



## MECHANISMS OF ATTRACTING FOREIGN INVESTMENTS

**Botirov O.E.**

Expert of Internal Control Department  
of Compliance Directorate of JSCMB Ipoteka-Bank  
Independent Researcher. TSUE

**Abstract:** This article analyzes the processes related to the improvement of ways of attracting foreign investments. A scientific proposal and practical recommendations have been formulated to eliminate and improve the shortcomings identified within the framework of attracting foreign investments.

**Key words:** competitive advantage, investment efficiency, investment risk, investment potential.

The world community is undergoing a process of globalization. Joining the globalization process means cooperation with the world's leading countries, the alignment of state policy in the economic, political and social spheres with the policies of these countries on a mutually beneficial basis. From this point of view, Uzbekistan today plays an important role in the world community with its level of socio-economic development, geographical location on the world map, the composition and reserves of its natural resources, the investment policy pursued by the government, and others. This, in turn, indicates the need to create a favorable investment environment for the inflow of foreign investments. In addition, as reflected in the Law "On Investments and Investment Activities", tax policy and tax and tariff management reforms aimed at reducing the tax burden for investors and simplifying the taxation system, supporting a healthy competitive environment are being implemented at a rapid pace in Uzbekistan [3]. The rich experience accumulated in developed countries, the study of the essence of the reforms implemented, the decisions and measures adopted, and the scientific critical analysis of their achievements and shortcomings serve as a comprehensive support for the development of our national economy. Therefore, the rich experience and modern trends existing in the international arena are improving and changing from year to year. In particular, these include issues related to attracting investments, their export and import, protecting the interests of investors, increasing investment activity and competitiveness. The level of economic development of a country, the growth rates



of investment activity are largely dependent on the investment climate. It is important to create the necessary conditions for attracting foreign investment to the economy of the republic, which can only be invested in the economy of a state if there are (positive) economic, political, social and legal conditions in the country. The attractiveness of the investment climate is an important factor in increasing the flow of foreign investment. In turn, what is the investment climate itself? What does its attractiveness depend on? How can the investment climate be defined? In addition, what factors affect the investment climate? It is natural to ask such questions as: Economists A. Vakhabov, Sh. Khajibakiev, N. Muminov emphasize the following about the investment environment: "The investment environment is a set of economic, political, legal and social factors that determine the level of risk of foreign capital investments and the possibilities of their effective use in the country.

In order to develop scientifically based conclusions and recommendations based on a detailed analysis of the problem raised in the scientific article, systematization of the analysis results, methods such as induction and deduction, targeted development, systematic and comparative analysis, graphic representation, expert evaluation and economic statistics were widely used. There is a fierce competition between countries in the world to attract foreign capital. In developed countries in terms of the volume of foreign investment, its quality and the use of favorable conditions, various types of innovative instruments are being created from year to year to ensure the attractiveness of the investment environment. Among them, we will consider the achievements of China in attracting investments, which is growing faster than other countries, whose goods and services are distributed in all countries of the world, and which is recognized as the three most common words today - "Made in China", which has been studied by many economists, but has not yet been fully utilized when it comes to the issue of using these experiences.

One of the important factors influencing China's rapid development is the development of a database (passport) necessary for investors, reflecting the capabilities and potential of regions, and the availability of cheap labor. The fact that this database is open as an Internet resource has ensured the inflow of foreign investment for Chinese enterprises and the strengthening of business cooperation. Today, the factor that has



served to ensure China's position in the world economy and the rapid growth of the economy is precisely its openness, healthy image and investment attractiveness. However, according to today's experts, China's openness, rapid integration into the world community, and its progress are perceived by the country's citizens and the foreign public as a negative situation. It would be correct to say that all these are conclusions about modern China, drawn without understanding the processes taking place there. The Bank of England-Standard Chartered Bank was the first to take advantage of the opportunities presented, and a number of other banks have also entered: Citigroup (USA), HCBNC (England), ABN AMRO (Netherlands), Bank of East Asia (Hong Kong) and Hang Seng Bank (Hong Kong). Due to the socio-economic, legal-administrative and political-organizational measures taken, China has become one of the largest trading powers in the last five years. In the reports published by UNTAD, the PRC is ranked in the top two as the leading country in terms of import and export of capital. In the pre-crisis period (2005-2007), the import of foreign direct investment into China averaged 76.2 billion US dollars, which was 5.4% of the world's total (import of FDI). By 2019, China had 141 billion TTXI absorbed the dollar. If we add Hong Kong and Singapore, which are "investment gateways" for the People's Republic of China, to the statistical indicators, this difference is even smaller. In 2019, Hong Kong received FDI worth \$68 billion, while Singapore received \$92 billion. In order to further deepen our research and enrich its level, we will also analyze the experience of Singapore. Singapore, which has demonstrated high indicators in terms of development, ranks high among the countries of the world in terms of its rich experience and high intellectual potential, has a small population, but has a significant influence in the field of computer software creation and telecommunications, ranks 3rd in terms of GDP per capita (purchasing power parity) in reports published by the World Bank, and is one of the "Asian Tigers", has also accumulated rich experience in improving the investment climate and increasing its attractiveness. We can see that the accumulated FDI for 2018-2019 ranks 5th among the 20 countries with the highest ratings, with Singapore receiving \$92 billion in foreign direct investment in 2019. The main factor behind this achievement can be explained as follows: The opinion of all scholars who have studied the development path of Singapore and its "economic miracle" converges on one important point. And that is the creation



of a favorable investment climate in Singapore. It is precisely due to this circumstance that investors have implemented many projects in this new state, and the volume of GDP has increased sharply from year to year. Today, investors are still directing capital to Singapore without hesitation. The attractiveness of the investment climate there is a constant interest of donor countries. The health and attractiveness of the investment climate can also be assessed through macroeconomic indicators that reflect the socio-economic state of the country. According to the World Bank (WB) classification, Singapore is among the countries with the highest incomes. One of the important indicators that affects the investment climate is the inflation rate. The lower the inflation rate, the higher the investment attractiveness. In the course of studying the above-mentioned experiences, it became clear that the implementation of the experiences of China and Singapore in increasing the attractiveness of the investment environment in attracting foreign investments in the conditions of Uzbekistan, their use will serve to ensure the country's further development and increase the population's income sources. In particular, the implementation of measures to ensure Uzbekistan's active participation in surveys conducted by international organizations, as well as its participation in all ratings indicating the investment attractiveness of countries around the world, in particular the "Global Competitiveness Index", "Global Innovation Index" and "Business Environment Risk Index", will have a positive impact on investors' decisions to invest in the future. The reason is that before investing in a country, a foreign investor needs reliable information about the investment environment of that country. Of course, one of the most reliable sources is the indices maintained by international economic organizations. From these indices, investors can obtain the necessary and reliable information for themselves. Therefore, ensuring Uzbekistan's participation in the above-mentioned indices is of positive importance in demonstrating Uzbekistan's investment climate to foreign investors. Another factor that has allowed China and Singapore to increase the attractiveness of the investment climate is the publication of the necessary information about the regions of this country by the responsible organizations of the host state on the official website, taking into account the socio-economic potential of the regions of Uzbekistan, and the publication of an "Annual Statistical Map" by the State Statistics Committee on the attractiveness of the



investment climate of each region (regions, Tashkent city and the Republic of Karakalpakstan). This includes structural indicators related to the social activity of the population, the effectiveness of governance, access to education and healthcare services, access to various types of socio-economic information, its openness, and the proximity and cooperation of local authorities with the population. In addition, based on the experience of these countries, the implementation of the two proposed measures below as a factor that will help increase the attractiveness of the investment climate in Uzbekistan will show its positive effect: It is necessary to create a platform that allows online monitoring of state budget expenditures and investments; In order to prevent bureaucratic obstacles to investors from official institutions involved in regulating and attracting foreign investments in the Republic of Uzbekistan and to ensure the transparency of the activities of these institutions, it is necessary to create a platform that unites all institutions for investors' appeals. In this case, regardless of which institution the investor applies to, other institutions will be aware of this application, which will help prevent bureaucracy and corruption. One of the main tasks of the next stage of market reforms is to solve the issues of improving the attraction of foreign investments to our country, eliminate problems in attracting foreign capital, increase the volume of foreign investments and expand the opportunities for their effective use. It is noted that due to the implementation of such tasks, the growth rates of foreign investments attracted to our country during 2011-2019 are being ensured. Figure 3 below shows that in 2019, the volume of foreign investments amounted to 13.3 billion. US dollars, of which 9.3 billion. US dollars are direct foreign investments. During the analyzed period, the total volume of foreign investments increased by 3.5 times in 2019 compared to 2011. According to the results of 2019, the main foreign partners in attracting foreign investments to the country were China, Russia and Germany. The total number of countries investing in the economy of Uzbekistan exceeded 50. The share of large investor countries in the total attracted foreign direct investments and loans decreased to 34 percent. Compared to 2018, the most active growth in attracting foreign direct investment and loans was observed in the production of electrical products (growth - 7.5 times), metallurgy (growth - 4.6 times), textile (growth - 2.5 times), leather and footwear (growth - 2.1 times), and oil and gas (growth - 2 times) sectors. The growth



rate of the flow of foreign direct investment and loans also strengthened in projects of regional importance, and their total volume in 2019 amounted to \$ 4.8 billion (of which \$ 4.2 billion in fixed capital), which is 4 times more than in the same period in 2018 and 24 times more than in 2017. Only with the participation of foreign capital, 167 projects worth a total of \$ 858.5 million were commissioned in the regions. In accordance with the investment program, in 2020, it is planned to absorb about 233.2 trillion soums of capital investments into fixed assets from all sources of financing, including 7.1 billion dollars in direct foreign investments and loans, and 2.7 billion dollars in foreign investments and loans under state guarantees. In 2020, it is planned to put more than 2 thousand objects of social, infrastructural and production significance into operation: 206 large-scale production facilities, 240 regional production facilities, 1.6 thousand objects of social and infrastructural significance. According to the main trends and indicators of the socio-economic development of Uzbekistan and forecasts for the coming years, one of the priority directions in our country is, first of all, to increase the volume of attracted foreign direct investments, create reliable guarantees for foreign investors and form a more favorable investment climate in order to strengthen their confidence. In conclusion, it should be noted that the experience of developed countries, the path they have taken, the laws adopted by the country to improve the investment climate in order to ensure economic development, and the application of the necessary aspects of the methods and techniques developed to attract wider investment to the conditions of Uzbekistan are important issues. Because the application of the accumulated experience, taking into account the specific characteristics of the country, will lead to a reduction in risk, the prevention of bias, and the provision of high efficiency. The effective implementation of these proposals and recommendations in practice will allow the Uzbek economy to expand the attraction of foreign investments. It should be noted that today a number of issues and problems in attracting foreign investment to Uzbekistan remain open. In order to identify the reasons for the continued low rate of attracting foreign investment to the economy, the Ministry of Foreign Affairs (MFA) conducted a survey among foreign investors, businessmen and experts from financial institutions with experience working in Uzbekistan. They listed the following as some of the factors and conditions that hinder the flow of investment to Uzbekistan: - the



underdevelopment of the banking and credit system; - weak protection of investor rights and an insufficiently effective judicial system; - administrative and bureaucratic obstacles (many foreign companies are dissatisfied with the procedures for obtaining licenses and permits to carry out their activities); - low investment rating. At the same time, the following measures, in our opinion, will allow us to further improve the investment climate: increasing the value of the soum; ensuring the inviolability of property, further increasing the protection of investors' rights, stabilizing bank interest rates; improving the tax system on a scientifically based basis, taking into account the phased implementation of reforms; putting an end to administrative red tape; increasing the prestige and liquidity of shares of joint-stock companies in Uzbekistan, attracting foreign investors to them, and developing the securities market. Based on the above-mentioned problems and shortcomings that hinder the attractiveness of the investment climate, as well as our analysis of the level of absorption of foreign investments made to the economy from 2011 to 2019, we believe that it is appropriate to implement the following measures: In our opinion, in order to ensure the stability of the investment climate, it is first of all advisable to widely develop the system of investment risk insurance or protection, and to ensure that regulatory and legal documents are fully implemented. Also, in our opinion, the stability of the investment climate can be ensured based on a thorough study and analysis of factors such as the state's political attitude towards foreign investments, the level of state intervention in the economy, the effectiveness of the state apparatus, the political stability of the state, the general state of the economy (growth or crisis), the level of inflation, the stability of the exchange rate, tax and customs privileges, the cost of labor and the procedure for using labor resources, the availability of demand and supply for specific types of goods and services, the cost of credit, as well as the attitude of members of society to the formation of foreign capital and private ownership, the level of ideological knowledge of society, and the organizational and entrepreneurial abilities of the workforce. Extensive efforts are being made to create a favorable investment climate in Uzbekistan, in this regard, various financial privileges and rights are provided to foreign investors, and a market infrastructure is being formed.

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