



## Article

# Encouraging Capital Inflows and Creating an Enabling Environment for Investment

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**Abstract:** This article examines the international experience of investment climate research, examines methods for assessing the investment environment and the degree of attractiveness of both individual regions and certain sectors of the economy. In addition, recommendations are provided aimed at strengthening investment attractiveness and creating favorable conditions for investment in various sectors of the Republic of Uzbekistan.

**Keywords:** investments, investment environment, investment attractiveness, business environment, strategy, foreign investments, risks, rating of regions, favorable regime, regional economy

## 1. Introduction

At the current stage of economic transformations in the Republic of Uzbekistan, associated with changes in structures, forms and methods of management, as well as with the revision of the level of business activity, the task of attracting investments to strengthen the domestic manufacturing sector is coming to the fore. The direction and speed of further socio-economic transformations, as well as the ability to ensure sustainable economic growth, largely depend on its successful solution. Effective attraction of investments requires the formation of special conditions for the organization of investment activities that guarantee the targeted and effective use of invested funds. To ensure successful socio-economic development, the state needs to create an effectively functioning investment market, increase the investment attractiveness of domestic companies and establish close integration with international financial flows. The most important factor determining the pace of investment development of a country is the structure and scale of investment activity at the level of each individual business entity. In this regard, special attention should be paid to the formation of investment activity and attractiveness of enterprises. These indicators directly affect the opportunities and volumes of attracting financial resources, as well as significantly determine the overall investment potential of the business. At the same time, the current stage of the country's economic development has revealed many problems in the real sector, which can be solved, among other things, through additional capital inflows. Moreover, the focus on innovative development has increased the interest of the scientific and management communities in the rational allocation of investment resources and led to increased demands from investors when choosing investment sites. In this regard, the issue of the investment climate in Uzbekistan,

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as well as the factors and conditions of its formation, is becoming key and deserves special attention.

## 2. Materials and Methods

The methodological basis of the study was the works of domestic and foreign scientists on the problems of studying the investment climate and attractiveness of both regions and specific sectors of the economy, as well as increasing investment attractiveness and creating a favorable investment climate in industries, legislative acts and other regulatory documents, materials of scientific and practical conferences devoted to these issues. The research methodology was based on the principles of a systematic approach. Methods of logical, comparative and statistical analysis were used to solve the tasks.

## 3. Results

To ensure a sustainable economic recovery, Uzbekistan needs to act ahead of the curve, forming the basis of national competitiveness in the most promising industries and mastering emerging market niches in the global economy. Not only the creation of new efficient enterprises and the introduction of modern technologies, but also a significant improvement in the quality of national institutions should play a key role in this process.

The Head of State clearly outlined the priorities of the republic's investment policy and the main areas of cooperation with foreign partners. Thanks to this, the national economy has doubled in recent years, and by the end of last year its growth was 6 percent. Inflation has dropped to 9 percent. The steady growth of trade turnover continues, stable indicators of the exchange rate and gold and foreign exchange reserves remain. In recent years, over \$60 billion of foreign investments have been attracted, and more than \$14 billion from international financial institutions has been directed to the social sphere and infrastructure projects.

More than 300 investment and industrial projects have been launched with such large companies and brands as ACWA Power, Masdar, Total Eren, Voltalia, Çalık and Aksa in the energy sector, Air Products, Indorama and CAMCE in the chemical industry, Orano and DANIELI in the mining and metallurgical industry, BYD, Kia and Samsung in the automotive and electrical engineering, Koç, KNAUF in the construction industry. The result was the creation of hundreds of thousands of new jobs. New major projects have been launched with such industry leaders as Linde, Orascom, DataVolt, Bonafarm, PASHA holding and other partners.

It is worth noting the steps taken and the activities carried out aimed at further liberalizing the economy, creating a favorable investment climate and comprehensively expanding opportunities for business development. In particular, we are talking about providing tax benefits on dividends to foreign investors, strengthening the legal framework and expanding the scale of privatization, introducing business sustainability indicators, creating a modern infrastructure of industrial zones and introducing a transparent mechanism for the distribution of land plots. In addition, it is planned to expand the practice of public-private partnership to the social and infrastructural spheres. At the same time, work is intensifying on the harmonization of national legislation in preparation for joining the World Trade Organization.

The Tashkent International Arbitration Center operates to ensure fair dispute resolution. A National Anti-Corruption Strategy for the period up to 2030 is also being developed. The coverage of higher education has increased significantly: over the past seven years, it has increased from 9 to 42 percent, while the number of higher education institutions has exceeded 200.

As the President of the Republic of Uzbekistan Shavkat Mirziyoyev noted: «Our main goal is to turn Uzbekistan into a reliable and long-term partner for foreign investors».[4] The republic already has a visa-free regime for citizens of more than 90

countries. The State guarantees the development of market mechanisms, reliable protection of investors' rights, further improvement of a favorable investment and business environment, expansion of opportunities for fair competition, ensuring the inviolability of private property and the independence of the judicial system.

The Head of State proposed a number of specific measures to strengthen guarantees for investors. In particular, taking into account the rules and standards of the World Trade Organization, a draft law «On Investments» has been developed. The first international commercial court will start operating in Uzbekistan in the near future.

The introduction of a fundamentally new model for the functioning of industrial zones will ensure even more favorable conditions for the implementation of high-tech investment projects. In this direction, it is proposed to abolish all time restrictions for special economic zones, as well as to increase the lease term of land plots by foreign investors from the current 25 to 49 years.

In general, within the framework of the Strategy «Uzbekistan – 2030», the goal is to double per capita income by 2030 and move into the group of middle-income countries and above.[1] Priorities for expanding mutually beneficial cooperation with foreign investors are clearly defined.

First, it is the development of «green energy». Promoting the efficiency of the energy sector is an urgent task for the entire region. 28 projects are already being implemented in this area, and by 2030 it is planned to create more than 20 gigawatts of renewable energy capacity, bringing its share to 40% of the total energy balance. Together with strategic partners, a large-scale renewable energy infrastructure is being formed, including projects in the field of «green hydrogen». Only last year, with the participation of Masdar, Gezhouba and China Energy companies, large wind and solar power plants with a total capacity of 1.4 gigawatts were launched.[4]

The second priority area is the banking and financial sector. During the reforms in Uzbekistan, the number of private banks increased, leading European financial institutions entered the domestic market, and a number of digital banks were formed. In cooperation with the European Bank for Reconstruction and Development, an agreement has been reached on the privatization of a large Uzbek bank, Asakabank. At the same time, the International Finance Corporation and the Asian Development Bank are actively advancing the processes of transformation and privatization of other significant financial institutions. Approaches to the development of the capital market are being reviewed and the use of international financing instruments is expanding.

The third priority area of mutually beneficial cooperation is the joint development of mineral resources. Uzbekistan has significant reserves of minerals and critically important metals - gold, copper, tungsten, silver, uranium, as well as over 30 types of rare earth metals.

The fourth important area is the digital transformation of the country. During the year, the volume of exports of IT services and software products doubled, and the goal was set to reach \$ 5 billion. Special attention is paid to the opportunities for foreign investors to participate in promising IT projects, including the development of digital solutions for the economy, the introduction of artificial intelligence technologies and the creation of «green» data centers.[4]

Large-scale transformations are being carried out in the field of railway transport, favorable conditions are being created for private investment in the construction of highways and high-speed railway lines. In parallel, projects are being developed to modernize existing and build new international airports. Together with foreign partners, work has begun on laying the China–Kyrgyzstan–Uzbekistan and Uzbekistan–Afghanistan–Pakistan railway routes. These projects will significantly change the geo-economic landscape of the region, turning Central Asia into a key global transit hub

connecting North with South and East with West. In addition, 15 new investment projects with a total value of \$8.7 billion and five industrial facilities with a total investment volume of \$2.8 billion have been launched in the country.[4]

#### 4. Discussion

However, in the Asian region, in addition to external competition, countries such as the Republic of Uzbekistan are characterized by internal competition between individual territories for attracting investments. This process is largely due to the relative independence and often divergent interests of the regions. Understanding the essence of interregional competition, as well as mastering the tools to enhance the competitiveness of territories, are becoming increasingly important for regional managers. This, in turn, implies the need to increase the attractiveness of the region in the eyes of potential investors and create a favorable investment climate.

Thus, there is an obvious need for a comprehensive, scientifically sound and at the same time understandable methodology for assessing the investment climate and attractiveness of both individual regions and specific industries for investors and other interested participants.

If there is sufficient complete and reliable information in the country, almost every potential investor can choose an investment object that meets his expectations. The most accurate idea of the parameters of such conditions is given by the concepts of «investment attractiveness» (IP) and «investment climate» (IC).

The investment complex of the economic system is formed by a combination of natural, geographical, social, political, innovative, legal and other factors contributing to the maintenance, building up and expansion of social and individual capital. The investment climate acts as an objective assessment of these factors, allowing you to understand how they correspond to the interests of different investors and public needs in general.

Unlike IC, which is an objective characteristic of an investment complex, investment attractiveness is subjective. Investors respond to the investment climate with specific decisions, manifested in their investment activity. The same environment can be evaluated differently by different investors. Therefore, investment attractiveness is understood as a subjective assessment of investment conditions by an individual investor, reflecting the degree to which the expected benefits and the level of risk correspond to its specific goals and objectives. All factors affecting investment attractiveness can be divided into three large groups:

- Factors stimulating investment activity, or investment potential;
- Factors constraining investment activity, or risks;
- Parameters characterizing investment stability.

Assessment and forecasting of the investment attractiveness of industries and regions, as a rule, are carried out using the same methods and in the same sequence as in macroeconomic analysis. These include:

- Monitoring of the system of informative indicators;
- Formation of a set of analytical indicators, their assessment and analysis;
- Forecasting the prospects of attractiveness.

When assessing and forecasting the investment attractiveness of economic sectors, the following criteria must be taken into account:

- The prospects and effectiveness of the development of each industry;
- The importance of individual industries for the national economy;
- The degree of government support for their development;
- The level of investment risks specific to certain industries, as well as other generalizing indicators.

In modern conditions, the application of an institutional approach in the investment policy of the state is becoming not only relevant, but also urgent. The peculiarities of the

economy of the Republic of Uzbekistan, which necessitate such an approach, can be reduced to the following key points:

- The uncertainty of property rights and the insufficiency of their legal protection;
  - Underdevelopment or complete absence of market institutions and infrastructure necessary for active investment activity;
  - Imbalances in the structure of the economy, the gap between the financial and credit system and the real sector;
  - Strengthening the role of natural forms of economic relations and the lack of a full-fledged payment and settlement system;
  - The systematic excess of interest rates over the level of productive return on capital.
- In such conditions, the arsenal of economic policy measures familiar to market economies does not allow to stabilize the situation and increase the investment activity of enterprises.

An alternative, institutional approach involves the progressive elimination of imbalances in the investment environment, the transition to market principles of its functioning, as well as the formation of the necessary institutions and infrastructure for investment activities.

Within its framework, the state should focus on the following key tasks:

- Clear distribution and reliable protection of property rights, including the regulation of internal corporate relations;
- Further improvement of investment legislation and regulatory framework;
- Creation of investment infrastructure.

When assessing and forecasting the investment attractiveness of regions, it is important to take into account the specifics of state regional policy. Such a policy should ensure the effective development of each region, based on the optimal use of its economic potential, rational division of labor, mutual cooperation and harmonious integration with other territories.

Investment attractiveness is influenced by a wide range of factors: political, industrial, resource and raw materials, innovative, social, human, financial, infrastructural, investment, consumer, as well as environmental. Each of them contains a set of indicators that in one way or another affect the attractiveness for investors. The methodology used takes into account both qualitative and quantitative criteria. The set of quantitative indicators is ordered by the level of their impact on the volume of investments in fixed assets, reflecting the investment activity of the territory, and makes it possible to identify the most important variables for risk assessment.

Many approaches are used to assess the investment attractiveness of the region. Among them, we can highlight the analysis of the investment structure horizontally and vertically, the use of an integral reliability indicator, rating by key parameters, the use of an aggregated reliability indicator, as well as the comparison of quantitative and qualitative criteria. Each of these methods has its own strengths and weaknesses, but in general they provide an opportunity to assess the attractiveness of the region for investors to varying degrees of objectivity.

In our opinion, the process of assessing the investment attractiveness of a particular region should begin with a statistical analysis of the dynamics of macroeconomic indicators and the calculation of specialized indicators (such as the unemployment rate, the volume of investments in fixed assets, the index of industrial production, indicators of foreign trade activity). At the same time, when assessing investment attractiveness, certain difficulties arise that inevitably face any researcher, which makes their detailed consideration necessary.

From our point of view, assessing the investment attractiveness of regions is of key importance not only for comparing the investment climate in different territories of the country, but also for creating optimal conditions conducive to the inflow of both domestic and foreign investments.

## 5. Conclusion

Thus, the result of assessing and forecasting the investment attractiveness (IP) and investment climate (IC) of industries and regions is their distribution and ordering according to the degree of attractiveness. At the same time, it is necessary to take into account the different importance of individual analytical indicators, determined by expert means. An integral index of attractiveness of industries and regions is calculated based on a quantitative assessment of groups of summary indicators. It is not advisable to consider the stability of the dynamics of individual quantitative indicators reflecting potential and risk separately. This is due to the fact that a situation may arise in which each individual indicator demonstrates relative stability, while the entire system as a whole remains unstable. This fact underlines the need to form an integral indicator of sustainability. At the same time, the risk and potential assessments used in the investment rating already represent summary indicators obtained on the basis of certain grouped private factors and their indicators. Consequently, indicators of the sustainability of risk levels or potential will act as integral indicators of the sustainability of the components of the investment climate of a particular region or industry. Comparison with public values is provided by the method of calculating integral values as deviations from the national average, which makes it possible to compare the levels of investment stability of various economic systems.

In this regard, the regions need to make additional efforts to effectively organize the investment process. Taking into account all the difficulties listed above, the assessment of the investment attractiveness of regions becomes an important condition for the formation of effective measures to increase it both at the regional and national levels. To strengthen the effectiveness of management at the regional level, it is advisable to conduct a comprehensive analysis of the sectors of the economy that are their basis. The production of such an assessment exclusively in the sectoral context, without taking into account territorial specifics, no longer meets current needs.

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