IMPROVING AND INCREASING THE ATTRACTIVENESS OF INVESTMENT IN DEVELOPING COUNTRIES. A STUDY ON THE INVESTMENT CLIMATE IN UZBEKISTAN

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Abstract. *This paper explores the ways in which Uzbekistan can attract higher levels of investment and the practical steps required to enhance its overall investment appeal. The topic gains relevance from the need to identify financial resources beyond traditional state budgets to spur large-scale development projects. In an era when global economic shifts are reshaping decisions on capital allocation, Uzbekistan has introduced an array of economic reforms designed to draw investors. This study brings together theoretical and empirical insights to highlight important economic variables, policy measures, and institutional frameworks that affect investment decisions. A set of foundational principles and criteria for designing sustainable investment policies are offered, emphasizing the roles of transparency, infrastructure development, and legal reforms in reinforcing investor confidence.*

Keywords*: Economic Activities, Investment Climate, Uzbekistan, Foreign Direct Investment, Policy Reforms, Sustainable Development*

Introduction. As globalization is going deeper, attracting foreign investment become one of the key features of world economy. Many countries, especially those which are developing, are now focusing more on foreign investment to ensure economic growth and development[1]. But this process is not simple and depends on many different factors. One of the most important of them is investment attractiveness of regions.

Investment attractiveness of region is a group of indicators that shows how attractive that area is for foreign investors. These indicators include economic, social, political and legal factors[2]. By improving investment attractiveness, regions can not only increase chance of getting foreign capital but also support general economic progress.

In market economy condition, investment process has a very big role in achieving economic stability, improving competition, and increasing population well-being. Investment is accepted as a main driving force of economic development. It helps to launch new production capacities, improve infrastructure, and support fast technological changes.

[1] World Bank. (2020). World Development Report 2020: Trading for Development in the Age of Global Value Chains. Washington, DC: World Bank.
[2] Dunning, J. H. (2000). The eclectic paradigm as an envelope for economic and business theories of MNE activity. International Business Review, 9(2), 163-190.

In Uzbekistan, we can observe that many large investment projects are being implemented, and wide-range efforts are made to attract foreign capital, especially during the transition to an open and stable economic system.

At the same time, global uncertainties in economic situation, difficult recovery after pandemic, geopolitical risks and other factors create unstable condition for investment. In such situation, the topic of increasing investment attractiveness in Uzbekistan through financial instruments becomes more important. In this article, firstly the recent indicators of investment processes in Uzbekistan will be studied, then the role and possibility of financial tools for improving investment climate will be discussed.

Methods and literature review. In this research, several scientific methods were used. Systematic analysis method helped to explore the relationship between regional investment attractiveness and foreign investment inflow. Comparative analysis was used to study and evaluate how different countries and regions increase their investment attractiveness. Statistical method was used to analyze investment flows, economic indicators and other quantitative data. Expert opinion method helped to understand the views of specialists and experts about investment climate and attractiveness. In literature review part, scientific articles, monographs, reports from international organizations and other materials were studied. For example, Dunning's[3] eclectic paradigm was very useful in understanding foreign investment theory. This theory explains investment with three key advantages: ownership, location and internalization.

Also, Blalock and Gertler[4] in their research showed that foreign investment can bring technology transfer and increase efficiency of local companies. This confirms the importance of increasing investment attractiveness in regions.

In regional investment policy, works by Cheng and Kwan[5] were studied. They analyzed how foreign investments come to Chinese regions, and pointed out the importance of infrastructure, labor quality and market size. In Uzbekistan, questions of foreign investment attraction were studied by Vahobov[6] and others. Their research was focused on investment potential of different regions and ways to improve it.

Results. The research showed that there are several major factors which affect regional investment attractiveness. Economic factors include GDP size and its growth rate, market capacity, inflation rate and tax system. Social factors include population number and structure, qualification of labor force and quality of education. Infrastructure factors are about development level of transport and logistics system, energy supply and telecommunications.

Institutional factors relate to legal framework, administrative procedures and level of corruption. Natural and geographic factors relate to the availability of natural resources, climate and geographical location. The research also showed that having a regional approach is very important in attracting foreign investment.

[3] Dunning, J. H. (1988). The Eclectic Paradigm of International Production: A Restatement and Some Possible Extensions. Journal of International Business Studies, 19(1), 1-31.
[4] Blalock, G., & Gertler, P. J. (2008). Welfare gains from Foreign Direct Investment through technology transfer to local suppliers. Journal of International Economics, 74(2), 402-421.
[5] Cheng, L. K., & Kwan, Y. K. (2000). What are the determinants of the location of foreign direct investment? The Chinese experience. Journal of International Economics, 51(2), 379-400.
[6] Vahobov, A. V., Xojimahamedov, S. X., & Muminov, N. G. (2019). O'zbekiston hududlarining investitsion salohiyatini baholash va uni oshirish yo'llari. Toshkent: Iqtisodiyot.

Analysis and discussion. Results of the study show that increasing regional investment attractiveness becomes an important part of attracting foreign capital. This needs a complex approach, because investment attractiveness is created under influence of many elements.

Among economic factors, GDP volume and its growth are specially important. Regions that have high economic growth usually look more attractive for investors. For example, China was one of the most attractive destinations for foreign investments for many years because of its fast economic development.[7]

According to the State Statistics Committee, in 2022–2023 the gross domestic product GDP of Uzbekistan showed average growth around 5.5 to 6 percent. Total volume of investments in 2022 reached about 266.24 trillion soums, and the volume of foreign direct investment FDI continued to grow. Especially in sectors like energy, chemical industry, agriculture and services, the amount of investment is increasing.

In the first half of 2023, because of global changes like geopolitical tensions, broken logistics chains and other factors, investment activity may become a little slower. However, thanks to tax benefits, free economic zones, and preferential credit lines which were introduced as part of economic reforms, the investment process was kept relatively stable. In the energy sector, investments are directed to oil and gas and also to alternative energy projects such as solar and wind, to satisfy consumption and increase export potential. In agriculture, the need for investments is growing because of the goals to increase added value, develop the cluster system and introduce modern technologies to improve product quality.

In the services sector, especially tourism, logistics, and IT, the inflow of foreign investment is increasing, which opens wide way for introducing new technological solutions. By developing the capital market of Uzbekistan, even more opportunities can be given to investors. The number of joint-stock companies is increasing, electronic trading systems for securities are expanding, and corporate bonds are becoming more popular. These are all effective methods for attracting investment. At the same time, the fact that investors can buy and sell their assets freely on the stock exchanges and growing liquidity is helping to strengthen investment attractiveness.

Medium- and long-term loans given by banks remain traditional tools for financing investment projects. Making interest rates more acceptable, organizing longer credit lines, and expanding activities of private banks help to improve access to financial resources. Leasing also gives extra opportunity to buy or modernize equipment, which reduces initial costs for investors. It is important for investors to manage investment risks. One way to reduce risks is to ensure companies and investment projects, especially for foreign investors, by applying mechanisms to cover political risks. Expanding the insurance services market in the republic, especially by introducing special insurance types for direct foreign investments, helps to increase investor trust.

In future, developing investment funds, venture capital and private equity in Uzbekistan can make a direct bridge between investors and entrepreneurs. These tools have big role in searching, supporting and working with high-profit and perspective projects. Venture funds especially are important to direct capital into startups and innovation businesses.

[7] Cai, F. (2017). China's Economic Growth Prospects: From Demographic Dividend to Reform Dividend. Cheltenham: Edward Elgar Publishing.

To increase investment attractiveness through financial tools, it is very important first to have a strong legal base. For some financial assets or new digital instruments, legal rules are still not fully developed, which may weaken investor confidence.

In capital markets, information asymmetry - means lack of full and transparent information about company value, risks, or capital usage — can lead to doubts and concerns for investors. Providing full and clear data helps to make better investment decisions. Even if government is already taking positive actions, still the integration between venture capital, investment funds, and entrepreneurs is not strong enough. It is needed to form mechanisms that connect innovation projects, startups, and private capital. Right now, companies do not have enough experience in risk analysis, and use of insurance tools is limited. This negatively affects investment attractiveness.

To improve investment climate and use full potential financial tools, the following actions are recommended.

First, the legal reforms should go deeper. Developing the capital market, introducing new financial instruments, setting clear norms for digital assets and making investor rights and interests aligned with international standards are very necessary.

Second, the cooperation between public and private sectors should be stronger. To finance investment projects, different credit lines and guarantee funds must be created, and cooperation with private funds needs to be expanded.

Third, transparency of information should be ensured. Reliable and systematic databases about securities, corporate reports, projects and startups will help investors to make decisions more easily.

Fourth, the insurance market must be developed. From political risks to foreign investment insurance, special programs must be expanded, and cooperation between local and foreign insurance companies should be established.

Fifth, innovative financing instruments should be encouraged. Venture capital, crowdfunding, and investment fund activity should be supported, and startup ecosystem must be developed.

In recent years, economic, social and legal reforms in Uzbekistan are increasing the interest of entrepreneurs and investors in our economy. This is also one of the reasons for the growing volume of investments going into the country. But still, there is disproportional activity between regions, and this is visible in the table below.

Table 1

Annual volume of investments into fixed capital, in billion soums

Year/Region	2019	2020	2021	2022	2023
Uzbekistan (total)	195927.3	210195.1	239552.6	266240	356071.4
Karakalpakstan	8750.6	7089.8	8110.7	10254	12959.2
Andijan	7452.1	9622.6	11176.6	14339.8	18639.1
Bukhara	10366.6	12183.9	20528.3	21638.3	31030.5
Kashkadarya	24462.5	20557.6	17359.1	16012.8	21138
Navoi	17646.3	15688.4	15020.1	17958.1	26398.6
Namangan	12084.9	12007.2	12982	14775.1	19220.1

Surkhandarya	11835.1	10068.2	12037.8	11569.4	18307.7
Syrdarya	5869.1	7191.9	8051.8	12354.6	15871.8
Tashkent region	20353.9	21148.6	28113.6	35767.7	47709.3
Fergana	8685.4	11040	12625.2	15419.3	19955
Khorezm	5032	5391.8	8292	8769.7	11666.1
Tashkent city	42458.1	50371.4	58172.7	56847.9	71143.7

As the table shows, from 2019 to 2023 the volume of investment into fixed capital in Uzbekistan changed every year. Economic reforms, pandemic, and changes in investment climate had strong influence on these indicators. In 2019, the total volume of investment in the country was 195.9 trillion soums, and by 2023 this number reached 356.1 trillion soums. The growth rates show that in 2020 it was 210.2 trillion (+7.3%), and in 2023 it was 356.1 trillion (+33.7%). The biggest growth was in 2023, which shows recovery and more active implementation of new projects.

According to 2023 results, the regions with highest volume of investment were Tashkent city (88.975 trillion soums), Tashkent region (43.182 trillion), Bukhara (31.030 trillion), Samarkand (30.252 trillion), and Fergana (22.713 trillion). These areas have dense population, developed industry and services, and many large investment projects.

When compared to 2019, the regions with highest investment growth by 2023 were Bukhara (from 10.367 trillion to 31.030 trillion, +199%) and Andijan (from 7.452 trillion to 18.639 trillion, +150%). However, Kashkadarya region saw decrease — from 24.462 trillion in 2019 to 21.138 trillion in 2023 (-13.6%). This may show that investment potential declined, or capital was moved to other sectors.

Based on analysis of last five years, we can say that investment into fixed capital in Uzbekistan continues to grow steadily. Some regions like Tashkent city, Bukhara and Samarkand are standing out as investment centers. Meanwhile, in regions like Kashkadarya, it is necessary to reconsider investment strategy and renew territorial approaches.

Conclusion, stability of investment process is essential in modernization of Uzbekistan economy, development of competitive production, and increasing export potential. Reforms and government programs in recent years gave positive results in investment attraction, but now it is time to bring investment attractiveness to new level. Financial instruments play big role in this. By developing capital markets, improving banking and credit systems, expanding insurance services, and creating investment and venture capital markets, Uzbekistan can boost competitiveness, speed up production, and introduce modern technologies.

The analysis and recommendations in this article show that improving investment climate needs not only good legal base, but also coordinated and systemic approach. The more cooperation mechanisms between government, private sector and investors are formed, the more stable the investment flow will be. This can lead to sustainable growth and socially important outcomes in every sector of economy.

LIST OF USED LITERATURE

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4. Reports from the World Bank, International Monetary Fund and Asian Development Bank
5. Media sources, analytical articles, and foreign publications on the capital market and securities
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