance of this initiative was to extend the idea of a duty free shop by establishing the FIZ in the region that developed an industrial estate with factories and infrastructure provided. In addition, it facilitated the importing, processing and re-exporting without customs obligations and bureaucracies. The SDC offered grants and land to foreign investors and it also built factories.

Velde (2001) pointed out that the significance of the Shannon Free Industrial Zone was proved from the facts that showed 20% of Irish manufactured export came from the region by the late 1960s (see table 2.1). It also took at least 10-15 years before the regional agency was profitable for the Shannon region and for the Irish Economy (see table 2.3) (Callanan, 2000). According to O’Malley (1986) the region’s success was recognized globally with factories and infrastructure provided. The aim of the free trade zones was to boost exports and increase foreign exchange earnings. Approximating the trade surplus, Shannon’s success was found to be the highest among five known zones in the early 1980 (see table 2.2).
As mentioned above, in the 1960s, it is likely that about 20% of the Shannon trade balance accrued to the Irish economy, reflecting payments to labour only, a ratio increasing to 70% by the middle 1980s. Therefore a ‘benefit’ ranging from 20% of the net trade balance in the early 1960s to 70% by the late 1980s, can be said to represent an estimate of the benefits injected by Shannon free zone into the Irish economy (Callanan, 2000).

<table>
<thead>
<tr>
<th>Trade Type</th>
<th>1964</th>
<th>1966</th>
<th>1969</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shannon exports</td>
<td>£14m</td>
<td>£29m</td>
<td>£38m</td>
</tr>
<tr>
<td>Ireland (manufactured exports)</td>
<td>£50m</td>
<td>£97m</td>
<td>£158m</td>
</tr>
<tr>
<td>Shannon as % if Ireland</td>
<td>20%</td>
<td>30%</td>
<td>24%</td>
</tr>
</tbody>
</table>

Table 2.1 Shannon Trade 1964-1969

Source: Table 15 from Callanan (2000, p. 94)

<table>
<thead>
<tr>
<th>Zone</th>
<th>Trade surplus as % of exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shannon (1981)</td>
<td>59.5</td>
</tr>
<tr>
<td>Taiwan (1985)</td>
<td>46.7</td>
</tr>
<tr>
<td>Philippines (1973-82)</td>
<td>22.7</td>
</tr>
<tr>
<td>Sri Lanka (1979-81)</td>
<td>21.2</td>
</tr>
<tr>
<td>Malaysia (1979)</td>
<td>5.3</td>
</tr>
</tbody>
</table>

Table 2.2 Free Trade Zones

Source: Table 20 from Callanan (2000, p. 102)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£16m</td>
<td>£149m</td>
<td>£238m</td>
<td>£379m</td>
<td>£515m</td>
<td>£673m</td>
</tr>
</tbody>
</table>

Table 2.3 Estimated Benefit of Shannon Free Trade Zone (SCD)

Source: Table 23 from Callanan (2000, p. 104)
Barry (2007) admitted that in early 1960s, Ireland realized the importance of education for the economy and reformed its whole education system. Ireland began to generate a highly educated and skilled work force through investing in the education system and creating national institutes of third level of education. Nowadays, there is still an important investment in Irish education positioning Ireland’s population with tertiary education at the top among the European Union (EU) countries (OECD, 2015).

Figure 2.1 Ireland’s population with tertiary education

2.2.3 The Industrialisation Process

The industrialisation process took place from the early 1970s up to the late 1990s. In these two decades Ireland faced positive and negative impacts on its economy. So, in 1973 Ireland joined the EU which opened Ireland to new trade relations with other EU countries. Also, this coincided with the Irish debt crisis.

According to Barry (2003) there is no clear opinion about the reason for the Irish debt crisis. He stated that the in Ireland, that connected the decline in Ireland’s economic fortunes over the 1970s with the country’s accession to the EU. However, most research accepts that was due to a lack of Irish domestic macro-policy.

The oil shock of 1973 and 1979 was the reason for the world debt crisis and at the same time caused the Irish debt crisis. From Figure 2.2 can be seen that the growth in the Irish public debt as a proportion of GDP. It was higher than the average EU debt and resulted in a huge deficit on the government’s current account which was a result of following a counter-cyclical policy. However, taxation and economic recovery had nearly halved the current budget deficit (Barry, 2003).

![Graph showing general government consolidated gross debt as percentage of GDP, Ireland and EU11](image)

Figure 2.2 General government consolidated gross debt as percentage of GDP, Ireland and EU11

Source: Barry (Irish Economic Development over Three Decades of EU Membership, 2003)
In 1977, a budget deficit caused the doubling of taxation in the country. In addition, zero percent corporation tax was replaced by a 10% tax from the period 1981 – 1987. Ireland focused its major investment on developing business and information technology.

Honohan (1988, cited in Barry 2003) acknowledged that in the mid-1980s the “one-sector small open economy” started to dominate. All sectors of the economy viewed as producing tradeables that the country can trade in unlimited amounts at specified global market prices. This strategy perception showed that the required financial adjustment could be accomplished without much adverse effect on unemployment. So, the job losses in the public sector could be avoided. Moreover, there was not sufficient attention on the tax wedge by the government. It was believed raising taxes and cutting government spending could be easier. Lastly, it was decided to focus on eliminating the current budget deficit and return to the period where there was no current deficit in the budget.

Barry (2003) pointed out that the consequences of following the “one-sector small open economy” became clear after 1982. The country had the fastest rising ratio of tax revenue to GNP within the OECD. However, the growth in current spending to GNP continued. High taxes in the country raised wage demands, followed by a period of instability in unemployment levels. The situation in the Irish economy was critical, it can be explained by several factors that occurred at that moment. The main factor was that the jump in world interest rates left less tax revenue for other than national debt servicing purposes and the other factor was the rise in unemployment related with internal and external influences.

In fact, despite several fiscal contractions by the government, the current deficit was on the rise between 1981 and 1984 (Barry, 2005).

2.2.4 “The Celtic Tiger”

According to Barry (2003) the late 1980s was undeniably a beneficial period for the Irish economy. Creating a “virtuous circle” caused a dramatic change for the economy. In the early 1990s real national income reached 65% of the EU average, the number of people at work expanded by more than 50% and the unemployment rate dropped from 17% to less than 4% in the new era for the Irish economy.
In less than two decades, Ireland which was the poorest European country, had miraculously turned into one of the richest in the world. So, it was the first real growth in GDP for the Irish economy since joining the EU in 1973.

Barry (2003) noted that this beneficial period in the Irish economy included a change in fiscal policy in 1987, which resolved the crisis in the public finances. This allowed room for future tax reductions, which, in combination with the country’s newly developed ‘social partnership model’ of wage determination, bolstered competitiveness. The doubling of the EU Structural Funds in 1989 allowed a rapid resumption in the badly-needed infrastructural projects which had been put on hold as part of the change in fiscal strategy. Airline deregulation, in 1986, facilitated a more than doubling in tourism numbers over the following decade, and finally – crucially – the lead-up to the Single Market (single European market within the EU) saw a huge increase in FDI flows both into and within Europe, of which Ireland captured a sharply increased share. The reason included several factors, such as fact of low corporation tax, pro-business climate in the country, having a legal system similar to the UK and US and as well as being the only other English-speaking nation within the EU. All of these factors were very important for the Irish profile in the global market.

According to Tiernan & Morley (2013) in 1990, the new IDA policy changed the profile of the Irish industry away from manufacturing to more modern sectors. These sectors included information and communication technology and medical technologies. In the late 1990s, the closure of some traditional companies, such as Fruit of the Loom in Co. Donegal was one of the reasons for the decline in manufacturing. The IDA’s new strategy was reasonable in that period, as the country was trying to achieve economic growth and development. In order to achieve these goals, there was a need for infrastructural change in communication, roads, electrical power generation and distribution. Lack of workforce in key areas and increase in labour costs made the FDI process more challenging.

Ireland received an enormous amount of inward FDI during this decade mainly in the areas of electronic hardware, pharmaceuticals and software services (Barry, 2005).
2.3 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).

2.3.1 The Independence shock

Uzbekistan was one of the fifteen countries who declared independence in early December, 1991. According to Pomfret (2000) in addition to building a new country, Uzbekistan inherited huge economic problems after unsuccessful reforms by Moscow in the late 1980s. Newly appointed president Mikhail Gorbachev’s crucial reforms, such as decentralisation and the anti-corruption campaign significantly affected the economy and political structure of the Uzbek Soviet Republic. It caused the country to become one of the poorest republics with the second highest poverty rate.

However, Pomfret (2010) pointed out that after independence the government avoided the shock therapy advocated by the foreign financial institutions and planned a proper strategy for economic growth. The biggest success was escaping from the economic collapse experienced by other former Soviet Union countries, such as Turkmenistan and Belarus. The Uzbek Republic was still using the Soviet rouble as a currency and delayed issuing the new national currency until 1994. The government tried to maintain its economic situation by controlling key sectors and prices. This caused border closures as retailers sought to export low-fixed
priced goods from Uzbekistan to neighbouring countries, such as Kazakhstan and Kyrgyzstan, where there was no proper price control on items. But, even though Uzbekistan faced the rouble’s hyperinflation in 1992 and 1993, it was relatively low compared to all former Soviet countries because of this price control. In late 1993, Uzbekistan did leave the rouble zone and issued a temporary currency, the ‘som coupon’, which was used during a trial year period until July 1994.

Pomfret (2000) said that Islam Karimov, the newly appointed president, who brought in independence, was able to reanimate the country’s economic and political structure. In fact, economic performance in Uzbekistan between 1989 and 1999 was the best of all the former Soviet Union countries. In the early independent years Uzbekistan tried to implement the Chinese and South Korean models of development, such as in attracting foreign direct investment and implementing agrarian reforms and a market economy. These models were intended to attempt gradual reforms to achieve economic growth. In fact, these reforms were little related to Chinese and Korean models and policies have not been effective in the agrarian sector, or the market economy. Later on it was replaced with the “Uzbek model”.

Advameg (2015) pointed out that the existence of valuable natural resources in Uzbekistan was expected to provide better long-term economic development in the early independence years, and foreign direct investment could support its short-term development strategies over the next decades. These were actual plans for the country. Uzbek officials began to stimulate foreign direct investment and several policies were adopted in the early years of independence, such as tax incentives and guarantees against expropriation in mid-1991. It caused multinationals’ participations in the Uzbek market. Government registered 450 joint ventures in the country by the end of 1992. The largest companies were from the United States and China. Fourteen joint agreements were signed in 1992 with China.

In early 1994, the Uzbek government commenced extensive reforms in macroeconomic policy and reorientation of trade policy that could lead country to an open economy. These reforms were illustrating the country’s desire to have a new era, an era of liberalization (Pomfret, 2010).

Muradova & Khusainova (2003) stated that in early December, Uzbekistan applied to join the World Trade Organization (WTO). The working group members at that moment (EU, USA, Australia, New Zeland and Switzerland) were delighted with reforms Uzbekistan implemented in early 1994 and this led to signing a Memorandum on joining the WTO four years later.
The period 1994-1996 was beneficial for the Uzbek economy. In 1994, one of the world’s cigarette manufacturers, British-American Tobacco announced a $200 million investment to acquire 51% of state-owned “Uztobacco”. Coca-Cola began joint venture operations in the same year. In early 1996, Daewoo Group announced investment worth $2.5 billion in telecommunications and the car industry following Uzbekistan-South Korea agreement. Israel announced its plans to invest in solar power technology (Advameg, 2015).

According to Pomfret (2011) surprisingly, in October 1996 the Uzbek government introduced a new policy, which was control on foreign exchange and it caused tight controls of multinationals. This policy was crucial in the Uzbek economy since, it left its imprint even after introducing a new policy in early 2003, on the convertibility of the currency in the current accounts of the multinationals.

In early 1997, the IMF (European Bank, 2000) was upset with the Uzbek government policies that affected foreign investment and caused rapid growth of national currency. It ended with the cutting of $180 million loan on strategically important programs on developing country’s infrastructure (Kotz, 2004). Additionally, western businesses began freezing or pulling out their investments. Investors were unhappy with the “guaranteed business” once the required bribes were paid. According to Shiells (2003) delaying, lengthening and altering procedures made multinationals operations more complicated and profit was often impossible. The fact that the Uzbek economy was the strongest amongst former Soviet Union in the mid-1990s did not stop officials from controlling business deals, and this affected multinational investment in the country’s economy.

In 1998, official Tashkent (the Uzbek government) released foreign investment statistics, where the country’s foreign loans counted as investments, which inflated investment statistics. Besides that, the country’s lack of convertibility of currency and bureaucratic procedures, reduced foreign direct investment to a minimum.

In 1999, statistics on FDI were a wake-up call for the Uzbek government. Uzbekistan received $188 million FDI compared to a year earlier $298 million. It was the lowest in the previous five years (Asian Development Bank, 2006).
2.3.2 The Uzbek Model

In early 1998, President Islam Karimov announced the new “Uzbek Model” of development which would lead to transformation from a central command system to a market economy (European Union, 2013). The new “Uzbek Model” included five principles (Abdurakhmonov, 2003):

- Economy over politics
- The state as the main reformer
- Supremacy of the law
- Social protection of low income population
- Gradual transition to market economy

President Karimov (2009) in one of his interviews explained the five principles of early announced model. President Karimov pointed out that Uzbek model aim is not to develop any market economy theory which is well established in the world economics. He continued that the aim of the Uzbek model is to develop its own route of transformation from the centralised, planned and administrated system to basic market principles. President Karimov stressed that the Uzbek government trying to form the basic principles of market economy. The Uzbek model is based on national and regional features of Uzbekistan, as well as its national traditions and mentality of Uzbek people. He said that the Uzbek model includes the progressive global experience which may be used in Uzbekistan conditions and meets the country’s interests. The Uzbek government has worked out five principles of reforms in Uzbekistan and President Karimov explained each of them.

First, the economy in Uzbekistan should be free from any ideology to the full extend. The country’s economy should have a priority over politics.

Second, to put the Uzbek government in charge of economic reforms during any hard transition period. The government should initiate reforms in the interests of its population, set the priorities of economic development, work out and implement the policy of economic, social and political reforms. He pointed out that, with the introduction of market economic principles, the role of state structures will reduce. Such structures will transfer the government authority to public organizations.
Third, reforms in the country should be based on strong legislation. The priority of law secures reforms and guarantees their irreversibility.

Fourth, with present demographic situation and low living standards, transformation to market economy should be anticipated by a strong social policy aimed at social protection of the poorest and most vulnerable layers of society.

Lasly, President Karimov explained the fifth principle as the new market economy in Uzbekistan should be introduces gradually. Gradual transformation to market economy forms the logic and nature of economic reforms in the country.

Pomfret (2003) stressed that the Uzbek government over the decade since independence, despite having offset poor policies, did better in the economic and political arenas. Logically, trade performance is proof of good management in Uzbekistan. However, the country’s economy is dependent on natural resources, such as; gas, cotton, gold, copper, car manufacturing, agriculture, all of which have traditionally been volatile, The Uzbek government showed good financial management to sustain the economy in various global challenges, including the dissolution of the Soviet Union and the 1998 financial crisis.

Additionally, The Uzbek model and its way of development guaranteed multinationals investing in Uzbekistan an opportunity to enter the largest and most dynamically growing market among CIS countries, Asia and Europe. Agreements on “most favoured nations” treatment with 45 countries, including USA, Japan, China, Korea, EU countries, and the free trade area between CIS countries, significantly enhanced the competitiveness of goods produced in Uzbekistan in external markets (Embassy of Uzbekistan to the United States, 2004).

2.3.3 The Uzbek Puzzle
According to Pomfret (2003) Uzbekistan is the biggest puzzle in the former Soviet Union. The reason it was so called was Uzbekistan’s low transitional recession and at the same time best economic performance among all of the former Soviet Union countries.

Kotz (2004) acknowledges that towards the end of 1999, Kazakhstan, who claimed to be the regional leader along with Uzbekistan, introduced deeper reforms. Kazakhstan’s policy performance towards FDI was superior, but economic performance was still relatively low compared to Uzbekistan. Uzbekistan economic performance by 1999 was higher than the rest
of the former SSSR (see table 2.4). However other countries’ performances on inflation and foreign exchange reserve were relatively better. It was noted that the Uzbek government had spent much more of its GDP on developing infrastructure.

<table>
<thead>
<tr>
<th></th>
<th>Kazakhstan</th>
<th>Kyrgyzstan</th>
<th>Tajikistan</th>
<th>Turkmenistan</th>
<th>Uzbekistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1989</td>
<td>0</td>
<td>8</td>
<td>-3</td>
<td>-7</td>
<td>7</td>
</tr>
<tr>
<td>1992</td>
<td>0</td>
<td>3</td>
<td>-2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>1991</td>
<td>-13</td>
<td>-5</td>
<td>-7</td>
<td>-5</td>
<td>-1</td>
</tr>
<tr>
<td>1992</td>
<td>-3</td>
<td>-19</td>
<td>-29</td>
<td>-5</td>
<td>-11</td>
</tr>
<tr>
<td>1993</td>
<td>-9</td>
<td>-16</td>
<td>-11</td>
<td>-10</td>
<td>-2</td>
</tr>
<tr>
<td>1994</td>
<td>-13</td>
<td>-20</td>
<td>-19</td>
<td>-17</td>
<td>-4</td>
</tr>
<tr>
<td>1995</td>
<td>-8</td>
<td>-5</td>
<td>-13</td>
<td>-7</td>
<td>-1</td>
</tr>
<tr>
<td>1996</td>
<td>1</td>
<td>7</td>
<td>-4</td>
<td>-7</td>
<td>2</td>
</tr>
<tr>
<td>1997</td>
<td>2</td>
<td>10</td>
<td>2</td>
<td>-11</td>
<td>3</td>
</tr>
<tr>
<td>1998</td>
<td>-2</td>
<td>2</td>
<td>5</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>1999</td>
<td>2</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>1989;1999=100</td>
<td>63</td>
<td>63</td>
<td>44</td>
<td>64</td>
<td>94</td>
</tr>
</tbody>
</table>

Table 2.4 Growth in Real GDP 1989-2000 (%)


The World Bank study transition: ‘First Ten Years’ (2002) analysis on an index of “progress in policy reforms” ranked all former Soviet Union countries by their economic growth and policy progress. The study included countries performances from 1989 up to 2001 respectively. Uzbekistan, Belarus and Turkmenistan are positioned in the top three by growth over that period. However, Uzbekistan ranked 9th out of 12 countries on the World Bank’s policy progress index. Uzbekistan was the only country whose economic progress was better than its policy reforms among of all Soviet Union countries.

This shows how the Uzbekistan economy has been well-managed by the Islam Karimov team. Compared to other countries, in the early years of independence Uzbekistan maintained its
infrastructure. Perceptible investment was made in the former Soviet Union countries infrastructure and social security (European Union, 2013). Many argue for maintaining economic performance and policy reforms. Pomfret (2000) pointed out that, Uzbekistan’s “economy may have performed even better with better policies”. However, Kotz (2004) argued that “slow reforms, plus good management has produced reasonable outcomes”.

Abdurakhmonov (2003) found that, in the mid-1990s the Uzbek government improved its policies to attract more direct investments. Several FDI policies were implemented, such as tax benefits to improve the overall business climate in Uzbekistan. Unfortunately the foreign investment climate remained very poor. Corruption, difficulties with currency conversion and bureaucratic problems hugely affected Uzbekistan’s business climate and the country’s overall profile for foreign investment. Uzbek officials did not realise the importance of predictability and transparency for multinationals.

According to Abdurakhmonov (2003) certain multinationals addressed their problems to presidential or ministerial cabinets that were under the control and responsibilities of both parties. This patronage provided exceptions to any problematic legal provisions. First multinationals after independence, such as British American Tobacco, Coca-Cola and Nestle received superior attention from the management officials of the country and had access to restricted exchange of their profits by government exchange rate. During that period, the difference between government exchange rate and black market rate were considerably different. This double standard affected other multinational decisions to invest, where they have to follow the structure as it is. The double standards for multinationals were not constructive in two ways; first, being under patronage of officials and obtaining such attention was an expensive, time-consuming and non-transparent procedure; second, even following the structure as it is, multinationals were forced to approach the problem by establishing a joint venture with Uzbek companies, mostly with a state-controlled enterprises. At that moment, it was easier to establish a joint venture with state-controlled enterprises rather than a private ownership in order to avoid bureaucratic processes.

Pomfret (2010) pointed out that in the early 2000s, Uzbekistan had the potential to be an economic and political powerhouse in Central Asia, but the government failed to create the necessary conditions. A strategic location in Central Asia promised Uzbekistan to be an export platform for multinationals to access the rest of the CA countries. However, difficulties in
building strong relationships with neighbouring countries caused transition of regional power to Kazakhstan.

2.3.4 The development process
In the late 2000s, Uzbek cotton was a major player in global cotton markets and the fact that being the second largest exporter and one of the largest producers in the world made Uzbekistan dependent on the agricultural sector (MarketLine, 2014). While Uzbekistan was successful in the cotton market, it could have benefitted from being an agricultural country with other products if Uzbek farmers had the knowledge to find new markets and to market these products.

The Asian Development Bank (2006) reported that the Uzbekistan economy went into deep balance of payment crisis during 1997-2005. There were a couple of reasons for this. The main factors were protected policies implemented by the Uzbek government in the early years over multinationals, the Russian financial crisis in 1998, and cotton prices fell by four-fifths in mid-2004 (see figure 2.2). It caused tripling property taxes and delayed payments by the government (Pomfret, 2011).

![World Cotton Prices (Cotlook A Index), January 1995 to January 2015](http://www.indexmundi.com/commodities/?commodity=cotton&months=240)

**Figure 2.3 World Cotton Prices (Cotlook A Index), January 1995 to January 2015**

*Source:* (Index Mundi, 2015)

Osmonov (2008, Cited in Pomfret, 2011) pointed out that, in mid-2005, the Uzbekistan economy began to recover and several economical forums and cotton fairs were held in Tashkent by the government. The first Cotton Fair in the history of Uzbekistan at the end of 2005 benefited the country’s economy solid income. In three years, the Cotton Fair in Tashkent attracted more than 350 companies from 35 countries, and contracts worth about $1 billion US dollars in exporting Uzbek cotton for more than a 1.7 million tons per year during that time were signed. Major partners included Russia, Poland, Ghana, China, South Korea and Bangladesh.

Russia was the main importer of Uzbek cotton and become the main trade partner in 2005. Uzbekistan supplied four-fifths of Moscow’s cotton imports. It led to the beginning of strategic partnership between two countries (European Union, 2013).

According to the Asian Development Bank (2010) in mid-2000s, the Uzbek government partially reformed the country’s education system. The National Program for Basic Education Development (NPBED) was adopted to meet internationals standards. Embassy of Uzbekistan to the United States (2004), reported that government took education as a serious factor for the development of the country. Several leading European, Asian and Russian established their affiliates in Uzbekistan such as, Westminster International University (WIU), Italian Torino Polytechnic Institute (ITPI), Moscow State University (MSU) and Singapore Institute of Management Development (MDIS).

To support foreign direct investment, through the initiative of President Islam Karimov, the «Uzinfoinvest» (the Uzbek equivalent of the IDA) agency was established for the “Information Support and Foreign Investments Promotion under the Ministry of Foreign Economic Relations, Investments and Trade” (Uzinfoinvest, 2015).

Valiev (2014) pointed out that in 2007, the Uzinfoinvest was assigned; to create awareness about the economic and resource potential of the Republic of Uzbekistan, to provide foreign investors with information about future projects, the legal basis of investment activities, to organize forums and negotiations between multinationals and indigenous entrepreneurs and to implement mutually beneficial long-term foreign investment projects. Moreover, the Uzinfoinvest is responsible to create a global image of Uzbekistan through overseas promotional events and engagements in conferences, seminars and presentations.
In 2007, the Uzbekistan government decided to modernize its’ AutoProm industry. A new strategic cooperation agreement reached with General Motors (GM) to replace UzDaewoo. In mid-2008 a new joint enterprise “GM Uzbekistan” was established. Despite the previous cooperation with Daewoo 50:50 this time the agreement guaranteed 75% of ownership to ‘Uzavtosanoat’ (eng. Uzautoindustry) and 25% to GM. This meant development of new car models and increasing the numbers of car production (Uzbekistan: Business and Investment Opportunities Yearbook, 2009).

In 2008, a new epoch began in the Uzbekistan and South Korea relationship, it led to large Korean companies engaging in different sectors, such as; gas and oil, technology, textiles. Only one agreement in the gas sector with Korean foreign investment was announced (worth $1.84 billion) and smaller contracts were signed to create Uzbek textile and technology factories (Uzbekistan Today, 2008).

Mainly because of tight relationship with Seoul, the first free industrial economic zone (FIEZ) known as Navoi Free Industrial Economic Zone (NFIEZ) was established by Presidential Decree in the region of Navoi in 2008 (Uzinfoinvest, 2015).

According to Huquqiy Madad (2015) the importance of this idea of the Uzbek government was, first of all to create a platform for Korean companies, where essentially they established their main businesses such as textile and technology factories for export and import industrial goods produced in the NFIEZ. Additionally, the Uzbek government intention was to attract foreign direct investment due to its advantageous geographical location (Navoi is the biggest region after Karakalpak Autonomy Republic), giving opportunity for immediate transportation of industrial goods produced in the NFIEZ to the end markets in Asia and Europe.

The NFIEZ offered lands to foreign investors to build factories and improve needed transportation infrastructure, such as roads and an international airport. Foreign companies in the NFIEZ were exempted from income tax, property tax for legal entities, customs duties on equipment, components and materials not produced in the country, imported to the region as part of the foreign investment projects (Navoi Free Industrial Economic Zone, 2008).

The aim of the Navoi Free Industrial Economic Zone was to drive Uzbekistan from agricultural based into an industrial-based country. In 2007, NFIEZ received foreign direct investment 9%, more than in five years later 8.7% (see figure 4). However, in 2012 foreign direct investment in industrial sector of the Uzbek economy was 45.9%, compared to 38.9% in 2004 (see figure 5).
Figure 2.4 Regional distribution of foreign direct investment in the economy of Uzbekistan

Source: State committee on statistics of the Republic of Uzbekistan cited in (Valiev, 2014)

Figure 2.5 Foreign investment distribution among the sectors of the economy of Uzbekistan

Source: State committee on statistics of the Republic of Uzbekistan cited in (Valiev, 2014)
Pomfret (2011) reported that in the mid-2008, Uzbekistan reached an agreement with the United Arab Emirates making Dubai an export hub for Uzbek cotton exports. It opened doors for new market possibilities for Uzbek cotton, for instance Indonesia and Bangladesh. Dubai and Uzbekistan signed an investment in more than fifteen projects worth $800 million through Arab National and Regional Development Institutions (ANRDI).

Data on foreign direct investment is patchy and inconsistent (Pomfret, 2011). However, from government reports seemed clear that there was a rapid increase in FDI into Uzbekistan in 2008. Foreign investments from South Korea and Russia were significantly high. The Financial Times Ltd data indicated low levels of FDI between 2004 and 2008, and higher levels of foreign direct inflow of $1.3 billion in 2009, but the UNDP (OECD, 2009) report illustrated FDI inflow of $2.4 billion in the same year. Compared to 2003, FDI inflow was much higher and worth $4.1 billion. The Uzbek economy received $23.1 billion between 2003 and 2014 (see table 2.5). These are not large amounts for a country of Uzbekistan’s size.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of projects</th>
<th>Capital Investment Total (USD )</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>31</td>
<td>4,181.50</td>
</tr>
<tr>
<td>2004</td>
<td>16</td>
<td>485.10</td>
</tr>
<tr>
<td>2005</td>
<td>13</td>
<td>1,548.70</td>
</tr>
<tr>
<td>2006</td>
<td>12</td>
<td>601.40</td>
</tr>
<tr>
<td>2007</td>
<td>12</td>
<td>936.50</td>
</tr>
<tr>
<td>2008</td>
<td>20</td>
<td>964.70</td>
</tr>
<tr>
<td>2009</td>
<td>21</td>
<td>1,342.40</td>
</tr>
<tr>
<td>2010</td>
<td>13</td>
<td>867.70</td>
</tr>
<tr>
<td>2011</td>
<td>15</td>
<td>7,388.00</td>
</tr>
<tr>
<td>2012</td>
<td>11</td>
<td>4,478.30</td>
</tr>
<tr>
<td>2013</td>
<td>7</td>
<td>265.70</td>
</tr>
<tr>
<td>Total</td>
<td>176</td>
<td>23,148.30</td>
</tr>
</tbody>
</table>

Table 2.5 FDI trends in Uzbekistan by year 2003-2013

Pomfret (2011) pointed out that Russian FDI in the Uzbek economy played an important role since independence. As a strategic partner in the economic and political arena, Russia and its investments followed a different time-path, there were fluctuations between the two countries. However, Russian companies’ major investment were in gas and oil and telecommunication sector. Lukoil, Gazprom and VimpelCom invested worth $10 billion between 2003 and 2013. Due to political instability between the countries in 2009, FDI inflows from Russia stagnated. Russian FDI was much lower compared to Kazakhstan and also less than in Kyrgyzstan and Tajikistan economies. China slightly increased investments in Uzbekistan in mid-2010. In the late 2000s, Chinese total FDI in Uzbekistan increased up to $1 billion, mainly because of investments in the gas and oil sector.

<table>
<thead>
<tr>
<th>Source Country</th>
<th>No of Projects</th>
<th>No of Companies</th>
<th>Capital Investment Total (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>40</td>
<td>31</td>
<td>9,146.80</td>
</tr>
<tr>
<td>South Korea</td>
<td>19</td>
<td>17</td>
<td>5,268.50</td>
</tr>
<tr>
<td>United States</td>
<td>15</td>
<td>13</td>
<td>2,025.70</td>
</tr>
<tr>
<td>Singapore</td>
<td>4</td>
<td>2</td>
<td>1,274.10</td>
</tr>
<tr>
<td>UK</td>
<td>14</td>
<td>11</td>
<td>752.30</td>
</tr>
<tr>
<td>China</td>
<td>13</td>
<td>12</td>
<td>834.30</td>
</tr>
<tr>
<td>Germany</td>
<td>14</td>
<td>13</td>
<td>698.90</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5</td>
<td>3</td>
<td>651.60</td>
</tr>
<tr>
<td>Turkey</td>
<td>5</td>
<td>5</td>
<td>152.50</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>4</td>
<td>4</td>
<td>140.10</td>
</tr>
<tr>
<td>Other Countries</td>
<td>43</td>
<td>38</td>
<td>2,203.50</td>
</tr>
<tr>
<td>Total</td>
<td>176</td>
<td>149</td>
<td>23,148.30</td>
</tr>
</tbody>
</table>

Table 2.6 Top 10 countries; FDI trends by source country 2003-2013

The main sources for foreign investments in the Uzbek economy are gas and oil, telecommunication and automobile manufacturing (Asian Development Bank, 2006). The Financial Times Ltd (2014) report shows that the main gas and oil companies in Uzbekistan remain Russian Lukoil and Gazprom, China National Petroleum (CNPC) and Korean Gas Corporation (KOGAS) with over $10 billion investment. The major telecommunication companies Russian VimpelCom and Sweden TeliaSonera invested more than $1 billion in the last ten years (see table 2.7).

<table>
<thead>
<tr>
<th>Company name</th>
<th>Source country</th>
<th>Capital Investment Total (USD )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lukoil</td>
<td>Russia</td>
<td>6,698.00</td>
</tr>
<tr>
<td>Indorama</td>
<td>Indonesia</td>
<td>1,264.10</td>
</tr>
<tr>
<td>Gazprom</td>
<td>Russia</td>
<td>773.60</td>
</tr>
<tr>
<td>General Motors (GM)</td>
<td>US</td>
<td>468.10</td>
</tr>
<tr>
<td>Oxus Gold</td>
<td>UK</td>
<td>355.00</td>
</tr>
<tr>
<td>VimpelCom</td>
<td>Russian</td>
<td>321.00</td>
</tr>
<tr>
<td>China National Petroleum (CNPC)</td>
<td>China</td>
<td>267.80</td>
</tr>
<tr>
<td>Teliasonera</td>
<td>Sweden</td>
<td>214.60</td>
</tr>
<tr>
<td>China International Trust &amp; Investment (CITIC)</td>
<td>China</td>
<td>182.20</td>
</tr>
<tr>
<td>Daewoo</td>
<td>South Korea</td>
<td>140.40</td>
</tr>
</tbody>
</table>

Table 2.7 Top 10 Companies: Capital Investment


The Uzbek government announced its plans to attract $50 billion in foreign investment between 2011 and 2015 (Peixe, 2011). It caused establishing of two Special Industrial Zone (SIZ) by the Uzbek Government. Burieva & Ostonokulov (2013) reported that in 2012, President Karimov founded Angren Special Industrial Zone (ASIZ), a year later he announced establishment of Jizzakh Special Industrial Zone (JSIZ). The two projects were similar with options of 30 years operation for multinationals with further extension. These SIZ are designed to help the country to stimulate the attraction of FDI into the Uzbek economy. Additionally,
the two SIZs are free from income tax, property tax for legal entities, several state taxes for foreign businesses and custom duties on equipment and materials imported from the SIZs.

2.4 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.
METHODOLOGY
3.1 Introduction

The purpose of this section is to framework the steps the researcher followed in conducting the primary research for this thesis. The researcher will start with the research aim and objectives, and then proceed to discuss the research philosophy, its classification, approaches and the data collection methods. The research strategy, ethical considerations and limitations in the research will be also discussed. Business research can be defined as “a methodical inquiry that provides material to guide business decisions” (Schindler, 1995, p. 14). All data gathered during the research will be analysed and summarised systematically in order to answer the research aim and objectives.

3.2 Research Aim

The aim of the research is to investigate if the Irish Foreign Direct Investment (FDI) policy can be implemented in Uzbekistan, and to propose suggestions of what exactly can be implemented by Uzbekistan government.

3.3 Research Objectives

1. 1. To investigate the main factors influencing on FDI policy in Uzbekistan.
2. To ascertain the reasons why Uzbekistan should implement the Irish FDI policy.

3.4 Research Philosophy

There are three main techniques of thinking about research philosophy: epistemology, ontology and axiology. Each of these techniques contains significant differences that can influence the way of conducting the research process. It has been suggested that epistemology is appropriate for business and management research, because these are often a mixture between positivism and interpretivism, reflecting the stance of realism (Saunders, Lewis, & Thornill, 2007, pp. 102-116). Therefore, as this research is attempting to investigate possibilities of implementation Irish FDI policy into Uzbekistan, the author believes that is the most suitable philosophy for this research.
3.5 Research Classification

Saunders et al. (2012, pp. 170-172) pointed that the research design can be explained within three major categories; exploratory, descriptive and explanatory research. Exploratory research seeks new insights to find out what is happening, descriptive research as the name suggests, describes an accurate profile of people, events or situations and explanatory studies establish causal relationship between variables.

Exploratory research was used for the aim of this study to investigate the implementation of Irish Foreign Direct Investment Policy into Uzbekistan. An exploratory approach is more suitable for this research project as it will help to explore an area, such as the history of the Irish and the Uzbek economy, and assist in the better understanding of this area. Exploratory research is also flexible, which allows for adjustment in direction of the research if needs be. Saunders et al, (2007, p. 102) acknowledges that ‘there are three major ways of conducting exploratory research:

- A search of the literature;
- Interviewing ‘experts’ in the subject;
- Conducting focus group interviews’.

The first two of these methods form the basis of this research.

3.6 Research Approach

In conducting research there are two main research approaches that can be considered, deductive and inductive approaches. It is very important to identify which approach suits for the research. According to Saunders et al. (2007, p. 102) a deductive approach can be defined as a subject in which there is wealth of literature from which you can build a theoretical framework and a hypothesis. For the research with a new topic where little literature exists, it may be more appropriate to work inductively by analysing data, investigating and reflecting what theoretical themes the data are proposing and offer no conclusion.

The author will use an inductive approach as there is lack of literature to support the research objectives and question, and the author will have more opportunities to study individuals who can comment on the subject area, especially related with Uzbekistan FDI policy.
3.7 Research Strategy
Saunders at al. (2012, p. 680) defined a research strategy as the “general idea of how the author will go about answering the research questions”. In the research strategy, the selected research classification, philosophy and approach will subsequently influence the researcher choice. Thus, the author after careful consideration of chosen research classification, philosophy and approach has decided to adopt a qualitative method strategy. The researcher is confident that this methodological choice is the most appropriate in conducting this research study.

3.8 Selection of Research Method
The selection of research method focuses on three methods: mono method, mixed method and multi-method (see figure 3.1).

After identifying these methods the researcher found that the mono method would suit best for this research as the author will use semi-structured interviews. The interviews will be conducted with the experts and senior managers within organisations that have a link with the Uzbek FDI and Irish FDI.

Table 3.1 Research Choices

Source: Saunders et al. (2012, p. 165)
3.8.1 Qualitative Approach
There are two main methods; Quantitative and Qualitative methods to conduct the research. In this study, a qualitative method is used to answer the research objectives.

Saunders et al. (2012, pp. 170-172) pointed out that the qualitative research method was designed to be subjective as the researcher is required to interpret meanings about a phenomenon. Qualitative research is frequently connected with an inductive approach. The importance of qualitative research is to facilitate the establishment of a new conceptual framework. Moreover, qualitative research requires the researcher to not only engage with interviewees but also establish trust with each participant. Qualitative research is most commonly associated with non-numerical data and a small sample size. For the purpose of this research qualitative research will be used as the researcher will have to engage with organisations to conduct interviews within experts and employees of the organisations.

3.8.2 Semi-Structured Interview
According to Saunders et al. (2012, p. 372) there are several typologies used to classify interviews. The common typology used classify interviews as either; structured, semi-structured or unstructured interviews. The author believes that the semi-structured interviews is most appropriate for this research.

Semi structured interview were chosen by the researcher because they mostly contained open-ended questions, they allow interviewees to reply in whatever way they choose and the way they wish to answer. Semi-structured interviews allow the author to discuss other areas as they arise while ensuring that all objectives are need to be covered. Semi-structured interviews are defined as a “wide-ranging group of interview in which the interviewer begins with a set of interview themes but is organised to vary the order in which questions are requested and to ask new questions in the context of the research situation” (Saunders, Lewis, & Thornhill, Research Methods for Business Students, 2012, p. 681).

3.8.3 Semi-structured interview conducted in the study
A semi-structured interview was designed and divided into three phases with eleven questions as shown in table 3-1. 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>
<thead>
<tr>
<th>Interview Theme</th>
<th>Ideas Explored</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relating to Ireland</td>
<td>Overview of Irish FDI, history and its significance</td>
</tr>
<tr>
<td></td>
<td>The main factors influencing FDI</td>
</tr>
<tr>
<td></td>
<td>Why Ireland was so successful</td>
</tr>
<tr>
<td></td>
<td>Whether Ireland implemented any form of FDI and was</td>
</tr>
<tr>
<td></td>
<td>Ireland influenced by neighbouring countries</td>
</tr>
<tr>
<td></td>
<td>Whether the Irish story can be replicated</td>
</tr>
<tr>
<td>Relating to Uzbekistan</td>
<td>What Uzbekistan can do to attract more FDI</td>
</tr>
<tr>
<td></td>
<td>How FDI will help the economy</td>
</tr>
<tr>
<td></td>
<td>The main barriers to FDI</td>
</tr>
<tr>
<td></td>
<td>What lessons can be learned from the Irish experience</td>
</tr>
<tr>
<td></td>
<td>Whether Uzbekistan implemented any form of FDI and was</td>
</tr>
<tr>
<td></td>
<td>Uzbekistan influenced by neighbouring countries</td>
</tr>
<tr>
<td>Perception of Future</td>
<td>Where is global FDI moving?</td>
</tr>
</tbody>
</table>

Table 3 2 Semi-structured interview scheme
3.8.4 The interview process

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 were semi-structured and ranged between thirty minutes and two and a half hours in duration.

Telephone interviews were carried out with the Head and Chief Legal Advisor of Uzinfoinvest Agency (the Uzbek equivalent of the IDA), the President of the American Chamber of Commerce in Uzbekistan (AmCham) and the Co-Chairman of the Uzbekistan British Trade & Industry Council. In addition, one-to-one meetings were held with the Professor of International Business and Development in Trinity College Dublin (an expert in FDI in Ireland) and the Chairman of the Industrial Development Authority (IDA).

<table>
<thead>
<tr>
<th>Interview No</th>
<th>Interview Method</th>
<th>Job Title</th>
<th>Involvement in FDI Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>In-Person</td>
<td>Professor of International Business &amp; Development, Trinity College Dublin</td>
<td>Expert in FDI</td>
</tr>
<tr>
<td>2</td>
<td>In-Person</td>
<td>Executive Vice President, Strategic Property Division in the IDA Ireland</td>
<td>Strategic Leader</td>
</tr>
<tr>
<td>3</td>
<td>On Phone</td>
<td>Co-Chairman of Uzbekistan British Trade &amp; Industry Council, Member of Parliament for Hitchin and Harpenden</td>
<td>Strategic Leader</td>
</tr>
<tr>
<td>4</td>
<td>On Phone</td>
<td>Head of Group – Chief Legal Adviser Uzinfoinvest Agency</td>
<td>Project Leader and Legal Expert</td>
</tr>
<tr>
<td>5</td>
<td>On Phone</td>
<td>President, American Chamber of Commerce in Uzbekistan (AmCham)</td>
<td>Sponsor and Strategic Leader</td>
</tr>
</tbody>
</table>

Table 3.3 Details of Interviews
3.8.5 Semi-structured Interviews Limitations

The researcher identifies that there have been other individuals who could have contributed in the interview process thus providing detailed information to this research. However, due to the sensitivity of the topic about Uzbekistan FDI policy, limitations on time and resources and in order to ensure the study`s feasibility certain restrictions were necessary.

The researcher believes the issues of honesty and accuracy are the important factors in relation with the interviewers. Nevertheless, the author by choosing a semi-structured method enabled participants to partially lead the interviews with their personal views and opinions.

3.9 Ethical considerations

In the context of research, ‘Ethical refers to the appropriateness of researcher behaviour in relation to the rights of those who become the subject of author work, or are affected by it’ (Saunders, Lewis, & Thornill, 2007). All possible steps were taken to ensure that the thesis was ethically sound:

All participants were informed of the nature of the research paper, including the identity of the researcher, and the purpose of the research. Moreover, all participants were made aware that they were being recorded and were asked for permission to document the interview. The interviewees were informed that information gleaned during the interviews would be used in the findings and recommendations sections of the thesis. Additionally, prior to publishing the participant names and their corresponding organisations, permission will be obtained to do so. Lastly, all data collected throughout this research thesis will be stored safely and retained in a confidential way.

3.10 Research Limitations

Research limitation can be explained as the “those characteristics of design or methodology that impacted or influenced the interpretation of the findings from your research. They are the constraints on generalizability, applications to practice, and/or utility of findings that are the result of the ways in which you initially chose to design the study and/or the method used to establish internal and external validity” (University of Southern Carolina, 2015).
The author has become aware of several limitations during this thesis research.

The author admits that there were alternative options available when choosing research methods and data collection within this research. However, having carefully reviewed and analysed the alternatives available, the author selected those which he believed were most appropriated to understanding the research objectives. In previous sections of this chapter the author has presented and outlined his choices and is confident that they are most suitable for this research.

Additionally beyond the scope of this research, the author believes that collaborating with the World Bank, IMF and other similar organisations in order to collect new data about Uzbekistan would have dramatically improved the overall quality of the research and provided a more comprehensive review of the FDI policy in Uzbekistan.

Lastly, the author found it difficult to interview senior managers and experts due to their busy schedule.

3.11 Conclusion

This chapter has described and identified the research methodology of the whole process of this project. The philosophy of the research, its design, approach and strategy have been discussed. This chapter has also highlighted the limitations and ethical considerations of the research.

The following chapter reveals the findings of the interviews by the author which are discussed in the fourth chapter.
ANALYSIS OF FINDINGS
4.1 Introduction

This section presents the findings from the semi-structured interview process outlined in chapter three. As this research used qualitative method to gather the data using from semi-structured interview, the findings will be developed.

4.1.1 Research Aim

“Implementation of Irish Foreign Direct Investment Policy in Uzbekistan”.

4.1.2 Research Objectives

1. To investigate the main factors influencing FDI policy in Uzbekistan.

2. To ascertain the reasons why Uzbekistan should implement the Irish FDI policy.

4.2 Qualitative Research

In this section, the research objectives will be examined qualitatively by using the data gathered from the semi-structured interviews by the author.

4.3 Profile of Participants

All interviewees were happy to share their names in Table 4.1. The following is a profile of the interviewees.

Professor Frank Barry

Lecturer and Professor of International Business and Development in Trinity College Dublin. Professor Frank Barry is an expert on the Irish FDI and with EU countries and he has numerous of publications within this field. Professor Frank was brought to Kazakhstan and Latvia to share his knowledge on the Irish FDI, and many more his suggestions for both countries were implement by these governments.
**Frank Conlon**

In his role as Executive President of the IDA Ireland, Frank has an extensive knowledge on the Irish FDI. Frank Conlon is Strategic Property Division manager had an experience of building relationship with potential clients for FDI in Dublin area.

**Mahmud Mahmudov**

The Head and Chief Legal Adviser in Uzinfovest Agency, Mahmud Mahmudov has been involving in support foreign investors’ with information on investment legislation in Uzbekistan, incentives and guarantees given by the government. The Uzinfoinvest is the government institution under Ministry for Foreign Economic Relations, Investments and Trade of the Uzbek Republic.

**Donald Nicholson II**

Donald Nicholson is the President of American Chamber of Commerce in Uzbekistan and he is also Managing Director of Central Asia Small Enterprise Fund (CEAF) since 2002. Donald, as an investment banker, venture capitalist and entrepreneur, has over forty five years of experience in the emerging markets of Latin America, Southeast Asia and the former Soviet Union. He has been investing in Central Asia for the past fifteen years.

**Rt Hon Peter Lilley**

Peter Lilley is Member of the British Parliament for Hitchin and Harpenden and former Co-Chairman of Uzbekistan British Trade and Industry Council (UBTIC) between 2012 and 2014. UBTIC was founded in 1994. UBTIC is the British Governments’ trade promotion body, which supports and assists UK business operation or wishes investing in the country.
<table>
<thead>
<tr>
<th>Name</th>
<th>Nationality</th>
<th>Company Name</th>
<th>Job Title</th>
<th>Member of Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Frank Barry</td>
<td>Irish</td>
<td>Trinity College Dublin</td>
<td>Professor of International Business &amp; Development</td>
<td>No</td>
</tr>
<tr>
<td>Frank Conlan</td>
<td>Irish</td>
<td>IDA Ireland</td>
<td>Executive Vice President</td>
<td>Yes</td>
</tr>
<tr>
<td>Mahmud Mahmudov</td>
<td>Uzbek</td>
<td>Uzinfoinvest Agency</td>
<td>Head of Group, Chief Legal Adviser</td>
<td>Yes</td>
</tr>
<tr>
<td>Donald Nicholson II</td>
<td>American</td>
<td>American Chamber of Commerce</td>
<td>President</td>
<td>Yes</td>
</tr>
<tr>
<td>Rt Hon Peter Lilley</td>
<td>British</td>
<td>Uzbekistan British Trade and Industry Council</td>
<td>Former Co-Chairman</td>
<td>Yes</td>
</tr>
</tbody>
</table>

**Table 4.1 Profile of the Interviewees**

**4.4 To investigate the main factors influencing FDI policy in Uzbekistan – (Objective 1)**

The researcher’s aim with this research project was to study the implementation of the Irish FDI policy into Uzbekistan, so this objective was important for the researcher to provide readers with valuable information on what is happening and what are the main factors influencing FDI policy in Uzbekistan.

The researcher discussed this issue with the interviewees and all of them put forward their views on what are the main factors influencing FDI policy in Uzbekistan.

Donald Nicholson stated that the main factors influencing FDI in Uzbekistan are unfortunately negative.

“**The difficulties with currency conversion have not only dissuaded potential investors, but have caused those already in-country to curtail and cut-back their expansion plans. The lack of convertibility coupled with issues related to “rule of law” and corruption have had a pronounced impact on potential FDI”.**
Professor Frank Barry having not much information about Uzbekistan believed that when you hear about former Soviet Union countries, especially about Central Asian countries, first things that come to mind are negative aspects.

“When we talk about Central Asia, Uzbekistan and other countries, corruption is the main factor. Corruption - not only costing for business but also takes longer time to establish businesses for multinationals. The other influencing factors are road infrastructure, transport cost, electricity and bureaucracy”.

Mahmud Mahmudov acknowledged that the main factor influencing FDI in Uzbekistan is having the most diversified economy in Central Asia.

“We are the only country in the Central Asian region with the most diversified economy. We are the only country in the region producing a wide range of modern automobiles and trucks, buses, high-agricultural machinery, chemicals, electronics and other manufactured goods. Uzbekistan has the largest consumer market in the region, with more than 30 million. Today we have established three Free Industrial Economic Zones in Uzbekistan. Additionally, there is a Free Trade Agreement with all CIS countries and Georgia with a population of over 300 million people, plus Central Asia and Afghanistan with a population of over 95 million people”.

Peter Lilley connected influencing factors of FDI in Uzbekistan with both positive and negative aspects.

“The main opportunities attractive to foreign investors have been in natural resources. But falling prices of oil and gas reduced the pattern of investment in the country. However, falling prices are caused by external factors. Unfortunately, negative factors in FDI in Uzbekistan are associated with uncertainty the rule of law, freedom for business, convertibility and uncertainty of affiliation to normal market practices. Therefore, British investors have had problems because of these barriers in Uzbekistan”.

Frank Conlon pointed out that, he does not have much information about Uzbekistan FDI and its economy, but he stated several factors that will influence FDI in any countries globally.

“Having a good track record is very important, as potential foreign investors inquire from existing foreign investors information regarding doing business in the country. Rules and regulations have to be transparent. Trade barriers with neighbouring countries is the key aspect for foreign investor”.
4.4.1 To ascertain the reasons why Uzbekistan should implement the Irish FDI policy – (Objective 2)

The research aim is directly linked to the second objective. Thus, this objective is designed to answer the reasons why Uzbekistan should implement the Irish FDI policy and why it is important to identify the strong points of the Irish FDI policy.

Donald Nicholson said that, the Irish FDI policy is an excellent example of how to attract FDI.

“Ease of conversion, privatization of the banking system and a general overhaul of the tax code would be major reasons”.

Professor Frank Barry stated that the Irish FDI policy was one of the most successful in the world.

“After 1960s when the Irish government realized the importance of education for the economy, we made a huge drive on our education system. Also other environmental factors are very important. Existence of Institutional factors; having a legal system very similar to the UK and the US; Ireland has a pro-business climate; Financial services are one of the developed sector; Ireland’s IDA is very prestigious organization, and government listens to their suggestions and opinions; Ireland is very good at targeting industrial sectors to attract FDI; these all made Ireland successful.

Peter Lilley emphasised that, he is not familiar with the Irish FDI policy and its` performance, however he suggested several points that should be taken into consideration from foreign successful policies.

“The government needs to be clear that investors in the country can repatriate profits and dividends in full. The problem is if the country does allow repatriation of their profits, investors have to be made aware of this. Rules and regulations have to be very clear. Businesses should be able to operate freely and put more emphasis on attracting foreign investors rather than considering natural resources only.

Frank Conlon pointed out that the IDA is one of the best organisations in the world.

“The IDA’s existence in Irish history made a huge impact on the economy. Ireland has a good track record which allows foreign investors to come in. Existing long term companies are significant in the country’s profile. We build infrastructure needed for the foreign investors;
road, electricity, land, water. In Ireland it is easy to do business, which can be proved by Ireland’s high ranking in World Bank indicators. We have one of the most effective education systems which can supply multinationals with needed skilled workforce. Competitiveness also makes Ireland successful”.

4.5 Outcomes of Research 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 4.2) from the research findings as key experts were not familiar with the Irish and Uzbek FDI.

<table>
<thead>
<tr>
<th>Economic policies mainly under government control</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Policies</td>
<td>Macro-economic Policies</td>
</tr>
<tr>
<td>Affecting potential multinationals</td>
<td></td>
</tr>
<tr>
<td>- Financial and fiscal incentives</td>
<td>- Availability of infrastructure</td>
</tr>
<tr>
<td>- Promotion, targeting and profile building</td>
<td>- Sound macro-economic performance</td>
</tr>
<tr>
<td>- Developing export platform</td>
<td>- Privatisation opportunities</td>
</tr>
<tr>
<td>Affecting existing multinationals</td>
<td></td>
</tr>
<tr>
<td>- Importance of R&amp;D</td>
<td>- Development of financial institutions</td>
</tr>
<tr>
<td>- Taxation</td>
<td></td>
</tr>
<tr>
<td>- Interaction with local institutions</td>
<td>- Trade policies</td>
</tr>
<tr>
<td></td>
<td>- Global economic integration</td>
</tr>
<tr>
<td></td>
<td>- Export promotion and infrastructure</td>
</tr>
</tbody>
</table>

Table 4.2 Policies and factors affecting inward foreign direct investment
4.6 Conclusion

The findings gained through the researcher’s qualitative research are interesting and informative. They also have been related to the research aim and objectives and provide answers to the author’s questions. The interviewers often shared similar views and opinions. The general consensus was established with the findings and certainly it increased the credibility and reliability of the findings.
DISCUSSION
5.1 Introduction

The focus of this thesis is to investigate possibilities implementation of the Irish FDI policy into Uzbekistan. The purpose of this chapter is to examine and explore the findings obtained from chapter four. The researcher will compare and contrast his findings with already established on the subject matter as well as discuss them to fulfil the research aim and objectives. Additionally, the researcher will include his new knowledge and the personal opinion obtained from the research within this chapter.

5.2 Discussion of Key Findings

The primary aim of this research project is to study the Irish and Uzbek FDI Policies. During the research topic, the researcher established a number of findings in relation to the overall research topic. These findings will be discussed and outlined.

5.2.1 Objective No1: To investigate the main factors influencing FDI policy in Uzbekistan.

The overall aim of this research is to study the Irish and Uzbek FDI Policy and possible implementation of certain successful Irish FDI policies in Uzbekistan. Therefore, it was important to investigate the main factors influencing FDI policy in Uzbekistan, in order to compare and contrast with the Irish FDI policy. The primary research was carried out through the semi-structured interviews with experts in both countries to satisfy the objective and identify what were the influencing factors of FDI into Uzbekistan.

As presented in chapter four, the author found that the main influencing factors for FDI in Uzbekistan are difficulties with currency conversion, the issues related to the rule of law and corruption. These findings were supported by interviewees Donald Nicholson and Peter Lilley whilst also correlating with similar results from Pomfret (2003).

As mentioned in chapter two, the law introducing control on foreign exchange passed in 1996 (Pomfret, Central Asia since 1991: the experience of the new independent states., 2003) has left its imprint up to this day. Foreign companies investing in Uzbekistan have to be sure that
they can repatriate profits. Multinationals should have open access to banks, so profits that they have made by could be converted in government exchange rate instead of exchanging in limited amounts or on the black market. Moreover, if the Uzbek Government does allow foreign companies to repatriate their profits, potential investors in the country have to be made aware of these changes.

“Uzbekistan should tell investors – listen, you can repatriate your profits”

Peter Lilley

The Uzbek Government has to be clear and assure multinationals that once multinationals have invested in the country, the government is not going to expropriate profits or prevent them from operating freely.

The other main influencing factor on FDI is uncertainty of the law. This finding was supported by most interviewees and correlated with similar results from Abdurakhmonov (2003).

“The framework within which foreign investors have to operate is not a familiar one for them”

Peter Lilley

The rule of law should serve all multinationals in the country equally. Such as addressing the problems by seeking higher level decree by larger companies should be no longer the reason for uncertainty of the existed law. Only certain multinationals have no problems with conversion of their profits through banks in governments’ official rate, while this opportunity for smaller foreign companies are limited. The framework of the law should be clear and transparent for all multinationals within the country.

“One of the best ways to attract FDI is to have success stories and other satisfied investors”.

Donald Nicholson

Unfortunately, uncertainty of the law has not only discouraged potential investors, but has caused those already in-country to cut-back their expansion plans. It is doubtless when potential investors look at the list of investors who have invested in the country in the last ten years. The only major new western company is General Motors, and this is mainly because of existing ‘Daewoo’ since early independent years. The other foreign investors are due to the prior existing of natural resources in Uzbekistan. However, the issues related to “rule of law” affected the Uzbek government to build a good track record.
The most mentioned factor influencing FDI in Uzbekistan was corruption. This finding correlated with almost all of the researchers’ results mentioned in the literature review (see e.g. Pomfret 2003, Kotz 2004).

"Corruption had a pronounced impact on potential FDIs”.

Donald Nicholson

Corruption is an inheritance left from former Soviet Union which exists in almost all structures of the Uzbek government. Several corruption issues involving foreign companies and the Uzbek government officials affected foreign investments climate in the country. The bribe paid in order to enter the Uzbek market by multinationals caused international investigation.

As mentioned above all factors; restricted access to foreign exchange, the uncertainty regarding rule of law and bureaucratic procedures resulted in corruption becoming an essential part of starting a business in the country, and of course discouraged foreign investment overall.

Additionally, a diversified economy was mentioned by the interviewees as the main influencing factor, although natural resources were also seen as an additional factor.

"Uzbekistan is the only country in Central Asia with the diversified economy”.

Mahmud Mahmudov

In fact, Uzbekistan is the only country in the region producing automobiles, chemicals, agricultural machinery, construction materials and electronics. While the existence of the diversified economy is a long-term goal for economic stability, it has limited opportunities to expand the market other than the Uzbek market and also affecting multinationals decisions to invest in Uzbekistan. The reason is cross-border trade with the neighbouring countries. Despite affirmation of the Uzbek officials on Free Trade Agreement with the CIS countries, the actual situation is far from agreement in the official documents. Most of the CIS countries, such as; Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan have established EuroAsian Economic Union (EAEU) which Uzbekistan refused to join. Ukraine and Moldova have an Association Agreement with the EU which makes both countries run their trades with the common legislation rules.

The other factor of influencing on FDI in Uzbekistan is natural resources. Uzbekistan is rich in natural resources, some of which are already being extracted but most are still unexplored.
“Natural resources are the main opportunities for the Uzbek Government to attract FDI”.

Peter Lilley

The largest foreign investors in natural resources such as gas and oil are Lukoil and Gazprom of Russia, KorGAZ of South Korea, CNPC of China and Sasol of South Africa. These are the greatest part of investment in the country. However, the problem is these multinationals are state-owned and driven with almost no participation or involvement of the private sector.

“Uzbekistan has a lot of cotton, yet a FDI who sets up a spinning plant or facility that weaves and/or knits the Uzbek cotton must pay for the fiber and/or yarn in USD not local currency UZS – so where is the incentive?”

Donald Nicholson

Another problem lies in the currency that have to be invested in the country. The incentive to attract FDI is to allow multinationals to invest in national currency since there are restrictions on currency conversion in the country.

As illustrated in chapter five (see table 5.1) and from the primary research conducted the researcher has compiled a list of the most common findings of factors influencing FDI Policy in Uzbekistan. The lack of currency conversion, uncertainty rule of law and corruption were most commonly listed as the main influencing factors. Therefore, the author concludes that these factors mentioned above are the main factors influencing on FDI Policy in Uzbekistan.

5.2.2 Objective No2: To ascertain the reasons why Uzbekistan should implement the Irish FDI policy.

As found by this research, the reasons why Uzbekistan should implement the Irish FDI Policy are recapped below in Table 5.1. The findings by the author completely correlated with results from Barry (2003).

According to the literature reviewed in chapter two Ireland has a legal system very similar to the UK and US, pro-business climate, a good track record, financial services, and infrastructure. These all made Ireland one of the successful countries in order to attract FDI. Moreover, the Irish IDA is one of the prestigious organisations which suggests to the country on changes and improvements. These facts were also supported by the interviewees, with both
of the experts in the Irish FDI. While it is encouraging to find more elements which makes Ireland successful, the researcher feels there is still significant area to be discovered.

The Irish legal system has a very good reputation in the country profile in order to attract FDI. It is very similar to the UK and US which makes foreign investors likely to come to the country. Especially, for the UK and US companies, Ireland is a favourable destination to do business. The fact of being an English-speaking country is also plus for the Ireland.

“Low corporation tax regime is very stable for last 50-60 years, only changed three times”.

Frank Barry

The framework within which foreign investors have to operate in Ireland is very clear. Moreover, the proof of changing tax regime only three times within 50-60 years was not affected to multinationals. So the benefit is, foreign investors are aware and confident of stable policy in the country.

“Attractiveness to FDI; besides tax, other environmental factors of the economy is very important”.

Frank Conlon

Low corporation tax is only the trick to attract more multinationals. This finding is correlated with Conlon who also found that the country should be open for business. The Irish business climate is very friendly and it has a good track record of long-term companies in the country; the level of multinationals who are committed to investing in Ireland is enormous, and includes Ericson, Google, IBM, Facebook and many more.

Barry pointed out that a lot of institutional factors attracts foreign investors in to the country. The education system in Ireland remains one of the top within the EU, which can supply foreign companies with a highly skilled workforce, such as the US information & service companies who wish to expand their businesses in Ireland.
5.3 Outcomes of Research Objectives

The outcome of the research objectives were gained from the semi-structured interviews by the researcher. The results (see table 5.1) represents the overall points and views that were mentioned by most of the experts.

5.3.1 Objective one

The author believe that the research objective one was fulfilled within literature review. The researcher found a similarity of findings with the literature review given in chapter two. However, the author utilised the common issues identified within this research as the basis to complete this research. A list of the main factors influencing FDI policy in Uzbekistan are detailed in table 5.1.

5.3.2 Objective two

This objective was taken into consideration as it should explain the author’s belief why the Irish FDI Policy should be implemented in Uzbekistan. The author found that the Irish FDI is a successful story that can be seen as a good example for developing countries such as Uzbekistan. A list of reasons from the researcher findings are detailed in table 5.1.
### Research Objectives

**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

<table>
<thead>
<tr>
<th>Research Objectives</th>
<th>Results</th>
</tr>
</thead>
</table>
| 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 |

Table 5.1 Outcomes of Research Objectives

### 5.4 Conclusion

It is proof that the researcher findings generally coincide with the findings from previous studies. Additional knowledge was presented by the researcher in order to understand influencing factors on the Uzbek FDI. Lastly, the researcher believes that the research aim and objectives have been satisfied and clearly outlined with this chapter.
CONCLUSION AND RECOMMENDATIONS

“It always seems impossible until it is done”

Nelson Mandela
6.1 Introduction

The purpose of this chapter six is to present the reader with the overall conclusion, based on all the research which has been carried out. The conclusion is formulated and based on gathered information, which has been analysed and discussed throughout this research project. The research aim and objectives will be finalised here, focusing on how they have been achieved by the researcher. The author will outline recommendations and potential areas for future research into this topic area. Finally, to conclude the author will present a personal reflection discussing his experience writing this research project.

6.2 Conclusion

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 30 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.

6.3 Recommendations
On the basis of this research of the Irish FDI policies in theory and practise and the case studies by the Irish FDI experts, the author would suggest the following recommendations for the Uzbek government. These steps which need to be implemented.
6.3.1 Recommendation to Uzbekistan Government

The Uzbek Government should determine country’s development strategy towards FDI and between the types of FDI (strategic, portfolio, venture capital etc.). Introduce a sound macro-economic policy in place to attract more multinationals.

Uzbekistan should build up local capabilities, such as R&D institutions, reforms in education system by implementing the Irish third level education system. It is proven that the Irish educational system is tightly integrated with the country’s FDI-oriented development strategy.

As the research found the existence of the government and black market exchange rates undermines the Uzbekistan ability to attract FDI. That is why the first step for the Uzbek government should be major changes starting with ease of the exchange regime, reforming and privatisation of the banking system.

The scope of laws and decrees should be revised. The legal system in the country should be clear and transparent. The law should guarantee free exchange of income and repatriation of profit.

Uzbekistan government should reduce corruption as the literature and findings indicated that corruption is the main influencing factor as it reduces FDI inflow.

The government should establish a pro-business/investor climate by targeting specific firms that with fit the country’s development strategy as it can create a good profile for the country and form a success story. Then follow this with the implementation of administrative reforms at every level by inviting foreign professionals at respective managerial positions.

The Uzinfoinvest should co-ordinate actively with government structures and act as only and final destination that promotes, suggests, negotiates, facilitates and possibly advocates policy for multinationals (similar to IDA Ireland).

The government should establish a new Government Competitiveness Agency (GCA) that can advise the Uzbek Government and the Uzinfoinvest on what legislations and improvements might be acted to progress ease doing business in Uzbekistan and country ranking at global positions.
The Uzbek government should encourage foreign companies to engage with local research institutes. Tight integration with multinationals and domestic institutions can play a key role in order to prepare a skilled workforce.

An effective competition policy is very important and the Uzbek Government should implement gradual competition policy which makes the country attractive for multinationals.

It is proved that no country can develop with only FDI, incentives should be created for domestic companies as well, and the Uzbek government should encourage linkages between foreign companies and local suppliers through linkage programme.

6.3.2 Recommendations to Uzinfoinvest Agency

The Uzinfoinvest should co-operate with existing multinationals in the country and with potential foreign investors in order to avoid bureaucratic procedures and of course to avoid paying bribes for the officials.

The Uzinfoinvest should co-ordinate and exchange experience and knowledge with the Irish IDA. As the author found, the IDA is a very prestigious organisation in Ireland and globally. Moreover, the government listens to their advice and what they say, which can encourage Uzinfoinvests to request more authority from the Uzbek government up to increasing the budget of the organisation.

6.3.3 Recommendations for Areas of Future Research

The author has found many interesting findings in relation to the research topic. Through analysing the currently available literature and conducting interviews with the experts in the Irish and Uzbek FDI and with senior managers that have experienced many years in FDI the author believes it is important to have much more research including the two countries’ FDI.

In addition, more research is necessary to formulate successful FDI policies in developed and developing countries and the role of FDI within countries. Developing countries should be aware of an industrial strategy, a trade policy, a competition policy and a strategy to enhance local capabilities of developed countries.
Moreover, developing countries are looking for successful industrial FDI policies and to have a better understanding of successful examples in developed countries, perhaps these developing countries should also focus on studying countries that have adopted an open industrial FDI policy, but the result was not satisfactory to economic development. These failures in policy yield new insights, whether the failure was the result of a lack of economic fundamentals or other environmental factors.

6.4 Research Limitation

Every research project has inevitable limitation while planning and preparation of the research, and this study is no exception. The author wishes to acknowledge some limitations.

One of these was the lack of information about foreign direct investment in Uzbekistan and the author offset this by developing a full and clear history about FDI and its policy in Uzbekistan in Chapter two, and by assessing the potential experts to support the aim of the research.

Another limitation relates to the number of interviews conducted. The author conducted five interviews in total. However, the author believes that more interviews including investors and experts should have been conducted to add to the validity and reliability of this study. The author sent several e-mails and made telephone calls to government officials and investment agencies in Uzbekistan. The author felt that their participation would be very important to this research project. However, most attempts were ineffective.

Moreover, there were time limitations applying to the completion of this dissertation. This meant that the researcher could not develop a broader and deeper literature review. As research planned to cover two countries’ FDI, the researcher was not able to cover the whole foreign direct investment area and it caused the researcher to focus only on policies of FDI.

Additionally, the complete lack of research on FDI between Uzbekistan and Ireland meant that the author could not compare and contrast the findings with existing literature and introduce a comprehensive discussion. Of course, the aim of this piece of research is to begin to fill that gap in knowledge.
6.5 Personal Reflection

This research thesis is the biggest project to be completed by the author. The scale of the task was daunting but also challenging for the author. Only encouragement and guidance from the academic staff made this project happen. This support from academic staff, mainly from supervisor, motivated and inspired the author to fully engage with the interest in the area of study. The research project delivered the author many new experiences which were challenging but very useful as it allowed the author to engage and work with the experts and senior managers and to know the real situation in the FDI area. This is the main aspect where the author pleased with the people that were engaged with this research project. Moreover, it inspired the author to continue within this field in the future.

The author interests in politics and international relation since he was young and has seen the development process of Uzbekistan over the years. When the research topic was suggested by the supervisor he became quite interested as he believed that this may provide an exciting opportunity to engage area that was always interesting for author. The research allowed the author to gain invaluable experience and connections while carrying out the research with experts in the Irish and Uzbek FDI, organisations in both countries, the IDA and the Uzinfoinvest and lastly with the president and co-chairman of the Uzbek-US chambers of commerce and the Uzbek-British Trade & Industry Council. The author was delighted at the success of making contact with and interviewing the key contributors in the interviews for this thesis.

The author has decided to continue to do research on this topic area after completing this research project and further his study at PhD level. This research project has awakened the author’s desire to be an expert in the area of the Uzbek and Central Asian FDI. Furthermore, this research project allowed the author to engage with the Uzinfoinvest and leading chamber of commerce organisations in Uzbekistan. Moreover, the author believes that this research will help him to engage with the World Bank and the IMF organisations as it is covers an area which the author would like to be specialised in and which, quite conceivably, provides career opportunities.

The chosen topic, which was very interesting for the author, allowed the research to be completed within a short period. In fact, the lack of time for conducting this research and limited secondary research at times was tough and frustrating. However, this thesis project has
helped the author better manage his time and be more organised. Throughout this research period the author had to plan out a timetable to suit work, study, and sports while conducting research.

The author feels that his verbal communication skills and academic writing skills have developed dramatically during the research project. The author believes that communication skills has been improved as a result of conducting research semi-structured interviews. Moreover, verbal communication, time management, negotiation and organisation skills also significantly improved. The important improvements were in academic writing and as well as critical thinking and interviews skills while compiling this research project.

Overall, the process of research has proved a real experience curve for the author. The author concerns that the master thesis has challenged, stimulated and developed academically. On reflection, the author has not only recognised his weaknesses but also his strength which is really important and moreover his ability to overcome the challenges. The author by reviewing his master thesis realised that this completed research project is reward and makes six months of hard work and stress all worthwhile.
REFERENCES


http://www.uzbekistan.org/economy_and_trade/climate/


http://www.fdireports.com/home/fdireports/static/docs/sample_country.pdf

64


Appendix: 1.0 Interview Questions

Foreign Direct Investment: Implementation Irish FDI policy into Uzbekistan

Interviewee Number:

Job Title:

Relating to Ireland

1. I would like to begin with an overview of Irish FDI. Can you tell me about history of FDI in Ireland and its significance?
2. What are the main factors influencing FDI?
3. Why was Ireland so successful?
4. Did Ireland implemented any form of FDI policy from other countries, such as US or UK? Was Irish FDI policy influenced by neighbouring countries?
5. Can the Irish story be replicated?

Relating to Uzbekistan

1. What Uzbekistan or geographically land locked, lower middle income country, can do to attract FDI investment?
2. Based on statistics in market which incomparable with government officials, now in Uzbekistan growth has slow down, inflation is high, can we expect FDI will help? How?
3. What are the main barriers to FDI in Uzbekistan?
4. What lessons could Uzbekistan use?

Perception of Future?

Where do you see global FDI moving?
1. Did Uzbekistan implemented any form of Foreign Direct Investment Policy from other countries?

Uzbekistan has its own model of economic development, which is called/known as Uzbek Model of Economic Development. This module consists of five main principles (for detailed information you can check in on the internet and find out about these principles).

From the early days of independence the main criteria of development of the republic has been as follows:

- Introduction of new and advanced technologies in different sectors of economy, in order to be able to compete with products of industrially well developed nations;

- Attraction of foreign investments, without which the economy cannot be developed. The practices of developed proved this statement (at this point you can give some samples about FDI experience of some western countries and China)

- Introduction of modern management skills to ensure the most efficient ways of doing business in the country.

Talking about implementation of a form of FDI Policy from other countries – today there are three Free Industrial Economic Zones in Uzbekistan (more detailed information about these zones can be found on internet):

- Free Industrial Economic Zone NAVOI
- Special Industrial Zone ANGREN
- Special Industrial Zone JIZZAKH
What I want to say is that establishment of such zones is in the best practice of several developed countries in the world.

2. **Was Uzbekistan Foreign Direct Investment Policy influenced by neighbouring countries?**

Uzbekistan is the largest market in the Central Asian Region, with population more than 30 million inhabitants. Uzbekistan has Most Favoured Nation Treatment with 45 countries of the world (more information find on the internet), which increases competitiveness of the products of the country. In addition, there is Free Trade Agreement with all CIS countries and Georgia. This agreement allows products of Uzbekistan freely to enter into the market of these countries.

The Republic of Uzbekistan is the only country in the Central Asian region with the most diversified economy (look at the presentation – Slide Diversified Economy). There has been established manufacturing facilities in almost all sectors of economy, especially in automobile industry. As there is production of all types of cars starting from cars to mini and midi buses, heavy trucks, and other special types of industrial trucks and automobiles.

(Uzbekistan has the most diversified economy in Central Asia. We are the only country in the region producing a wide range of modern automobiles and trucks, buses, high-quality agricultural machinery, chemicals, textiles, construction materials, electronics and other manufactured goods.)

3. **What Uzbekistan or geographically land locked, lower middle income country, can do to attract Foreign Direct Investment?**

Advantageous geographical location and proximity to the biggest markets is another factor of attractiveness of Uzbekistan for foreign investors. Our country has the largest consumer market in the region, with more than 30 million inhabitants, which is about half of the total population of Central Asia.

Thanks to its developed transportation infrastructure, Join-Ventures of Uzbekistan have an opportunity of entrance to the largest and most dynamically growing markets of Central Asia and Afghanistan (with a population of over 95 million people), CIS (with a population of over 300 million people), Western and Eastern Asia, as well as Europe.

Free Trade Agreement with CIS countries and Georgia provides duty-free access of Uzbek products to the markets of these countries.
Agreements on Most Favoured Nations Treatment with 45 countries, enhance competitiveness of goods, produced in Uzbekistan, on external markets.

4. **What are the main barriers to Foreign Direct Investment in Uzbekistan?**

Find out yourself about existing barriers – making analysis by reading several sources is your part of work. The only thing I can say that you can use Doing Business Report by the World Bank for the last 5 years and find out about rankings of Uzbekistan and also about its weaknesses.

5. **Where do you see global Foreign Direct Investment moving?**

To the Asia and the Pacific. At this stage, you can even talk about the development of Green FDI promotion. Write about South Korean and Chinese experience on green FDI.
Appendix: 2.0 Interview Transcript

Appendix: 2.2 Interview two

Interviewer: The Author

Interviewee: Professor Frank Barry

Job Title: Trinity College Dublin

Date: 30 June, 2015

1. I would like to begin with an overview of Irish FDI. Can you tell me about history of FDI in Ireland and its significance?

In 1950s we were very protected economy, and we used trade barriers to try to develop domestic industry, as happens frequently around the world, and we run into balance of payments crisis, so we had deep balance of payment crisis in 1950s, and then we need new ideas to develop exports, the idea came about by follow low corporation tax, we could attract multinationals into Ireland, they would export from Ireland, and use Ireland as an export platform. The idea was always around, but it came out only at the end of 1950s.

At that time low corporation tax was called – “export profits tax relief”, that means, engaging companies with export didn’t need to pay corporation tax on their exports. So it started to be slowly then quiet rapidly bring success. Moreover, EU companies, such as Germany and France started to come in, this is also because of Ireland had free trade agreement with the UK. So, the EU companies used Ireland as an export platform to export to the UK without paying tariffs. The policy began to be successful. Jobs was created in huge amount. At the end of 1950s Shannon airport was created and the main reason was to attract the US companies.

2. What are the main factors influencing FDI? Why was Ireland so successful?

After joining to the EU, the result of it was fabulous. Because there were no more tariffs with the EU.

I have to mention 2 main factors as well, the first factor is, in 1960s the Irish Government realized importance of education for the economy. And the second factor was single EU market, it made easier economy to develop rapidly.

And the other factors are low corporation tax. I always say to my students, if we would be like Somalia and adopted low corporation tax, it would not make any difference. So other
environmental factors of the economy is very important. Things like we don’t have much corruption in country and existence of institutional factors. Ireland is pro-business climate, friendly to business. It should be open economy and attractive to business before you use trick like “low corporation tax”

It also includes whole of other factors, such as

Fact of English speaker country, especially for US companies

Ireland has legal system, very similar to UK and US

3. **Did Ireland implemented any form of FDI policy from other countries, such as US or UK? Was Irish FDI policy influenced by neighbouring countries? Can the Irish story be replicated?**

Low corporation tax regime was very stable in Ireland for 40-50 years, only changed three times, and was not hugely affected to business. So multinationals basically what they do is, they will look into country profile, and they know that country has stable low corporation tax regime, its also beneficial.

Financial Services is very important, and government looking for other EU countries and the EU financial institutions, IDA also watches and gives its suggestions to government. In Ireland the IDA is very prestigious organization, and government listens them, their suggestions and what they say.

Only certain Irish story can be replicated, and actually where the idea of low corporation tax came to Ireland back 1950s was Puerto Rico. Ireland saw that what they were doing, and we saw certain similarities where we were in and where Puerto Rico were. We were able to adopt certain elements of their FDI policy, also Mauritius used Puerto Rico experience.

**Relate to Uzbekistan**

1. **What Uzbekistan or geographically land locked, lower middle income country, can do to attract FDI investment?**

You should have built a pro-climate business, and create a good history or successful history of FDI. Uzbekistan could be an export platform for multinational to export within EuroAsia economic union and Central Asia countries.
Land locked won’t be a problem if you have a free trade with a lot of countries, especially with neighbour countries.

2. **Based on statistics in market which incomparable with government officials, now in Uzbekistan growth has slow down, inflation is high, can we expect FDI will help? How?**

Kazakhstan and Latvia brought me in 5-6 years ago. Kazakhstan they were learning about Shannon airport and they wanted me to talk about it. Moreover, in Latvia, they brought me in and they implemented it. I suggested to make improve their ranking on doing business rankings (world bank publication) and Latvia took board that idea and established something we have here National Competitiveness Council (NCC) that advices government on what legislation might be acted to improve country ranking.

3. **What are the main barriers to FDI in Uzbekistan?**

Corruption – not only costing for business but also takes longer time to start your business.

The other barriers are;

Road infrastructure

Transport Cost

Electricity

Bureaucracy

China example, still very corrupted country, but they are doing very well.

Japan one of the developed country, had as well a lot of corruption scandals.

4. **What lessons could Uzbekistan use?**

In many ways in this globalised world, countries more aware what policies was successful in other countries, and it might be make easier to achieve economic success now, because if you look around the world, and see what policies were successful, and clearly you can see that there was no many of them. No many good policies that country could follow. Every country has different position. So it need to develop policies that appropriate to itself.

Uzbekistan could use targeting FDI policy like Ireland, target certain sectors like we do now. And you (Shahboz) should look in other developed countries as well.
5. Where do you see global FDI moving?

FDI becoming very important for countries. To be like, when countries will invest to each other, like; Sweden investing to the USA, the USA investing to Sweden, and Italy has same to do with Sweden.

China is going to become important source for FDI, and countries are thinking how they can strategically attract Chinese FDI. Another factor is, China FDI going to Africa. China interested Africa’s natural resources, food, raw materials. Chinese FDI may have different patron than US FDI, it’s worth to look at.
Appendix: 2.3 Interview three

Interviewer: The Author

Interviewee: Donald Nicholson

Job Title: President

Date: July 8, 2015

1. I would like to begin with an overview of Uzbekistan FDI. Can you tell me about history/climate of FDI in Uzbekistan and its significance within 15 years period that you have been investing in Uzbekistan?

From independence the government of Uzbekistan (GOU) has promoted FDI but unfortunately the results have not measured up to the rhetoric. In the early and mid ‘90’s the State Property Committee (GKI) actively, and with foreign support from the likes of the World Bank, USAID, EBRD, TACIS and UNDP, made a concerted effort to select potential candidates, prepare reports on the entities selected, and reach-out to potential foreign buyers.

The results to-date have been very modest given the number of state-owned enterprise that were, or could be, candidates. Why is this? The answers are twofold – first a lack of understanding between the types of foreign investors (strategic, portfolio, and venture capital/short term), and a combination of GKI imposed conditions and enterprise values that did not correspond to emerging market – or any prevailing, conditions.

The results can be seen today, in that there is not a single western bank, mining company or oil & gas company in Uzbekistan. Yes, there are foreign investors from China, Russia, Vietnam, Malaysia, Korea and Japan, but they are all state-owned enterprises (SOEs), and not true representatives of the private sector.

The largest foreign investors in Uzbekistan today are – Lukoil (a quasi private company), British American Tobacco (which bought the state-owned monopoly), Telia Sonera (very much in the news for the questionable activities of Ucell and involvement of President Karimov’s elder daughter), and a host of SOEs from China and Korea. A rather limited list given the potential – size of market, population, etc.
The Uzbek capital market is miniscule by comparison with neighboring Kazakhstan and there is not a single Uzbek company listed abroad.

2. What are the main factors influencing FDI in Uzbekistan?

The main factors influencing FDI in Uzbekistan today are unfortunately negative in that the difficulties with currency conversion have not only dissuaded potential investors, but have caused those already in-country to curtail and cut-back their expansion plans. The lack of convertibility coupled with issues related to “rule of law” and corruption have had a pronounced impact on potential FDIs and it is quite apparent when one looks at the list of investors who have committed to come in since 2005. Apart from SOEs the only major new western investor is General Motors (GM), and that largely due to the prior Uzbek relationship with Daewoo. Without the Daewoo connection it is doubtful GM would have invested in the joint venture with UzAutoProm.

The GOU has developed three Free Industrial Economic Zones with the intention of attracting FDIs. While it’s a good idea, the location and structure of the three is not exactly ideal for a double land-locked country that has a logistics handicap.

The prevailing opinion is that the GOU wants FDI but it wants large “trophy projects” such as KorGaz (all SOEs), and the much anticipated gas-to-liquids project with Sasol of South Africa as the key minority partner. These are fine but again they are state driven with almost no participation or involvement of the private sector.

3. Did Uzbekistan implemented any form of FDI policy from other countries? Was Uzbekistan FDI policy influenced by neighbouring countries?

The GOU has expressed interest in learning from others with Singapore being a highly respected role model. However, as mentioned above, logistics is a major issue as well as corruption, two matters where Singapore has definite advantages.

Insofar as its neighbors one only has to look at the border issues and current developments regarding water, electric grids and ease of cross-border trade.
4. **Your opinion: Can the Irish story be replicated into Uzbekistan?**

The Irish story is an excellent example of how to attract FDI. Could it be replicated in Uzbekistan – certainly - but it would require major changes starting with ease of conversion, privatization of the banking system and a general overhaul of the tax code.

5. **What Uzbekistan or geographically land locked, lower middle income country, can do to attract FDI investment?**

The GOU needs to realize that private FDIs have many options. They can go to SE Asia and the likes of Myanmar, or Eastern Europe, India, Latin America or even neighboring Kazakhstan. Just look at the BRIC’s and add in Turkey, Mexico, Indonesia and the Philippines, all interesting markets with a lot of potential opportunities. So why invest in Uzbekistan – especially given the constraints (conversion, rule of law and corruption), unless there are suitable incentives. Here is an example – Uzbekistan has a lot of cotton, yet a FDI who sets up a spinning plant or a facility that weaves and/or knits the Uzbek cotton must pay for the fiber and/or yarn in USD not local currency UZS – so where is the incentive?

One of the best ways to attract FDI is to have success stories and/or other happy/satisfied investors. Unfortunately these are in short supply.

6. **Based on statistics in market which incomparable with government officials, now in Uzbekistan growth has slow down, inflation is high, can we expect FDI will help? How?**

The Uzbek economy is growing but it is largely state-driven with large infrastructure projects and SOE expansions (the two mining Kombinat’s are examples of this). The other issue is the gray or unofficial economy – which some say equals or exceeds the official economy. Given the nature of the new and/or expected FDI – which is almost entirely from SOEs, I do not see FDI having much impact in the near term.

7. **What are the main barriers to FDI in Uzbekistan?**

As mentioned above, the main barriers to FDI are: (i) the lack of currency conversion; (ii) issues related to the rule of law; and (iii) corruption.

8. **What lessons could Uzbekistan use?**

President Karimov has given the country stability and a population that is educated and hard working. The lessons to be learned are – that a dynamic private sector is the key to innovation...
and growth. SOEs are fine but they should be limited to specific sectors instead of dominating the economy. Privatization needs to be dynamic with realistic terms & conditions – and the GOU needs to re-structure and re-organize the banking sector.

With a rapidly growing population – Uzbekistan needs to create many more meaningful jobs – not menial jobs but jobs that will encourage younger Uzbek professionals to stay at home instead of seeking opportunities in Russia, the UAE, and/or Europe.

9. Where do you see global FDI moving?

Global FDI follows the opportunities as seen by the money flowing into China, Mongolia, Myanmar, and even Russia were it not for the sanctions.
Appendix: 2.0 Interview Transcript

Appendix: 2.4 Interview four

Interviewer: The Author

Interviewee: Rt Hon Peter Lilley

Job Title: Former Co-Chairman Uzbek British Trade & Industry Council

Date: 20 July, 2015

Relating to Uzbekistan

1. I would like to begin with an overview of Irish FDI. Can you tell me about history of FDI in Uzbekistan and its significance?

My view on Uzbekistan FDI over the last few years, government keep trying to encourage it, but framework within which foreign investors have to operate is not familiar one for them and that’s create problems. Companies with high profile issues involving which have this problem and caused concerns makes more difficult to persuade British and other foreign investors to invest in Uzbekistan.

2. What are the main factors influencing FDI?

Well, the main opportunities that attractive to foreign investors have been in natural resources. But falling prices oil and gas reduced patron of investment in Uzbekistan. Uzbekistan government probably should put more emphasize attracting companies in manufacturing, processing, agricultural. It’s not easy.

3. What Uzbekistan or geographically land locked, lower middle income country, can do to attract FDI investment?

You need to be clear that investors investing in Uzbekistan can repatriate their profits in full of dividends. The paradox is if Uzbekistan do allow repatriate their profits, and they have to be aware of that it is possible. Uzbekistan government should tell them “listen, you can repatriate your profits”. Uzbekistan British Tobacco have been invested, they got profit, but with delays and complicated process.
4. What are the main barriers to FDI in Uzbekistan?

It needs ensure from government that they made investment they not going to expropriate preventing getting profits or preventing operating freely. The barriers at the moment are: uncertainty the rule of the law, uncertainty of affiliation of normal market, freedom for business and the main point is British investors which have had problems because of these.

5. What lessons Uzbekistan can use?

If Central Asian countries, especially Uzbekistan open borders for each other, and make open trade, will be interesting for potential investors. Because there are potential in that region. That’s why open trade, free trade zone and common investment zone should be considered by these countries in the future.

**Perception of Future?**

6. Where do you see global FDI moving?

Well, as I said global investment in natural resources slowing down because of declining prices for oil and gas. And there is declining activity in China now. But overall, I expect FDI will be in manufacturing and processing within Asian countries such as India, China.
Appendix: 2.0 Interview Transcript

Appendix: 2.5 Interview five

Interviewer: The Author

Interviewee: Frank Conlon

Job Title: Executive Vice President IDA Ireland

Date: 21 July, 2015

1. I would like to begin with an overview of Irish FDI. Can you tell me about history of FDI in Ireland and its significance?

History of FDI in Ireland past 30 years in general, if we look from early stages it was classified as manufacturing industry. The Irish FDI was built around ICT, textiles, box building. Engineering was also enormous. We had connection with the US because of immigration and this connection is very strong and we developed this connection. There was natural evaluation that we should target FDI, because we had high unemployment and young workforce. And there was and still desire for every parents to have employment for their children. Because of that viewed that the evaluation of Irish industry to create jobs would not be fast as needed for people. That’s why we needed FDI. The value proposition for FDI was high-skilled availability, work ethic was here, and we were in EU. More than 200 million people market. Then we increased our exports and it bring benefit to economy. The IDA utilised number of pieces, especially in education. Such as AIT. The aim was to deliver the needed skills for the foreign companies and local industries. We used the property extremely well. We offered it very well.

2. What are the main factors influencing FDI?

Any company if they want to invest in particular country, they will look into profile, a track record, what other companies were investing, what was their experiences. The second reason will be infrastructure. It’s very important for such as telecommunication companies. Easy doing business is also very important. Skilled workforce and competitiveness also main influencing factors. Total business also should make a sense, the companies establishing their business they will see whether they can export their goods to other countries, whether it’s with air, road or railways. So this is also important having export platform.

3. Why was Ireland so successful?
We started very humble beginning. We had only green fields around, we had no much building around, no parks like this before. The reason we started to look at FDI, because of that we realised that we need jobs. Population need the job, we had high immigration. You have to bring all the pieces together, it’s not that you have infrastructure and you don’t skilled workforce or you have parks and skilled workforce but you don’t have needed infrastructure. They have to come all together.

4. Did Ireland implemented any form of FDI policy from other countries, such as US or UK? Was Irish FDI policy influenced by neighbouring countries?

I wouldn’t say we imported any kind of policy. It must be informed by marketplace and economics. You have to look around what happening. Once you look around you have to take regard of that, and you pick the part what you want to achieve. Policy has to inform what are you doing, and has to inform outside the country. Of course you will look to other countries, you will look what’s happening to the EU, US, China absolutely and for sure Russia. Furthermore, it shapes your value proposition. This will also fit and inform your policy.

5. What Uzbekistan or geographically land locked, lower middle income country, can do to attract FDI investment?

The population is in Uzbekistan 30 million, if you look around neighbours, it will give you easily 100-120 million population. So you have to look, who are serving these amount of population. Free trade is really important. Free trade between countries will attract more multinationals. It’s always interesting for investors. And for that reason establishing free industrial zone within country will play a key role, building the needed infrastructure can stimulate FDI.

Perception of Future?

6. Where do you see global FDI moving?

Competition is becoming increasingly incentive. Business becoming more international. More FDI moving to China and India. Companies everyday expanding to other countries. For example we are also establishing our headquarters to other countries, such as in other EU and African countries.
Appendix 3- Interview with Uzbekistan President - Islam Karimov (2009)

President Karimov (2009) in one of his interviews explained the five principles of early announced model “speaking of Uzbek model or Uzbek economic reforms, we should remember that we do not aim to develop any market economy theory which is well established in the world economics. History has already proved its advantages. In short, the aim of the Uzbek economic model is to develop its own route of transformation from the centralized, planned and administrated system to basic market principles. I would like to stress that we try to form the basic principles of market economy. This specific system is based on national and regional specific features of this country, as well as its national traditions and mentality of its people. On the other hand it includes the progressive international experience which may be used in our conditions and meets the country’s interests. We clearly understand that our goal is large and complex, therefore, we have worked out five basic principles of reforms in Uzbekistan.

First, the economy should be free from any ideology to the full extend. Economy should have a priority over politics and become its contents.

Second, to put the state in charge of economic reforms during this hard transition period. The state should initiate reforms in the interests of all people, set the priorities of economic development, work out and implement the policy of economic, social, political, and cultural reforms. Eventually, with the introduction of market economic principles, their development and irreversibility of reforms, the role and importance of state structures will reduce. Such structures will transfer their authority to public organizations and selves-governing civil bodies.

Third, reforms should be based exclusively on strong legislation. The priority of law secures reforms and guarantees their irreversibility.

Fourth, with current demographic situation and low living standards, transformation to market economy should be anticipated by a strong social policy aimed at social protection of the poorest and most vulnerable layers of society – children, elderly people, and invalids. The countries which had underestimated strong, social policy as one of the major elements of reforms, experienced social unrest and discontent which discredited reforms.

Fifth, the new market economy should be introduced gradually and reasonably. According to national proverb, “don’t ruin the old house without a ready new one”. Gradual transformation to market economy forms the logic, dynamism and nature of economic reforms in Uzbekistan”.

84
Appendix 4- Interview Participant Consent Form

Name of Researcher: Shahboz Babaev

Name of Participant:


I, (Participant/Subject) agree to take part in the above named research project, the details of which have been fully explained to me and described in writing. I also certify I understand the details of this study.

Signed: ____________________________ (Participant/Subject)

Date: ______________

I, Shahboz Babaev (Researcher) certify that the details of this study have been fully explained and described in writing to the best of my knowledge, to the subject named above and have been understood by him/her. All material gathered will be treated in the strictest confidence and will only be exclusively available to the researcher, the research supervisor and the marking examiners. If the participant wishes, they can be given a pseudonym to help protect their anonymity where possible.

Signed: _____________________________ (Researcher)

Date: ____________
24 JUNE 2015

TO WHOM IT MAY CONCERN

Reference: Mr Shahboz Babaev, C/o International Office, Athlone IT, Dublin Road, Athlone, Co Westmeath

The above student Shahboz Babaev is a registered on the Master of Business Level 9 programme at Athlone Institute of Technology for the academic year 2014/2015.

Shahboz is currently working on his Research Project for the Master of Business. The topic is related to the “Implementation of Irish Foreign Direct Investment policy to Uzbekistan”. Shahboz is required to interview relevant parties for the Research and is seeking your assistance in this matter. I hope that you can be of assistance.

If you require any further information please do not hesitate to contact me.

Yours sincerely

Owen Ross
Head of Department of Business Studies
Email: oross@ait.ie
Tel 090 6471895 / 6442580