

## IMPROVING ATTRACTION OF FOREIGN INVESTMENTS IN TERMS OF INTERPRETING ATTRACTIVENESS OF THE INVESTMENT ENVIRONMENT

**Khoshimov Jahongir Ravshanbekugli\***

\*Researcher,  
PhD,  
Appraisal and Investments Department,  
Tashkent Institute of Finance, Tashkent,  
UZBEKISTAN  
Email id: j.r.xoshimov@mail.ru

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### ABSTRACT

*This article is devoted to the investigation of the essence of the concepts of investment environment and foreign investments. The article analyzes the main trends in attracting foreign investments in the national economy. In addition, the author has calculated the ICOR (Incremental Capital-Output Ratio), which is widely used in international practice, to evaluate the efficiency of investments made in Uzbekistan. In reliance upon the research results, relevant proposals and recommendations have been worked out for improving the attraction of foreign investments in terms of the concept of the investment environment attractiveness.*

**KEYWORDS:** *Investment Environment, Investment Potential, Foreign Direct Investment (FDI), Investment Potential, ICOR (Incremental Capital-Output Ratio), Incentive.*

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### INTRODUCTION

Currently, Uzbekistan has been undertaking well-designed policies to further improve the investment environment, promote the attraction of foreign direct investments, strengthen the confidence of investors in the consistency of the investment process and enhance the responsibility of public authorities in working with investors, manage the processes of investment projects implementation, as well as develop a balanced investment strategy and enhance the competitiveness of the national economy by ensuring investment activity. Such essential objectives as “further improving the investment environment in the country, encouraging the attraction of direct investments, timely and high-quality implementation of investment projects, creating new production facilities and jobs, improving infrastructure and raising public welfare level” have been determined as top targets within the framework of improving the attractiveness of investment climate. Efficient implementation of these objectives requires improving the management of the attractiveness of the investment environment in our republic.

### LITERATURE REVIEW

J.D. Daniels and L.H. Radeba assessed the concept of “investment environment” as a synonym for the concept of “business environment” and emphasized that the transnational

corporations(TMC) of the 70s and 80s of the last century managed to completely copy the conditions of adaptation to the requirements of the business environment[1].

In their research papers of A.M.Bacenko, P.V.Taranov stated that “Terminological aspects such as “investment environment” and “investment climate” include the level of riskiness during investment, internal and external conditions and facilities that form the level of attractiveness of investing in a specific planned object” [2].

In the research by M.Engman, O.Onodera, and E.Pinali, the concept of investment environment is defined as follows: investment environment includes the measures undertaken for introducing investments in the country artificially or through the natural geographical location. In particular, they can be located on a favourable plateau, natural climatic conditions, access to the sea, legal system, opportunities for achieving economic efficiency, etc. [3].

“Investment is a long-term investment of capital in various sectors, socio-economic programs, innovation, business projects in one’s own country or abroad for the purpose of economic development” [4].

“Investment is placement, injection of capital to an enterprise, a specific branch of the economy in order to make a profit within the country or abroad” [5].

The nature of investments is also reflected in national legislation. For example, in the Law of the Republic of Uzbekistan №-598 “On Investments and Investment Activities” investments are defined as follows: “material and intangible assets and rights thereto, including rights to intellectual property objects, as well as reinvestments, which are placed by the investor in the social sphere, entrepreneurship, research and other types of activities on the basis of risks for the purpose of profit” [6].

## **Research Methodology**

Logical and structural analysis, grouping, statistical analysis, comparison, and factor analysis methods have been widely used in the article.

## **ANALYSIS AND RESULTS**

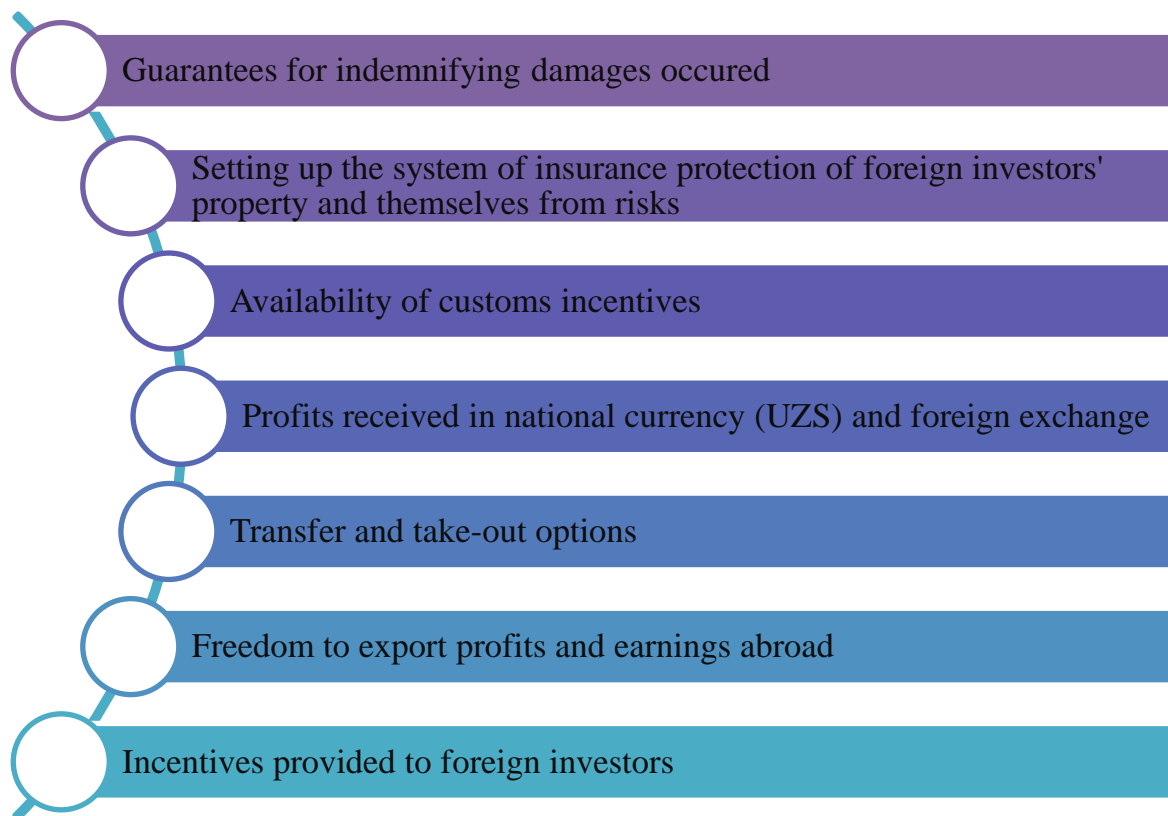
According to the preliminary data of the Statistics Agency, in 2022, the volume of capital investments in the Republic of Uzbekistan accounted for 270 trillion UZS. Out of this, total foreign investments and loans allocated to fixed capital accounted for 112.2 trillion UZS. Investor countries with the highest share in the volume of foreign investments and loans were Russia - 20.3 percent; China - 16.4 percent; Turkey - 10.1 percent; Germany - 6 percent; Saudi Arabia - 6 percent; USA – 3.8 percent; Cyprus - 3 percent; Italy - 2.4 percent; Switzerland - 1.9 percent; Great Britain - 1.6 percent.

In 2017-2022 a number of the following reforms were implemented in order to improve the attraction of investments, including foreign investments:

- “Tashkent International Investment Forum” and bilateral business forums with trading partner countries have been organized on a regular basis;
- Visa-free entry (90 countries) and simplified visa (60 countries) procedure for citizens of foreign countries has been established;

- Several free economic zones specializing in industry, pharmaceutical, tourism and agriculture have been established in the regions;
- Support of foreign investors in all processes up to the launch of investment projects through the “unified window” system” has been launched;
- All problems related to the repatriation of profits by foreign investors have been eliminated, and dividends received from their shares have been exempted from taxation for a three-year period;
- In order to liberalize foreign trade policy, customs duties on a number of raw materials and goods have been minimized to zero (more than 7 thousand) and reduced (about 6 thousand);
- Simplified procedure for processing products in the customs territory has been introduced.

Figure 1 below presents the data about preferential financial conditions created in the Republic of Uzbekistan.



**Figure 1. Preferential financial conditions created in the Republic of Uzbekistan<sup>1</sup>**

In the process of investigating the global experience of efficient management of investment potential, we have attempted to evaluate the incentives implemented in selected countries, because the main lever that interests investors is the system of incentives.

Summarizing the considerations specified above, we consider exemplary types of efficient management of investment potential in the world practice and their special incentives (Table 1).

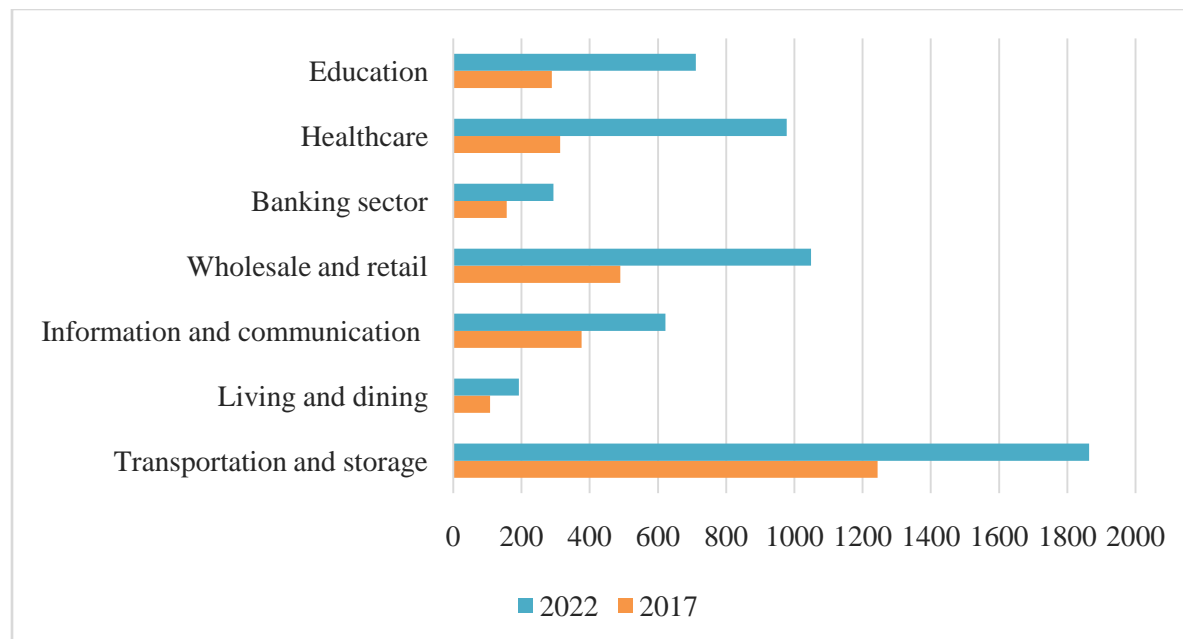
**TABLE 1. EXEMPLARY TYPES OF EFFICIENT MANAGEMENT OF INVESTMENT POTENTIAL IN THE WORLD PRACTICE AND THEIR INCENTIVES [8]**

<i>Countries</i>	<i>Types of free economic zones introduced in order to effectively manage investment potential</i>	<i>The name of exemplary zones as a result of efficient management of investment potential</i>	<b>Special incentives provided for the purpose of efficient management of investment potential</b>
United States of America	Free trade zones	"Silicon Valley"	Reducing taxes on imported components
	Free entrepreneurship zones		Tax incentives and simplified reporting
	Techno parks		Preferential lending system and discounts on rent
Japan	Technopolises	"Sakaiminato"	Accelerated depreciation
Ireland	Collective zone	"Shannon"	Incentives on rent and paying taxes
People's Republic of China	Special economic zone	"Shenzhen"	Customs and tax incentives, income tax rate of 10%, rent and land tax benefits (\$15-20 per km <sup>2</sup> )
Brazil	Free industrial zone	"Manaus"	Exemption from payment of land tax, taxes on import of machinery and equipment, customs concessions, compulsory condition-use of local raw materials
United Arab Emirates	Free trade zone	"Djebel-Ali"	Exemption from income tax and other taxes for 15 years
South Korea	Agropolises	"Masan"	Incentives on rent and paying taxes
	Free customs zone	"Gavan"	Incentives on customs duties and tax payments
Russian Federation	Research and development zone	"Nahodka"	Tax incentives

The global community has extensive experience in the efficient management of investment potential, as well as the criteria for justifying and distinguishing economic structures of various

forms. That is why different countries pay particular attention to various criteria and approaches in establishing, classifying and separating free economic zones established for the purpose of efficient management of investment potential. For example, in the effective management of investment potential in Great Britain, the following aspects are taken into account: economic promotion of backward sectors and industries; achieving high success in creating new jobs; size and duration of proposed special measures; creating favourable conditions for the development of permitted types of business; land plots development of and others.

We will analyze the amount of investments made by service industries in 2017 and 2022 (Figure 2).

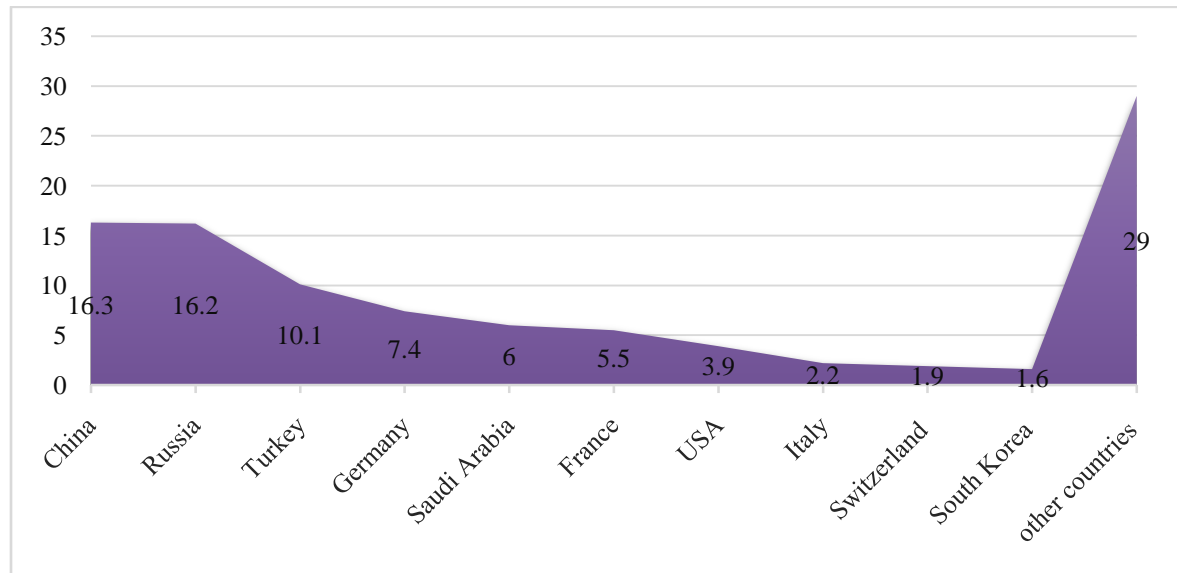


**Figure 2. The amount of investments made by services sectors in 2017 and 2022 (mln.USD) [9]**

Analyzing investments attracted in the last 6 years in the service sector it is obvious that in 2017-2022 investments in the economy of Uzbekistan increased by 70.6 percent including the volume of foreign investments, which rose by 3 times, and the added value created in the sector increased by 36.1 percent. In particular, in the field of education, the number of non-public preschool educational institutions increased from 1.4 thousand to 22.8 thousand, the number of non-public educational institutions increased from 84 to 334, and the number of non-public higher education institutions increased from 7 to 95.

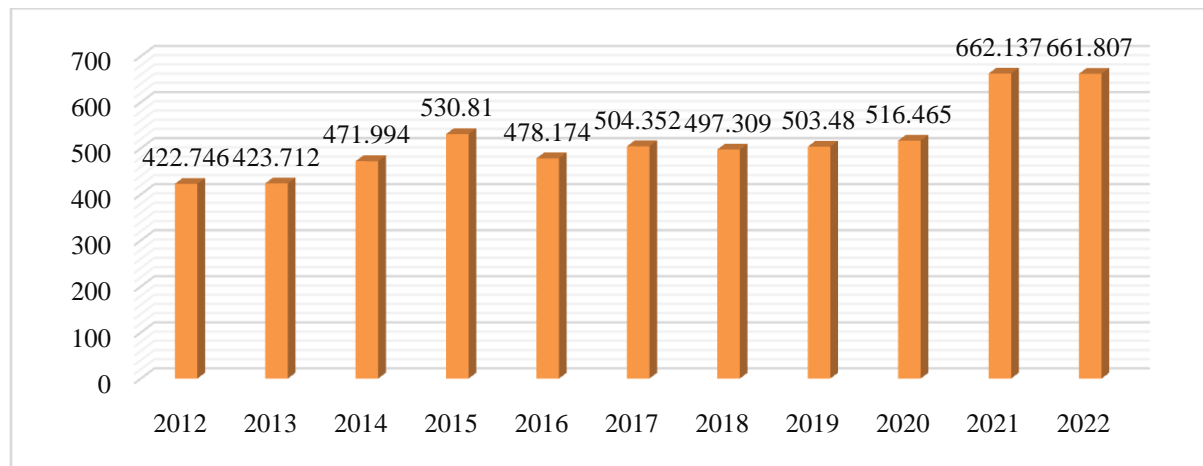
Investigating investments by industrial sectors, including foreign investments, there is an upward trend in the automotive industry (3.9 times more in 2022 compared to 2017), construction materials industry (3.7 times in 2022 compared to 2017), metallurgical industry (3.1 times in 2022 compared to 2017) and textiles and sewing-knitting a high growth was observed in the industry (3 times in 2022 compared to 2017).

The data in Figure 3 illustrates the share of attracted foreign investments by country in 2022. The country that attracted the biggest part of foreign investment was the People's Republic of China.



**Figure 3. The share of attracted foreign investments by country in 2022<sup>2</sup>**

In recent years there have been positive changes in the geographical concentration of foreign investors. In particular, in 2017, the main part of foreign investments and loans was attracted by 2 countries - Russia with 55.5 percent and China with percent. Currently, we can see the increase in the share of such countries as Turkey - 10.1 percent, Germany - 7.4 percent, Saudi Arabia - 6 percent, France - 5.5 percent, USA - 3.9 percent, Italy - 2.2 percent, Switzerland - 1.9 percent and Korea - 1.6 percent.



**Figure 4. The volume of global foreign direct investments attracted to Asian countries, million USD [11]**

According to UNCTAD, the World Investment Report 2023 shows that global foreign direct investment (FDI) declined by 12 percent in 2022 after steady growth in 2021 and amounted to 1.3 trillion USD. This is mainly due to conflicting global crises - the war in Ukraine, high food

and energy prices, and the growth of public debt. Between 2012 and 2022, trends in FDI inflows and outflows by Asian countries were observed. Figure 4 below demonstrates that the total FDI inflow was 661807 million USD.

## DISCUSSION

ICOR (Incremental Capital-Output Ratio), widely used in international practice, has been calculated to evaluate the efficiency of investments made in Uzbekistan. The ICOR indicator is calculated by the ratio of the investment made to the change in value-added, and the smaller its value, the higher the efficiency of the investment. ICOR for the economy constituted 6 units in 2022, decreasing by 0.2 compared to 2017 (5.8) and 1.0 compared to 2021 (5.0). This indicator was 5.1 in China, 4.9 in Vietnam, 11.1 in Russia, 5.9 in Kazakhstan, and 4.5 in India. In 2022 the indicator of investment efficiency by the sectors was equal to 2.8 in agriculture, 3.3 in services, 4.3 in construction and 11.4 in industry. Compared to 2017, investment efficiency increased only in agriculture, while efficiency in other sectors decreased. The most obvious decline was observed in the construction sector, where the ICOR value increased from 1.6 to 4.3 units. In the section of industrial sectors, the efficiency of investments is high in electrical engineering (average ICOR value 2.4), metallurgy (2.7) and chemical industry (3.1), while the index of investment efficiency in leather and footwear industry (29.4), construction materials (15.6) and in the automotive industry (11.8) was relatively lower.

## CONCLUSION AND PROPOSALS

The investment program for 2023-2025 has been developed in order to rapidly develop the sectors of the national economy, and expand and modernize the production capacity. According to the program, in 2023-2025 about 1215.0 trillion UZS are supposed to be invested in the economy, of which the amount worth 31.4 billion USD will be comprised of foreign investments and loans.

The new system was introduced with the aim of enhancing the attractiveness of the country's investment environment, supporting high-efficiency investment projects. According to this system, the "investment manager" job position was introduced in the Ministry of Investment and Foreign Trade. The measures undertaken on the basis of this system created opportunities to attract in the economy additional investments worth 3 billion USD.

In order to use the investment opportunities of the regions wisely, the formation of new projects based on the principle of "research - development – implementation" is underway in all districts and cities with the involvement of international consulting companies. A regional investment forum was held in each region to present projects to foreign investors.

In order to enhance robust competition in the country's business environment and to reduce the role of the government in the economy, programs worth 14 billion USD have been developed with the support of international financial institutions. As part of the "1 thousand + 1 thousand + 40" program on the privatization of state property, state shares in 1 thousand enterprises and 1 thousand state-owned real estate objects (including large gold and copper-producing enterprises, telecommunications and insurance companies, and shares of banks) went public and were offered to investors.



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