



The Impact Of Foreign Investments On The National Economy Of A Country

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Abstract. This article provides a scientific analysis of the multifaceted impact of foreign investments on the national economy. The study examines the concept of Foreign Direct Investment (FDI), the mechanisms of its formation, and its role in the global economy. Furthermore, the article thoroughly explores the factors of the positive impact of foreign investments on the national economy – including GDP growth, the creation of new jobs, the introduction of modern technologies and management methods, as well as the enhancement of export potential. At the same time, the negative consequences of investment inflows are critically examined – such as the weakening of domestic industries, the repatriation of profits abroad, environmental problems, and the risk of economic dependency. The study conducts a comparative analysis of the experience of developed countries in regulating foreign investments, and separately examines the investment climate and ongoing reforms in developing countries.

Key words: Foreign investments, national economy, economic growth, investment climate, capital flows, technology transfer, economic dependency, free economic zones, export potential, employment level, investment policy.

Introduction

In the context of globalization of the modern world economy, foreign investments are becoming an increasingly important factor in the development of national economies. The movement of international capital is recognized as the main engine of economic growth not only for developed, but also for developing countries. According to World Bank data, in 2023, the volume of foreign direct investment (FDI) worldwide amounted to 1.3 trillion US dollars, and this figure is making a significant contribution to the formation of the economies of developing countries.¹ The problem of foreign investment is studied in economic theory and practice as a multifaceted phenomenon. On one hand, it is studied that they bring capital inflows, advanced technologies, modern management methods and new jobs to the country. On the other hand, it was described that they can give rise to problems such as the dependence of the national economy on foreign capital, the outflow of profits abroad, and the risk of strategic sectors being controlled.

Literature Review On The Topic

The issues of the impact of foreign investments on the national economy of a country are widely covered in economic literature, and theoretical and practical approaches have been developed by various scientific schools in this field. In particular, while many economist scholars have conducted scientific work on the extent to which foreign investments are necessary and needed for a country's economy, other economist scholars have also comprehensively listed the negative aspects of its impact on the national economy.

¹ World Bank (2023). *World Investment Report 2023*. Washington D.C.: World Bank Publications. — P. 5.



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Representatives of economic science evaluate the impact of foreign investments on the national economy differently. J. Dunning, within the framework of his "OLI paradigm" (Ownership, Location, Internalization), substantiated that FDI is based on locational and competitive advantages.² P. Krugman and M. Obstfeld, on the other hand, analyzed the efficiency of international capital movement from the perspective of macroeconomic balance.³

At the same time, in the existing scientific works, the issues of the impact of foreign investments on the national economy of a country are analyzed in depth, and the issues of controlling investment flows in modern economic conditions are covered in detail in this research work.

RESEARCH METHODOLOGY

This research is aimed at comprehensively studying the impact of foreign investments on the national economy, drawing on the modern achievements of economic theory and practice. The methodological basis of the research consists of dialectical and systematic approaches, which allow economic phenomena to be studied in their interconnection and development. In addition, the research employs institutional economics theory, international trade and investment theories, as well as methods of macroeconomic analysis.

ANALYSIS AND RESULTS

In the modern world economy, the volume of foreign investments is growing from year to year. According to UNCTAD data, the volume of global foreign direct investment (FDI) in 2022 amounted to 1.3 trillion US dollars, reflecting the recovery process after the COVID-19 pandemic.⁴ Developing countries received 68 percent of these investments, which demonstrates the important role of foreign capital in their economic growth. The following table allows us to observe the share of foreign investments.

Region	FDI size	Share (%)
Asia	662	51
North America	388	29,8
Europe	154	11,8
South America	208	16
Africa	97	7,5
CIS countries	28	2,1

Table 1: Distribution of FDI by Regions (2022, billion US dollars)

The table analysis shows that the Asian region holds the leading position in receiving FDI. This situation indicates that China, India, and Southeast Asian countries have successfully improved their investment climate.

² Dunning, J.H. (1988). *Explaining International Production*. London: Unwin Hyman. — P. 25–32.

³ Krugman, P., Obstfeld, M. (2018). *International Economics: Theory and Policy*. 11th ed. Pearson Education. — P. 178–195.

⁴ UNCTAD (2023). *World Investment Report 2023: Investing in Sustainable Energy for All*. Geneva: United Nations. — P. 8–12.



Observing the data presented above, we saw how FDI distribution among regions was carried out. Let us now list, one by one, the positive and negative impacts of foreign investments on the national economy.

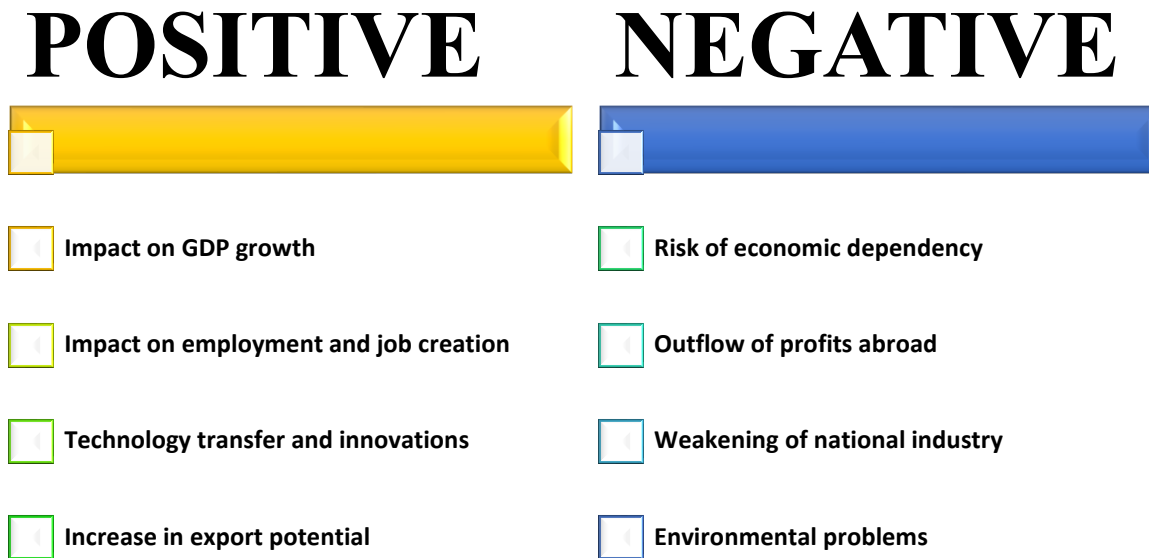


Figure 1.

Positive and negative impacts of foreign investments on the national economy.

(Developed by the author)

◆ Positive Impacts of Foreign Investments on the National Economy

➤ Impact on GDP Growth

The relationship between foreign investments and GDP growth has been proven in numerous studies. Research by Alfaro and others shows that when the share of FDI in GDP increases by 1 percent, the rate of economic growth accelerates by an average of 0.3–0.5 percent. China's experience is a vivid example of this: the 2.3 trillion dollars of FDI attracted into the country during 1978–2022 contributed to an average annual GDP growth of 9.5 percent.⁵

➤ Impact on Employment and Job Creation

Foreign investments play an important role in creating new jobs. According to ILO research, foreign companies pay on average 20–30 percent higher wages than local companies in developing countries.⁶ This situation directly affects the increase in labor productivity and the improvement of the living standards of the population.

⁵ Morrison, W.M. (2023). *China's Economic Rise: History, Trends, Challenges, and Implications for the United States*. Congressional Research Service. — P. 23–34.

⁶ ILO (2022). *World Employment and Social Outlook: Trends 2022*. Geneva: International Labour Organization. — P. 34–45.



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Ireland's experience is particularly noteworthy. As a result of foreign investments in the IT and pharmaceutical sectors attracted to the country since the 1990s, more than 250,000 new jobs were created and the wage level was 15 percent above the European average.⁷

➤ **Technology Transfer and Innovations**

One of the most important advantages of foreign investments is the transfer of technology and knowledge. Research by Borensztein and others has proven that technologies entering through FDI can replace local research and development (R&D) expenditures and increase innovative activity by 35 percent.⁸

South Korea is a vivid example of this. Companies such as Samsung, Hyundai, and LG initially developed on the basis of foreign technologies and later became independent innovation centers. Today, 4.9 percent of South Korea's GDP is spent on scientific research, which is one of the highest indicators in the world.⁹

➤ **Increase in Export Potential**

Foreign companies have extensive experience in bringing their products to international markets. According to OECD research, the export volume of countries that receive FDI increases by an average of 25–40 percent. Vietnam is a clear example of this: as a result of the entry of Samsung Electronics factories, electronic products began to constitute more than 30 percent of the country's exports.¹⁰

◆ **Negative Impacts of Foreign Investments on the National Economy**

➤ **Risk of Economic Dependency**

Excessive growth of foreign investments can lead to the national economy's dependence on foreign capital. According to Stiglitz, developing countries are often forced to change their economic policies in accordance with the demands of foreign investors, which limits economic sovereignty.

The experience of Latin American countries, particularly Argentina and Brazil, clearly demonstrates this risk. Excessive reliance on foreign capital in the 1990s served as one of the main factors in the financial crises of 2001–2002.¹¹

➤ **Outflow of Profits Abroad**

The transfer of profits earned by foreign companies to their home countries leads to significant losses for the national economy. According to IMF data, more than 200 billion dollars in profits are repatriated from developing countries every year. This situation is particularly characteristic of foreign companies operating in the natural resources sector.

⁷ Barry, F. (2019). Foreign Direct Investment and Institutional Co-evolution in Ireland. *Scandinavian Economic History Review*, 67(2), 45–63.

⁸ Borensztein, E., De Gregorio, J., Lee, J.W. (1998). How Does Foreign Direct Investment Affect Economic Growth? *Journal of International Economics*, 45(1), 115–135.

⁹ OECD (2023). *OECD Science, Technology and Innovation Outlook 2023*. Paris: OECD Publishing. — P. 78–89.

¹⁰ World Bank (2023). *Vietnam Economic Update: Challenges and Opportunities*. Washington D.C. — P. 34–45.

¹¹ Edwards, S. (2002). *The Argentine Debt Crisis of 2001–2002: A Chronology and Some Key Policy Issues*. UCLA Working Paper. — P. 12–23.



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Nigeria's oil industry is a vivid example of this. Transnational corporations such as Shell, Chevron, and Total have taken out an average of 30–40 billion dollars in profits from Nigeria annually, which has posed a serious obstacle to the development of the local economy.¹²

➤ **Weakening of National Industry**

Foreign companies often possess enormous financial and technological advantages and can push local competitors out of the market. According to the "product life cycle" theory analyzed by Vernon, foreign companies first offer high-quality products at low prices in new markets, and after weakening local competitors, begin to raise prices.

➤ **Environmental Problems**

The relatively lenient environmental standards in developing countries encourage some foreign companies to use production methods that cause harm to the environment. This phenomenon is referred to in economic literature as the "pollution haven hypothesis."

Bangladesh's textile industry can serve as an example of this. Due to cheap labor and lenient environmental requirements, many foreign companies have operated here and caused serious damage to the environment.¹³

◆ **Experience of Successful Countries**

The Singapore Model

Singapore has created one of the most successful models in the world for attracting foreign investments. More than 50 percent of the country's GDP is formed through foreign investments. The main factors behind this achievement are transparent legislation, low tax rates (corporate tax of 17%), developed infrastructure, and skilled labor resources.¹⁴

The Ireland Experience

In the 1990s, Ireland attracted many transnational companies through a low corporate tax rate (12.5%) and conducting business in the English language. Today, the European headquarters of giants such as Apple, Google, and Facebook are located in Dublin.¹⁵ This policy laid the foundation for the country to occupy one of the leading positions in Europe in terms of per capita income.

The China Experience

Within the framework of the "open door policy," China attracted foreign investments through special economic zones (Shenzhen, Shanghai) and set the assimilation of technology and management

¹² Frynas, J.G. (2009). *Beyond Corporate Social Responsibility: Oil Multinationals and Social Challenges*. Cambridge University Press. — P. 67–89.

¹³ Islam, M.S. (2020). Environmental Impact of Foreign Direct Investment in Bangladesh. *Environmental Science and Pollution Research*, 27(3), 2456–2467.

¹⁴ EDB (2023). *Singapore Investment Climate Report 2023*. Singapore Economic Development Board. — P. 12–23.

¹⁵ Barry, F., Bergin, A. (2012). Inward Investment and Irish Growth Performance. *Journal of the Statistical and Social Inquiry Society of Ireland*, 41, 1–25.



experience from them as a priority goal.¹⁶ The "technology for market exchange" strategy led to the rapid modernization of the country's economy.

CONCLUSION

In this research, the multifaceted impact of foreign investments on the national economy was comprehensively analyzed from a scientific perspective. Based on the results of the conducted research, the following important conclusions and practical recommendations were developed.

Main Scientific Conclusions

1. Foreign investments are an important factor of economic growth

The research confirms that foreign direct investment (FDI) directly contributes to the growth of the national economy. According to the results of the analysis, a 1 percent increase in the ratio of FDI volume to GDP accelerates the rate of economic growth by an average of 0.3–0.5 percent. The experience of China, Singapore, and Ireland clearly confirms this relationship in practice.

2. Technology transfer strengthens innovative potential

Modern technologies and advanced management methods entering through foreign investments play a decisive role in improving the efficiency of local enterprises. Based on the research of Borensztein and others, it was determined that technologies transferred through FDI can increase local innovative activity by 35 percent. However, this process is effective only when skilled labor resources and a developed education system are present.

3. Negative consequences require state oversight

The research also identified a number of negative consequences of foreign investments. The outflow of profits abroad, weakening of national industry, environmental problems, and the risk of economic dependency – all of these necessitate the introduction of effective state regulatory mechanisms. The experience of Latin American countries and Nigeria shows that when oversight mechanisms are weakened, foreign investments can harm national interests.

4. Balanced policy is the key to success

The experience of Singapore, Ireland, and China shows that the main condition for effective utilization of foreign investments is a balanced state policy that creates a favorable environment for foreign capital while protecting national interests. This policy includes transparent legislation, a competitive tax system, developed infrastructure, and the training of skilled personnel.

Foreign investments are a double-edged sword for the national economy. When properly directed and effectively regulated, they serve as a powerful engine of economic growth, technological progress, and the well-being of the population. On the contrary, when oversight is weakened, they can become a source of economic dependency and social problems.

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