



# Problems Of Creating A Favorable Investment Climate In Uzbekistan

**Khoshimov Sabir Murtazaevich**

Associate Professor, Doctor of Philosophy in Economics (PhD)  
Tashkent State University of Economics

## ABSTRACT

The article discusses the current problems of creating a favorable investment climate in Uzbekistan, the main factors determining the investment climate, issues of reducing the country's risks while increasing the attractiveness of the investment environment, and provides conclusions and recommendations.

## Keywords:

Investment, business environment, stability, transparency, investment insurance, inflation, investment risk, force majeure.

In view of the lack of internal financial resources in the Uzbek economy and the need to attract external financing sources, the problem of creating a favorable investment climate is becoming increasingly urgent. The creation of an optimal model for the formation of the investment climate in Uzbekistan is of particular importance, the essence and methods of solving the problems of attracting direct and portfolio investments, domestic and foreign investments, determine the growth of national production. It creates the basis for further active integration of the Uzbek economy into the modern world economy.

In recent years, the problem of attracting investments has been in the center of constant attention of the government, various aspects of this multifaceted issue have been reflected in large-scale studies conducted by domestic and foreign scientists and specialists, mainly at the industrial level. Investments are important both for the activities of individual business entities and for the economic development of the country as a whole. Economic growth is determined by various factors, the most important of which is the growth of investments and increasing their

efficiency. Real investments play a special role in economic development, since without them it is impossible to renew and expand the main production assets of economic entities. In modern conditions, the volume of investments ensures technological growth, improves the quality and quantity of production. This is important not only for attracting investments, but also for their proper use, as a result of which economic efficiency increases. The level of investment activity and the scope of investment activities have a significant impact on the long-term activity of business entities, their development and competitiveness. Creating a favorable investment environment creates conditions for increasing the investment opportunities of domestic and foreign investors, making strategic and operational investment decisions.

As President Sh. Mirziyoyev emphasized: "First of all, we have eliminated all the factors that previously hindered investors' entry into the Uzbek market and their free activity, and have begun to create favorable conditions for entrepreneurship.

In addition, in order to ensure the well-being of the population through sustainable

economic growth, the "Uzbekistan-2030" strategy sets the following goals: "to consistently continue changes and institutional reforms in the economy, to ensure a favorable and business-friendly environment in the country, as well as to implement a balanced monetary and credit policy, ensuring an average annual growth of capital investments in fixed assets by 7 percent."

The relevance of this topic is that the development of an effective mechanism for creating a favorable investment climate in the country will lead to the creation of favorable conditions for the transformation of savings into investment resources in the region, as well as the attraction of external investment sources. At the same time, a positive effect will be achieved in increasing the volume of investments directed to priority areas and sectors of the economy, which, in turn, will help achieve the strategic goals of the country's socio-economic development. An objective assessment of the country's investment climate requires a thorough study of the problems that investors encounter when implementing investment activities.

World economists J. D. Daniels, Lee H. Radeba, M. Moore, H. Schmitz, S. Yu. Sivakova, N. A. Dubovik, A. A. Burkov and many other scientists have made a significant contribution to the study of investment problems and improving the investment climate in their research.

Theoretical and methodological foundations of the study include local scientists who conducted scientific research on the theoretical and practical aspects of the investment process and assessment of the investment environment: D.G. Gazibekov, N.G. Karimov, E.I. Nosirov, S. Mustafakulov, A. Sobirov, L. Zairov, S. Asamkhodjaeva, B. Mamatov, and others.

In economics and practice, the term "investment climate" is used to analyze the factors that affect the effective use of investments. In foreign literature, most experts identify the investment climate with the concept of "business climate". M. Moore and H. Schmitz from the Institute for Development Studies (IDS, University of Sussex) studied the

difference between these two concepts. In their opinion, improving the business climate (or business environment) means reducing the costs of doing business, and improving the investment climate means reducing the risk of investing capital.

According to most Russian scholars, the investment environment is a set of factors that affect the profitability and riskiness of capital investments. For example, according to S. Yu. Sivakova, "the investment environment is a set of relations that characterize the state and potential of the capital investment environment, as well as the risks of doing business in a given territory in certain political, regulatory and socio-economic conditions." In our opinion, the investment environment is a set of legal, economic, political and social conditions created by the state for effective investment activities by domestic and foreign investors.

Methods such as abstract-logical thinking, generalization, comparison were used to cover this topic.

Many scientists, economists and practitioners have dealt with the theoretical and practical issues of the investment climate for investments attracted to the real or financial sector of the economy. The investment climate is understood as a set of legal, economic, political and social conditions that determine the attractiveness of a state for foreign investment. Each of them plays an important role in characterizing the investment climate of a country. The investment climate is a very complex multidimensional concept. Assessment of various components of the investment climate allows us to determine the level of investment risk, the feasibility and attractiveness of making investments. Regional development trends have led to dramatic changes in traditional investment practices and investor preferences. The global financial crisis has forced investors to reconsider their priorities both in terms of risk assessment and in terms of the potential of regions. Although the chances of winning the battle for investments today are more in areas with low "social" risk (criminal, administrative and social risks), the indicator of the level of

development of infrastructure remains a permanent value rather than the investment potential, which is one of the main factors of investment preferences. Below we will focus on the main problems of creating a favorable investment environment in the national

economy and further increasing its attractiveness. First of all, it is necessary to correctly identify and analyze the main factors determining the investment environment (Table 1).

**Table 1**  
**Factors determining the investment environment**

<b>Legal factors</b>	Stability Transparency Forecasting
<b>Macroeconomic factors</b>	Market size Level of political risks National exchange rate growth Warranty system
<b>Geographic factors</b>	Natural Climatic conditions
<b>Entrepreneurial factors</b>	Level of expenses Peculiarities of the tax system System of financial benefits Level of infrastructure development

The first group of factors determining the investment climate includes legal factors, including political and economic stability for market entry and foreign investment, information openness, transparency and predictability of the future market, the specific features of the national or most favorable state regime, and the forms of state guarantees provided to foreign investors (including protection from nationalization of property). These factors serve as the initial criteria for assessing the investment climate of the recipient country.

The second group is macroeconomic factors that play the most important role. These include: the market opportunities of the host country, which are determined by the volume of GDP in general and the size of this indicator per capita; the level of political risk in the country, which depends on the political stability and democratic nature of the political system. The first of these indicators is determined by the stability of the government and the economy from the point of view of state requirements. The second indicator is determined by the level of democratic development of the country from the point of view of guarantees of civil liberties and fundamental human rights; the dynamics of the national exchange rate: an increase in the exchange rate directly stimulates the inflow of foreign investments, a decrease in the exchange rate, on the contrary, leads to their decrease; the development of the system of protection of foreign investments from various risks (state guarantees, investment insurance), etc.

The third group of factors determining a country's investment climate are geographical and climatic factors, which are particularly important for investing in the extractive industry and agriculture.

The fourth group of factors is the country's business environment. The level of expenses of the business environment, the specific features of the tax system and the amount of tax rates, the system of financial incentives, the cost and level of skills of the labor force, the level of infrastructure development, the amount of rent and communal services, administrative procedures, assistance of local authorities in the selection of employees are important for the activities of foreign investors.

One of the second important problems in creating a favorable investment environment is the

correct assessment of the existing investment environment.

When assessing the investment environment, the following factors are taken into account:

- economic conditions (state of the macroeconomic environment, dynamics of GDP, national income, industrial production, inflation, development of high-tech industries, situation in the labor market, money, financial, budget, tax, currency systems, etc.);

- state investment policy (level of state support for foreign investments, possibility of nationalization of foreign property, participation in international agreements, compliance with agreements, continuity of political power, stability of state institutions and effectiveness of their activities, etc.);

- regulatory and legal framework for investment activities (status of regulatory documents and procedure for their amendment, parameters for importing and exporting investments into the country, tax, currency and customs regime, procedure for establishing, registering, operating, reporting, merging and liquidating companies, management of disputed situations);

- information, accurate information and statistical materials about the state of various factors determining the investment environment.

Assessment of various components of the investment environment allows us to determine the level of investment risk, the feasibility and attractiveness of investing temporarily available capital. Methods for assessing the investment environment are very diverse, the internal structure depends on the specific characteristics of the national economic system and the goals of strategic economic development.

One of the third problems of creating a favorable investment environment is to reduce the level of country risk of the country receiving the investment.

The term "investment risk", generally recognized in world practice, is used to define the concept of risk associated with the complete or partial loss of capital investments or non-payment. Risks are usually divided into three levels, and the higher level includes the lower levels. Country risk is the most general concept, which combines all risks that may occur on the territory of a country that is a full participant in international relations, includes commercial and non-commercial risks, as well as force majeure.

**Table 2**  
**Macroeconomic and country risk indicators for CIS countries (2023)**

Indicators/countries	GDP growth (%)	Average annual inflation (%)	Public debt (% of GDP)	Investments in fixed capital (% of GDP)	Country risk level	Business environment level
Russian Federation	3.6	7.5	16.2	12.1	D - very high	B - stable
Kazakhstan	5.1	10.8	40.5	15.1	B - stable	B - stable
Belarus	3.9	5.1	31.7	11.5	D - very high	B - stable
Azerbaijan	1.1	8.8	21.8	16.4	B - stable	C - high
Uzbekistan	6.0	8.7	34.3	33.3	B - stable	B - stable
Kyrgyzstan	6.2	7.3	47.6	13.6	C - high	D - very high
Tajikistan	8.3	6.0	33.3	10.7	D - very high	D - very high
Turkmenistan	6.3	5.9	5.5	-	D - very high	E - critic

As can be seen from Table 2, the macroeconomic indicators, country risk level, and business environment of the CIS and developing countries are significantly higher than those of developed countries. For example, the highest GDP growth rate in 2023 was 8.3% in Tajikistan, and the lowest was 1.1% in Azerbaijan. The average annual inflation rate was 10.8% in Kazakhstan, and the lowest was 5.1% in Belarus. The increasing ratio of public debt to GDP, a significant decrease in international reserves or a rapid increase in external liabilities, a high level of state intervention in the economy, the inviolability of private property, and the low effectiveness of anti-corruption measures in these countries indicate high country risk and a poor business environment.

In the modern world, the investment environment is becoming an important factor in attracting foreign investments and developing the national economy. This process gives businesses and entrepreneurs access to the necessary financial resources to implement their business ideas and development strategies.

In order to significantly improve the investment climate in Uzbekistan, it is important to carry out regulatory work in the following areas, taking into account the opinions of foreign investors: it is necessary to intensify efforts to reduce the administrative burden (for example, the number of documents from registration to the production of products or provision of services) by reducing bureaucratic procedures; take measures to increase the transparency and efficiency of legislation by eliminating the competitive nature of the legal system and creating clear rules of the game for all market participants. It is necessary to eliminate legal obstacles and ambiguities that allow for different interpretations of the same rule of law, which can be used to create artificial barriers. It is necessary to eliminate hidden requirements for investors in order to increase the transparency of the investment process; It is necessary to further liberalize migration legislation, which will attract highly qualified foreign specialists with international experience and allow them

to use the technologies and knowledge necessary for work, which in turn will simplify the implementation of projects in the Republic; reduce the level of state control over the economic activities of enterprises with foreign investment: it is necessary to abandon outdated industrial safety standards, reduce excessive requirements for raw materials and products, and harmonize domestic and international standards for raw materials and products.

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