



## THE ESSENCE OF FOREIGN INVESTMENT, THE FACTORS INFLUENCING IT AND ITS OPPORTUNITIES

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### Abstract

This article provides recommendations on the nature of foreign investment, the factors influencing it, the implementation of an active investment policy, as well as the direction of attracting foreign investment to the country.

**Keywords:** investment, foreign investment, factors influencing foreign investment, foreign direct investment, investment policy, free economic and small industrial zones, increasing investment attractiveness.

### Introduction

Economic growth in developing countries, to ensure the stability of the enterprises to invest in one of the main factors increasing the welfare of the population and the rapid development of the activity. World experience shows that countries in various sectors of the economy to attract direct investment, targeted use is important to the real economy.

In order to implement and develop investment activities, it is necessary to know the essence of the concept of investment, its appearance and the content of the basic concepts related to this activity.

During the first years of independence of the Republic of Uzbekistan economists by investment, which follows the "investment" in German and Latin words "investere", which is the linguistic meaning of "clothe", as well as the production of various sectors of economy of the country or abroad in order to improve the long-term capital investments means [2].

The legislation of the country states that "investments are tangible and intangible benefits and rights to economic and other activities" [1].

Investment is the sum of the total costs incurred by investors in the form of investment in entrepreneurship and other activities in various sectors of the economy to achieve profit, personal goals and positive social benefits [3].





In general, investors in the investment business in the national economy to achieve a positive result or abroad objects of material and intellectual resources [4].

A state to any other state for income-oriented forms of ownership can say full-fledged foreign investment. But there are forms of ownership that we cannot call foreign investment. For example, an embassy is the property of a foreign state, or if a foreign citizen buys a private home, it is the property of a foreign person, but cannot be a foreign investment.

Foreign investment is all the property, financial, intellectual wealth that foreign investors mobilize in the economy, entrepreneurship and other activities of another state in order to achieve high returns and efficiency.

Foreign investment, unlike domestic investment, is a source of external financing. Foreign investment is of great importance in the establishment of joint ventures, the creation of enterprises fully owned by foreign investors, participation in privatization, banking with foreign partners, the purchase of securities, the right to use land and other natural resources, operating in free economic zones has

According to international statistics, the attraction of foreign direct investment by region accounts for 31.3% of total investment in developing countries in Asia, 29.1% in Europe and 24.8% in North America.

Investments are the main means of arming with modern equipment and technologies, restoring scientific, technical, production and intellectual capabilities. It is through foreign investment that the national economy develops and specializes in the production of modern, competitive goods. This, in turn, will lead to the creation of new jobs and the solution of existing economic and social problems in the country.

There are 2 factors affecting foreign investments:

1. Economic factors;
2. Political factors.

Economic factors:

- keeping pace with the development of production and economic growth;
- realization of profound structural changes in the world and individual economies (especially under the influence of scientific and technological advances and the development of the world services market);
- deepening of international specialization and cooperation of production;
- growing transnationalization of the world economy;
- deepening of internationalization and integration processes;
- active development of international economic relations and other factors.

It is known that investment activity in any country depends primarily on political stability. The same factor allows an investor to weigh his activities on the scales, to





implement long-term investment plans, not a momentary profit. The main investment climate in Uzbekistan is that the Republic is a stable country in Central Asia.

Political factors that affect foreign investments:

- the liberalization of capital exports (imports) (Eix), offshore zones, etc.);
- implementation of industrialization policy in developing countries;
- carrying out economic reforms (privatization of state-owned enterprises, support of the private sector and small business);
- permanent employment policy, etc.

The growth rate of investment depends on many factors. First of all, the amount of investment depends on the distribution of income received for consumption and savings. While the average income of the population is low, the bulk of them (70-80 percent) is spent on consumption.

An increase in the income of the population will lead to an increase in the share sent to the fund. An increase in the share of savings in total income leads to an increase in investment, and vice versa. However, this condition is fulfilled when the population has high confidence in the state, when the state ensures and guarantees the investment activity of citizens.

The amount of investment is also affected by the expected rate of return, as the perceived return encourages investment. The higher the expected rate of return, the higher the investment volume, and vice versa.

The volume of investments is greatly influenced by the interest rate on the loan, as the investment process also uses borrowed funds. If the expected net profit margin is higher than the average loan interest rate, these investments are profitable for the investor. Therefore, an increase in the average interest rate will lead to a slowdown in the investment process.

Expected inflation rates will also have an impact on investment. The higher this figure is, the less the investor's future profits will depreciate and the less the incentives for investment will decrease.

Exchange rate fluctuations often lead to adverse effects on import and export flows, leading to uncertainty over expected profits and costs. Unexpected changes in the exchange rate may change plans for the purchase or delivery of goods. Fluctuations in exchange rates create uncertainty in the foreign trade of the state, as a result of which violates the principle of formed trade agreements, slows down business activity.

One-way fluctuations in the exchange rate destabilize the balance of trade and payments. In the long run, when the exchange rate of the country's currency





depreciates or its devaluation, imports of goods become more expensive and require an increase in exports to finance it.

In the context of long-term unfavorable principles in the balance of payments, there is a risk of weakening gold and foreign exchange reserves if the exchange rate remains unchanged. Therefore, most national currency systems recommend its “mixed” or regulated category. The government and the Central Bank do not set their own exchange rates firmly, but allow them to be freely affected by supply and demand.

Although the success of economic reforms depends largely on attracting foreign investment, a country that introduces the ability to freely exchange capital flows is threatened by the “escape” of investment. In existing systems with a floating exchange rate, the outflow of capital significantly reduces the exchange rate of the national currency. The outflow of investments in countries with fixed exchange rates leads to the possibility of losing foreign exchange reserves, stabilizing the dynamics of exchange rates and domestic interest rates, increasing and decreasing the money supply, and thus making it more difficult to achieve macroeconomic stability. Hence, the exchange rate also has a high impact on the movement of foreign investment. The devaluation of the national currency against foreign currencies will increase the inflow of foreign investment into the country and reduce the investment activity of local entrepreneurs abroad. The opposite situation, the increase in the value of the national currency against foreign currency (revaluation) reduces the inflow of foreign investment into the national economy and has a positive impact on the development of investment activities of local entrepreneurs abroad. Investment policy serves to achieve the strategic goals set as part of the state economic policy and to fulfill the tasks set for the short-term and long-term prospects of economic policy. Investment activity is based on the investment of legal entities and individuals in entrepreneurial activities. This investment creates added value and economic growth. "Today we live in a time of rapid change. Conflicts of interest and competition are intensifying around the world, and the international situation is deteriorating" [5]. This means that it will not be easy for Uzbekistan to gain a foothold in the international community and further develop it, which, of course, will require time, targeted medium and long-term reforms and investment. Laws of the Republic of Uzbekistan "On Entrepreneurship", "On Investment Activity", "On Guarantees of Freedom of Entrepreneurship", as well as the President of the Republic of Uzbekistan dated February 7, 2017 No PF-4947 "On the Strategy for further development of the Republic of Uzbekistan", PF-5087 of June 19, 2017 "On measures to radically improve the system of state protection of legitimate interests of business and further development of entrepreneurial activity", PF-5177 of September 5, 2017 "On the first





step to liberalize foreign exchange policy" The implementation of the tasks set out in the decrees "On measures" and other regulations related to this activity serves to increase the attractiveness of foreign investment[6].

World experience shows that whichever country pursues an active investment policy has achieved sustainable growth of its economy. That is why investment is the driver of the economy, in Uzbek, the heart of the economy. Without attracting foreign investment, especially without expanding the participation of foreign investment in key sectors, it is impossible to carry out structural changes and modernization of the economy, re-equip enterprises with modern equipment and launch the production of competitive products.

Attracting foreign investment in the country's economy will accelerate the expansion of its economic potential, play an important role in ensuring the economic strength of the country through the use of domestic potential and reserves in all areas, the development of new equipment and technologies, export-oriented goods.

In 2020, there was a decrease in investment activity in the Republic of Uzbekistan, the growth rate of investments in fixed assets compared to the same period last year was 91.8%. In addition, 202.0 trillion. UZS, 65.4% or 132.0 trillion soums were invested in fixed assets. 34.6% or 70.0 trillion soums were financed from the own funds of enterprises, organizations and the population. soums were financed.

In the total volume of investments, the share of investments in fixed assets financed from centralized sources of financing decreased by 8.0% compared to the corresponding period of 2020 and amounted to 19.5% or 39,310.2 billion soums.

Correspondingly, 162,289.9 billion soums were allocated from decentralized sources of financing. UZS or 80.5% of the total investment was mastered, an increase of 8.0% compared to the same period last year. In 2020, investments in fixed assets financed by own funds of enterprises and organizations - 51 911.3 billion. soums or 25.7% of total fixed capital investments. 8.9% or 18,077.8 billion soums of investments in fixed assets were made at the expense of the population. sum was mastered. The volume of disbursed investments at the expense of foreign direct investment amounted to 28 740.5 billion soums and decreased by 5.3% points compared to the corresponding period of 2019 and amounted to 14.2% [7]. During the period of the pandemic, New Uzbekistan has undergone rapid economic changes and is increasingly emerging in the international community as one of the symbols of openness, renewal and resilience in overcoming various barriers to business and investment.

World practice and experience show that it is no longer possible to solve the problems that hinder the investment and innovation activities of a business by simple means, i.e. by providing benefits or publishing new declarative norms.





Liberalization of entrepreneurial activity is required to activate private investment. It is necessary to constantly communicate with business, identify barriers to the development of certain sectors and work actively in the following areas:

- in order to maintain high and stable rates of economic growth, it is necessary to form a model of a stable and competitive economy, in which most of the assets of the banking system are in the hands of private investors;
- stimulation of investment activity through the development of public-private partnerships and project financing tools to increase investment attractiveness and ensure the rapid growth of investment in infrastructure, which is one of the key factors of sustainable economic growth;
- optimization of relations between investors and the state to completely eliminate bureaucratic barriers and restrictions in the implementation of investment projects through digitalization and remote provision of public services;
- formation of long-term regional investment strategies, taking into account the specific production potential, relative advantages and growth potential of each region and district;
- it is necessary to develop an investment policy strategy focused on the most promising areas of Uzbekistan, which in the future can become a point of technological achievement and lay the foundation for the development of the country's production capacity for the next 20-30 years.
- improving the legal framework for free economic zones and small industrial zones, the introduction of specialization in free economic zones, the selection criteria for investment projects, the benefits provided and modern forms of state support.

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