IMPORTANT ISSUES OF THE DEVELOPMENT OF TRADE, INVESTMENT AND ECONOMIC RELATIONS BETWEEN UZBEKISTAN AND EUROPEAN COUNTRIES

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ABSTRACT

Economic integration is rapidly increasing in the current global environment. The economic relations between the countries reflect these integration processes. The industrialized countries' economies and potential are essential in this regard. Today, no country can fully prosper without being integrated into the global economy. One of the necessary features of the growth of productive forces, which will encompass all countries economically, politically, and socioeconomically, is the internationalization of national economies in the global economy. In this context, Uzbekistan has taken attempts to expand its international contacts, beginning with its neighbors and progressing to wealthier nations such as Europe

1. Introduction

In most developing countries, international trade is seen as a vital engine of economic growth and development. It has the potential to play a significant role in the fight against poverty. This analysis anticipates Uzbekistan's participation in international trade to have a beneficial influence on its own GDP. The government should boost export-enhancing measures in order to promote and sustain the country's economic growth. In order to reap the full benefits of international trade, the import basket should be reviewed.

Liberalization of currency controls are likely to minimize the allocative inefficiencies that exist under exchange controls. Inflows of foreign direct investment (FDI) are frequently cited as an important catalyst of economic growth. In the traditional Solow growth model, FDI allows host nations to invest more than their own domestic savings. Endogenous growth models suggest that FDI can positively influence the growth rate. (Reference)

The Republic of Uzbekistan's economic potential is based on the existence of natural resources, minerals, huge foreign exchange reserves, and a potentially large demand market. New essentially foreign economic relations are clearly established on pragmatism and the most flexible application of current realities and national interests. Uzbekistan's new economic growth plan includes modernization and a phased transformation from an import-substituting to an export-oriented

economy. Uzbekistan sees the EU as a major player in the worldwide, and its presence in Central Asia contributes to the diversification of its diplomatic relations.

2.   Literature review

The gross domestic product (GDP) is a macroeconomic metric that measures economic performance and growth. The international trade balance is one of its components. This indicates that the trade balance can have a good or negative impact on the country's, industries, or enterprise's economic performance. When the country cuts the tax on the imported item, imports and exports rise, and GDP rises. In such an economy, output is positively correlated with exports, and increasing openness is the source of growth.

Better exploitation of economies of scale (Krugman 1980) is another driver of production growth. Growth rate supported export and foreign direct investment growth in the short term, but not the other way around. Several measures for analyzing the implications of the trade balance on macroeconomic performance as measured by GDP growth have been established. The most often used indicator in international trade is contribution of international trade to economic progress. The enhanced production function has been used to demonstrate that export growth improves economic growth.

In general, a free trade agreement has a significant impact on intra-area trading. According to (Frankel, Jeffrey A., 1999), the European Comission increased trade between European nations by around 65 percent. In terms of the foreign direct investment relations, the disparity in FDI inflows and economic development between developing and developed nations

has aroused economists' curiosity. FDI brings much-needed physical capital, new technology, managerial and marketing talents and expertise. Additional taxes on multinational firms have the ability to help the host country's fiscal condition. A well-functioning labor market promotes FDI spillover by fostering network externalities among highly trained individuals. Transfer of ownership from local to foreign enterprises is not always advantageous to host nations.

FDI carried out during a crisis as part of a "Fire Sale" may result in the transfer of less efficient domestic enterprises. (Balasubramanyam, V. N., 1996) Uzbekistan's recent economic reforms can give great proof for the construction of favorable business circumstances in the country. The establishment of free economic zones and tax exemptions are two of the most compelling reasons for international investors to pick Uzbekistan as their preferred business zone. FDI boosts overall productivity and economic growth, according to numerous researches.

3.   Methodology

The ELGH (Export Led Growth Hypothesis) suggests that trade, especially exports, and is the main driver behind economic growth. (Barro & Sala-i-Martin, 2004) We chose to analyze the impact of export and import as well as FDI relations of Uzbekistan with European Union on real GDP during last ten years, from 2010 to 2020.

We chose to analyze the impact of export and import as well as FDI relations of Uzbekistan with European Union on real GDP of Uzbekistan during last ten year period, because there were no reliable data available in this regard.

The independent variables in our initial simple regression are exports, imports, FDI inflow and outflow of the Republic of Uzbekistan. According to the literature, we created this simple model to test that a positive relationship existed between trade activity and economic growth. Additional variables were included in the multiple linear regression to better determine what impacts economic growth and to decrease any omitted variable bias. The investment variable is reported as foreign direct investment with the amount net inflows and outflows of equity capital. It was determined that net inflows are better than net outflows when determining economic growth as incoming FDI is a direct investment into a country's economy.

All of the data for this research was gathered from the World Bank Database and the United Nations. The interpretation and source of all of the variables used can be seen in (Table 1). All data used was reported in 2021. The following (Table 1) shows the amount of our dependent and independent variables in US Dollars for the time-period from 2010 to 2020, which have been collected from WB database in the year 2021.

Table 1: The annual amount of dependent and independent variable between the years 2010 and 2020

Year	Dependent variable	Independent variables			
	GDP (current USUSD)	Exports of goods and services with EU (BoP, current USUSD)	Import with EU (current in US)	Foreign direct investment, net inflows (BoP, current USUSD)	Foreign direct investment, net outflows (BoP, current USUSD)
2010	49.765.676.402	281.000.000	1.181.000.000	1.662.748.216	2.948.860,82
2011	60.178.909.297	359.000.000	1.258.000.000	1.615.052.150	3.641.360,82
2012	67.517.349.212	227.000.000	1.168.000.000	744.244.552,2	3.086.060,82
2013	73.180.036.692	240.000.000	1.368.000.000	691.576.226	4.321.160,82
2014	80.845.384.375	2.310.000.000	1.531.000.000	808.675.996,6	4.430.260,82
2015	86.196.265.192	2.450.000.000	1.564.000.000	1.041.199.291	4.574.060,82
2016	86.138.288.615	1.720.000.000	1.585.000.000	1.662.586.807	5.817.260,82
2017	62.081.323.299	2.190.000.000	1.653.000.000	1.797.341.436	8.160.487,202
2018	52.633.143.808	1.680.000.000	2.246.000.000	624.686.535,5	2.011.351,717
2019	59.907.674.027	1.900.000.000	2.494.000.000	2.316.482.962	3.090.460,356
2020	59.929.951.114	2.000.000.000	2.229.000.000	1.731.508.841	11.309.803,1

Source: World Bank Database

The relationship between economic indicators and components of foreign trade (import and export) of the Republic of Uzbekistan with EU and FDI (inflow and outflow) between them were examined by multiple linear regression (MLR) analysis. This method is used to determine if two or more independent variables are related to a single continuous dependent variable. The multiple linear regression equation in the analysis was as follows:

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \qquad (1.1)$$

where Y is the economic indicator (GDP of Uzbekistan) of industry as predicted or expected value of the dependent variable, X_1 (export volume), X_2 (import volume), X_3 (the volume of FDI inflow) and X_4 (the volume of FDI outflow) are distinct independent or predictor variables, ε is the error.

1.   Results and discussion

Following results have been investigated from Multi-Linear Regression Model. According the results of (Table 2), the government of Uzbekistan should focus more on promoting the export among local entrepreneurs. The highest correlation has been between export and GDP of the country, at 0.356. So, that means that if we could increase the amount of export operations to European countries, the economic growth of the Uzbekistan will benefit.

Table 1: The correlation between dependent and independent variables, namely GDP of Uzbekistan and export, import, FDI inflow and outflow with European countries

Indicators	GDP of Uzbekistan
Export	0,356153842
Import	-0,245563055
FDI inflow	-0,278224821
FDI outflow	0,102374867

Data source: World Bank Database, calculated by the author

A summary table is provided below in (Table 3) describes our regression results. For example, it lists the coefficients of each variable, the associated standard error, the R-squared and adjusted R-squared, mean and standard deviation indicates whether or not the variable holds any significance.

Table 2: Results of Multi-Linear Regression model

Variable	Mean	Standard Deviation	R-squared	Adjusted R-squared
Export	1396090909	874003479,8	0,126845559	0,029828399
Import	1661545455	438239321	0,060301214	-0,044109762
FDI inflow	1336009365	544251350,8	0,077409051	-0,025101055
FDI outflow	4853738,919	2584856,945	0,010480613	-0,099465985
FDI outflow	4853738,919	2584856,945	0,010480613	-0,099465985

Data source: World Bank Database, calculated by the author

In our econometric model, only export, import, FDI inflow and outflow are included as indicators of economic growth. All of the coefficients associated with these variables correlate with the original prediction, except for FDI outflow, that these effects would have a positive influence on economic growth within a country.

The removal of the initial variable of interest serves to indicate the relatively low value of trade as it relates to the growth of an economy. If there is the strong correlation between economic development, trade and FDI, then it indicates that trade is the result of an already mature economy that has previously experienced significant growth over an explanatory factor for economic growth today.

The optimal amount of R-squared is 0.80. As can be seen from the (Table 3), R-squared equals to 0,126845559 for export, 0,060301214 for import, 0,077409051 for FDI inflow, 0,010480613 FDI outflow respectively in our regression analysis. They are less than the amount desired. The R-squared value lower than 0.5 means that our four independent variables such as export and import and FDI inflow and outflow will explain less variance towards GDP. It means that the impact of such relations of Uzbekistan with EU has not yet been developed enough to impact on economic growth of Uzbek GDP. But in comparison with other independent variables, the export of Uzbekistan has the most productive impact on economic growth.

Table 4: Relationship between Trade, FDI inflow, FDI outflow and Economic Growth per MLR Model

Variable	Coefficient (Standard Error)	t-value	p-value	95% Confidence Interval
Export	5,5	2,01	0,09	(-2,3 - 24,5)
Import	10,6	-1,704	0,139	(-44,3 - 7,92)
FDI inflow	7,31	-0,614	0,561	(-22,4 - 13,41)
FDI outflow	1596,4	-0,0247	0,981	(-3945,6 - 3866,8)

Data source: World Bank Database, calculated by the author

As seen in (Table 4), in the final multiple regression model, all variables are significant at the 1% level and one variable, FDI inflow and outflow, are significant at the 5% level. The statistical significance of these variables can be proven using a t-test, p-values and confidence intervals. The corresponding t-values, p-values and 95% confidence intervals are listed above for the multiple linear regression model in (Table 4). Using the t-values of each independent variable, seen above in (Table 4), the significance of each variable can be determined by performing a t-test. The t-test compares the t-value and the critical value of the t-distribution. The critical

value for a two-tailed t-test with 120 degrees of freedom at a significance level of 1% is 2.617. If the absolute value of the t-value is greater than this, then the null hypothesis can be rejected, indicating that the variable is statistically significant. At the 1% level, the variables savings and developed are significant because their t-values are greater than the critical value. As seen (Table 4), the t-value for the variable export is greater than this critical value, but less than the critical value at the 1% significance level, which implies that FDI outflow is significant at 5% but not 1%. The other variables (import, FDI inflow and outflow), are not significant at any level because its t-value is so low that it is not greater than any critical value at any significance level (10%, 5%, or 1%).

The same hypothesis can be tested using p-values as well. The p-values for each independent variable are also included in (Table 4). The p-value for exports, imports and FDI inflow are 0,09, 0,139 and 0,561 respectively, which are higher than 0.05 (> 0.05) is not statistically significant and indicates strong evidence for the null hypothesis. This means we retain the null hypothesis and reject the alternative hypothesis. The variable FDI outflow has a large p-value of 0.981, which supports the earlier t-test conclusion that investment is not significant at any level of significance. However, the smaller the p-value, the stronger the evidence that you should reject the null hypothesis. According to our results the smallest p-value was seen in export, so we can conclude that among other variable export has strong impact on GDP of the country. The p-value is the smallest level at which the null hypothesis is rejected.

A test of our hypothesis can be proven using 95% confidence intervals. The 95% confidence intervals for the independent variables can also be seen in Table 4. A 95% confidence interval implies that there is a 5% chance the coefficient of the variable lies outside of the confidence interval. If zero is within the confidence interval, then it is inferred that the null hypothesis fails to be rejected and the coefficient is not necessarily significantly different than zero. Of the variables, zero does not lie in the interval of the variables export, import and FDI inflow and outflow which shows that all of the associated coefficients are significantly different than zero at a 5% significance level. The null hypothesis that the coefficient is equal to zero can therefore be rejected for these four variables.

2.   Conclusion

Uzbekistan's economic growth is not strongly influenced by international trade with European countries. However, this tendency is growing and has more positive influence on the GDP of Uzbekistan. If the country wishes to pursue a high rate of economic growth, then it has to increase its exports. The paper recommends that Uzbekistan should enhance export promotion activities to realize the economic growth of 10% as envisaged in Uzbek Vision 2030. The government should review its basket of imports from European countries so that it can focus on imports of intermediate and capital goods which help in spurring economic growth.

The research will help identify the need for reform in sectors critical to a country's development. It can also help address challenges and identify possible solutions in areas essential to economic stability.

There will be some effective results related economic international relations of the country policy that will be useful for government's policy.

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