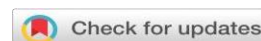


| Research Article



# Problems of Investment Attractiveness of the Economy of Uzbekistan

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**Abstract:** The deepening of economic reforms in Uzbekistan is closely linked to strengthening macroeconomic stability and maintaining high rates of economic growth. This work examines the issues of investment attractiveness in Uzbekistan's economy and offers recommendations.

**Key words:** economy, investments, investment attractiveness, investment climate, foreign investments.



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## INTRODUCTION

The deepening of economic reforms in Uzbekistan is closely linked to strengthening macroeconomic stability and maintaining high rates of economic growth, enhancing its competitiveness, and continuing institutional and structural reforms aimed at reducing the state's presence in the economy. This includes further strengthening the protection of rights and the priority role of private property, as reflected in Uzbekistan's Strategy for 2022-2026 and the "Uzbekistan 2030" Strategy [1].

In this context, investment attractiveness plays a significant role in Uzbekistan's economy. Investment activity (investment intensity) is determined by investment attractiveness, which is often equated with the investment climate. However, different indicators are proposed for assessing the investment climate and investment attractiveness. The concept of "investment climate" is broader, while investment attractiveness is a component of it and a result thereof.

### Literature review

Modern economists continue to investigate investment processes. For instance, American economists Stanley L. Brue and Campbell R. McConnell highlight "investment expenditures as the second main determinant of aggregate demand," identifying two parameters: "interest rates and expected profits" [2]. Russian economic theorists, such as V.V. Sedov, consider investments as an integral factor of economic growth.[3] ; a collective of authors led by V.D. Kamaev emphasizes the investment accelerator.[4]. Other researchers studying investments, particularly foreign investments (Andrianov A.F., Ivanov V.A.), consider them purely from a practical perspective (for example, for the Russian economy), with no recommendations of a general theoretical nature[5].

**Methodology of the Study:** The study employs an abstract method, as well as mathematical and statistical methods

### Analysis and Results

Investment attractiveness is subject to evaluation at various hierarchical levels. The **investment climate** is the environment in which investment processes occur. It consists of a combination of economic, social, political, legal, cultural, and other conditions that ensure the attractiveness of investments in a particular area of the economy, specific enterprises, cities, regions, or countries.

To assess the investment climate and investment attractiveness of countries abroad, various methodologies are used, including the Teyna-Waters and Kotler-Hazler methods, rankings from magazines such as "Fortune," "Euromoney" (USA), "The Economist" (UK), and the digital scale methodology from Harvard Business School (USA), among others. The investment attractiveness of regions in Uzbekistan is determined using indicators from these methodologies, as well as specially adapted foreign methodologies tailored to Uzbek realities

**The investment attractiveness of a country** is an integral indicator determined by a combination of its economic and financial metrics, as well as indicators of state, public, legislative, political, and social development. Investment attractiveness defines the direction of movement for physical, financial, intellectual, and human capital: into the country or beyond its borders

**Investment attractiveness of a country** is a combination of factors that determine the inflow of investments or capital outflow. The investment attractiveness (climate) of a country or region is defined by its investment potential and investment risk. Uzbekistan is an attractive country for investments due to its resource potential, relatively low energy prices, cheaper labor force, strong government support, developed legal framework, and the opportunity to access the global market. As noted in Uzbekistan's Investment Policy Strategy until 2025, "one of the priorities today is to achieve a business climate by 2022 that will enable Uzbekistan to enter the top 20 countries in the World Bank's Ease of Doing Business ranking." [6]

The Republic is among the countries that have achieved the best results in recent years in improving business indicators through regulatory reforms aimed at enhancing the entrepreneurial environment. In the 2019 Economic Freedom Index (EFI), Uzbekistan rose from 152nd to 140th place, with a score of 53.3, which improved by 1.8 points due to higher scores in the areas of investment freedom, labor freedom, and business freedom.

Since 1998, Uzbekistan has managed to improve its position in the Ease of Doing Business (EODB) index by 21.8 points. The World Bank publishes rankings on the ease of doing business for 190 countries in its "Doing Business" report. Thanks to extensive efforts to reduce the time and number of documents required for processing, lower costs associated with these procedures, and the establishment of "one-stop shop" services, Uzbekistan has been among the top ten reforming countries over the past five years, rising from 166th place in 2012 to 76th place in 2019, thereby creating a more favorable business environment. Most reforms have been implemented in areas such as business registration (where Uzbekistan demonstrates the best results, ranking 12th globally), taxation, access to credit, and property registration.

According to the results of the Paying Taxes 2019 study, the total tax rate in Uzbekistan is 32%, which is lower than the global average of 40%. Uzbekistan ranked 99th among 168 countries in the World Bank's Logistics Performance Index (LPI) for 2018. This index ranks 168 countries based on the efficiency of supply chains that provide companies access to national and international markets. When considering the index by sub-indices, Uzbekistan ranks 140th in customs procedures, 77th in infrastructure, and 120th in international shipments. The country is positioned 88th in logistics quality and competence, 90th in tracking goods, and 91st in timeliness.

However, it is important to note that the Investment Policy Strategy of Uzbekistan until 2025 has identified a number of issues in the dynamics and structure of investment flows: the lack of investments is a key challenge for Uzbekistan's development, the volumes of foreign investments attracted are insufficient, and their sources are not diversified. There is a high differentiation among regions regarding the attraction of investment resources, the economic return from investment resources in most regions remains insignificant, and the level of investment for modernization, technical, and technological re-equipment is inadequate to ensure an effective reproduction process. Additionally, the structure of

investment resources does not align with the established structure in developed countries, and there is a high level of state presence in the economy.

**Conclusion and Recommendations:** The issues mentioned certainly cannot encompass everything related to investment attractiveness; however, we believe that they will help focus primary attention on ensuring a favorable investment climate. This involves not only methods of monetary, credit, tax, structural, and other forms of investment stimulation but also enhancing the level of authority of the regions

The approach of several international organizations to improve the investment climate in Uzbekistan is noteworthy. In a report prepared by the Organization of Islamic Cooperation (OIC), an analysis of risks and uncertainties in the member countries was conducted. Specifically, the analysis was carried out by assessing risk premiums on credit default swaps. Credit default swaps serve as insurance against negative outcomes for borrowers; thus, the higher the probability of default, the more expensive the risk premium becomes. This serves as an indirect indicator of the investment climate in a country, and many international organizations consider it when selecting locations for new investments. The average risk premium in OIC countries is 5.1%. In Uzbekistan, the risk premium on credit default swaps is 4.5%, which is lower than the average value across OIC countries. Therefore, Uzbekistan ranks among the 17 most resilient economies to default risk within the OIC member states.

The OECD report notes that since the start of a large-scale reform program in 2017, Uzbekistan has achieved significant progress in forming a competitive private sector. The steps taken by the government in recent years contribute to enhancing socio-economic resilience and opening the economy to new investments, technologies, and ideas. The country's resilience in the face of COVID-19 and political upheavals reflects the cautious and flexible policies of the authorities. The OECD conducted a survey of private enterprises in Uzbekistan, most of which are fully or partially owned by EU companies. Respondents highlighted successes in three priority areas: simplifying cross-border trade procedures; significant efforts made by the government to improve the regulatory environment for business operations; and opportunities provided by digitalization in Uzbekistan.[7] Since 2017, Uzbekistan has attracted \$188 billion in investments from various sources, including \$87 billion from foreign investments. These investments have allowed the share of investments in the country's GDP to exceed 30%, which has been a key factor in ensuring sustainable economic growth. In 2024, the volume of investments increased by 1.3 times, surpassing \$36 billion. With these funds, 560 large and medium-sized projects worth a total of 70 trillion soums have been implemented. These achievements have laid the foundation for a projected increase in exports by \$1 billion in the coming year. [8]

However, challenges may arise in Uzbekistan that need to be overcome to enhance investment attractiveness:

- The necessity of creating an effective economic mechanism for interaction between the state and investors of various levels.
- Establishing conditions to improve social infrastructure by attracting direct investments from foreign investors and implementing strict measures to combat corruption.
- A qualitative improvement of the legislative framework to attract investors to Uzbekistan's economy.

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