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Ways of Increasing the Efficiency of Attracting Foreign Investments in the National Economy

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Abstract: In the emerging and transitional economies, foreign direct investment (FDI) has emerged as a key capital formation, structural modernization and export competitiveness tool. Reform and opening up of the sector in the national context under analysis led to a rise in the contribution of foreign-capital inflows to the fixed capital formation, industrial upgrading and firm development. Although FDI inflows have significantly increased, little scholarly interest has been given to the efficiency aspect of foreign investment attraction especially in assessing the conversion of inflows in structural rather than quantitative growth. In this research, the efficiency of foreign investment attraction is evaluated in terms of its correlation with the export performance, the value added to the industry, and dynamics within the enterprises in the years of 2017-2024. Empirical evidence demonstrates that there are significant increases in the share of foreign investment in fixed capital formation and in the number of foreign-capital enterprises with positive export growth meaning that FDI helped in modernization and increased external competitiveness. The paper introduces an efficiency-oriented approach to the subject, which broadly focuses on the spillovers of FDI, and its structural impact, focusing on the absorptive capacity, institutional quality, and sectoral distribution. Policy implications of the findings include the emphasis of policy frameworks on the quality of investment, connections between multinational firms and the local firms, and specific facilitating mechanisms to ensure the developmental benefits are maximized. The findings also suggest that the results of the efficiency are still conditional and should be further investigated using the econometric models and sector-level or cross-country comparisons to investigate the threshold conditions and the long-term competitiveness consequences.

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1. Introduction

The foreign direct investment (FDI) is now one of the pillars of economic growth in both developed and developing economies. With the increased globalization whereby capital flows are becoming more globalized, countries are beginning to depend more on foreign capital to spur growth, modernize their industries, and gain competitiveness in the global markets. The theory of FDI predicts it to play a dual role in the provision of financial resources, transfer of technology, managerial expertise, and job creation, thus acting as a propeller of structural change and sustainable growth. Such prospective returns have placed the research into ensuring that efficient mechanisms are established to attract foreign investment as a critical agenda for both policymakers and other researchers [1].

FDI and its national economic performance have been a central issue to scholarly attention, yet the literature has demonstrated subtle results based on sectoral makeup, institutional quality, and absorption capacity. There is some empirical evidence that records robust positive impacts of FDI on export growth, productivity, and export competitiveness, especially when the investments are directed towards manufacturing and export-based industries. To illustrate this, recent results indicate that FDI increases exports through an increase in production capacity and competitiveness, and long-term equilibrium relations have been discovered between FDI inflows and trade performance. Meanwhile, other studies also point out that the effect of FDI is not necessarily evident and that its efficiency is conditioned by the economic policies of the host country, the system of its governance, and human capital. The literature has mixed results that have underscored the potential of the FDI benefits and their conditionality [2].

Although there is a vast amount of research, it comes down to the lack of knowledge in the literature concerning the efficiency of foreign investment attraction mechanisms in the particular situation when the economic system of the transitional economy moves towards structural adjustments. A significant body of research exists on the total scale of the FDI and its linkage to growth, but only a small number of studies consider how countries can increase the efficiency of how foreign capital can be utilized to achieve the economic results. This is a gap where there is minimal relative analysis with the use of recent national data and international standards, especially in the face of massive policy changes and changing investment environments. This gap is important to fill in on evidence-based strategies to enhance the attraction of investments without succumbing to the simplistic volume metrics [3].

To address this gap, the present research resorts to an empirical and comparative approach that incorporates the national statistical data with the international investment indicators in assessing the FDI efficiency on a broad basis. The study is based on a longitudinal foreign capital participation data, export performance, industrial value-added, and firm dynamics to assess the relationship between the changes in investment inflows and economic performance outcomes. The methodology does not merely focus on quantitative aspects of FDI but also on the qualitative processes according to which FDI has its effects on productivity and structural change [4].

The projected analysis will predict that the efficiency of the attractiveness towards foreign capital is more likely to be high in countries having a stronger institutional framework, diversified investment structure, and specific policy incentives. This would mean that policy instruments such as regulatory transparency and facilitation of investment, as well as sectoral prioritization is crucial in transforming the FDI inflows into sustainable economic gains. The results are aimed at giving policymaking institutions an idea of how to improve national investment policies and add to the existing body of literature on efficiency in FDI in transitional economies [5].

2. Materials and Methods

Methodological Framework

The paper uses an empirical and comparative study approach in reviewing the efficacy of investment attractiveness in the country's economy. The theoretical background combines the neoclassical capital mobility theories, the investment-led growth models, with the global value chain (GVC) upgrading perspectives. The methodology permits the measurement of foreign direct investment (FDI) inflows and foreign capital involvement not only according to volume but also according to structural outcomes to the export performance, industrial upgrading, technological renewal, and employment creation. This can be aligned with the latest empirical strategy applied to international investment

studies, and it is also the methodological standards applied by UNCTAD, OECD, and the World Bank analytic frameworks.

Data Sources and Indicators

The empirical part draws on secondary data based on national statistical accounts and international databases of investment. The official statistical tables on the national data on the 2017-2024 foreign investment flows, foreign-capital enterprises, fixed capital formation, external trade, and industrial output have been compiled with evidence that the share of foreign investment and credit in the fixed capital formation rose between 20.7% in 2017 and 69.4% in 2024. Other macroeconomic indicators, like the growth of GDP, the level of exports, and firm-level indicators, were also used to measure the performance outcomes. International benchmark data were represented by UNCTADstat, IMF Direction of Trade Statistics, World Development Indicators (WDI), and OECD FDI Statistics, which would guarantee international comparability.

Some of these are FDI-GDP ratio, FDI-gross fixed capital formation (GFCF), FDI-exports ratio, export diversification coefficients, number of foreign-capital companies, value-added in manufacturing, and employment. Indicatively, as an example, the number of foreign-capital enterprises grew in 2017 to 26,462 in 2024, which is an indication of an expanding absorptive ability of the domestic economy. External sector indicators were also factored in, with exports growing in 2017 to USD 12.55 billion to USD 27.27 billion in 2024, where it can be evaluated whether foreign investments lead to competitiveness in trade.

Analytical Strategy

The analysis builds on descriptive and comparative as well as parametric statistics. To capture the dynamic evolution of foreign investment attraction and to detect structural breaks and long-run tendencies, we adopt time-series observation. A benchmark is some cross-country comparison with FDI performers in East Asia, Central Europe, and the ASEAN economies. The model also considers the quality aspect of FDI- technology spillovers, modernization effects, and export orientation, which are considered important transmission mechanisms where foreign capital can boost efficiency within a host economy.

Hypotheses

Based on the theoretical framework and empirical indicators, the study formulates the following hypotheses:

H1: Foreign direct investment (FDI) has a positive effect on export performance in the national economy.

H2: FDI contributes to industrial value-added growth and structural upgrading.

H3: FDI inflows increase the absorptive capacity of the host economy through firm formation and employment generation.

H4: Higher shares of foreign-financed capital formation improve the efficiency of investment attraction mechanisms.

These hypotheses are grounded in investment-led growth theories, the neoclassical model of capital mobility, and empirical findings in the transition economies literature.

3. Results

The empirical findings point towards the fact that foreign direct investment (FDI) has a complex impact on the determination of major economic outcomes, other than mere capital accumulation. In line with the neoclassical and endogenous theories of growth which emphasize the flows of capital, technology diffusion, and externalities in innovations, the evidence indicates that FDI is linked to enhancement in the performance of exports, industrial value added, and dynamics of firms, but such a correlation is

contingent on structural and institutional conditions. There is a universal consensus among the literature that FDI may be a source of technology transfer and productivity gain, especially in cases where the host economy has the required absorptive capacity and human capabilities to internalize new technology and practices that the multinational enterprises (MNEs) bring [6].

In export performance terms, the empirical evidence appears to be consistent with previous studies that show the FDI supports exporting growth, particularly in emerging economies by pursuing an export-oriented strategy. Past literature shows that FDI impact on exports depends on the stage of development of the host economy, showing a more positive influence in countries with developed financial markets and adequate infrastructure. Our results are in line with this rhythm: whereas enhanced foreign investment intensity seems to correlate with higher export rates, revealing that competitiveness could be benefited by the presence of multinational firms embedded in international production networks. But this correlation does not happen automatically; it needs specific policies to increase the connections and link between foreign affiliates and domestic suppliers and to improve workforce skills, as well as addressing structural bottlenecks [7].

The findings also suggest that the contribution of FDI to industrial upgrading and structural transformation goes beyond the capital inflow. The literature on technology spillovers suggests that the quality of institutions, governance, and local innovation systems conditions the extent to which FDI benefits (including spillover effects for indigenous firms/sectors) may be realized. While our findings are about the positive relationship between foreign capital participation and industrial sector added value, such evidence varies among sectors, and over the years, showing that the effectiveness of FDI in different attractions is embodied by policies as a whole rather than its quantity. Crucially, when absorptive capacity is low (as a result of low human capital and weak institutional infrastructure), the opportunities for technology transfer and productivity enhancement are limited, an observation that studies of least developed / transitional economies have also made [8].

However, there is still an important knowledge gap concerning the specific channels and thresholds by which FDI leads to sustainable competitive advantages for host countries. Although the overall data show some positive correlation, not much is known about the conditionality of these benefits, such as the quality of institutions, the effectiveness of financial markets, and regulatory clarity. This indicates the requirement for more industry-level econometric work and case study evidence that future research should fill [9].

The findings are significant in their implications. First, they emphasize the importance of ensuring that FDI policy should focus on the quality and efficiency of investment, not merely quantity, consistent with global trends focusing on the link between investment and innovation or structural competitiveness. Second, the findings emphasize the need to improve domestic absorptive capacities through education, governance reform, and technology oriented-incentives to enhance FDI's developmental potential. Last but not least, the findings provide policy guidelines to compare national traditions and design tailored strategies to fit FDI into wider economic development objectives.

4. Discussion

The study's findings reinforce the hypothesis that foreign direct investment (FDI) contributes positively to key macroeconomic outcomes such as export performance, industrial upgrading, and firm development in the national economy. The observed alignment between rising foreign-capital intensity and export expansion suggests that FDI

can function as an accelerator for international market integration when supported by conducive institutional and sectoral frameworks. This result confirms the research question's central premise that enhancing the efficiency of attracting foreign investment, rather than merely increasing its volume, holds strategic economic value. The significance of these findings lies in the demonstration that FDI efficiency must be conceptualized as a multidimensional mechanism linking capital inflows to productive capability, trade competitiveness, and structural transformation [10].

Comparisons with past empirical work are consistent, especially with those in transition and emerging economies that have found positive FDI-export led growth relationships, notably where host economies display significant capacity to absorb. Similarly, empirical evidence is consistent with theoretical implications focusing on technology transfer and spillover channels, as well as literature showing that FDI induces value-added upgrading in manufacturing. But in contrast to those studies which find automatic ... or always positive spillovers, this paper suggests that the benefits from FDI are still contingent, uneven, and asymmetrical by sectors/ sub-sectors and amounts of investment projects, raising a requirement for more incremental efficacy measures [11].

Theoretically, the results are consistent with a hybrid interpretation that combines neoclassical capital accumulation processes with endogenous innovation and productivity externalities. In practical terms, this implies that any attraction strategy must go beyond fiscal incentives and include interventions to facilitate the linkages between foreign affiliates and domestic firms, to enhance workforce capabilities, as well as regulatory clarity. From a policy perspective, the results suggest that focusing on the quality of FDI – in particular into tradable and high-value-added sectors - yields higher long-run benefits than non-targeted liberalization towards investment. This is consistent with the reforms in global FDI policy trends that move from liberalisation to facilitation, investment aftercare , and performance-based incentives off-stage [12].

Despite these centuries of contributions, there are limitations in our study. First, the analysis is based on aggregate measures, which limit the ability to pinpoint micro-level mechanisms, i.e., technology spillovers, backward linkages, and firm productivity effects. Second, the lack of econometric estimation precludes causal inference for correlations that are not demonstrated to be attributable exclusively to FDI after controlling for potential confounders. Third, comparisons between countries were suggestive rather than comprehensive, and the findings may not be generalizable beyond the sample. Finally, sectoral differences that are commonly critical in FDI analysis were not completely accounted for and considered due to data limitations [13].

In future research, these weaknesses could be reduced by using firm-level or sector-level databases as well as econometric methods (e.g., panel regressions or cointegration models) in order to enhance the causal inference. Comparative research with peer transition economies or global production network hubs could provide further insights into institutional factors that are associated with FDI efficiency [14].

Additionally, the research agenda to come should also consider thresholds of absorptive capacity, institutional quality, and human capital, which condition FDI effectiveness, considering that these dimensions surfaced implicitly from the analysis but deserve further rigorous treatment. Not only would such research directions corroborate our current findings, but they would also contribute to further theoretical insight on how developing countries can change foreign investment into sustainable competitive advantage [15].

5. Conclusion

The empirical findings point towards the fact that foreign direct investment (FDI) has a complex impact on the determination of major economic outcomes, other than mere

capital accumulation. In line with the neoclassical and endogenous theories of growth, which emphasize the flows of capital, technology diffusion, and externalities in innovations, the evidence indicates that FDI is linked to enhancement in the performance of exports, industrial value added, and dynamics of firms, but such a correlation is contingent on structural and institutional conditions. There is a universal consensus in the literature that FDI may be a source of technology transfer and productivity gain, especially in cases where the host economy has the required absorptive capacity and human capabilities to internalize new technology and practices that the multinational enterprises (MNEs) bring.

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