

## Theoretical Foundations of Attracting Foreign Investment in the Region's Economy

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### ABSTRACT

*This article provides theoretical coverage of the factors influencing the formation of the investment climate, increasing investment attractiveness, factors affecting the investment climate, positively affecting the penetration of foreign investment into the economy of the region.*

**KEYWORDS:** *investment, foreign investment, investment climate, joint venture, product, household income, export, import*

Research into investment problems has always attracted the attention of professionals, analysts and researchers in the field of Economics. The world capital market is faced with a sharp competition in attracting investments, ensuring their attraction in sufficient volume and at a qualitative level is one of the priority tasks of any state.

The creation of a favorable investment climate is one of the most important conditions in attracting investments and ensuring sustainable growth of the country's economy.

The textbook, edited by G. Podshivalenko and N. Kiselova, states that "one of the most common criteria for making investment decisions is to assess the investment climate at the macro level and the investment attractiveness of the investment object."<sup>1</sup>

When we study the research of Uzbek and many other foreign scientists on the "investment climate" and "investment attractiveness", we find that their scientific works do not have a single definition of these categories. Some authors use these two terms as synonymous words. An analysis of modern views on this issue shows that the "investment environment" is a very complex and multifaceted concept. Attempts have been made by local and foreign economists to reveal its content as an economic category.

There is also a situation of application of different quality characteristics to the "investment climate". In particular, B.A.Akhunov defined the concept of a favorable investment climate as follows: is a system of conditions."<sup>2</sup>

Ensuring sustainable economic growth depends primarily on pursuing a prudent investment policy in the country. One of the goals of public investment policy is to create a favorable investment climate for foreign investors. Today, Uzbekistan has such a favorable environment for investors. These include the system of protecting the rights of investors and their incentives.

Our research shows that it is advisable to use reporting indicators when assessing the investment climate. This is because the reporting indicators reflect the state of the results of economic activity performed in a given period. Therefore, the use of accounting and statistical reporting indicators in assessing the state of the investment environment further enhances the importance of analytical processes. Economist G.J.Jumaeva's article "The need and theoretical foundations of financial reporting analysis in modern management" is scientifically based on the need for the use of financial reporting indicators, and the organization of the role of accountants in the analytical assessment of the investment climate in accordance with international standards.

In particular, "the main task of accountants in developed countries is not to solve the information obligations of the enterprise to the state (through financial, tax, customs, statistical reporting), but primarily to ensure the effective management of property owners and managers."<sup>3</sup>

In the economic literature, we come across the economic categories of "investment climate", "investment environment", "investment climate", "investment climate". In our opinion, since each of these concepts has the same meaning, that is, it is a synonym, we use the concept of "investment environment" based on the rules of the Uzbek language.

In our opinion, the "investment climate" is a set of economic, social, political, legal factors and conditions aimed at ensuring the efficiency and security of investments in the country's economy. The state of the investment climate requires a created legal framework and its foundations, a quality structure of legislation and their compliance.

The existence of a stable political and economic environment in the country, that is to say the creation of a favorable investment climate and the effectiveness of the system of receiving foreign capital is a necessary condition for attracting foreign investment. The investment climate is a general criterion for the placement of investment resources, primarily ensuring the return on capital investment.

In attracting foreign investment to our country, it is necessary to moderate the investment climate and increase the investment attractiveness of the regions. In general, the concepts of investment environment and attractiveness are different concepts related to investment.

Investment attractiveness is a system of organizational and economic activities associated with the principle of "ringing" in order to inform investors about the existing potential of the investment climate after its formation.

Factors that have a positive impact on the inflow of foreign investment into the economy of Uzbekistan include:

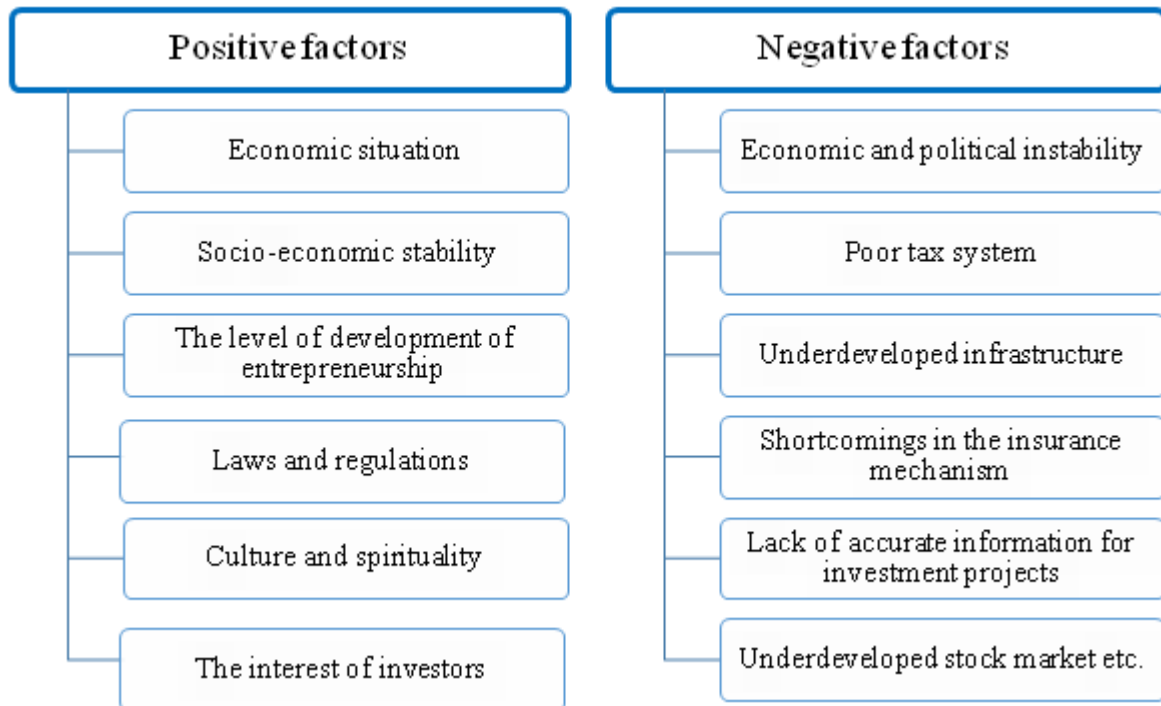
- The existence of cheap and skilled labor;
- The richness of natural and economic resources;
- The potential of natural and climatic conditions of the country to produce large quantities of agricultural raw materials;
- The prospects of the national market;
- The presence of political and economic stability in the country;
- The formation of a favorable regulatory framework, ETC<sup>4</sup>.

Factors affecting the investment environment can be grouped into positive and negative factors according to the outcome of the impact.

Positive factors are a set of factors that affect the improvement of the investment climate, which can

include the economic situation, socio-economic stability, the level of development of entrepreneurship, laws and regulations, culture and spirituality, the interest of investors.

Negative factors are a set of factors that adversely affect the improvement of the investment climate, including economic and political instability, poor tax system, underdeveloped infrastructure, shortcomings in the insurance mechanism, lack of accurate information for investment projects, underdeveloped stock market, etc. Figure 1).



**Figure 1. Factors affecting the investment climate<sup>5</sup>.**

The economic literature emphasizes that the creation of an investment climate depends on the influence of many factors<sup>6</sup>, the analysis focuses on internal and external characteristics, and recognizes the importance of methods of determining the level of development of the investment climate, its attractiveness and investment risk<sup>7</sup>.

Improving the investment climate depends primarily on increasing the level of investment attractiveness.

Investment attractiveness is the assessment of the investment of a country, industry or any individual enterprise in terms of profitability, development prospects and level of investment risk. Investment attractiveness is determined by the simultaneous influence of the factors that shape the level of investment potential and investment risk.

By assessing such indicators, it is possible to determine the feasibility, attractiveness and level of investment risk of investments. The level of investment risk is directly related to the investment environment.

At the macroeconomic level, the investment climate is reflected in the bilateral relationship between the investor and government agencies, business entities. The investment environment is an objective situation for any specific period of time and includes a set of existing conditions for investing. The investment climate is formed under the influence of government management and is one of the important factors of public investment policy. In this sense, each state will have its own system of

receiving capital when investing. The system of capital acceptance is a set of normative documents of state policy and laws on foreign capital.

Encouraging the economy to invest in Uzbekistan is constantly improving. In relation to foreign investment, laws and decisions are being developed on the basis of modern rules of international economic relations, and foreign investment infrastructure is being created.

All the above factors are important for foreign investors, and there are firms and organizations in developed countries that evaluate special investment projects, study the investment climate in countries interested in attracting investment and provide conclusions for investors. In particular, the authoritative information services of a number of countries, such as Switzerland and Germany, use the BERI (business environment risk index) index to assess the economic, political and social situation of the country on the basis of 15 important indicators, each of which is assessed on a scale of 0-unsatisfactory and very favorable. . The "BERI" index is published 3 times a year by countries around the world.

An investment environment is a concept that is used in a very broad sense and covers all the issues and issues that are taken into account by the investor. The investor evaluates the pros and cons of investing in a particular country, while paying close attention to the ideology, politics, economy, and culture of the country in which it seeks to invest its capital.

A comprehensive, in-depth analysis of the investment climate underlies investment risk. The investment climate and risk levels are inversely related. That is, the more favorable the investment environment, the lower the risk of the investor's entrepreneurial capital, and this will increase the inflow of investors. Conversely, the more unfavorable the investment environment, the higher the risk level. This leads to an increase in the costs to the recipient of the investment<sup>8</sup>.

The investment environment is an objective economic category that reflects the set of conditions that actually exist for investors within each time frame taken. In particular, the effectiveness of government is one of the factors determining the investment climate. Based on the above, it can be said that each country that attracts capital has a certain investment system. This system includes a system for receiving foreign investment and an investment climate consisting of legal norms and institutions. The system of acceptance of foreign capital serves as a component of the investment system and is organized independently of it. While the foreign investment acceptance system reflects the recipient's favorable inflow of foreign capital into the national economy, the investment climate assesses the state of optimal growth of incoming capital within the country.

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