

Profitable Investment Environment - Important Factor for Attracting Foreign Investment

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Abstract: The article reveals the role of foreign investment in economic development and methods of attracting foreign investment, analyzes the investment environment and factors affecting it, the dynamics of changes in ICOR indicators for the economy of Uzbekistan and various approaches to assessing the investment environment. Based on the results of the analysis, practical recommendations were developed to increase the attractiveness of the investment environment.

Keywords: Investments, foreign investments, investment environment, investment attractiveness, ICOR, fixed assets, capital, Covid-19, global economy, gross domestic product, regional image, investment potential

Introduction

World experience shows that no country can achieve economic development without investments, especially foreign ones. Simultaneous activation of investment processes and active attraction of foreign investment requires an attractive investment climate. In the Address of the President of the Republic of Uzbekistan Sh. Mirziyoyev to the Oliy Majlis "... economic growth is achieved primarily through the creation of competitive production chains and increased investment in such projects" ... it is necessary to increase the share of investments "[1]. Because further improvement of the investment environment in the country and its regions plays a decisive role in achieving economic growth through investment and an increase in the share of foreign direct investment. This, in turn, indicates the need for scientific research to assess the attractiveness of the investment environment and the development of scientific proposals and practical recommendations for its improvement.

Increasing investment in the real sector of the economy and accelerating on this basis socio-economic development, raising the standard of living and income, ensuring the comprehensive and effective use of the natural, mineral, industrial, agricultural, tourist and labor potential of each region, districts and cities. Economic reforms are being consistently implemented aimed at reducing the gap in the level of socio-economic development of regions, primarily due to the rapid development of industry and export potential.

The effectiveness of successive economic reforms will depend, first of all, on the state of the investment climate, and this is a general criterion for the distribution of financial resources, first of all, to ensure a return on capital. A favorable investment environment stimulates the inflow of capital into the country, contributes to the revitalization of investors. With a favorable investment

environment, investment in this area will accelerate. As a result, social and economic development is ensured.

In international practice, research is being carried out to develop investment strategies to increase the investment attractiveness of regions, to pursue an active investment policy, ensure sustainable economic development, and effectively use investment strategies for economic development. The results of practice show that in the context of the globalization of the world economy, ensuring a high level of competitiveness in each region is associated with investment. Such aspects include the socio-economic development of the regions, the effective use of market opportunities to increase investment potential, the formation of infrastructure, the development of investment strategies aimed at creating an active image of the region, and an improvement in the assessment of the investment climate.

Literature review

The issues of investment, foreign investment, increasing the attractiveness of the investment environment have been studied in the scientific works of N. Leventsev, G. Kostyunina, and Yu. Leonov, A. Neshity, I. Chaenko, E. Khazanovich and others. In particular, N. Leventsev and G. Kostyunina revealed the investment policy, principles, priorities, features of the international movement of capital of foreign countries [2]. Leonov's scientific works describe the ways and advantages of ensuring investment activities in the regions of the Russian Federation and attracting investments from foreign companies [3]. A. Neshity's textbook studies the organization and financing of investments, attracting foreign investments into the economy and shows the ways of effective use of investments [4]. E. Khazanov's studies are devoted to the role of foreign investment in ensuring economic development, forms of attracting foreign investment in the economy, the role of a favorable investment climate in attracting foreign investment, and recommendations have been developed for actively attracting foreign investment [5].

The role of foreign investment in modernizing the economy, the role of the investment environment in attracting foreign investment, economic, political, regulatory, social and other factors affecting the investment process in the country are studied in the research work of the Uzbek economist A. Vakhabov [6]. In the scientific works of N. Karimov [7], B. Mamatov [8], R. Bozorov [9], H. Imamov [10], A. Ergashev [11], Sh. Shodmonov [12] the organization of investment activities and state regulation Prospects for increasing investment attractiveness through the formation of a favorable investment climate in Uzbekistan, the need and importance of increasing the attractiveness of the investment environment in Uzbekistan for participation in global indices, the financial basis for improving the investment environment, the prospects for using marketing strategies to improve the investment environment and the methodological basis for increasing investment growth rates. Activity, as well as issues of attracting foreign investment in order to restructure the economy and reduce production costs.

Research methodology

The study used the least squares method of econometric modeling and the research model was tested using statistical tests. In some places, comparisons have been made.

Analysis and results

The level of economic development of a country depends on the development of investment activity, which, in turn, depends on the investment environment. It is important to create the necessary conditions for attracting foreign investment in the economy of the republic, which can be placed in the country's economy only if there are economic, political, social and legal conditions (positive). The attractiveness of the investment climate is an important factor in increasing the inflow of foreign investment.

The country's investment environment should be assessed, on the one hand, by a system of specific indicators of investment attractiveness, on the other hand, by indicators of investment activity, leading to a general integral index. To assess the investment attractiveness, it is necessary to use the following specific indicators: macroeconomic, natural and demographic, regulatory and informational. The second indicator of the investment environment is real changes in the economy, ensuring the growth of investment [13]. The main private indicators are: growth in investment in fixed assets, foreign investment, corporate investment, household investment, bank investment. It is advisable to introduce the methodology of a macro-scale assessment of the state of the investment environment through the development of a comprehensive analysis of factors characterizing investment attractiveness and activity (Figure 1).

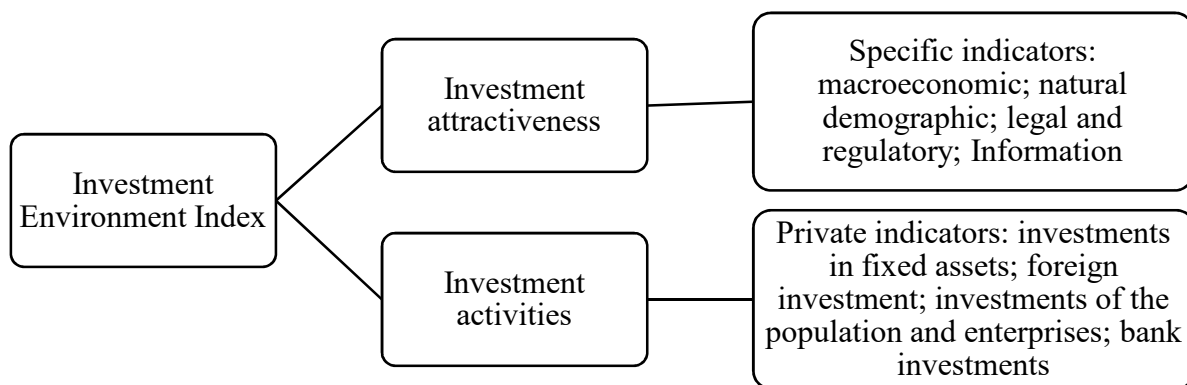


Figure 1. Scheme for determining the integral indicator of the investment environment

To assess the investment attractiveness, the following indicators were used: macroeconomic, natural and demographic, regulatory and informational. In general, the calculations show that the dynamics of growth in increasing investment attractiveness is positive.

The second indicator of the investment climate is real changes in the economy, which ensure the growth of investment. The main particular indicators here are: the growth of investments in fixed assets, foreign investments, corporate investments, investments in the population, bank investments. The integral indicator of the investment climate is calculated in three stages.

First stage. Average value for each specific indicator

$((X_j) - j = 1, 2 \dots n)$

Arithmetic value (the average value of the analyzed period (k) is determined: [14])

$$\bar{X}_j = \frac{1}{k} \sum_{j=1}^k X_{i,j}$$

Second stage. The cumulative index for each year for each specific indicator is calculated using the geometric mean method.

Third stage. Aggregated indicators are an index of the investment environment using the geometric mean method for each component.

At the same time, determining the effectiveness of investments is important for predicting the prospects for their mobilization. In addition, it allows you to determine the correct direction of distribution of investments in the economy. The ICOR (Incremental Capital Output Ratio) used for

this purpose allows us to determine the impact of investment in fixed assets on GDP growth in the coming year and is the ratio of investments in GDP to additional GDP growth rates for the next year. This indicator assesses the impact of investment in developed countries on the country's economic development [15]. The ICOR coefficient is an indicator that determines the efficiency of the use of investment resources; the smaller it is, the more significant, and vice versa [16]. The ICOR is defined as the ratio of last year's gross investment (as a percentage of GDP) to GDP growth this year.

$$\text{ICOR} = I / \Delta \text{GDP} [17]$$

Here: I - the share of investments in GDP in the previous year; ΔGRP - additional growth rate of gross domestic product compared to the previous year.

Based on the methodology for calculating the ICOR ratio, the ratio of income growth to capital is determined as the ratio of last year's gross investment (as a percentage of GDP) to GDP growth rates for the current year. In short, last year's investment will impact this year's GDP growth.

The ICOR level for the Uzbek economy can be seen in Table 1 below.

Table 1: Dynamics of changes in ICOR indicators for the economy of Uzbekistan [18]

Years	GDP (in billions of sums)	Share of investment in GDP (in percents)	GDP growth rate (in percents)	ICOR (Capital capacity of additional GDP growth)
2005	15 923,4	19,9	7,0	3
2006	21 124,9	19,1	7,3	2,7
2007	28 190,0	20,9	9,5	2,0
2008	38 969,8	24,5	9,0	2,3
2009	49 375,6	25,4	8,1	3,0
2010	74 042,0	22,2	8,5	3,0
2011	96 949,6	20,1	8,2	2,7
2012	120 242,0	20,3	8,0	2,5
2013	144 548,3	21,1	8,1	2,5
2014	177 153,9	21,3	8,1	2,6
2015	210 183,1	21,3	8,0	2,7
2016	242 495,5	21,1	7,8	2,7
2017	302 536,8	23,9	5,3	4,0
2018	406 648,5	30,6	5,1	4,7
2019	510 117,2	38,4	5,5	5,6
2020	580 203,2	34,8	1,6	24,0

The data in Table 1 show that the ICOR coefficient, which is recognized as investment productivity in 2005–2016, averaged 2.6, and in 2005–2019 it was - 3.8. This means that the ICOR level in our country is within the specified parameters. In particular, investments in Uzbekistan in 2015-2019 ensured GDP growth. Therefore, in international practice, this indicator is considered a positive situation in the range of coefficients 2.5-4.5 [19]. According to the World Bank, in developed countries this indicator is 2.4 [20]. It should also be noted that the lower this indicator, the more significant (positive) it is. However, in 2020, the ICOR indicator was 24.0, which indicates a negative situation. This is primarily the result of the impact of the COVID-19 pandemic on the global economy. To date, the number of people infected with corona virus worldwide has approached 1.3 million. Many countries around the world have declared a state of emergency and quarantine, and the number is growing every day. Restrictions on the movement of citizens, the introduction of

quarantine in education, trade and public catering, as well as partial quarantine of enterprises in other sectors of the economy are increasing the impact of the corona virus on the global economy. Focus Economics, one of the world's leading analytical companies, has released the results of a recent survey of experts on the impact of the corona virus on the global economy and its financial implications. The survey was attended by 71 leading economists and financial analysts from around the world. Experts say the impact of the COVID-19 pandemic on the global economy will be more severe. Fifty-eight percent of 71 experts forecast a decline in global GDP growth of 2 percentage points or more in 2020, and a quarter of them predict that this indicator will decline by more than 3 percentage points. [21] Thus, the pandemic had a serious negative impact on the assessment of the attractiveness of the investment environment.

In world practice, there are different approaches to assessing the country's investment climate. These approaches differ from each other in that they fully or partially cover the factors that shape the investment climate. As mentioned above, «Standart & Poor's», «Moody's» and «Fitch ibca» are among the largest rating agencies in the world that assess the issuer's ability to meet its debt obligations on time and in full, as well as the ability of issuers to provide loans. The ratings developed and compiled by the agencies make it possible to assess, to a certain extent, the country's investment climate. For example, according to Standard & Poor's, the long-term rating ranges from the highest AAA to the lowest D. An intermediate rating from "AA" to "SSS" can be complemented by ratings "positive" (+) or "negative" (-), and they are intermediate indicators that refer to the main indicators. The quality of debt obligations is assessed by the following rating indicators:

- AAA - reflects the highest ability to timely and fully meet debt obligations;
 - AA - means a high ability to fulfill debt obligations in the specified period and in full;
 - A - relatively high ability to timely and fully meet debt obligations, but reflects the impact of adverse changes in commercial, financial and economic conditions;
 - BBB - sufficient ability to timely and fully fulfill debt obligations, which is a high degree of sensitivity to the consequences of unfavorable changes in financial and economic conditions;
 - B - a keen sense of the impact of unfavorable changes in financial and economic conditions, as well as the possibility of timely and full performance of debt obligations;
 - CCC - the possibility of default on the issuer's debt obligations, timely performance of debt obligations is determined by favorable commercial, financial and economic conditions;
 - CC - means that currently the probability of the issuer's default is higher;
 - C - means that the issuer continues to fulfill payments or promissory notes in the event of bankruptcy or legal proceedings;
 - CD - reflects the presence of a selective default on this debt obligation during the specified period and upon full repayment of other debt obligations;
 - D - represents default on debt obligations.
- Ratings in categories "AAA", "AA", "A" and "BBB" are investment grade ratings, while ratings in categories "BB", "B", "CCC", "CC" and "C" refer to a specific speculative grade ... The main organizational part of the development of credit ratings is to predict their changes. The following forecast descriptions are widely used: "positive" (the likelihood of a rating upgrade), "negative" (the likelihood of a rating downgrade), and "stable" (no change in the rating is observed). A rating agency uses the description of an "evolving" forecast in a situation where it is difficult to determine trends in the rating, which means that the rating may be up or down.

In terms of the World Bank's approach to assessing the investment climate, the World Bank's 2005 Annual Report on World Economic Development, "How to Create an Investment Climate for All," outlines a banking approach to assessing the investment climate.

As with the methods described above, this approach also uses the sum of the ratings given by the experts. According to the World Bank's approach, the following factors influence the country's investment climate:

- Uncertainty in economic policy and legal practice;
- The level of corruption;
- The quality of the judicial system;
- Crime level;
- The system of legal regulation of the "tax burden" and the taxation system;
- Access to financial resources and the cost of financing;
- The level and quality of power supply;
- The level of qualifications of employees and the quality of labor legislation.

This approach is distinguished by special attention to institutional factors that provide investment attractiveness. The factors influencing the investment climate analyzed by the World Bank are related to investment risk. According to this methodology, the investment opportunities of the country are not taken into account.

The main indicator of the state of the socio-economic development of the region is its investment attractiveness. The volume of investments in the economy, their dynamics can be recognized as an important component of regional development, the formation of sources of investment resources and its stability as a key factor determining the rate of economic growth in the country.

In our opinion, it is important to introduce an organizational and economic mechanism for the formation of the "image of the region" as the main direction of the socio-economic development of regions, increasing investment attractiveness. The concept of "territorial image" is interpreted as the main category of the theory of investment attractiveness of regions. "Territorial image" is a broad concept that includes: "investment image", "investment attractiveness", "investment climate", "investment risk", "investment potential», and " investment policy". The investment image of the region should be taken as a category that reflects the image of the region in the process of business relations.

The investment potential of the region is a really important indicator in the formation of the image of the region. These features represent the relationship between the official characteristics of the region, the brand of the region, the reputation of the brand, and so on.

According to the results of the study, the company will develop a conceptual model, the main guidelines and organizational and economic mechanism for the formation of the investment image of a particular region for investors. The first stage in the formation of investments in a specific region includes a clear assessment of the economic situation in the region, an analysis of the competitive advantages and disadvantages of the region, an analysis of consumers and competitors in the region.

The second stage consists of activities that include the development and approval of the project. At this stage, a project for the formation of a "territorial" is developed and a roadmap is determined on a technical basis. The third stage is the development of measures for the socio-economic development

of the region and the attraction of investments, analysis and assessment of the effectiveness of the project.

Conclusion

To ensure the stability of the investment climate, first of all, it is advisable to develop a system of insurance or protection of investment risks, to achieve full compliance with regulatory requirements. We also take into account the stability of the investment climate, the political attitude of the state towards foreign investment, the level of state intervention in the economy, the efficiency of the state apparatus, the political stability of the state, the general state of the economy (growth or crisis), inflation, exchange rate stability, tax and customs benefits., Cost labor force and the procedure for using labor resources, the availability of supply and demand for certain types of goods and services, loan prices, as well as the attitude of society to the formation of foreign capital and private property, the level of ideological awareness of society, organizational and entrepreneurial skills based on study and analysis.

The main direction of increasing the investment attractiveness of regions is the development of a conceptual framework for the development of an investment image. Theoretical approaches and analysis made it possible to assert that the main investment strategy for increasing investment attractiveness in a particular region is the formation of the "image of the region". The main direction of attracting investments in a specific region is the formation of the "image of the region", the recommended organizational and economic mechanism of which, consisting of diagnostic, design, development, assessment guidelines, which are its main directions.

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