

Economic Factors and Mechanisms of Attracting Foreign Investments

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Abstract: Attracting foreign investments is one of the important factors of the country's economic development, and is of great strategic importance in expanding competitive production, modernizing technologies, creating new jobs, and increasing export potential. This article provides an in-depth analysis of the main economic factors affecting the flow of foreign investments - macroeconomic stability, a favorable business environment, tax incentives, the level of infrastructure development, legal guarantees, the stability of the financial system, and the possibilities of foreign trade policy. It also covers modern mechanisms for attracting investments - the public-private partnership model, free economic zones, the activities of investment agencies, the electronic licensing system, investor service centers, and effective aspects of cooperation with international financial institutions. This study substantiates the importance of consistent economic reforms in attracting foreign capital and indicates priority areas for increasing investment attractiveness. The results obtained are of practical importance for economic policymakers, investors and researchers.

Key words: foreign investment, investment attractiveness, economic factors, investment mechanisms, public-private partnership, free economic zones, macroeconomic stability, investment climate, financial stability, technological modernization.



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As a result of the globalization processes taking place in the world economy, the liberalization of international capital movements and the strengthening of integration ties, foreign investment has become one of the decisive factors in the economic development of countries. In particular, for developing countries, foreign investment is of strategic importance not only as a financial source, but also as an exchange of advanced technologies, management experience, innovative ideas and highly qualified specialists. Therefore, today each country is striving to form effective economic mechanisms for attracting foreign investment in order to modernize its national economy, diversify production and increase its competitiveness.

The policy of attracting foreign investment depends, first of all, on the macroeconomic stability of the country, the strength of its legal system, the consistency of economic reforms and the favorable conditions created for doing business. The flow of such investments is often formed by factors such as the country's economic openness, export potential, the size of the domestic market, the level of infrastructure, the qualification of labor resources and the convenience of the tax

system. Therefore, creating a favorable environment for foreign investors is considered one of the priorities of today's economic policy.

Today, while developed countries are intensifying their competition in attracting foreign investment, developing countries are also introducing various mechanisms, benefits and incentive systems to increase investment attractiveness. These include mechanisms such as the public-private partnership model, the operation of free economic zones, tax and customs privileges, investor service centers, an electronic permit system, simplified licensing procedures, the principle of a "single window" for investors, and cooperation with international financial organizations.

The impact of foreign investment on economic development is multifaceted and is manifested through the modernization of industrial sectors, the creation of high-tech enterprises, strengthening the competitive environment, increasing export volumes, increasing budget revenues, and creating new jobs. In addition, foreign investment has a positive impact on the country's integration into the global economic system, the development of an innovative ecosystem, and the improvement of the culture of doing business.[1]

The experience of countries shows that the volume and quality of investments are directly related to the level of investment risks. Political stability, the level of corruption, the rule of law, guarantees of property inviolability, transparent procedures and an effective judicial system are the main factors that reduce investment risks. Therefore, along with economic reforms, it is important to improve the state administration system, simplify regulatory processes, and strengthen mechanisms for protecting the interests of investors.

Investment in infrastructure is also an important part of investment attractiveness. Transport, energy, logistics, digital infrastructure, banking -the development of the financial system, information and communication technologies reduces direct costs for investors and increases the efficiency of economic activity. For example, the rapid development of the digital economy allows investors to quickly exchange information, implement online services, electronic contracts and remote business management.[2]

Today's global trends in attracting foreign investment show that investors are not only interested in benefits, but also in high-level service, transparency of information, and quickly resolved administrative processes. Therefore, many countries are creating special agencies, investment councils, and "one-stop" centers to create convenience for investors. These systems protect investors from bureaucratic delays, create the opportunity to resolve all necessary processes in one place and in a short time.

In-depth study of the mechanisms of influence of foreign investments, analysis of the economic laws of their attraction and increasing the efficiency of investment policy are among the urgent tasks facing today's modern economy. The main goal of this study is to systematically study the role of foreign investments in the country's economic development, economic factors affecting their attraction, modern mechanisms, and the theoretical and practical foundations of forming an effective investment policy.

In this sense, conducting in-depth scientific research on this topic is of significant scientific and practical importance for economic policymakers, investors, analysts, and specialists. After all, the correct strategy for attracting foreign investments ensures the country's economic stability, innovative development, and global competitiveness.

Attracting foreign investments is of great importance in the development of a modern economy, providing countries with not only financial resources, but also technological knowledge, management experience, and export opportunities. Therefore, the process of attracting investments is determined by complex and multifaceted economic factors.

First, macroeconomic stability is a key condition for attracting foreign investments. Factors such as the inflation rate, exchange rate stability, public debt and budget deficit are important indicators for investors in assessing risk and return. For example, constant exchange rate fluctuations create additional financial risks for foreign investors, which can lead to a reduction in investments. Therefore, countries have the opportunity to attract investors by ensuring economic stability.

Secondly, it is important for tax and fiscal policy to create investment incentives. Tax incentives, reduction of customs duties and export support mechanisms create attractive conditions for foreign investors. For example, a number of developing countries introduce incentive measures such as exemption from income tax for foreign companies in the first years or provision of land at low prices. At the same time, the stability of fiscal policy and its implementation on the basis of clear legislation increase investor confidence.

Thirdly, institutional mechanisms and legal stability play an important role in attracting investments. Investors, first of all, want to be sure that their investments are protected. Therefore, it is necessary that property rights, contract laws and dispute resolution mechanisms work effectively. Legal stability and a low level of corruption are additional attractions for investors. At the same time, the local business environment, licensing procedures and the ability to quickly and easily obtain permits also significantly facilitate the decision of investors.[3]

Fourth, the size of the market and consumption potential are also considered important factors in attracting foreign investment. Large and developing markets, countries with high-income populations, and increased demand for new technologies and services create promising investment areas for investors. Therefore, developing countries can stimulate foreign investment by expanding the domestic market and increasing the purchasing power of consumers.

Fifth, the level of infrastructure and technological base has a significant impact on attracting investment. A well-developed transport system, energy supply, communication and logistics infrastructure provide additional security and efficiency for investors. At the same time, countries with a high level of innovative technologies and scientific and technological development provide opportunities for the implementation of high-value-added projects will have the intention.

Factors for attracting foreign investment

N	Factors	Description
1	Macroeconomic stability	Macroeconomic stability
2	Tax and fiscal incentives	Tax and fiscal mechanisms
3	Institutional mechanisms	Market potential

The mechanisms for attracting foreign investment are also diverse, and they work in conjunction with economic and legal mechanisms. Financial incentive mechanisms involve attracting investors through tax breaks, subsidies, credit lines, and state guarantees. For example, state guarantees and insurance mechanisms reduce financial risk for investors and provide incentives to invest.

Inter-institutional mechanisms are also important. Investment agencies and development enterprises provide tools for accepting investors, expediting permits, and managing projects. Such mechanisms create a favorable environment for investors and simplify their decision-making process.[4]

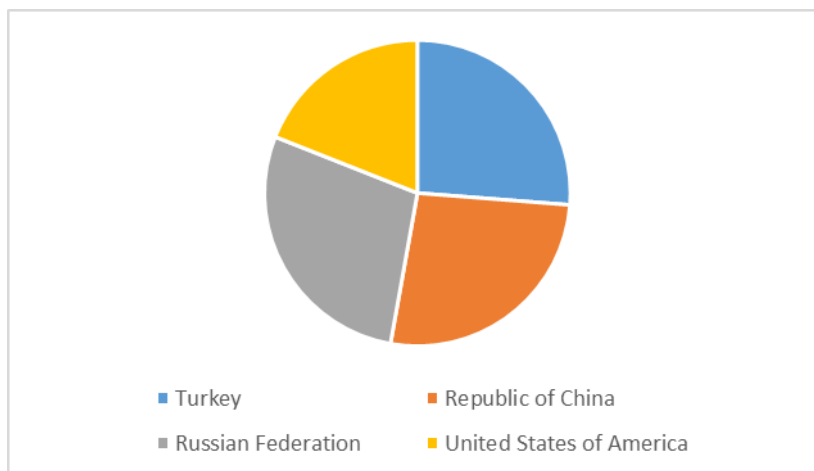
Another effective mechanism for attracting foreign investment is international cooperation and agreements. Free trade zones, investment agreements, bilateral or multilateral investment agreements create safe and attractive conditions for investors. Through this mechanism, countries have the opportunity to attract investments in long-term, sustainable, and strategically oriented projects.

Economic factors and mechanisms for attracting foreign investment are closely interconnected and require an integrated approach. Macroeconomic stability, tax and fiscal policy, legal stability, market potential, infrastructure and innovation potential play a decisive role in attracting investors. At the same time, financial incentives, institutional support and international cooperation mechanisms create an attractive and safe environment for investors. When countries develop these factors in a comprehensive manner, the possibility of attracting foreign investment increases significantly and creates a solid foundation for economic growth. Attracting foreign investment is an important component of a country's economic development, providing not only financial resources, but also new technologies, management experience and opportunities for international cooperation. Research and practical experience show that creating an attractive environment for investors is associated with a combination of many factors. Macroeconomic stability, inflation and exchange rate stability, the level of public debt and budgetary policy are the main foundations of investor confidence.[5]

Tax and fiscal incentives, including preferential tax regimes, subsidies and export support measures, also provide additional motivation for foreign investors. Legal stability and the effectiveness of institutions are also crucial factors in attracting investors, as they ensure the security of their investments and the protection of their contractual rights.

Market potential and infrastructure development increase the opportunities for attracting investments. Large and profitable markets, developed transport and communication systems, as well as support for innovative technologies create an attractive environment for investors. At the same time, financial mechanisms, including state guarantees, credit lines and insurance instruments, reduce financial risks for investors.

Share of foreign direct investment attracted to Uzbekistan in 2024 by country (in percent)



Effective mechanisms for attracting foreign investment also include institutional support and international cooperation. Investment agencies and development enterprises play an important role in supporting investors, expediting permits and managing projects. International agreements and free trade zones, on the other hand, allow attracting investments to long-term, sustainable and strategically oriented projects.

In general, attracting foreign investment is a complex and multifaceted process that requires the coordination of economic, legal and institutional factors. When countries develop these factors in a comprehensive manner, an attractive and safe environment for investors is created, which contributes to economic growth, job creation and increased international competitiveness. In this regard, attracting foreign investment is not only a financial benefit, but also an important strategic direction for the long-term sustainable economic development of the country.

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