

THE ROLE OF INVESTMENT CLIMATE IN THE SOCIO-ECONOMIC DEVELOPMENT

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ABSTRACT

This article analyses the role and importance of favorable investment climate in economic development of our country by providing some statistical data. Furthermore, it involves some key factors in achieving this and shows a roadmap for solving existing problems on this sphere.

KEYWORDS: investment climate, business performance, investment program, investment attractiveness, liberalization of the financial market.

INTRODUCTION

A favorable investment climate is a necessary condition for the implementation of stable high economic development, attracting investment in regions and industries, and boosting business activity

It promotes investment in important industrial and social projects, expands opportunities for innovation, and improves the quality of economic and social development.

In 2017, the share of foreign direct investment in total investment in Uzbekistan amounted to 20.4% with an increase of 40.7% compared to the previous year. In terms of capital intensity, calculated by international experts, Uzbekistan is an attractive country for foreign direct investment. The Republic is among the countries that in 2016/2017 achieved the best results in improving business performance through regulatory reforms aimed at improving the business environment.¹ However, the rating values of the country on a number of indicators are not high enough, which reduces the investment activity of investors and in the conditions of reorientation of world players from investments in new production projects, especially negatively affects the reorganization and restructuring of business. Thus, the current conditions of the world investment policy require significant efforts to attract investment to developing economies, including Uzbekistan, by creating the most favorable investment climate [1].

The quality of the investment climate in the country is usually monitored by potential investors, studying the data of various analytical, research companies and agencies. The World Bank's Doing Business rating is widely known among them. The rating indicators reflect the level of development of the business environment, promotion of the process of creating internal conditions necessary for doing business and attracting investments in various countries. The high rating of the business environment means that the country has created the most favorable conditions for economic development [2].

Indicator	Uzbekistan	Europe & Central Asia	OECD high income	Best Regulatory Performance
Extent of disclosure index (0-10)	8.0	7.5	6.5	10 (13 Economies)
Extent of director liability index (0-10)	3.0	5.0	5.3	10 (3 Economies)
Ease of shareholder suits index (0-10)	7.0	6.8	7.3	10 (Djibouti)
Extent of shareholder rights index (0-6)	4.0	3.4	4.7	6 (19 Economies)
Extent of ownership and control index (0-7)	7.0	3.7	4.5	7 (9 Economies)
Extent of corporate transparency index (0-7)	6.0	4.1	5.7	7 (13 Economies)

Figure - Protecting Minority in Uzbekistan - Score



Score - Protecting Minority Investors

Figure 1. Indicators for investment climate in Uzbekistan [2].

Key factors attracting foreign investment to the country:

- ✓ Rich and diversified natural resources (gas, gold, cotton, hydropower resource base);
- ✓ Socio-political, macroeconomic and financial stability;
- ✓ Relatively low level of national debt and comfortable foreign exchange reserves;
- ✓ Ambitious state investment program;
- ✓ The scale of the capacity of the domestic market with a population of 33 million;
- ✓ Strategic geographical location between China and Europe.

In General, Uzbekistan has the advantage of macroeconomic stability, which, combined with ongoing reforms, opens up opportunities in various sectors of the economy, be it financial services, construction or tourism. Investment potential for the next ten years, according to Boston Consulting Group, reaches \$65 billion, of which the non-resource industries account for up to \$20 billion [3].

The investment potential of such traditional industries for foreign investment as fuel and energy, mining, agriculture and textile production has not been fully realized.

There is also considerable potential for development in the relatively new sectors for Uzbekistan — financial and banking sector, construction, telecommunications and tourism.

With current low interest rates in countries with developed capital markets, Uzbekistan, with its fast-growing market, the possibility of obtaining higher returns, looks attractive to foreign investors. The risks present also carry great opportunities.

SOME CHALLENGES AND PROGRESS

Along with the recognized achievements in the field of investment, there are still many problems and objectively difficult tasks that require targeted solutions.

So, to this day, entrepreneurs face bureaucratic delays, especially in terms of obtaining construction permits, property registration and foreign trade operations.

Despite a significant improvement in its position in the world rankings, according to the index of freedom of doing Business in 2019, our country is inferior to such trading partners as Russia, Kazakhstan and Kyrgyzstan, not to mention developed countries. In this regard, the President approved a roadmap to achieve at least 20th place in the ranking of freedom of doing business by 2022.

A comparison of indicators of post-Soviet countries with higher ratings-Georgia (6th place), Azerbaijan (25th place) and Kazakhstan (28th place)-demonstrates in which areas we are lagging behind

At the same time, there remained acute issues, the solution of which was postponed until recently, related to obtaining permits for the construction of facilities and international trade procedures, despite the creation of a "one window" system for the passage of documents on export-import operations at the customs border.

Further improvement of the investment climate in the aspect of international trade can be expected with the adoption of the Law "On amendments and additions to the Customs code of the Republic of Uzbekistan". The draft law introduces amendments to articles 32 and 245 of the Customs code of the Republic of Uzbekistan, providing for the right to export goods, works and services, except for fresh fruits and vegetables, the abolition of the requirement to issue a permit by the state customs service for re-export of goods under the customs regime "temporary import". The measures specified in The presidential Decree are being implemented [4].

Of the Republic of Uzbekistan "on measures to radically improve the activities of the state customs service of the Republic of Uzbekistan", resolutions of the President of the Republic of Uzbekistan "On measures to further liberalize foreign trade activities and support business entities" and "on measures to simplify the procedure for the export of goods intended for exhibition events abroad". All this will contribute to ensuring transparency and accessibility of public services in the sphere of foreign economic activity and, accordingly, increase the investment attractiveness of the country.

A number of systemic problems in the organization of public administration in the construction sector, preventing the widespread introduction of modern methods, norms and rules of urban planning, the development of competition, the entry into the market of new entities should be solved by the Ministry of construction of the Republic of Uzbekistan, as well as the implementation of The presidential Decree "On measures to radically improve public administration in the construction sector". A clear implementation of the duties assigned to the new structure will allow to solve the long-standing problem with the allocation of land for construction, thanks to the unified scientific and technical policy in the field of urban planning and engineering surveys for construction, development and approval of General plans of settlements and other urban planning documentation, as well as monitoring their implementation.

However, the business environment is one of the components of the investment climate, and this rating does not take into account such important factors for attracting investment as political and economic stability, the level of resource provision and a number of others. But since this rating is known to investors, it is necessary to monitor changes in it, take into account its results and take measures to develop the business environment and investment climate to attract investment.

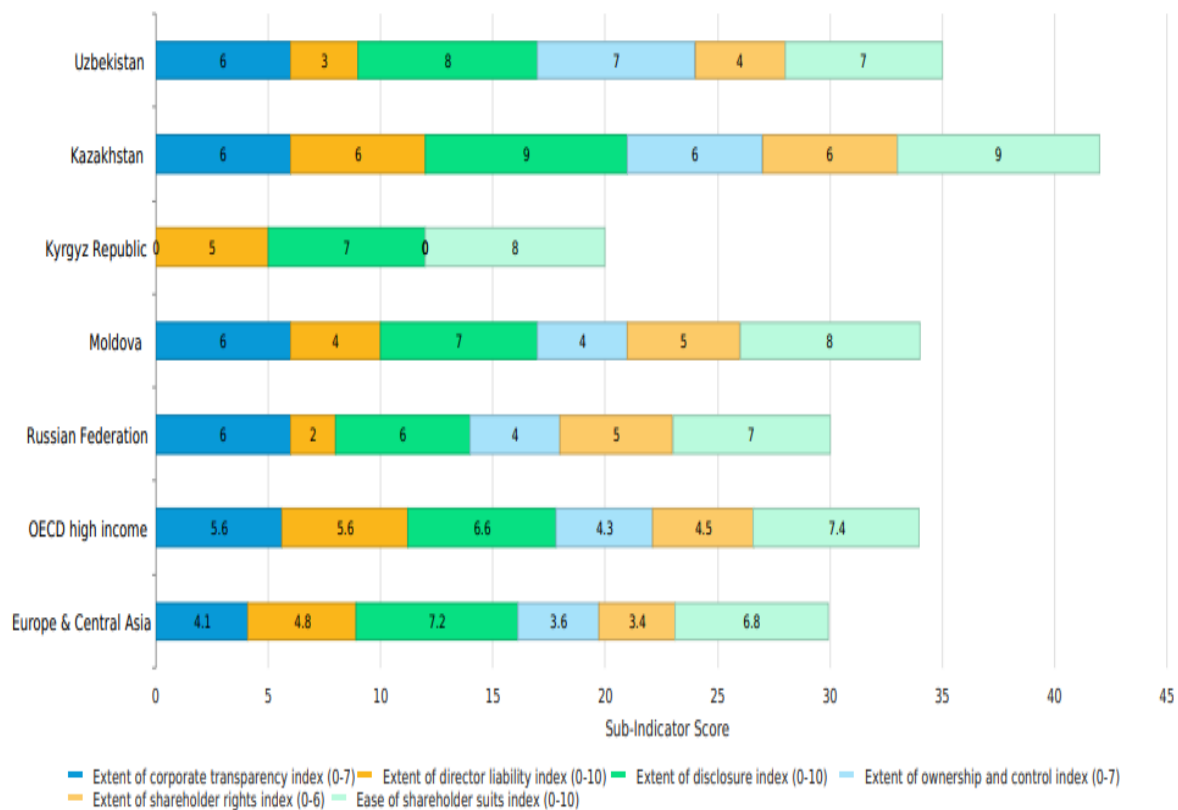


Figure 2. Protecting Minority Investors in Uzbekistan and comparator economies – Measure of Quality [2].

Despite close attention to the issue of creating a favorable investment climate and business environment, Uzbekistan still holds low positions in such ratings as the Index of economic freedom, the index of corruption, the index of logistics efficiency, the Index of human development. The Republic does not participate in such ratings as the global competitiveness Index, the Rating of the world countries on the level of protection of property rights, the Rating of countries ' involvement in international trade. With regard to investment attractiveness, Uzbekistan does not participate in the ratings of such organizations as Fitch, Moody's, Standard & poor's on country risk indices, it occupies low positions in the OECD Consensus and COFACE risk ratings [5].

Currently, in order to ensure an objective and correct assessment of Uzbekistan in international rankings, the State Committee on statistics is filling out 17 questionnaires of international organizations. However, closer contacts are needed to improve the methodology in the field of statistics with the UN economic Commission for Europe, the International monetary Fund, the world Bank, the European Bank for reconstruction and development, the Asian development Bank and other international structures.

This will be facilitated by the adoption of the government Resolution "on comprehensive measures to improve the position of Uzbekistan in international ratings and indices", which prescribes the creation of a permanent Interdepartmental Commission for the coordination of work to further improve the position of the Republic of Uzbekistan in key international ratings and indices. The main tasks to be solved by the Commission should be considered to increase the country's position in such areas of development as economic, judicial, social and political.

The state of the investment climate in the country has a direct impact on attracting investment in industries and regions. As practice shows, the investment climate is more favorable in stable developing countries with high-quality labor force, rich in natural resources.

According to the IMF, foreign direct investment is invested in new developing countries with an expected return of 45-55%³. According to the indicators of international rating agencies, the investment ratings of these countries are quite low, therefore, the risks are high. Only the commodity sector can meet the conditions of such a high expected profit with the least risks, therefore, the main share of foreign direct investment in these countries is associated with natural resource production.

An important prerequisite for the successful promotion of Uzbekistan as a favorable investment object on the world stage should be to increase the efficiency of using existing channels of communication with the target audience. As part of this task, the following actions should be implemented:

1. Development and launch of a permanent survey of investors 'and potential investors' opinions on measures necessary to improve the investment climate in Uzbekistan, prospects and opportunities for capital investment in the country. This form should be distributed to foreign investors operating in the territory and potential investors in the framework of forums, conferences, presentations and meetings;
2. The expansion of the list translated for widespread dissemination of documents and analytical materials on socio-economic development of the country, including a programme of socio-economic development of the Republic of Uzbekistan, programs of development of separate industries and sectors of the economy, the concept of ongoing socio-economic reforms;
3. Increase of efficiency of mechanisms of interaction of national foreign institutions with foreign mass media and journalists covering social and economic development of the Republic of Uzbekistan, foreign non-profit organizations, representatives of authorities, associations of businessmen of foreign States [6].

This involves ensuring regular meetings of foreign journalists with the heads of state authorities, business, science and culture, civil society organizations, in order to form an adequate, free from stereotypes perception of the country abroad.

Measures are needed to purposefully disseminate relevant information and analytical materials on the development of the domestic economy and business, on the success stories of foreign direct investment in the economy of Uzbekistan and Uzbek entrepreneurs through trade missions of the country. It is necessary to actively promote information about the socio-economic reforms carried out in the country aimed at improving the investment climate, reducing administrative barriers, improving the quality of public administration and protecting property rights.

In order to implement each of the information campaigns, a non-profit organization may be formed, including interested representatives of business and non-profit organizations, interacting with interested Executive authorities. The implementation of relevant information campaigns is coordinated within the framework of the Interdepartmental working group on promotion of national and regional brands of goods and services of domestic production.

In conclusion, I would like to note that the investment climate in Uzbekistan is certainly improving. The openness of the country is increasing, difficulties and problems are recognized, and concrete steps are being taken to overcome them. There is growing interest from foreign investors, including institutional investors.

If the pace of reforms, including liberalization of the financial market, integration into world capital markets and the creation of an effective system of property rights protection, continues, Uzbekistan may become a very attractive country for investment in the near future

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