Research Report

Title: Attracting Foreign Direct Investment (FDI) and the role of the state in Tajikistan

by

GOIBNAZAROV Firuz
51220616

January 2022

Master's Report Presented to

Ritsumeikan Asia Pacific University

In Partial Fulfillment of the Requirements for the Degree of

Master of Asia Pacific Studies / International Cooperation Policy

Table of contents

Certification Page

I, GOIBNAZAROV Firuz (Student ID 51220616) hereby declare that the contents of this Master report are original and true and have not been submitted at any other university or educational institution for the award of a degree or diploma.

All the information derived from other published or unpublished sources has been cited and acknowledged appropriately.

____

GOIBNAZAROV Firuz 2022/6/15

Acknowledgments

First and foremost, I'd want to thank Almighty Allah (SWA) for providing me with the strength and patience to complete my report within the allotted time frame. I want to thank the governments of Tajikistan and Japan's cooperation, particularly the Ministry of Economy Development and Trade of the Republic of Tajikistan, for providing me with the chance to study and do research. I am especially very grateful to the Japanese International Cooperation Agency (JICA) for their financial assistance and advice during my academic career in Japan. Mainly I would want to convey my heartfelt gratitude to my research supervisor, professor Kaoru Natsuda, for his unwavering support and assistance during my studies. I owe him a huge debt of gratitude for his patience, inspiration, passion, and support. Working and studying under his direction was an incredible honor and privilege.

I'd also like to express my gratitude to Ritsumeikan Asia Pacific University (APU) for providing me with several possibilities to mold my universe. My experience at APU has been quite fruitful. I also want to thank my second examiner Dr. Kozo Otsuka for his comments and insightful suggestions. In addition, I am thankful to APU professors particularly those from the Development Economics division and APU PhD student Astha Chadha for their guidance and encouragement.
I am eternally thankful to my parents for their unwavering support and prayers. Many thanks to my wife and my children, who have brought joy and happiness into my life. Finally, I also want to thank my friends and senpais for their invaluable assistance.

Sincerely

GOIBNAZAROV Firuz

Abstract

FDI is an integral part of any economic system and allows developing countries to use this tool to develop their industrial and service sectors. After the collapse of the USSR, Tajikistan was able to find a new vector for development with main focus on FDI, but at the same time gaps in public policy are significant.This report analyzes the theoretical and practical aspects of FDI, with an in-depth study of the role of the state in the development and implementation of FDI policy, creating a business environment, problems and challenges of the investment climate and ways to improve the attractiveness of Tajikistan in the international investment and capital markets, especially in FDI markets. This study uses quantitative research methods, such as description analysis and comparative approach using secondary data. The analytical part of the study is based on the indicators of the World Bank's Doing Business rating, data from the Global Competitiveness Report of the World Economic Forum, with comparisons of key indicators between some countries of the former USSR. Also used are the results of a independent survey of researchers as Kluczewska and Institutions such US Department.

The results of the analysis showed that the role of the state in improving the business climate and developing FDI policy is great and Tajikistan has sufficient policy space to improve the investment climate with new package of reforms . Also, the main negative determinants that impede the inflow of FDI were identified and justified. Based on the identified gaps, relevant recommendations were developed to improve the FDI policy in Tajikistan.

Keywords:

FDI, Role of stat, Investment climate, OLI, Tajikistan

Chapter: 1 Introduction

1.1 Background

After the collapse of the Union of Soviet Socialist Republics (USSR) in 1991, Tajikistan got independence and start implementing social economic reforms to improve living standards in the country. One of the priority sectors defined within this reform was switching to a system of market economy with an intensification of the role of the private sector, and a proportional decrease in state regulation of the economy (NDS, 2015). State-level social as well as economic policies in the Republic of Tajikistan are based on two important strategic documents: the National development strategy of the Republic of Tajikistan for the period up to 2030 and the Medium-Term Development Program of the Republic of Tajikistan for 2016-2020 (Ministry of economic development and trade (MEDT, 2016). In accordance with these documents, the annual economic growth is expected to be at around 7%. One of the main sources of funds for the achievement of this goal has been defined foreign investment that is planned to contribute up to 25% of the country's GDP (MEDT, 2016). Therefore, the foreign investment is defined as an important source for the implementation of national development strategies and programs. Moreover, overview of these program shows that the expected economic growth heavily depends on foreign direct investment (FDI). FDI, however, require good investment environment and other economic preferences (MEDT, 2016).

Considering the importance of the FDI the Government of the Republic of Tajikistan has implemented reforms to strengthen the legal framework of state guarantees and support for investors, accession to internationally recognized systems and documents, and regulation of appropriate relations with investors (SCISPMRT, 2018). As a results with privileges and concessions, the investment climate in the Republic of Tajikistan is continuously improving, and according to the worldwide ranking "Doing Business," Tajikistan entered the top 10 reforming nations for the fourth time in 2020 (World Bank, 2020). Foreign direct investment can play a significant role in a country's economic development and can have a favorable impact on the economic development efforts of the host country. FDI can also speed up the spread of technology within a sector by making people more knowledgeable and by increasing productivity (Yeung, 2001).

Moreover, implementation of the mentioned reforms has improved investment climate and increased the private investment in the country. For instance, analysis of the structure of the GDP in 2021 shows that the share of the private sector in GDP is more than 70%, which is promising for the achievement of higher economic growth in the country (MEDT, 2022). However, according to MEDT, the share of FDI in compilation of GDP was around 5%, in 2020 which is only one half of the planned indicator for Medium-Term Development Program of the Republic of Tajikistan for 2016-2020 (MEDT, 2016). To achieve the higher goal in GDP growth the volume should exceed 10% of GDP (ibid.).

Thus, this study is going to overview the role of the state policy and regulation in FDI attraction in Tajikistan and define the challenges and constrains that are barrier its inflow to the country.

1.2 Research aim, objectives, and questions

To achieve the aim of the study the following objectives are explored:

To identify the challenges of the investment climate in Tajikistan.

To assess FDI policy and provide policy implications in Tajikistan

Considering research objectives the following question has been raised in this study

What is the role of the state in attracting FDI?

What are the challenges that hinder FDI inflow to Tajikistan?

How can Tajikistan improve its investment climate?

1.3 Research Methodology

This study use the techniques of the qualitative method with the secondary data as a main source of information. The main source of data served the state and national development programs and strategies, social economic development reports and presentation, publication of the international organization and financial, particularly the World Bank data, the International Monetary Fund, the World Trade Organization, the State Committee on Investments and State Property Management of the Republic of Tajikistan, and Consultative Council on the improvement of investment climate under the President of the Republic of Tajikistan, Ministry of Economic Development and Trade of the Republic of Tajikistan, State agency of statistics under the President of the Republic of Tajikistan and other available source from the internet. Though, the research is mainly based on the secondary data, personal communication was conducted with the employees of the governmental organization that are directly involved in development and implementation of the state policy for FDI attraction.

1.4 Outline of the report

This study is divided into five chapters. Chapter one, briefly overview the current situation and state programs for FDI attraction, and presents research aim, objectives, and question. It also presents information about the methods used in this research and outlines the study. Chapter two reviews and analysis the relevant literature and defines the philosophical underpinnings of foreign direct investment. The FDI inflows into Tajikistan is investigated in chapter three. Similarly, chapter four examines the government's Foreign Direct Investment (FDI) policies in detail. Chapter five comparative analysis investment climate of Tajikistan and chapter six conclusion and policy recommendation the study.

Chapter: 2 Literature review and Theoretical foundations

2.1 Introduction

Foreign direct investment (also known as FDI) has a significant impact on the rate of economic expansion in a country (Yeung, 2001). Foreign direct investment (FDI) not only boosts the economy's overall competitiveness but also assists existing businesses in becoming more technologically advanced, which in turn creates new industries and employment opportunities. The issue of attracting foreign investment is the basis for re-examining the nature of foreign direct investment to determine the basis for its implementation. The research provides both the theoretical framework and literature review. This section consists of FDI theories, Dunning's OLI (ownership, locational, and internalization) paradigm, and the role of state and industrialization policy.

Vernon (1966) noted that the theory of international trade and the theory of capital developed after searching for practical tools by researchers. Vernon noted that if a product is produced to high standards, its demand will increase. Demand for a product grows if it is manufactured to high standards or meets international standards, and such efforts avoid price competition. He notes that the changes have a locational impact:

-First, specific adherence to standards provides technical capabilities, and protracted commitments to a systematic process and a sustainable range of equipment are encouraged.

-The second concern is the cost of production, which replaces the reference of the product's characteristics. Getting rid of operational uncertainty makes cost forecasts less profitable and puts more attention on costs.

Suppose a product has high income elasticity of demand or can replace expensive labor. In that event, the product's popularity will soar across the developed world. Assume that the total cost of production in the developed country, which includes the cost of transporting the items exported from that country, is lower than the expected average cost of production in the market for imported goods. In that case, manufacturers in developed countries are likely to refrain from investing. When the market develops in a developed country, that country's entrepreneurs try to create local production (ibid.).

He noted that after the high growth of exports of manufactured goods in international investment, there are a number of threats that will hurt local businesses in the target countries and force local governments to find solutions and ways to replace imported goods.

Thus, as a result, investing in overseas exports is a viable strategy for avoiding market losses. As a result, the return on investment is mostly based on preventing the system from losing revenue. After the first investment, it appears that the threat to the status quo continues to be a major driving force for international investment (Vernon, 1966). If one manufacturer makes such an investment, other major manufacturers will sometimes see it as a threat to the existing situation. They see themselves as unprofitable in terms of the investment company and have a vague idea of future losses.

Dunning and Rugman (1985) noted that Heimer in his dissertation described multinational enterprises (MNEs) as a product of market failure. MNE uses its global efforts to eliminate rivalry and segregate markets. To reduce risks and gain a monopoly position, MNE requires control over assets that are transferred to a foreign country. After gaining internationalization, the MNE experiences an ownership advantage that seemingly resembles the advantage of Bain’s power over assets. If the imperfection of the exogenous external market leads to the creation of the MNE as a substitute for the traditional (external) market, such as in the assessment of knowledge or the replacement of costly methods of business, then the process of internalization enhances efficiency.

The authors also note that Heimer did not pay much attention to the location of the MNE, which is an important element of the eclectic theory of international production. With this error, Heimer overlooks the importance of evaluating the geographic and spatial MNE and how to discover local unique elements in the procedure of FDI (Dunning & Rugman, 1985).

The capacity to tap into the domestic markets of multiple nations is a significant advantage of doing business as a multinational enterprise. An MNE can use transfer prices, maneuver liquid assets, and move production facilities. An MNE with a better freedom scale than a single company limited to one country (SCISPMRT, 2021). The core of this debate about whether or not MNEs work depends on how they are modeled, especially the types of assumptions about whether market failures are caused by internal or external factors.

Kojima (1978) noted that the transfer of new production technologies through the training of labor, management, and marketing from advanced industrialized nations to less developed countries is the main task of foreign direct investment (FDI). The author states that FDI should be the initiator and mentor of industrialization in developing countries so that FDI influences the specific areas of the host country through the training of specialists, making it possible to establish competitive companies with local capital (Kojima, 1978).

Taking the example of Japan's FDI, which increased significantly in the 1970s, the author noted that it was evidence of the "over presence" of Japanese companies in various ways, such as the heavy concentration of Japanese FDI in Asia in the manufacturing sector, the production of technologically easy products by Japanese manufacturing units in the host country, etc.

FDI is an important element in creating an export-oriented economy in developing countries (Kojima, 1978). But "over presence" of a country's FDI in the host country in a particular sector leads to problems. The host country fears that this will lead to the domination of the investor country over the host country as well as major problems with accommodating too many foreign companies in the same sector.

The policies of the investor and host countries for the development of industrial products should promote structural change and the development of bilateral trade, which is necessary for integration assistance, investment, trade priorities, and reform policies.

Kojima (1978) suggests that direct production and investment assistance should be provided in the form of advanced production methods; management knowledge and worker training should be more widely disseminated in developing countries to make the host country's sectors more competitive in the world market. Developed countries should support developing countries with FDI and aid, provide preference to exports from developing countries produced with the help of foreign aid and technological support, and ultimately support the structural strengthening of developing countries (Kojima, 1978).

2.2 FDI definition

Foreign Direct Investment (FDI) provides the means to create long-term, direct, and sustainable economic ties between countries. The recipient ("host") and the economy of the investment can both prosper from its use as a business development tool in the right policy context ("home"). As a bonus, this allows the host country to reach a broader worldwide audience with its products. In addition to its favorable impact on international trade, FDI is a key source of capital for many host and domestic countries. In addition to its direct impact, FDI also affects the development of the labor market and influences other aspects of economic activity through other factors.

High investment activity is a major contributor to economic growth, which in turn promotes the welfare of society. In the absence of domestic capital, FDI is critical in today's economic climate to alleviating the problem of the economic slump in the country. More than just financial aid, foreign direct investment (FDI) supports the host economy's ability to meet its needs for new advanced manufacturing technologies and worker training as well as a more efficient use of productive resources.

Tajikistan's current economic position necessitates an upsurge in foreign direct investment (FDI) in order to facilitate the country's integration into the global economy and financial markets. International economic relations have been increasingly dependent on FDI as modern globalization processes characterize the increase in its importance.
FDI is an investment made by companies from other countries in the economy of another country through money and other material values. At the same time, such financing is not only long-term but also allows the investor to control the work of the host company and directly influence the management.

The size of an investment share in a foreign company that qualifies as FDI varies from country to country. Only after fulfilling this condition, the investor has the right and the opportunity to control the activities of the host company in Tajikistan.

2.3 Main theories relating to FDI

Many researchers have worked to expand on the basic economic theory to describe the concept of FDI, some of which will be considered in this section. The first attempt was to use the "Ricardo's theory of comparative advantage' (Costinot & Donaldson, 2012), but it could not thoroughly explain FDI since this theory was based on the mechanism of two countries dealing with two products in a perfect market condition. Hence, another theory, 'portfolio theory', was used to explain the changes in the market, but it failed to explain the FDI. This theory states that there is no hinderance to the movement of capital and the country is automatically attracted towards those countries which offer high interest rates, but these risks are inevitable in the capital movements, which have an eroding impact, restraining the capital to move freely in the desired direction (Denisia, 2010). Mundell (1957) sought to explain direct investment through the "international trade model." This theory implies two countries, two factors of production, two goods, and two production functions of the same property that operate in both countries. Production of goods requires another factor in high proportions. The theory proposed by the Mundell model is better explained because foreign investment can be considered a portfolio investment (Mundell, 1957).

2.3.1 Vernon's Production Cycle Theory

Raymond Vernon introduced the theory of the product life cycle in 1966. The focus is on the principles of international trade and foreign investment. The term "life cycle" is an indication regarding the subject of the theory. The primary concept, or the idea behind the conceptualization, was that everything, every aspect of life is finite and limited, and therefore the products being developed must have a shelf life as well. Vernon's production cycle has four stages: introduction, growth, maturation, and decline (Vernon, 1966). During the implementation phase, new products will be launched to meet the needs of residents in areas with similar needs. In the growth phase, the effect grows as a copy in another country, and cheap production is achieved by transporting it to other countries. At the stage of maturity, the market concentration is completed, and the largest share belongs to the producers with the lowest cost. In a recession period, the market consists only of developing countries, so the reduced products are produced only in less developed countries. The duration of the phase depends on the product. If the phase lasts one week for one product, then for another—more than ten years. The theory is that developed countries rely mainly on high-tech products, using research, innovation, and development that can be used for local consumption. When a product is developed, it is primarily intended for use in the country of origin.

According to Vernon (1966), such products are produced in developed countries and can only be used in developing countries when products enter the international market. The theory argues that developed countries rely heavily on high-tech products developed through research, innovation, and development that can be used for local consumption. At the beginning stages of the life cycle of the product, the products are primarily developed for usage in the home country. As per the viewpoint of Vernon, such products are developed in developed countries, and only when such products enter the international market can they be used in the developing countries. Also, the theoretical conception is an effort to describe the many forms of FDI made by US manufacturing businesses operating in Europe after the Second World War (ibid.).

According to the theory, innovation, growth, maturity, and decline' are the four stages of the production cycle. According to Vernon, in the first stage of the cycle, multinational U.S. corporations generated new and inventive items for local consumption. The surplus was then exported to meet the demands of the foreign markets. This theory says that after the war, the demand for manufactured goods increased in Europe, and American companies started exporting. They had a competitive advantage in technology as international competitors. These manufacturers tried to standardize their products with technology, but European companies began to copy these American products. As a result, American companies were forced to build their manufacturing plants in the domestic market to maintain their market share. This theory also explains why, from the 1950s to the 1970s, American companies invested directly in European countries (Vernon, 1966).

2.3.2 The Internalization Theory

The term "international terminal" has been widely used in past literature, but few researchers have tried to provide a more accurate, practical definition. Several researchers have described the term as a transfer of a firm’s operations from its home country (Turnbull, 1985). However, Welch and Luostarinen (1988) established the word "internationalization," which refers to the expansion of a company's international operations, which includes both foreign direct investment as well as domestic investment. Researchers also argue that the natural growth of foreign and domestic investment is interrelated and interdependent (Morgan & Katsikeas, 1997). Other researchers have evaluated and supported the definition of Welch and Luostarinen (1988) as a concise and explanatory commentary on the internationalization of foreign direct investment (Young, 1990). Internationalization is a strategy that involves the vertical integration of new activities and operations into an international context but under the management and ownership of the company. This theory was first created by Heimer (1976), and its purpose was to characterize the expansion of multinational corporations and the factors that motivate those corporations to engage in foreign direct investment, respectively, on a national and international scale. Buckley and Casson later expanded further aspects of this idea (1976). They suggested that multinational corporations should arrange the internal operations of their businesses in such a way that they might produce advantages over rivals that they could subsequently employ, and Hymer (1976) defined the term "competitive advantage." They referred to tasks and FDI projections as the two key components. By analyzing the frameworks of horizontal and vertical integration, Hennart

(1982) established the idea of internalization. Heimer envisioned the "specific advantages of a company" and explained that direct investment could only be made when the company can make and use more of the company’s specific advantages than the associated costs. This shows how hard it is for foreign companies to invest in a country because of the costs of local companies, the risk of currency fluctuations, and the attitudes of the government (Denisia, 2010).

2.3.3 The Eclectic Paradigm of Dunning

Dunning (1977) reflected on the major theories of foreign direct investment in history and suggested that most of these theories were based on either the structural failure in the market hypothesis of Hamer and Kokus or the Buckley and Casson approach to internalization. Dunning and Narula (1996) proposed a covenant theory in response to this observation. A combination of these concepts and hypotheses was presented in the form of an idea based on an essential mix of Haymer's property advantage and theory. Internalization is a previously undiscovered idea that asserts that a corporation must have three advantages in order to prosper in direct investment, which was put forth by Dunning, the most prominent theory of the era (Dunning, 1973). To begin, the "Ownership Advantage," which states that intangible assets are owned by the company and that they can be replaced at a lower cost, generates additional income or revenue for international companies. Additional costs are incurred due to the fact that TNCs must be conducted in multiple nations. The corporation must be able to show, after successfully entering new markets, that it has the necessary features, such as technology and economies of scale, to justify its higher operating costs. The location of the company, not the cost of the rent or lease, is the second component. Transportation, politics, and other factors all influence how well a company can do business in a given country. In order to complete the third step, the company must first achieve the first two profit criteria (Dunning, 1991). The increase in cross-border sales of these commodities in other countries and their profitability may now be evaluated by the corporation. The political, economic, and social environments of a company affect these three factors, which are different for each firm (Ibrahim, 2019).

2.4 The OLI paradigm to develop a state investment policy

The so-called eclectic theory of Dunning is one of the most prominent contemporary theories that claims to explain the rise of FDI and the creation of transnational businesses.

In the mid-1970s, Dunning created an eclectic theory of international production to explain the origin, structure, and expansion of offshore MNEs. FDI theory relies on the eclectic paradigm, which is both powerful and trustworthy as a framework for researching a variety of FDI contexts and international production (Dunning, 2001). There are three primary sources of benefit that could be derived from the company's decision to become a multinational: ownership (OLI), location (OLI), and internalization (OLI).

The Ownership advantages (O)

The ownership preference implies a preference that only companies from other countries have. suggests that higher productivity is related to management perspectives, such as knowledge and asset relationally (the ownership-specific effect), because "the difference in results is related to the intangible assets of the parent company" (Dunning, 2001, p. 174). These are usually the benefits of intangible monopoly assets such as patented technology, trademarks, corporate culture, etc. Through O- advantages, firms can achieve economic scale, greater access to financial capital throughout the multinational corporate organization, and the benefits of international asset diversification. Benefit O, for example, says transnationals need to invest in industries and develop activities that can take advantage of the opportunities of their parent companies in the domestic market, such as companies whose labor advantage is cheaper, which may decide to give this advantage to subsidiaries transfer their companies. Similarly, MNEs can use consistent management practices in their foreign operations (Dunning, 1998).

The locational advantages (L)

The location advantage (or country-specific preferences) characterized the specific component of any productivity difference—the non-transferable features of a country’s economy that include the host country’s beneficial factors. The cost of labor, market potential, and government policy in host countries are crucial to determining the location of FDI. The majority of MNEs are expected to invest in countries with a well-established regulatory framework, a strong legal framework, and fewer entry barriers. Indeed, location advantages are more likely to be institutionalized and differ significantly between countries (Dunning & Lundan, 2008). At the same time, the company must use some of the "external factors" of the host country and its home company’s specific advantages to take full advantage of these location advantages.

The internalization advantages (I)

The advantage of internalization is that it enables the institutions of one company and one country to determine how to enter the foreign market based on the companies' motivation to invest abroad. Internal factors explain the firm's tendency to assimilate structural or endemic cross-border gaps in the middle market (Dunning & Lundan, 2008). Transnational corporations result from replacing an imperfect and imperfect market in which external transaction costs are high. This helps to explain why such companies create or use their specific advantages domestically rather than through an open market, thus explaining the scale and geography of the added MNEs (Dunning, 2001). It suggests that transnational corporations in less developed countries, which do not have the relative ability to transact internationally, should start with minority joint ventures in their FDI to reduce operational risks and transaction costs. In addition, a substantial trade surplus (deficit) should reduce (increase) the foreign investment activities of domestic companies and consider exports and foreign direct investment as an alternative option for the company. Of course, MNEs vary internally, depending on the different circumstances in which institutions play an essential role in determining the completeness or replacement of other organizational models.

Dunning & Lundan (2008) argued that in the Asian network multinational enterprise (MNE), existing ownership-based theories of the firm are increasingly being challenged by new types of organizations (Dunning & Lundan, 2008). Also, they mentioned that the institutional method that attempts to transcend both macro and micro levels of analysis, including formal and informal institutions, provides a hopeful way to promote our awareness of the various forms of modern MNE. The study results show that the institutional dimension can be integrated into the three pillars of the paradigm's OLI. They additionally cited that the institutional approach, which strengthens both the macro and micro levels and includes both formal and informal institutions, offers a promising way to advance our understanding of the various forms of modern MNE. The present theoretical framework focuses primarily on the work of Douglas North and explores how the institutional dimension is incorporated into the three components of the OLI paradigm (Dunning & Lundan, 2008).

Knoerich (2018) discusses the impact of path dependence theory on the evolution of FDI theory and studies the origin of FDI theories. Path dependence means the origin of the history of scientific theories of foreign direct investment. The theory of foreign direct investment has so far undergone its first three phases (Knoerich, 2018).

In the late 1950s and 1970s, several theories or paradigms competed to explain foreign direct investment, and by the mid-1970s, none of these theories could convincingly claim their superiority. The author concludes that the main contribution to defining the theory of foreign direct investment is Denning's OLI paradigm (Knoerich, 2018). The OLI paradigm is, by its nature, a product of previous theories and is a clear example of the path dependency in FDI theory.

The conceptualization of the OLI paradigm as an "envelope for economic and business theories" was somewhat unconventional and an intellectual move. It gave him an advantage in the competition for dominance in the theory of foreign direct investment and eventually led him to become a leading figure in the field. The OLI paradigm was common among scholars in the UK, the EU, and Europe. Dunning's dominant role in FDI theory remains undeniable. This once again confirms the OLI paradigm as the dominant theory of foreign direct investment in the world. The conceptualization of the OLI paradigm as an "envelope for economic and business theories" gave Dunning an advantage in the competition for supremacy in FDI theory and eventually led him to become a leading figure in the field (Knoerich, 2018). The OLI paradigm was common among scholars in the UK, the EU and Europe. Dunning's role in FDI theory is still the most important one, which proves that the OLI paradigm is the most important FDI theory in the world (Knoerich, 2018). In the Asian network multinational enterprise (MNE), current ownership-based conceptions of the company are increasingly being challenged by new types of organizations, according to Dunning & Lundan (2008). Institutional methods such as formal and informal institutions as well as cross-level analyses give a promising means to raise understanding of the various forms of modern MNE, they added. Institutional dimensions can be incorporated into the paradigm's OLI, as demonstrated by the study results. It was also mentioned that an institutional approach, which incorporates both official and informal institutions, can help us better understand the diverse types of modern multinational enterprises. There is a focus on Douglas North's theoretical framework here that examines how the institutional dimension is integrated into the three OLI paradigm elements (Dunning & Lundan, 2008). The impact of path dependence theory on the evolution of FDI theory is discussed in detail in Knoerich (2018), who also looks at the genesis of FDI theory. Because of their historical roots, foreign direct investment (FDI) theories have been studied in great depth over the years. Foreign direct investment (FDI) theory has gone through its first three stages so far.

After a decade of debate, no theory or paradigm emerged as the clear winner when it came to explaining foreign direct investment (FDI) in the late '50s and '60s and early '70s. The author finds that J. Denning's OLI paradigm is the most important contribution to defining the theory of foreign direct investment.

The OLI paradigm is a clear example of the route dependency in FDI theory because it is a product of earlier theories.

The "envelope for economic and business theories," as the OLI paradigm is described, was an intellectual leap. It offered him an advantage in the struggle for dominance in the theory of foreign direct investment and finally led him to become a leading figure in the field of foreign direct investment (Knoerich, 2018). For many academics across Britain and Europe, the OLI paradigm was widely accepted. The influence of Dunning on the notion of foreign direct investment (FDI) is evident. The OLI paradigm is once again confirmed as the prevailing theory of international direct investment. To gain an advantage in the race for supremacy in the field of FDI theory, Dunning used the OLI paradigm to conceptualize the paradigm as an "envelope for economic and business ideas" (2018). Scholars in the United Kingdom, the European Union, and elsewhere in Europe shared the OLI worldview. According to Dunning, FDI theory still relies heavily on Dunning's theory, which confirms that OLI theory is still most widely accepted as an FDI theory (Knoerich, 2018).

2.5 The role of state and industrialization policy

Industrial policy is an important element of economic change. Weiss (2015) argued that the role of the government is not only to rectify market failures but to stimulate and support innovation for improved efficiency. Public-private partnership to identify areas of development and barriers that the government can address focuses on strategic industrial policy rather than on specific areas or policy tools that should be used (whether subsidies, tax incentives, protection of import duties, etc.) (Weiss, 2015, p. 136). The strategic industrial policy removes the limitations on the growth of existing activities, which are identified in the public-private partnership dialogue. Co-financing by the private sector to solve problems can help strengthen the element of public-private partnerships. The role of the government in strategic industry policy is to promote competition, reduce transaction costs, and innovate in the development of the private sector. The government should support foreign direct investment or technical knowledge by providing monetary incentives and an attractive investment environment (Weiss, 2015). Mahmoud (1990) argued that to develop their economies, countries are trying to move towards industrialization. To achieve that, governments focus on the private sector and markets. Providing skills, better health, and attracting more females to the workforce will support industrialization's progress. In order to achieve the goal of industrialization, the government must play an active role in developing the technologies and material infrastructure required (Mahmoud, 1990).

Warwick (2013) examined the evidence for new thinking and new trends in industrial policy. In his view, economic growth has been stunted as a result of the 2008–09 global financial crisis. World politicians have joined forces in search of new sources of economic growth and job creation. When there is unbalanced growth in the economy, and some sectors take more importance than others, there is a possibility of some knowledge and skills being irreversibly lost (Warwick, 2013). Warwick (2013) argued that as global value chains become more complex and important, and competition from developing countries increases, so does interest in industrial policy. Warwick (2013) noted that although concerns about the decreasing share of manufacturing and the challenges from other developing countries provide a basis for focus on industrial policy, the term "industrial policy" has various meanings in the literature and is not necessarily applied to industrial production. Among the various definitions of "industrial policy" in the literature, Warwick gave a comprehensive definition “any type of intervention or government policy that attempts to improve the business environment or to alter the structure of economic activity toward sectors, technologies, or tasks that are expected to offer better prospects for economic growth or societal welfare than would occur in the absence of such intervention," Warwick (2013, p. 47).

The responsibility of the state is to create good conditions for business while regulating products, labor, and capital and ensuring macroeconomic and financial stability. Belief in the effectiveness of market mechanisms and a focus on framework conditions is a form of industrial policy (Warwick, 2013).

Warwick (2013) says that the growth of future production depends on the growth of innovation-based production by investing in intangible assets, new forms of production, and unfulfilled demands in the market. Meeting the demand for goods, accelerating labor productivity in the manufacturing sector, and the integration of emerging industries are the reasons for the decline in the share of production in GDP and employment in the

OECD countries. Even though the manufacturing sector is losing jobs and value added, it is still a big part of the economies of OECD countries. Also, in many OECD countries, production accounts for a large share of demand (Warwick, 2013). The author proposes a typology that focuses on the direction and areas of policy. He noted that industrial policy can be horizontal or selective. Governments can use a softer form of industrial policy, that is, "beyond industrial policy" to address problems that existed before the financial crisis, and that fits the easier and more coordinating role of government. By using a soft policy framework, the government and industry can work together better, find strategic priorities, increase their productivity, and reach other similar goals (Warwick, 2013).

According to Weiss (2015), industrial policy is a series of policies aimed at redistributing resources in favor of endeavors that are viewed as productive and dynamic in nature. But he sees the 2-by-2 matrix scheme (Table 2.1) as a useful way to classify industrial policy measures. He suggested ways to intervene in politics as follows: 1) -provision of state resources; activities or services that the private sector cannot provide to some extent; 2) -through market stimulation, offering subsidies, tax holidays, financing, and import protection. Additionally, it describes two types of industrial policy interventions: horizontal policy and vertical policy, which are shown below (Weiss, 2015).

Table 2.1. Classification of policy interventions

	Horizontal	Vertical
Public inputs	Broad-based skills training Infrastructure regulatory reform Banking sector regulatory reform Standard setting bodies Corporation tax reform General labor subsidy	Sector-specific skills training Targeted infrastructure investment Business plans for selected sectors Public—private research consortia Specific tax holidays Sector-specific labor subsidy
Market-based provision	Export promotion — credit availability, duty-drawbacks, tax treatment Export processing zones General venture capital funding General credit guarantees for SMEs Subsidized credit to all SMEs	Sector-specific export promotion Selective import protection Sector-specific venture capital funding Selective credit

	Tax incentives for R and D	guarantees Directed credit Selective R and D incentives Price support schemes

Source: Weiss (2015, p. 138)

Natsuda and Thoburn (2021) discussed the issues of industrial policy and import-substituting industrialization (ISI) in the field of the automotive industry in the ASEAN countries. They argue that industrial policy is one of the most important characteristics of developed countries. They divided industrial policy into two parts: horizontal-vertical industrial policy and hard-soft industrial policy.

They noted that the horizontal policy is focused on all sectors of the economy while the vertical policy is designed for one specific sector. Hard industrial policy is a guideline that requires economic entities to take certain actions and includes the establishment of state-owned enterprises, which is closely related to vertical policy. Soft industrial policy is the opposite of hard policy, which is a policy aimed at facilitating or supporting the development of knowledge, technology, innovation, human resource development, and market-based infrastructure. The authors also say that it can be horizontal, but it can also be vertical. And both the horizontal policy and the soft industrial policy meet all of the WTO's requirements (Natsuda & Thoburn, 2021).

2.6 Fiscal and non-Fiscal policies

In the economic literature, many researchers studying FDI and the role of the state in stimulating FDI divide the measures of state support for FDI into two categories, fiscal and non-fiscal incentives. In turn, non-fiscal incentives consist of financial and non-financial incentives. At the same time, the composition and number of fiscal and non-fiscal incentives may differ at the regional level, when one region of the country offers the best conditions for business (UN, 2009).

Fiscal incentives are understood as a set of measures to support state policy in the field of reducing tax rates, partial or complete exemption of investors from taxes or customs duties, or the return of previously paid taxes and customs duties in order to develop priority sectors of the economy (STRSO, 2016).

The non-fiscal incentives of public FDI policy are understood as a set of non-tax measures and incentives, the purpose of which is to facilitate the creation and implementation of the operational and organizational structures of the project, and not to provide tax breaks and other privileges (OECD, 2000). In fact, the main purpose of non-fiscal investor support tools is to support flexibility and ensure the viability of the business.

Depending on the degree of economic development of the country, the composition and group of incentives varies greatly. According to OECD (2000), developing countries are increasingly trying to use fiscal measures to attract multinational corporations. The main goal of the FDI host country is to create conditions under which the investors' expenses for tax and customs payments are less than if the investor works in another country. In essence, fiscal incentives are artificially created competitive advantages of the country to increase investment attractiveness (OECD, 2000).

In developed countries, where there is basic competition in the investment markets, then, accordingly, the state economic policy is aimed at supporting small and medium-sized businesses in order to better use the country's available resources. To better understand fiscal and non-fiscal incentives, the table below shows some elements of fiscal and non-fiscal incentives.

Table 2.2 Fiscal and non-fiscal incentives

Fiscal Incentives	**Non-fiscal incentives**
Tax holidays	Depreciation methods
Tax-free imports	Development Banks' loan policy
Tax exemptions	R&D support
Customs holidays	Environmental standards support
	Labor training support
	Government subsidies

Sours: OECD (2000)

Thus, the state policy has enough methods and tools to stimulate FDI, and their selection depends not only on the degree of economic development of the state, but also on economic priorities, the characteristics of investment sectors and the volume of expected FDI.

Chapter: 3 Trends of FDI in Tajikistan

This chapter presents trends of FDI inflows into Tajikistan from 1991 to 2021 and discusses the main characteristics of FDI in Tajikistan in terms of source and distribution by sector.

3.1 FDI history in Tajikistan

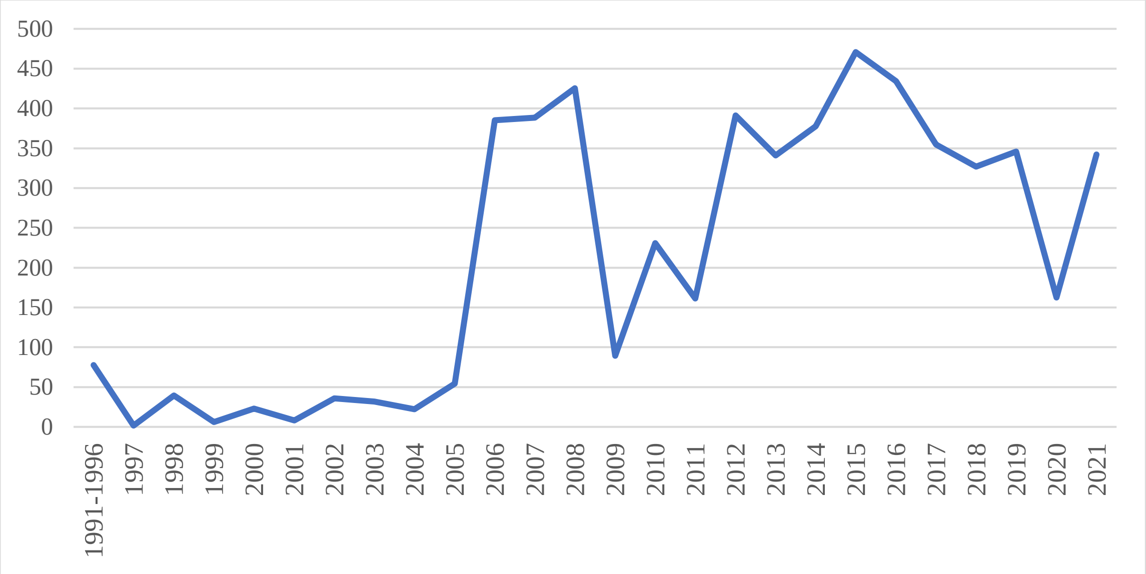
Thirty years ago, Tajikistan gained full independence following the dissolution of the Soviet Socialist Republics (USSR) in September 1991. Presently, independent Tajikistan is an integral part of the world community of more than 193 countries as a sovereign, democratic, law-based, secular, unified, and social state. Today, Tajikistan has established diplomatic relations with more than 160 countries (Ministry of Foreign Affairs of the Republic of Tajikistan, 2021).

The participation of the Republic of Tajikistan in the international movement of capital is a clear indicator of its open economy. The economy of Tajikistan is a small, open economy. Accordingly, the change in the indicators of the domestic capital market will not affect the attraction of FDI. Macroeconomic factors, including the domestic market's capacity, the stability of the national currency, political stability, and the high level of infrastructure development and labor market indicators, play an essential role in attracting FDI (Sultonzoda, 2020).

Each and every country's economic development depends in part on the level of investment activity, which helps spur growth and, in turn, improves societal well-being. In the current economic climate, FDI plays an essential role in addressing the challenges of accelerating the country's economic development in the absence of domestic capital. FDI provides additional financial inflows to the host country's economy and meets its needs for new advanced means of production, vocational training of workers, labor methods, and better use of production resources (ibid.).

Tajikistan's 30 years of independence (1991–2021) can be divided into three decades: -the first decade covers the period from 1991 to 2000, during which time Tajikistan takes the first steps to develop a legal framework for attracting domestic and foreign direct investment; -the second decade covers the period from 2001 to 2010, when the Government of Tajikistan implemented economic reforms in the area of the economic investment climate to attract foreign investment; and finally, the third decade, which begins in 2011, covers the period from 2011 to 2020.

Figure 3.1 The inflow of FDI in 1991-2021 (million US$)



Source: SCISPM (2022)

3.1.1 First decades (1991-2000)

Tajikistan's economic recovery has been delayed since independence in 1991 due to the civil war that lasted until the signing of a peace agreement in 1997. Investment has declined since independence, mainly due to internal conflicts. The aggregate real GDP fell by about 60 percent during 1992-to 1996 until the government's comprehensive reform program began in 1997. In the first ten years of independence, political instability and an unstable economic climate have reduced the attraction of FDI in Tajikistan. When Tajikistan got its independence in 1991, there was a lot of civil unrest and political and economic instability, so foreign direct investment (FDI) was mostly small investments in gold mines (Emine at al, 1999).

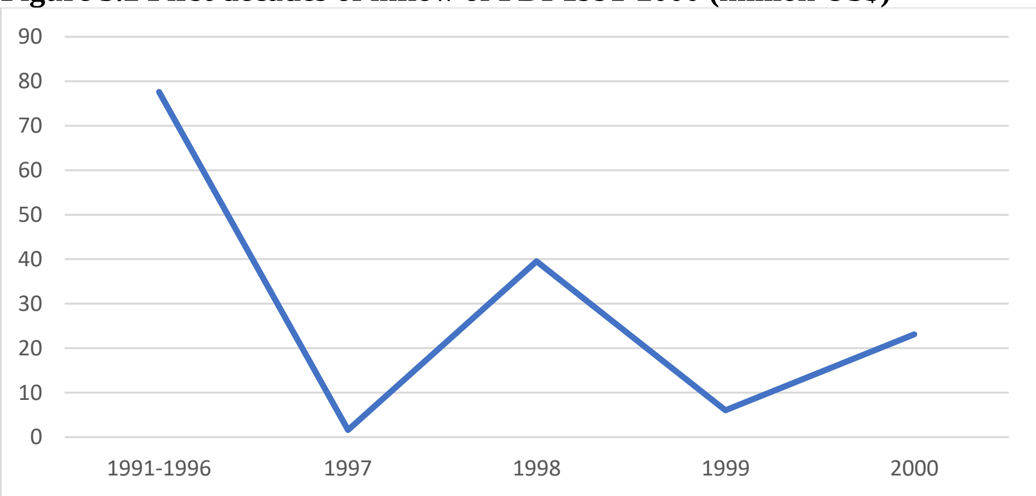
FDI involvement in Tajikistan in the first decade was shallow and irregular. The main reason for the instability is that the overall annual flow is so low that an investment can distort the image as a whole. In particular, in 1998, approximately 70% of FDI came into the country from a single investor, a mining company (World Bank, 2005).

The first phase of attracting foreign direct investment to Tajikistan began in 1991. Foreign participation in export and import operations, as well as foreign participation in state-owned enterprises, is regulated by the "Law of the Republic of Tajikistan on Foreign Economic Activity," which governs the basics of foreign trade and trade operations, as well as foreign participation in state-owned enterprises and state-owned enterprises (SCISPMRT, 2018).

The first "Law of the Republic of Tajikistan on Foreign Investment" was passed in 1992. Investors' interests were to be protected equally under this law to ensure that the economy could operate effectively under market conditions. Most importantly, however, the law made it clear to the government that foreign direct investment could be welcomed with open arms. Joint ventures now have to be registered as well. Joint ventures with both domestic and foreign founders were permitted. Companies could be wholly owned by foreign investors with no restrictions on the history of foreign and domestic shareholders in their share capital (ibid.). The law also defines foreign investment in all types of property and intellectual property of foreign nationals to produce goods, services, or other work that generates income or achieves social benefits (ibid.).

According to Asadov (2007), with the development and adoption of the "Law of the Republic of Tajikistan on the Privatization of State Property" in May 1997, the country took yet another step toward implementing economic development factors and increasing private sector involvement in public administration. When privatizing state assets, this law establishes clear lines of authority between the state and its authorized bodies and legal entities, thus fostering a more entrepreneurial environment (Asadov, 2007). Statistics from the government show that 148.3 million dollars in foreign direct investment came into the country during this decade. Most of this investment came from the mining industry (Figure 3.2).

Figure 3.2 First decades of inflow of FDI 1991-2000 (million US$)



Source: SCISPM (2022)

3.1.2 The second decades (2001-2010)

The second decade begins in 2001. At this point, Tajikistan's government has enacted a number of laws and regulations aimed at improving the country's investment climate.

As a way to attract foreign investment, new technologies and modern infrastructure, as well as to create new jobs and develop industrial production, the "Law of the Republic of Tajikistan on Free Economic Zones" was first adopted in May 2004. Finally, the Government of Tajikistan established the Sughd and Panj Free Economic Zones in 2008 and the Dangara and Ishkashim Free Economic Zones in 2009, by their decisions (Ministry of economic development and trade Republic of Tajikistan, 2017).

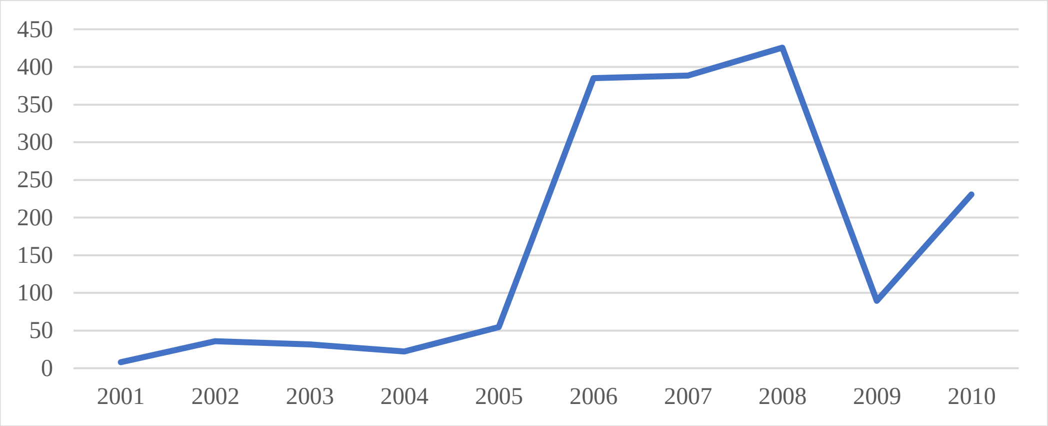
Economic development in the Republic of Tajikistan, including job creation, sustainable economic growth based on new technologies, use of best international practices, consolidation and integrated use of public and private capital, testing of new economic methods based on a mix of different forms of ownership, and introduction of new economic methods (Ministry of economic development and trade of the Republic of Tajikistan, 2017).

Tajikistan has set up and runs government agencies whose job it is to attract foreign investment and make the country a good place to invest. This is to improve the investment climate and bring in more foreign direct investment, especially economic direct investment (Sultonzaoda, 2020).

At the beginning of this decade, the President of Tajikistan established two committees: the State Committee on Investments and the Consultative Council on the Improvement of Tajikistan's Investment Climate. The Republic of Tajikistan's various ministries and agencies also have the power to attract investment (SCISPMRT, 2021).

The economy of the Republic of Tajikistan has received US$ 1672.3 million in foreign direct investment over the past ten years, according to data from the Agency on Statistics under the President of the Republic of Tajikistan. Foreign direct investment (FDI) has increased rapidly in this decade since 2005, but imports fell in 2009 as a result of the global financial crisis (Figure 3.3.).

Figure 3.3 Second decades inflow of FDI 2001-2010 (million US$)



Source: SCISPM (2022)

3.1.3 The third decades (2011-2021)

Tajikistan has undergone a series of significant institutional reforms since 2011 in order to ensure economic growth and market relations as well as the quality of national economic development, financial stability, tax administration, and rational resource utilization. The fast industrialization of the country and the growth of the real sector of the economy have, of course, made it easier to get investments from both inside and outside the country.

Tajikistan became a full member of the World Trade Organization in March of this 2013 year. As a result of joining the WTO, Tajikistan was able to deepen its integration into the global economy while also providing a solid foundation for the expansion of mutually beneficial cooperation and the defense of Tajikistan's economic interests. It is critical to make use of the modern advantages of the multilateral trading system in order to improve organizational structures and train highly qualified specialists in the fields of economics and commerce. As a result of Tajikistan's WTO membership, the legal framework for trade and the competitiveness of domestic products to international standards have all been strengthened. As part of Tajikistan's process to join the WTO, the government passed a resolution on the Republic of Tajikistan's economic adaptation in 2014. This resolution included a plan to improve Tajikistan's "Doing Business" rating (WTOTJ, 2021).

It was during this decade that the government of Tajikistan adopted a law on free economic zones in March 2011 to further improve the investment climate and attract more FDI via free economic zones in Tajikistan (FEZ). The Law of the Republic of Tajikistan on Public-Private Partnership (PPP) of 2012 has parts about FDI, such as the adoption of the "Concept of public policy for attracting and protecting investment."

Also in 2013, Tajikistan's "Law on Investment Agreements in the Republic of Tajikistan" was enacted, which governs investment agreements between the state and investors on priority projects. Also in 2016, Tajikistan's Parliament approved a new version of the Law of the Republic of Tajikistan on Investors. Investing in Tajikistan is regulated by this law. It sets up the legal and economic framework for encouraging and supporting state investment by making sure everyone has the same rights and that the law is fair (UNCTAD, 2016). This is important.

There are currently national and regional public-private dialogues taking place in Tajikistan to bring the business and investment climate up to international standards. State property is being privatized; access to financing and business development infrastructure is being ensured; product quality and safety standards are being established; and modernized public services are being provided for entrepreneurs and investors.

As a result of the privatization of state property and the implementation of individual projects to rebuild natural monopolies and large state-owned enterprises, 90 percent of state assets were transferred to the private sector. The government's economic policy aims to support the private sector and entrepreneurship with the goal of eliminating administrative barriers and ensuring that legal norms are clear to businesses. Public-Private Partnership, Licensing System, Moratorium on Inspection of Business Entities in the Production Sector, etc. Tajikistan's concept of state policy on investment attraction and protection, as well as its 2012-2020 state entrepreneurial support program and several sectoral strategies and programs, have all been adopted. The investment climate has been improved by amending a number of normative and legal documents (SCISPMRT, 2021).

To date, Tajikistan has moved up 113 steps in the World Bank's "Doing Business International" ranking. This has made it easier for modern financial technologies to be introduced in Tajikistan (World Bank, 2020).

Significant reforms have been implemented in order to improve sectoral legislation, digitize government databases, modernize services to businesses, and establish a single "Single Window" system for business registration, obtaining construction permits, registering property, connecting to power, real estate registration, and the introduction of direct online procedures. The public institution "Center for Public Partnerships" and the private sector were established to implement measures to organize activities in the field of public-private partnerships, capacity building, professional development, and technical assistance for the implementation of public-private partnership projects and the private sector in the area of infrastructure and social services.

Reconstruction of the country's international airports has been completed, and an electronic visa system for international tourists has been implemented to take advantage of the country's current tourism opportunities. The Committee on Tourism Development under the Government of the Republic of Tajikistan was established, and the Tourism Development Strategy for 2030, the Tourism Development Program for 2018-2020, and the Law of the Republic of Tajikistan "On Tourism" were updated. The law enforcement agencies have established a Tourism Development Coordinating Council and a Tourism Department. According to the government's decision, the first five years of operation for new tourism businesses are exempt from income tax, VAT, and customs duties. Raw materials and equipment for tourism infrastructure construction are exempt from VAT and customs duties.

More than 40 types of incentives and benefits have been put in place by the Tajik government over the past decade in order to support entrepreneurship and encourage investors to invest in Tajikistani businesses. In 2018, the State Institution "Formation and Development of Entrepreneurship of Tajikistan" with its regional offices in Dushanbe, Bokhtar, Kulob, Khujand, and Khorog was given to support new start-ups and the development of small and medium businesses through 11 methods, information, consulting, and training support.

These reforms have helped Tajikistan rise from 165th place in the World Bank's Doing Business report to 106th place in 2020, making it the world's best reformer country in 2015 and 2020, respectively (World Bank, 2020).

Tajikistan received an average of 3.7 billion dollars in foreign direct investment (FDI) each year from 2011 to 2021.

3.2 Analysis of the sources of Flowing FDI into Tajikistan during 2007-2021

Attracting foreign investment is one of the most important criteria for the quick industrialization and development of many economic sectors. Over the past decade, attracting investment has been regarded as crucial for the formation and innovative development of Tajikistan's distinctive industries. In the Republic of Tajikistan, one of the most critical challenges is attracting international investment. And in the context of transformation and transition to a market economy, foreign money contributes to economic development. Foreign capital can flow into many areas of the national economy and alleviate material shortages at home. Today, the country's government is taking real steps to attract foreign investment from certain countries and make the country a good place to do business (Shahnozai, 2020).

According to the Agency on Statistics under the President of the Republic of Tajikistan, the total inflow of foreign investment in 2007–2021 was 11.4 billion US dollars, of which 4.8 billion US dollars was FDI and 6.5 billion US dollars were other types of investments (including concessional loans and other financial instruments) (Table 3.1).

The 2008 global financial crisis had a detrimental influence on Tajikistan's ability to attract foreign investment, resulting in a minimal inflow of $383 million in 2009, or only 33 percent of the 2008 level (US$ 991 million). gave. Two years after the onset of the crisis, there is an increasing trend of foreign investment in the nation. This trend has slowly given way to a big growth. In 2013, foreign investment was about $1 billion, which is 2.6 times more than it was in 2009.

Table 3.1. Shows foreign investment inflows to Tajikistan from 2007 to 2021 (US$ million)

Year	FDI	Other investment	Total
2007	388.4	472.3	860.7
2008	425.6	563.5	989.1
2009	89.3	293.7	383.0
2010	230.9	228.2	459.1
2011	161.4	215.9	377.3
2012	391.3	458.8	850.1
2013	341.0	884.0	1,225.0
2014	377.4	531.8	909.2
2015	470.9	506.9	977.8
2016	434.2	408.4	842.6
2017	354.5	746.0	1,100.5
2018	326.8	317.7	644.5
2019	345.9	261.3	607.2
2020	162.5	265.9	428.4
2021	342.2	376.1	718.3

Total	**4,842.3**	**6,530.5**	**11,372.8**

Source: SCISPM (2021)

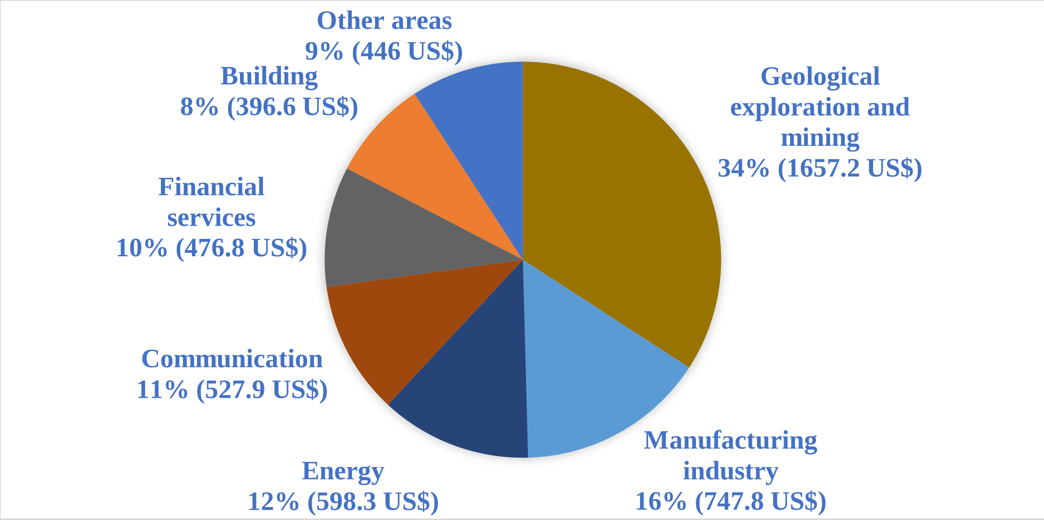
Notice: Other types of investments include concessional loans and other financial instruments

FDI is the source of funding for the development, expansion, and creation of new products and services, as well as the enhancement of extraction and processing technologies for minerals. As part of their proactive economic policies, governments and individual states pursue a policy of encouraging FDI. The primary objective of every state's economic policy is to foster economic growth and raise the standard of life of the populace. In addition, each nation's economic policy aims to reduce the price of products and services and provide social safety. The growth of foreign direct investment in the economy of the Republic of Tajikistan is a positive phenomenon. Unlike portfolio capital and other investments with reversible and quick monetary evaluation, FDI is intimately tied to the development of the current sector of the economy, innovative technology, and the use of current management and marketing techniques. Moreover, FDI does not lead to an increase in a country's external debt (Sultonzoda, 2020).

Inflow of FDI in 2007-2021 by sector

Energy received US$ 598.3 million; communications received US$ 527.9 million; construction received US$ 396.6 million; financial services received US$ 476.8 million; geological exploration and mining received US$ 1657.2 million; industry received US$ 747.8 million; trade received US$ 55.3 million; food industry received US$ 12.4 million; road construction received US$ 14.3 million; healthcare received US$ 5.1 million; agriculture received US$ 106.1 million; and tourism received US$ 39 million. (Figure 3.2).

Figure 3.4 Inflow of FDI by sector in 2007-2021



Source: SCISPM (2022)

1) Inflow of foreign investment into Tajikistan by countries from 2007-2021

According to official Government of Tajikistan statistics, from 2007 to 2021, more than 65 countries around the world invested in the economy of the Republic of Tajikistan in all areas, with the ten largest investors listed below. China, the Russian Federation, the United Kingdom, and the United States are the countries that have invested the most in Tajikistan (Table 3.2).

Table 3.2 Inflow of foreign investment by countries in Tajikistan from 2007-2021 (US$ million).

Countries	USD million	Sectors
China	3,252	Communications, construction, and financial services, geological and mining surveys, installation of technological equipment, industry, construction, and other services.
Russia	1647,9	Construction, communications, geological exploration, financial services, healthcare, construction industry, trade, energy, tourism, and other services.
United Kingdom,	714,6	Mining and geological study, construction, financial services, coal mining, industry, and trade.

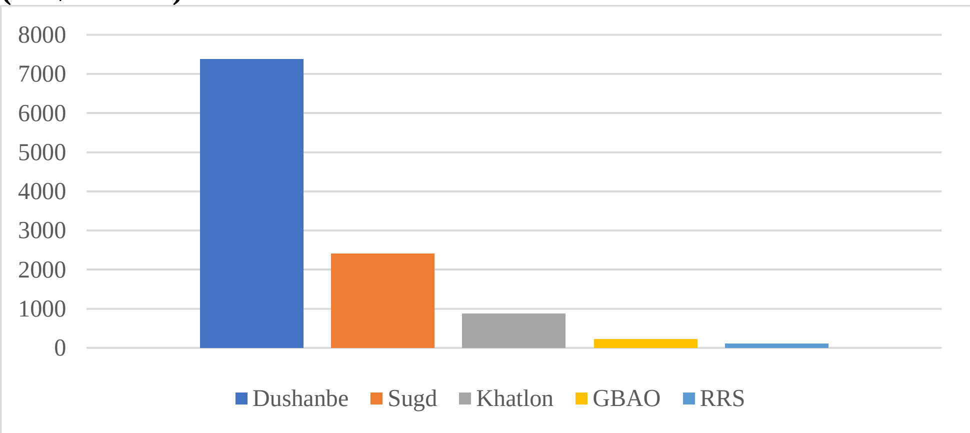
United States	712,8	Construction, financial services, coal mining, industry, and trade.
Kazakhstan	585,7	Communications, financial services, education, agriculture economy, health care, water supply and coast protection, construction, geological and mining research, industry.

Source: SCISPM (2022).

2) Regional structure of FDI inflow in Tajikistan from 2008-2021

One of the government's top priorities is to attract FDI to the regions. According to statistics, from 2008 to 2021, the capital city of Dushanbe accounted for 7 billion 384.8 million dollars, or 68 percent of total foreign capital inflows, and Sughd Province accounted for 2 billion 406.4 million dollars, or 21 percent 876.1 million dollars, or 8.3 percent. to Khatlon Province, 103.7 million dollars, or 1 percent to Gorno-Badakhshan Autonomous Region, and 231.5 million dollars, or 2.2 percent to Republican Subordination (Figure 3.5)

Figure 3.5 Inflow of foreign investments into the regions in 2007-2021 (US$ million)



Source: SCISPM (2022)

As a result, there is a clear disparity in the distribution of foreign investment across the country. One reason for this inequality is the regional policy's weakness in attracting foreign investment, particularly in the areas of ensuring the safety of investors and investors, transportation and market infrastructure, and insurance to provide them with information on investment projects. Foreign investment, in our opinion, should be directed toward the country's least developed regions.

Chapter: 4 The government policy on FDI in Tajikistan

4.1 Tajikistan’s FDI Policy in the Historical Perspective

Foreign direct and domestic private investments play a significant part in the current economic system. With the influx of foreign direct investment, there is an international movement of capital, cooperation and specialization of production, and a shift in the management system. These elements are significant for emerging countries and can assure the country's admission into global markets.

Considering the state policy of the Republic of Tajikistan to stimulate foreign direct investment, it should be divided into two historical eras. Undoubtedly, the economic system of today's Tajikistan was formed during the Soviet period, and it was based on the principles of a planned economy. Therefore, foreign direct investment in the Union of Soviet Socialist Republics (USSR) was not considered an essential tool for economic development. Like other countries of the Soviet era, the planned economy of the Tajikistan USSR was wholly based on the public sector of the economy. Therefore, in the historical plan of economic development, one should distinguish between the state policy towards FDI after the collapse of the USSR, that is, during economic reforms, and after economic reforms.

4.1.1 The First Era (1990-2000)

The management of the economic system of the USSR was centralized, and the degree of state intervention in all spheres of the economy was relatively high. In the Soviet period, state and capital investments fully supported the entire industry. Therefore, except for the last year of the existence of the USSR, the private activity sector in the economy was banned entirely. State-owned enterprises monopolized all sectors of the economy. Thus, during the Soviet period, the functioning of the private sector with any investment was severely limited, and there was no talk of FDI inflows (Fomin & Khanin, 2017).

In historical terms, analyzing the economies of the former USSR countries, it should be mentioned that with the fall of the USSR and the transition to a system of market relations, progressive changes took place in the state economic policy. In general, after 1990, all the countries in the USSR undertook the reform of the financial system, while the share of state-owned firms in the economy was substantial (Polynov & Tarasova, 2017). The initial steps in economic reform were the formation of the private sector, the of foreign capital, the permit system, and the systems of taxation and investment encouragement. During this period, the bulk of the activity affected the institutional and legislative framework. The most major step taken by the authorities in growing the private sector and attracting foreign investment was the privatization of state-owned industrial firms. These events offered the fundamental impetus for FDI (Salvator, 1992).

4.1.2 The Second Era (2001-2020)

In the second stage, the state authorities enhanced the investment climate, the legal protection of foreign capital, the expansion of rights, and guarantees of foreign investment security. One of the main areas of economic reform during that period was to minimize the degree of governmental regulation of the economy (SCISPMRT, 2018). After the 2000s, after implementing key reforms for the transition to a market economy, the state's economic policy made more substantial changes in the economy's structure. During this period, the share of the public sector in the economy was significant, but developments have led to the reality that the role and magnitude of the private sector in the economy have grown to be dominant (Asadov, 2007). Therefore, the future expansion of the economy and the integration of the economies of the newly established republics of the former USSR required more and more foreign capital to integrate into the world economic system (Fomin & Khanin, 2017).

4.2 Current Tajikistan's FDI Policy

The economic literature for evaluating FDI policy should consider fiscal and non-fiscal instruments for influencing FDI (Bartels & de Crombrugghe, 2009). The economic policy of Tajikistan mainly uses fiscal methods of influencing FDI inflows, but at the same time, in order to stimulate FDI, there are special non-fiscal elements of influencing FDI as part of the sectoral development policy (Adami, 2012).

Depending on the volume of investment, it is proposed to exempt the investor from income tax. There are also tax and non-tax methods to stimulate the investor, depending on the sector of activity in the economy. The priority sectors are industrial production and tourism (Abrori & Natsuda, 2022).

The current economic policy of the Republic of Tajikistan focuses on the industrial development of the country and the creation of new capacities in priority sectors of the economy, especially such sectors of industry as light industry (including the textile industry), mining and electricity generation. These sectors of industry occupy a separate place in the economy of Tajikistan. Due to the limitation of domestic investment opportunities, underdeveloped infrastructure, low effective management system, as well as the lack of qualified specialists in these industries; the industrial development of the country needs to attract FDI; since, FDI allows moving not only financial resources but also technology and management system (State Industrial Policy, 2017).

The current model of Tajikistan's economic development assumes the use of FDI as the main tool for influencing the industrial sector. Therefore, the Program for the Accelerated Industrialization of the Republic of Tajikistan for 2020-2025 and the National Development Strategy emphasize acquiring FDI to 10% of GDP (Ministry of Industry and New Technology of Tajikistan, 2020).

According to the report of the US Department of State, the main priority areas of the industrial sector for investment are as follows (Saifutdinov, 2022):

1. Production of ecological electricity, in particular hydroelectric power plants.
2. Light industry, especially the textile industry, clothing industry, and footwear industry.
3. Mining industry.
4. Food industry
5. Production of building materials

Tajikistan has an enormous potential to produce green electricity and it is considered the country's top priority industry. To attract FDI, government policy provides for a number of separate conditions for investors. In particular, to attract foreign capital and develop new energy capacities, Tajikistan actively takes loans and allows equity participation of investors who can receive guaranteed passive income. Also, given the importance of the energy sector, special concession agreements are provided that ensure the safety of capital investments and guarantee the return of invested funds and profits (Doukas et al., 2012). To ease the burden of the tax code, depending on the volume of hydroelectric power plans (HPPs) under construction, special incentives are offered for the commissioning of equipment and construction.

The light and textile industries have historically been the driving force behind the development of the Tajik economy. The production and primary processing of cotton give Tajikistan only a small part of the profits from the global value chain, therefore Tajikistan is interested in the development of the textile industry with the release of final products (Atta, 2009).

Tajikistan has the potential to produce 400,000 tons of high-quality cotton. For the introduction of all cycles of cotton processing, the government provides for a tax mechanism, namely the exemption of the investor from paying taxes for up to 5 years, exemption from customs duties and taxes on equipment and machines of the textile industry. For enterprises that plan to provide a full cycle of cotton processing to the final product, there is an exemption from income tax for 12 years, as well as preferences for land tax (Abrori & Natsuda, 2022).

The non-fiscal measures of the textile industry include the allocation of land for the cultivation of special varieties of cotton, as well as restrictions on the export of cotton fiber. Along with the textile industry, the leather and silk industries have priority and special support measures are provided to produce end products (Abdugafforzoda, 2021).

The mining industry occupies a special place in the structure of the Tajik economy and tends to grow rapidly. Historically, the first industry where the first FDI was received is the mining industry (Maxudova, 2022). Since this industry had serious barriers to entry into the market, accordingly, the state policy is aimed at reducing the barriers to entry into the market. Also, within the framework of the sectoral policy, support is provided for intelligence and scientific research and the simplification of licensing systems for activities and procedures for foreign economic activity (Ikromi, 2020).

The production of building materials is of significant importance to the Tajik economy. Cement production has received the most rapid development through state support for this industry as part of the import substitution policy. Stimulation of this industry, in addition to tax preferences, is also based on government purchases of building materials from domestic manufacturers (Tashripov, 2019).

Thus, Tajikistan actively uses fiscal and non-fiscal instruments to improve its FDI policy. The FDI policy is integrated with the main strategic documents of socio-economic development, as well as with strategies and programs for the sectoral development of the country’s economy. Moreover, to ensure the safety of investments, the government of the country provides macroeconomic stability in the field of stability of exchange rates and inflation.

4.2.1 Sectoral policies of Tajikistan

The sectoral development of the economy of Tajikistan is one of the most important tools for the accelerated industrialization of the country. To stimulate FDI inflows, government policy provides for fiscal and non-fiscal incentives. To a greater extent, these incentives are dominated by fiscal incentives, but there are a number of non-fiscal incentives that allow the development of priority sectors of the economy.

For the development of these sectors of the economy, the state pays special attention and widely uses investment policy incentives. The main dominant incentive is exemption from taxes and customs duties, reduction of tax rates, etc. To support production activities, independence from the economic sector, there is an exemption from corporate tax, depending on the volume of investments. The period of exemption from corporate tax depending on the volume of investments (see Table 4.1) and (Table 4.2).

Table 4.1 Exemeption from taxes depending on the amount of investment.

Investment volume (USD)	Tax exemption period (years)
200,000	2
500,000	3
2000,000	4
5000,000	6

Source: Law of the Republic of the Tajikistan “On Investments” (2018)

Table 4.2 Fiscal incentives depending on the sector of the economy and type of activity

Sector of economy	Terms and conditions	Fiscal incentives	Period (years)
Textile	full cycle of cotton processing	VAT Custom duties Corporate tax	12
	import of textile machinery	VAT Custom duties	No period
	import of components to produce clothing	VAT Custom duties	No period
Hydropower energy	construction of new capacities	VAT Vehicle tax Property tax Social tax Stamp duty on the issue of securities	considered separately
Mining	export of precious metals and aluminum	VAT Custom duties	No period

	import of raw materials to produce final products	VAT Custom duties	No period
Tourism	Import of machinery and materials for the construction of tourist facilities	VAT Custom duties	No period
Agriculture	poultry farming and animal feed production	VAT Custom Duties Corporate tax	6
		property tax	
	import of breeding animals	VAT	No period
	import of agricultural machinery	VAT Custom duties	No period

Source: Tax and Custom Codes of Republic of Tajikistan (2021)

This table shows that the state, in order to attract FDI and develop priority sectors of the economy, is pursuing an active investment policy through fiscal incentives. Among industries, the most fiscal stimulus is assigned to the textile industry and hydropower.

Along with fiscal incentives, non-fiscal incentives are provided in Tajikistan, but the effectiveness of their use to attract FDI is lower compared to fiscal incentives.

Non-fiscal incentives in Tajikistan are most associated with providing financial resources to investors. In order to finance, subsidize, issue a grant, special funds have been created under the ministries of the economic bloc. And for the purpose of concessional lending to business, the “Entrepreneurship Support Fund” was first created and then it was transformed into the industrial-export bank “Sanoatsodirotbank”.

Tajikistan is interested in attracting highly qualified specialists, therefore, in order to support the investor, the state policy in the field of labor and employment in Tajikistan, if necessary, increases the quotas for hiring foreign citizens, as well as provide for special working and employment conditions.

For the agricultural sector and reducing the financial burden, the state can subsidize representatives of this sector, this is especially noticeable when buying vehicles.

Also, for investors in the agricultural sector, the state provides for free use of land and the application of a special procedure for allocating land.

Also, for the development of the tourism industry, the state provides for a special procedure and conditions for the allocation of land for the construction of tourist facilities. It also provides for free issuance for use of unused state buildings and structures for a period of 2 years. In addition to this, the absence of any types of inspections of business entities is envisaged for 5 years (Tourism Development Strategy of the Republic of Tajikistan up 2030 year, 2020).

For the rest of the business category, the state periodically introduces a moratorium on inspections by state bodies, which helps to reduce corruption. The state also subsidizes the development of innovation and R&D, trains the necessary specialists, and gives state property for free use.

Thus, the state sectoral policy in Tajikistan actively uses, first of all, fiscal incentives. The greatest number of fiscal stimulus is intended for the hydropower industry, the textile industry and agriculture. Also, along with these industries, special attention is paid to the mining industry. Fiscal incentives are mainly presented in the form of exemption from taxes and customs duties for a certain period. This mechanism has special conditions for the import of machinery and components for industries.

Non-fiscal incentives for FDI are limited mainly to the agriculture and tourism sectors. In the case of agriculture, where the country's population is mainly employed, government policy aims to reduce the financial burden through subsidies and grants. For new market players, the state can allocate agricultural land in a special manner, which is important for a foreign investor. The tourism industry has recently begun to grow at a rapid pace, therefore, considering the profitability of the sector, the state uses all resources, especially non-fiscal incentives, to introduce new players to the market (IMC, 2017).

Another important area of non-fiscal instruments in Tajikistan is the use of special depreciation methods. The state, understanding the initial problems of a new business, considers graded rates and depreciation methods, which makes it possible to ensure the competitiveness of a business at the initial stages by reducing costs and ensuring a competitive price (Tax Codes of Republic of Tajikistan, 2021).

Thus, considering the methods of stimulating FDI in Tajikistan, it turned out that the state policy mainly provides for and widely uses fiscal incentives, non-fiscal incentives are very limited, they are sectoral in nature and are widespread in those sectors of the economy where the majority of the population of the republic works. One of the leading sectors where non-fiscal incentives are more directed is agriculture.

4.3 Free economic zones in Tajikistan (FEZ)

To achieve national priorities by developing the country's regions, increasing the country's production and export potential, and attracting more foreign investment, Tajikistan established five free economic zones, including the FEZ "Sughd", the FEZ "Pyanj", the FEZ "Ishkashim", the FEZ "Dangara", and the FEZ "Kulyab" (Ministry of economic development and trade Republic of Tajikistan (MEDT 2020).

To create favorable conditions for the sustainable economic development of the country's regions, free economic zones are established to create new jobs, attract domestic and foreign investment, particularly foreign direct investment, expand the production of goods and services based on modern technologies, apply advanced practices, export the best world practices, and solve other economic and social problems (NDS, 2015).

Forms of activity of the free economic zones "Sughd" production and innovation, "Dangara" production and innovation, "Pyanj" complex, "Ishkashim" industrial and industrial trade, and industrial zone-industrial and industrial zone By decisions of the Government of the Republic of Tajikistan in 2011, the Republican Fund for the Development of Free Economic Zones in the Republic of Tajikistan in 2012, and the Supervisory Board of Free Economic Zones in 2014, to promote the development of FEZs and address current issues (MEDT, 2017).

From the start of operations until January 1, 2021, 72 domestic and foreign companies were registered as entities in the republic's free economic zones. The free economic zone "Sughd" has 30 subjects, FEZ "Dangara" has 25, FEZ "Panj" has 11, FEZ "Ishkashim" has 5, and FEZ "Kulyab" has one. A total of 25 registered entities, 14 in the FEZ "Sughd," 11 in the FEZ "Dangara," and 11 in the FEZ "Pyanj," carry out production, service, and export-import activities. Operations begin, and technological equipment is introduced (Ministry of economic development and trade Republic of Tajikistan, 2021).

Subjects of free economic zones are exempt from paying any taxes, except for income and social taxes, under current legislation. To increase the attractiveness of FEZs even further, the country's government implemented reforms to improve the regulatory framework, provide administrative and fiscal incentives, implement a "One Stop Shop" system for servicing FEZ entities, and strengthen the FEZ's capacity (MEDT, 2017).

Chapter: 5 Comparative Analysis of Investment climate of Tajikistan

5.1 FDI in the former USSR countries

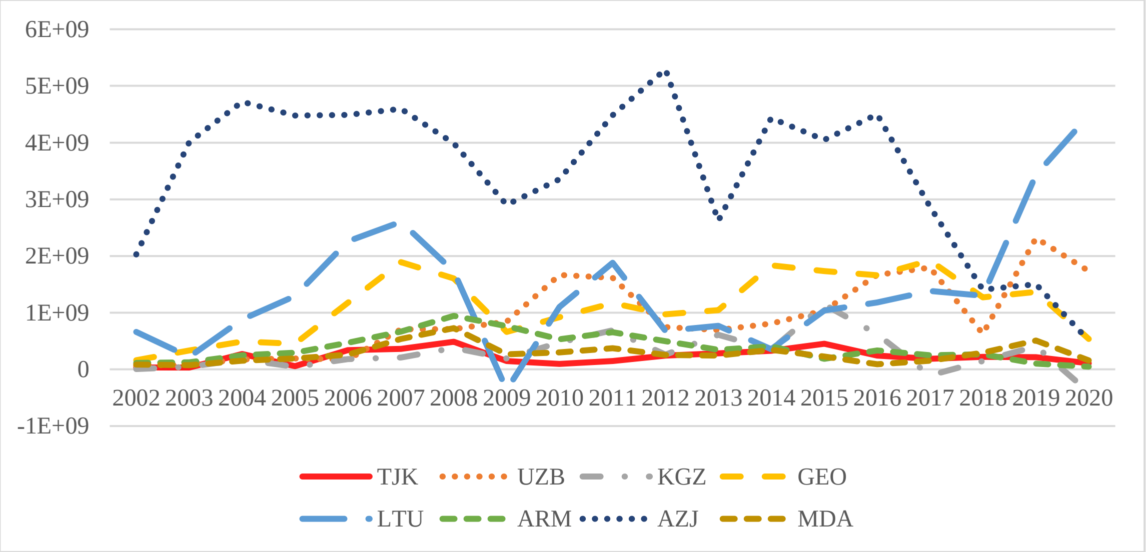
All former USSR countries in the sample share a historical and economic commonality during the Soviet period. The main difference between these countries is that the systems of FDI stimulation and business support are different among them. The same is true for their economic development (Ilbery, 1998).

However, all these countries, only after the collapse of the USSR, were able to attract FDI, create conditions for investment, and go through the path of economic reforms (Kalotay & Sulstarova, 2021).

According to World Bank data (Figure 5.1), Azerbaijan is the leader in FDI inflow, mostly due to the oil industry. After the dissolution of the USSR for the development of oil reserves in Azerbaijan, since energy resources, notably gas and oil production, are a highly profitable sector.

The lowest levels of FDI from 2002 to 2020 were in Kyrgyzstan, Tajikistan, and Moldova. If Azerbaijan could stimulate FDI inflow through the raw material component, then other group countries do not have oil and gas reserves. Therefore, to attract FDI, they embarked on deeper economic reforms. Georgia and Lithuania are leaders in FDI inflows but lack natural resources (Bayulgen, 2005).

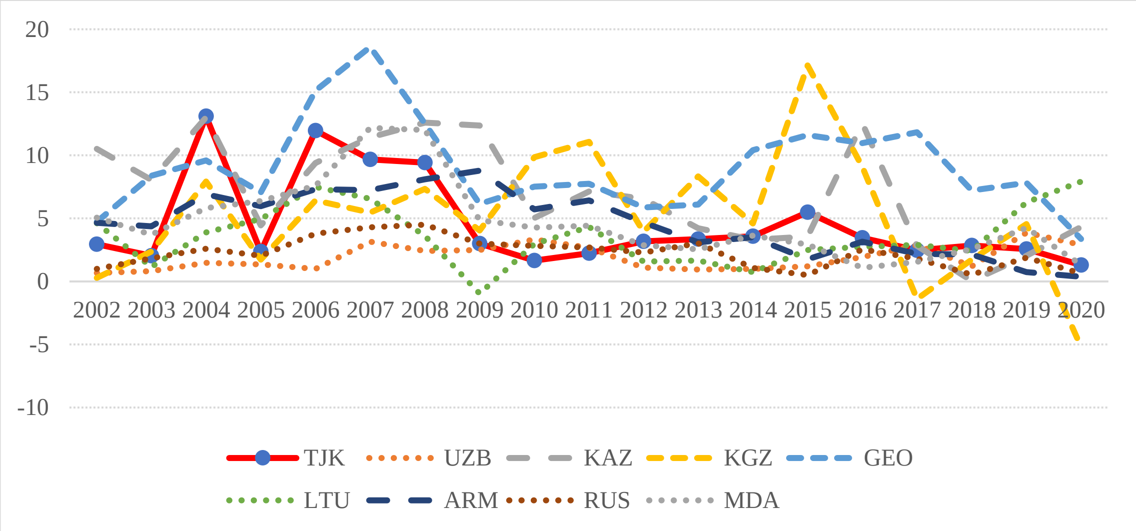
Figure 5.1 Trends of net FDI inflow by former USSR countries 2002-2020



Source: World Development Indicators (online)

The most significant volumes of FDI inflows in % of GDP have different indicators from 2002-to 2020. From 2002 until the 2008 world economic crisis, Georgia, Kazakhstan, Moldova, and Tajikistan were the leaders in the inflow of investments. However, following 2008, FDI inflows as a percentage of GDP tended to drop without rebound, save for Georgia. The economy of Georgia is the most equipped with FDI, as the volume of FDI to GDP surpasses 20 percent. In Tajikistan, this indicator tends to decrease after 2009 and gets 5%. Unlike other countries, Lithuania has been increasing FDI volumes, and since 2018 the volume of FDI to GDP has been growing and will reach 8% in 2020, which is the highest among these countries in 2020 (Figure 5.2).

Figure 5.2 Ratio of FDI inflow % of GDP in former USSR countries (2002-2020)



Source: World Development Indicators (author calculation)

5.2 Comparative Analysis of Investment Climate in the former USSR economies

The primary purpose of the comparative analysis is to determine the gaps between the characteristics of the investment climate in Tajikistan and the sample countries. Also, the study is supplemented by current assessments of the investment climate in Tajikistan through other scientific publications.

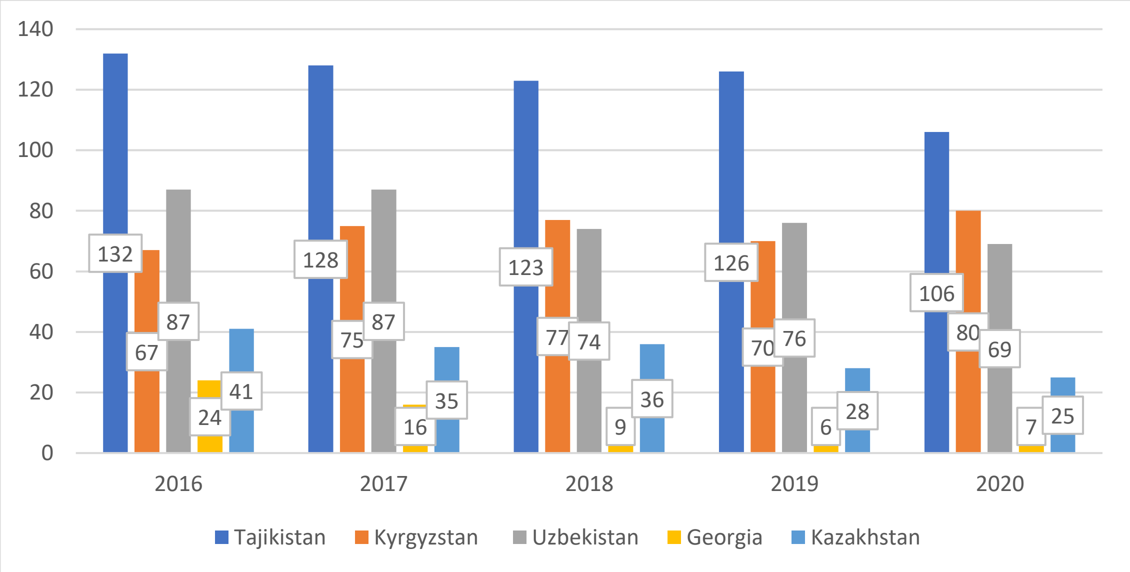
For comparative analysis, such countries as Uzbekistan, Kazakhstan, Kyrgyzstan, Kazakhstan, and Georgia were selected since these groups of countries have a similar economic system, implement relatively similar FDI policies, and are in the same region.

The World Bank’s Doing Business rating and the Global Competitiveness Index of the World Economic Forum are used for comparative analysis. The Doing Business Ranking defines the key drivers of doing business and investing. At the same time, the

Global Competitiveness Index looks at a country's existing investment and competitive strengths, market conditions, macroeconomic stability, and economic policy effectiveness and is comprehensive.

The Doing Business rating compares the ease of doing business across the world, compiled by the World Bank based on 12 components, which include institutional, permissive, regulatory factors. These factors describe various but important aspects of running a business from starting a business to liquidating it, such as the procedures for opening a business, obtaining electricity, regulating construction, obtaining a loan, tax payments, bankruptcy procedures and liquidating a business (Fifure 5.3).

Figure 5.3 Position of countries in the ranking "Doing business"2016-2020
(The higher value, worse the business environment).



Source: World Bank Development Indicators

From the comparative table among the sample countries, Georgia offers the most favorable conditions for business development, as this country has been in the top 10 attractive countries for business in recent years. The gap in the ranking of these countries of the former USSR is enormous. While Kazakhstan and Georgia have made great strides in improving the business climate, Tajikistan lags far behind them, with a gap of almost 100 in the rankings for 2020. At the same time, Uzbekistan and Kyrgyzstan are in the middle positions in the rankings.

If we consider the rating results in the dynamics of 5 years, then Tajikistan has the most significant changes in the rating, and these changes are positive. Tajikistan, in 2016 was the 132 attractive states for investors and business, and in 2020 it became the 106th

most attractive country for business. The difference between 2016 and 2020 is 26 points, which means that in terms of attractiveness to investors, Tajikistan is ahead of 26 countries compared to the 2016 rating. According to the Doing Business report for 2020, Tajikistan has significantly enhanced its position in three indicators: starting a business, getting credit, and trading across the border. Despite this, Tajikistan lags far behind neighboring countries, and the gap among investment climate factors is significant (World Bank, 2020).

Therefore, separate components of the assessment of the Doing Business rating are considered to deepen the analysis and find the main factors that impede business development in Tajikistan. The rating consists of 12 members and 213 indicators that characterize the process from organization to business liquidation (Doing Business. External panel review, 2021).

For comparative analysis, 19 indicators were selected from the 12 components mentioned above, which generally show the state of the business climate in the sample countries.

Table 5.1 Comparative table of the main components of the Doing Business rating.

Component	Indicators	Tajikistan	Kazakhstan	Kyrgyzstan	Uzbekistan	Georgia
Starting a business	Starting a business: Procedures required	*3*	4	4	3	1
	Starting a business: Time – Men (days)	7	5	10	3	1
Dealing with construction permit	Dealing with construction permits: Procedures (number)	26	17	17	17	11
	Dealing with construction permits: Time (days)	157	102.5	167	246	63
Getting electricity	Getting electricity: Procedures (number)	9	6	7	4	3
	Getting electricity: Time (days)	98	71	111	88	71

Registering property	Registering property: Procedures (number)	4	4	3	9	1
	Registering property: Time (days)	33	4.5	3.5	43	1
Getting credit	Rank: Getting credit (1=most business-friendly regulations)	11	25	15	67	15
Protecting Minority Investors	Rank: Protecting minority investors	128	7	128	34	7
Paying taxes	Paying taxes: Total tax and contribution rate (% of the profit)	67.3	28.4	29	31.6	9.9
Trading across border	Time to export: Border compliance (hours)	26.5	105	5	31.8	6
	Time to export: Documentary compliance (hours)	66	128	72	96	1.5
	Time to import: Border compliance (hours)	106.5	2	68.9	110.6	15
	Time to import: Documentary compliance (hours)	126	5.5	84	150	2
Enforcing contracts	Enforcing contracts: Time (days)	430	370	410	225	285
	Rank: Enforcing contracts (1=most business-friendly regulations)	76	4	134	22	12

	Resolving insolvency: Time (years)	1.7	1.5	1.5	2	2
Resolving insolvency	Rank: Resolving insolvency (1-most business-friendly regulations)	153	42	78	100	64

Source: World Bank's Doing-Business, (2020).

The comparative table shows that, in the main countries of the former USSR, the process of transforming the economy and creating conditions for business, with the exception of Georgia, has not yet been completed and elements of public administration investments in these countries are active. The position of Tajikistan in the ranking on the main indicators of doing business is low, which is a direct factor influencing the attraction of FDI.

Bureaucratic moments of state regulation of investment and organization of new business in Tajikistan is the most important and negative factor affecting the investment attractiveness of the country. Although the country's position was worse in previous rankings, the FDI policy reforms failed to provide the best position on this issue. Despite this, even after registering a company and investing in FDI, new firms face significant entry barriers, as the procedure for obtaining permission to operate, especially in the field of mining and subsoil development, is complicated (Saifutdinov, 2022).

At the same time, the investor's problems do not end there, now, after these procedures, obtaining a building permit in Tajikistan becomes costly and time-consuming. This directly affects the timing of the investment project. Understanding the importance of providing infrastructure to an investor, it is always difficult to connect to the main communications, again, these procedures in Tajikistan require more time.

All these three factors are the weightiest reasons that make an investor avoid the Tajik investment market. The Doing Business ranking data shows that the position of Tajikistan among the countries of Central Asia is the most unfavorable.

Tajikistan ranks 128th among the countries of analysis for the protection of minority investors, while Georgia, which is a post-Soviet country with a similar past, has quite good results and ranks 7th in the world. The main fear of foreign investors in this direction is the loss of rights and interests on the basis of joint investment agreements, where, on the one hand, the interest of the local investor has privileges. In Tajikistan, despite the issued guarantee for nationalization and expropriation, investors are afraid of losing their property, which indicates distrust of the country’s authorities.

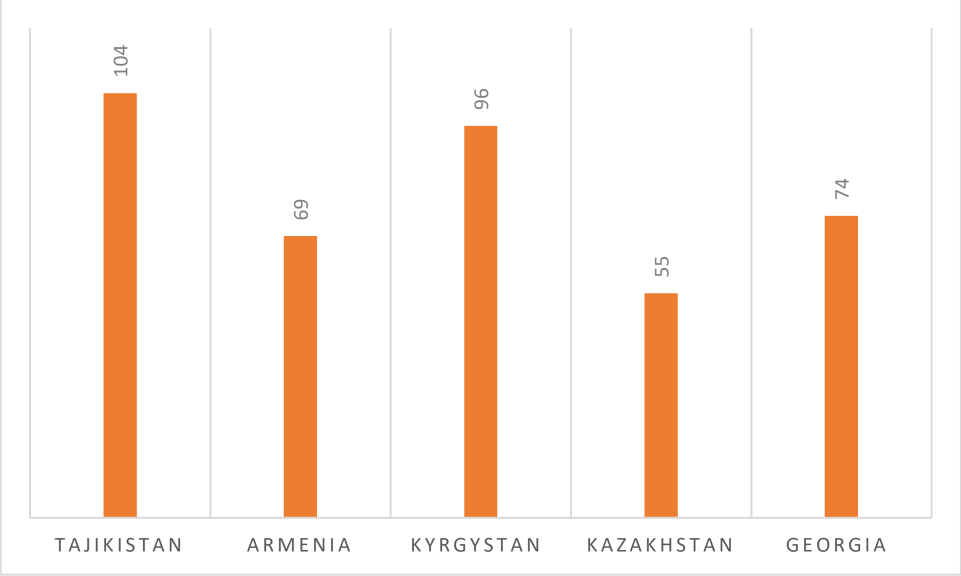
Thus, in addition to the above problems, foreign investors face difficulties with the tax burden, although in some cases and in order to support the agricultural sectors, processing of cotton fiber, in accordance with the tax code, separate VAT exemptions are provided. But against the background of the 18% VAT rate and the costly procedures for obtaining preferences, the investor will wish to abandon the markets of Tajikistan. As shown by separate studies by Kluczewska (2020), and the analysis of the US Department, the judiciary partly supports the interests of the authorities in resolving issues, neglecting the results of the economic efficiency of foreign investment.

In general, the World Bank’s Doing Business rankings position Tajikistan as a potentially attractive country for foreign investors due to an abundance of labor reserves, cheap labor, inexpensive electricity, but at the same time, many indicators reflect the accompanying bureaucratic elements from starting a business to closing it. Therefore, in aggregate, this causes corruption in the country and, as a result, this factor becomes the most influential and sensitive to the investor.

The second component of the investment climate analysis is the Global Competitiveness Index (GCI) and Global Competitiveness Report (GCR), developed and published by the World Economic Forum. The primary purpose of this index is to determine how competitive each country is in the conditions of the fourth industrial revolution. Unlike the WB rating, the global competitiveness index assesses not only the direct factors of the investment climate but also the competitive advantages of the country, the rationality of public policy, macroeconomic stability, the state of the markets for factors of production, corruption, etc (Lall, 2001).

The analysis uses the latest Global Competitiveness Report 2019 of the World Economic Forum. The Global Competitiveness Index evaluates 141 countries in 4 areas and 12 assessment components, which in turn are based on 103 indicators (Olczyk et al., 2022).

Figure 5.4 Global Competitiveness Index among some former Soviet Country



Source: World Economic Forum (2019)

GCI 2019 data shows that Tajikistan ranks 104 out of 141 countries in the world in terms of competitiveness. Moreover, among the countries of the former USSR that were included in the rating, Tajikistan scored the lowest score, which directly negatively affects the flow of foreign investment and the formation of the private sector (Table 5.2).

Table 5.2 Comparative table GCR by components

Directions	**Component (rank-based)**	**Tajikistan**	**Kyrgyzstan**	**Armenia**	**Georgia**	**Kazakhstan**
Enabling environment	Institutions	78	93	62	43	64
	Infrastructure	91	103	60	73	67
	ICT adoption	121	65	59	55	44
	Macro-economic stability	98	74	64	84	60
Human capital	Health	99	90	68	87	95
	Skills	71	87	61	46	57
Markets	Product market	70	115	44	48	62
	Labor market	71	81	32	37	25
	Financial system	117	112	69	91	104
	Market size	123	125	118	104	45

Innovation Ecosystem	Business dynamism	100	78	57	58	35
	Innovation capability	120	129	62	91	95

Source: World Economic Forum (2019).

It follows from the comparative table that the position of Tajikistan among the sample countries that are former Commonwealth Independent States (CIS) countries is not very favorable since Tajikistan ranks last in 6 assessment components, which is half of the competitiveness ranking components. These components are ICT (information and communications technology) adoption, macro-economic stability, labor market, financial system, business dynamism, and innovation capability. Unfortunately, the identified components are those components that have a direct relationship with the investment climate and the start of a business.

Analyzing the structure and indicators of the 8 GCR components for Tajikistan, we can say that Tajikistan has strengths and weaknesses in terms of competitiveness and provision of business infrastructure, macroeconomic situation, etc.

One of Tajikistan's main problems hindering the development of the private sector and trade remains the provision of transport infrastructure. Partly for a long time, the regions of Tajikistan were in a transport blockade, this served as a negative factor for the national economy. But for this period, roads were built that connected the north and south of Tajikistan, but still some regions of eastern and southern Tajikistan have problems with road infrastructure. Moreover, due to the mountainous terrain, the network of railway infrastructure and airports is not developed. According to the World Economic Forum (2019), road communication is complicated due to the lack of corridors, the state of the road infrastructure needs to be improved, the railways are inefficient and there are only 3 airports in the country, which are mainly operated by foreign airlines.

To solve these problems, the budgetary possibilities of Tajikistan are limited and mainly grant funds and loans are attracted for the development of infrastructure. Currently, in the field of infrastructure, the state is implementing 13 projects in the field of transport with a total value of $110 million and 16 projects in the field of energy with a total value of $170 million.

At the same time, Tajikistan in the field of energy has a number of positive factors that favorably influence the inflow of FDI. Tajikistan offers a low price for electricity since about 90% of energy is produced from renewable sources. And according to GCR data, Tajikistan ranks 2nd in the world in terms of access of the population to electricity (100% of the population have access), but at the same time, the quality of electricity services has deteriorated recently, there are interruptions in its supply.

Today, business cannot function without information and telecommunication technologies. This industry in Tajikistan lags far behind neighboring countries, which is a weighty argument in favor of the country’s competitiveness. The low coverage of the population with Internet and communication services requires fundamental reforms and measures. The quality, speed and high cost of the Internet often becomes the main topic of discussion. Tajikistan is far from the main international Internet distribution channels, and in addition to this, the telecommunications infrastructure does not allow offering high-quality and affordable telecommunications services.

Despite the wide coverage of young people in higher education, there are a number of problems that negatively affect the labor market and investment inflow. According to the GCR survey, there is a shortage of teachers in the country, and the educational process is not organized in the best way. And in higher educational institutions, school graduates prefer humanitarian areas, so the natural science direction of education is very weak. As a result, the labor market is overflowing with specialists for whom there is no demand. From this point of view, despite the cheapness of the labor force, the investor cannot rely on the labor resources of the local labor market. India is also attractive to investors in terms of skills and cheap labor resources, but unlike Tajikistan, the education system encourages natural science areas of training.

Overall, in addition to the above challenges to Tajikistan’s competitiveness, aspects such as market size, financial system, business dynamism and R&D remain weaknesses. Banks are little integrated into the global financial system, confidence in banks is low due to frequent bank failures, interest rates are quite high, and the credit and business support system is not effective.

Table 5.3. The leading problematic indicators of Tajikistan from the business dynamism component

Indicators	Rank
Cost of starting a business % of GNI per capita	104
Insolvency regulatory framework 0–16 (best)	129
Insolvency recovery rate cents to the dollar	80

Source: World Economic Forum (2019).

As the indicators show, starting a business in Tajikistan is costly, and in terms of competitiveness on this issue, it ranks 104 among 141 economies worldwide. As in the case of the Doing Business assessment, solutions to problems, bankruptcy, and business liquidation are considered the most acute challenges of the investment climate in Tajikistan, namely, the state policy in the field of insolvency management requires immediate reforms.

Thus, a detailed analysis of the competitiveness rating shows that among the countries in the sample, Tajikistan and Kyrgyzstan are the most uncompetitive countries in the region. Such trends have only a negative impact on business formation and FDI inflows. Namely, a comparative analysis of the competitiveness rating factors revealed that Tajikistan has severe problems in the field of infrastructure development, including transport infrastructure, communications, inflation, debt dynamics, protection of employees and their social security, banking system, and business conditions.

One of the most important analyzes of the investment climate through interviews was conducted by Kluczewska (2020), who tried to reach representatives of small businesses in Tajikistan for interviews. The analysis carried out by the author includes such areas as the shadow economy and informality of business, liberalization of the private sector and the degree of state intervention, starting a business, current business problems, and issues of providing entrepreneurial infrastructure (Kluczewska, 2020).

Kluczewska (2020) could determine why informal business development in Tajikistan was based on the interview results. Among the respondents, business informality plays an essential role in minimizing the costs of taxes, electricity, hiring workers and paying social contributions and rent, and avoiding bureaucratic procedures for registering a business and licensing activities. The primary purpose of informal activities is to reduce costs to compete in the market.

Kluczewska (2020) states that government policy aims to stimulate business and improve the business climate. On the one hand, to achieve economic liberalization and improve ratings, state institutions are reducing pressure and supervision on the private sector while the informal sector is growing, and tax officials are illegally covering business activities. Thus, a vicious circle is obtained, where the interests of the state and individual employees, influential or persons, do not coincide. Therefore, it is comfortable for small businesses to work under such a mechanism until the profit from legitimate activities can be greater than in an informal environment (Kluczewska, 2020).

The US Department's annual statement analyzes the investment climate, identifying negative and positive factors. The 2022 statement says that investment opportunities and returns on investment in Tajikistan are very high but come with many risks. According to the author, bureaucratic and financial barriers, pervasive corruption, a lousy banking sector, and countless business and tax audits greatly hinder investors and are the main factors hindering FDI inflows (Saifutdinov, 2022).

Despite the above problems, according to most financial institutions, the US Department of State has found the following issues, the solution of which is necessary to improve the business environment:

1. Degree of transparency of the judicial system
2. Weak protection of the rights of investors - the introduction of an ombudsman to protect the rights of investors
3. Banking system instability
4. Political instability due in Afghanistan
5. High tax rates
6. Bureaucracy

Most of all, business registration and activities licensing are emphasized, which often take longer than the period approved by the state. Thus, the growth of FDI in Tajikistan is considered possible if Tajikistan will responsibly engage in reforms everywhere, from legal regulation to business infrastructure (Saifutdinov, 2021).

Thus, the analysis of the investment climate in the context of the countries of the region according to the rating “Doing business”, “Global competitiveness index” and an independent assessment of Kluczewska and US department revive on “Investment climate” show that the position of Tajikistan is improving every year, but there are serious problems with the main factors of doing business in Tajikistan. Based on the results of a comparative analysis, it can be said that Tajikistan should apply relevant reforms in the field of taxation, issuance of permits, protection of minority investors, provision of transport infrastructure, reduction of bureaucracy, corruption, improvement of the procedure for declaring bankruptcy and liquidation of businesses, strengthening state institutions, ensuring macroeconomic stability and etc. These shortcomings are directly related to the sectoral policy of the state and the role of state institutions in creating better conditions for business is great.

Chapter: 6 Conclusion and policy recommendation

6.1 Conclusion

This study covers a wide range of issues related to the history of the formation of the private sector in the post-Soviet era, state policy in the field of attracting foreign investment, especially FDI, analyzes the main reforms of the investment climate and increase business activity, considers the main tools for influencing state policy in the field of foreign investment, studied fiscal and non-fiscal measures to support investors and businesses, and explanations of the sectoral investment policy were also given.

As it turned out, Tajikistan, after gaining independence and the civil war, faced serious structural changes that directly related to the issues of attracting FDI. First, the initial packages of economic reforms were aimed at transforming the economic system from an administrative command (planned economy) to a market mechanism. The initial role of the state in the development of the private sector and attracting FDI was characterized by the legalization of the private sector, the reduction of the regulatory function of the state, the privatization of state-owned industrial facilities, and the construction of infrastructure.

As a result of the study, it turned out that the role of the state in attracting FDI, especially in a transitional economy, is significant and Tajikistan was able to implement three-phased and logically justified packages of economic reforms that cover such periods:

1. General economic reforms of the transformation of the economic system and the formation of the private sector (1991-2000).
2. Development and standardization of FDI policy following international standards and active introduction of fiscal and non-fiscal incentives for FDI, (2001-2010).
3. Introduction of new measures to protect foreign investors, including minority investors, and development of road and energy infrastructure (2011-2021).

To identify the main priorities and shortcomings of the investment climate and doing business, individual assessments of researchers and development institutions were used. The fundamental basis of the analytical part of the study is the World Bank rating “Easy doing Business” and WEF’s Global competitiveness report. Based on these ratings, the main problems and challenges of the investment climate and business introduction were identified.

Subsequently, the theoretical and empirical aspects of the study made it possible to answer the research questions posed. In particular, it turned out that some elements of the transition to market relations are still relevant and the state is actively using fiscal and non-fiscal methods of influencing FDI. At this stage, the role of the state in Tajikistan in attracting FDI is significant, as there are gaps in the policy of attracting FDI and developing the private sector.

It also turned out that Tajikistan has huge reserves of natural resources and can quickly transform from an agrarian economy to an industrial one if it adheres to the right policies. But due to the lack of domestic investment, FDI is the only source of growth. But unfortunately, some negative factors make the Tajik investment market unattractive. Based on the above ratings and the results of separate surveys of previous researchers, it turned out that among the states of the former USSR, especially the countries of Central Asia, Tajikistan has a higher tax burden, a rather inflexible legislative framework for regulating investment and business processes, a rapidly changing state of macroeconomic stability, poor integration of industrial policy with policies to attract FDI, lack of special tools to stimulate investors in the industry, widespread corruption, bureaucratic aspects of obtaining permits for mining and construction activities, lack of infrastructure in free economic zones, poor development of financial and banking relations, lack of access to the sea and inaccessibility of access to the main trade infrastructures.

Policy recommendations

Based on the identified problems and current trends in the investment market in Tajikistan, and the complication of the geopolitical situation in the region, the following recommendations can help Tajikistan quickly integrate into international capital and investment markets.

1) Improvement of infrastructure conditions for domestic and foreign investment

2) Improvement and perfection of the legal and legislation in the field of investment.

3) Development of manufacturing entrepreneurship and industry for processing of domestic raw materials, implementation of investment projects through the introduction of advanced technologies and increase of the country's export potential.

4) Improvement of legislation in the field of investment, international trade, and introduction of international standards of product quality and safety

5) Improvement of the Tax Code of the Republic of Tajikistan for simplification of tax administration and reduction of the tax burden for small businesses and secondary.

6) Increasing investor protection and reducing the procedure for obtaining permits

7. Rapid integration of industrial policy with FDI policies and trends.

8. Simplification of bureaucratic procedures for obtaining a building permit, and the implementation of industrial activities in the development of deposits.

9. Diversification of economic and trade relations and industrial sectors.

10. Development and implementation of new non-fiscal instruments to stimulate investment.

References

Abrori, S., & Natsuda, K. (2022). *Industrial Development and Tajikistan's Apparel Industry: Upgrading, Challenges and Covid-19* (RCAPS Working Paper Series RWP-21002) Ritsumeikan Center for Asia Pacific Studies. http://www.apu.ac.jp/rcaps/uploads/fckeditor/publications/workingPapers/RCAPS_RPD-12002.pdf

Abdugafforzoda, N. (2021). The industry is the Main Driver of the Economy [Sanoat muharriki asosii iktisodiyot]. *AMIT "Khovar"*. Retrieved April 17, 2021, from AMIT "Khovar" *https://khovar.tj/2021/04/sanoat-mu-arriki-asosii-i-tisodiyot-to-ikiston-doroi-zamina-oi-vo-eii-rushdi-sanoat-ast-ki-baroi-pesh rafti-iste-soloti-mill-sharoiti-musoid-faro-am-meorad/*

Adami, A., (2012). *FDI in Tajikistan [Bachelor's thesis, Lund University].* Lund University Library. https://lup.lub.lu.se/student-papers/search/publication/2301342

Asadov, P., (2007). Foreign Investment and Economic Reform in Tajikistan. *Problems of Economic Transition*, *50*(6), 32–84.

Atta, D. Van. (2009). "White gold" or fool's gold? The political economy of cotton in Tajikistan. *Problems of Post-Communism*, *56*(2), 17–35.

Bartels, F. L., & De Crombrugghe, S. A. (2009). *FDI Policy Instruments: Advantages and Disadvantages (Working Paper 1-2009).* United Nations Industrial Development Organization. https://www.unido.org/api/opentext/documents/download/10081425e-10081425

Bayulgen, O. (2005). Foreign investment, oil curse, and democratization: A comparison of Azerbaijan and Russia. *Business and Politics*, *7(1)*, 1–37.

Costinot, A., & Donaldson, D. (2012). Ricardo's theory of comparative advantage: Old idea, new evidence. *American Economic Review*, *102*(3), 453–458.

Denisia, V. (2010). Foreign Direct Investment Theories: An Overview of the Main FDI Theories. *European Journal of Interdisciplinary Studies*, *2*(2), 53–59.

Doukas, H., Marinakis, V., Karakosta, C., & Psarras, J. (2012). Promoting renewables in the energy sector of Tajikistan. *Renewable Energy, 39*(1), 411–418.

Dunning, J. H. (1973). The Determinants of International Production. *Oxford Economic Papers*, *25*(3), pp. 289–336

Dunning, J. H. (1998). Location Enterprise: The Multinational Neglected. *Journal of International Business Studies*, *40*(1), 45–66.

Dunning, J. H. (2001). The Eclectic (OLI) paradigm of international production: Past, present and Future. *International Journal of the Economics of Business, 8*(2), 173–190.

Dunning, J. H. (1991). The eclectic paradigm of international production: a personal perspective. *The Nature of the Transnational Firm,* (pp. 121–141) London and New York: Routledge.

Dunning, J. H., & Lundan, S. M. (2008). Institutions and the OLI paradigm of the multinational enterprise. *Asia Pacific Journal of Management*, *25*(4), 573–593.

Dunning, J. H., & Rugman, A. M. (1985). The Influence of Hymer' s Dissertation on the Theory of Foreign Direct Investment. *The American Economic Review*, 75(2), 228–232.

Emine G., Harry S., Jon C. & Rooden, R. (1999). Economic Reforms in Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan: Issues in transition. *International Monetary Fund Journal*. Washington, D.C. IMF

Ibrahim, T. (2019). *Determinants of FDI: Evidence from Developed & Developing Countries*. Master's thesis, the American University in Cairo, Egypt (AUC) May, 2019, form: https://fount.aucegypt.edu/etds/793

Ikromi, J. (2020). History of Industrialization of the Republic of Tajikistan. *Herald of the Tajik State University of Commerce*, *4–2*(34), 1–9.

Kalotay, K., & Sulstarova, A. (2021). FDI in the Post-Soviet Space Three Decades after the Disintegration of the Soviet Union. *Outlines of Global Transformations: Politics, Economics, Law*, *14*(5), 30–60.

Kluczewska, K. (2021). Worlds apart? The World Bank's business rankings and small entrepreneurship in Tajikistan. Eurasian Geography and Economics, *62*(4), 397–427.

Knoerich, J. (2018). Re-orienting the paradigm: path dependence in FDI theory and the emerging multinationals. *International Journal of Emerging Markets*, *14*(1), 51–69.

Kojima, K. (1978). Direct Foreign Investment to Developing Countries: The Issue of Over-Presence. *Hitotsubashi Journal of Economics*, *19*(1/3), 1–15. https://www.jstor.org/stable/43295682

Lall, S. (2001). Competitiveness indices and developing countries: An economic evaluation of the global competitiveness report. World Development, *29*(9), 1501–1525.

Mahmoud, M. (1990). The Role of Government in Accelerating Industrial Development in Developing Countries. *Journal of King Abdulaziz University-Economics and Administration*, *3*(1), 85–97.

Maxudova, O. (2022). *Analysis of the impact of the extractive industry on the economy of Tajikistan using Input-Output Tables* (RCAPS Working Paper Series RWP-21003) Ritsumeikan Center for Asia Pacific Studies http://www.apu.ac.jp/rcaps/uploads/fckeditor/publications/workingPapers/RCAPS_RPD-12002.pdf

Ministry of Industry and New Technology of Tajikistan. (2020). *The Program of Accelerated Industrialization of Tajikistan for 2020-2025 years.* Retrieved March 2, 2022, from Ministry of Industry and New Technology of Tajikistan. http://sanoat.tj/?page_id=47

Ministry of economic development and trade Republic of Tajikistan (2017). *Free Economic Zones of the Republic of Tajikistan*. Retrieved August 20, 2021, from Ministry of economic development and trade Republic of Tajikistan https://medt.tj/en/ & http://www.fez.tj/

Ministry of Foreign Affairs of the Republic of Tajikistan (2021). *State Independence of the Republic of Tajikistan*. Retrieved January 26, 2021, from Ministry of Foreign Affairs of the Republic of Tajikistan website: https://mfa.tj/en/main/tajikistan/ge

Ministry of economy of the Kyrgyz Republic (2013). *Comparative analysis about the tax rates of neighboring countries.* Retrieved March 11, 2013, from Ministry of economy of the Kyrgyz Republic website: https://mineconom.gov.kg/ru/post/87.

Ministry of economic development and trade Republic of Tajikistan [MEDT]. (2016). *National Development Strategy of the Republic of Tajikistan for the period up to 2030*. Retrieved September 4, 2022, from Ministry of economic development and trade Republic of Tajikistan https://medt.tj/ru/

Morgan, R. E., & Katsikeas, C. S. (1997). Theories of international trade, foreign direct investment, and firm internationalization: a critique. *Management Decision*, *35*(1), 68–78.

Natsuda, K., & Thoburn, J. (2021). *Automotive Industrialization: Industrial Policy and Development in Southeast Asia*. New York: Routledge.

Olczyk, M., Kuc-Czarnecka, M., & Saltelli, A. (2022). Changes in the Global Competitiveness Index 4.0 Methodology: The Improved Approach of Competitiveness Benchmarking. *Journal of Competitiveness*, 14(1), 118–135.

Roaf, J., Atoyan, R., Joshi, B., Krogulski, K., & IMF staff team. (2014). 25 Years of Transition: Post-Communist Europe and the IMF. Regional Economic Issues. *International Monitary Fund Junal*. Washington DC.

Robert A . Mundell. (1957). American Economic Association International Trade and Factor Mobility Author. *The American Economic Review, 47(3), 321-335*

Saifutdinov, A. (2022). 2022 Investment Climate Statements: Tajikistan. US Department of State. Retrieved August 4, 2022, from: https://www.state.gov/reports/2022-investment-climate-statements/tajikistan/

SCISPMRT. (2018). *Privatization of state property in the Republic of Tajikistan*. State Committee on Investment and State Property Management of the Republic of Tajikistan. https://investcom.tj/tj/molikijati-davlat/tajdid/46-hususigardon.html

SCISPMRT. (2021). *Foreign investment statistics*. State Committee on Investment and State Property Management of the Republic of Tajikistan. https://investcom.tj

Sultonzaoda, I. (2020). Theoretical bases of regulation of foreign direct investment in national economy (on the example of the Republic of Tajikistan). Dissertation In *Bokhtar State University by named Nosir Khusrav of the Republic of Tajikistan*.

UNCTAD. (2016). Investment Policy Review Tajikistan. United Nations Conference on Trade and Development. Report by U*NCTAD 2016/1*. https://unctad.org/system/files/official-document/diaepcb2016d1_en.pdf

Vernon, R. (1966). International Investment and International Trade in the Product Cycle. *The Quarterly Journal of Economics, Volume 80, Issue 2, May 1966, Pages 190–207*, *4* (1), 1–23

Veronika, V. (2022). The new tax code of Tajikistan: changes in the country's taxes in 2022. *International Wealth* (22 February 2022) https://internationalwealth.info/offshore-tax/novyj-nalogo

Warwick, K (2013). Beyond Industrial Policy: Emerging Issues and New Trends. *OECD Science, Technology and Industry Policy Papers*, No. 2, OECD Publishing. http://dx.doi.org/10.1787/5k4869clw0xp-en.

Weiss, J. (2015). Industrial policy back on the agenda. In J. Weiss & M. Tribe (Eds.), *Routledge handbook of industry and development* (1st ed, pp. 135–165). Routledge.

World Bank. (2005). *Tajikistan Trade Diagnostic. Poverty Reduction and Economic Management Unit Europe and Central Asia Region. World Bank Report* No. 32603-TJ, 1-105.

World Bank. (2020). *Economy Profile Tajikistan*: Doing business 2020. In World Bank Group. ttps://documents1.worldbank.org/curated/en/688761571934946384/pdf

WTOTJ. (2021). *The accession process of the Republic of Tajikistan to the WTO*. Tajikistan and World Trade Organization. http://wto.tj/en/

Yeung, G. (2001). Foreign direct investment and investment environment in Dongguan municipality of Southern China. *Journal of Contemporary China*, *10*(26), 125–154.

Young, S. (1990). Internationalization: Introduction and overview. *International Marketing Review 7(4)*, 5–10.