

Assessment of the Investment Climate in the Republic of Uzbekistan

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Abstract: This article examines the concept of investments, their economic essence at macro and micro levels, special attention is paid to the investment climate of Uzbekistan, attracting foreign capital into the country's economy, an assessment of problems is given and ways to eliminate them are outlined.

Keywords: investment, investment climate, foreign investment, risks, favorable investment environment, national economy, economic liberalization.

Investments, as is known, are represented by monetary funds, securities, other property, including property rights, other rights that have a monetary value, which are invested in objects of entrepreneurial and (or) other activities in order to make a profit or achieve other beneficial effect. The main economic incentive for investing is to receive income from investing financial resources. Investments are only those investments aimed at making a profit, increasing the amount of initial capital.

The economic essence of investment: investing now in order to achieve a certain economic result later.

The essence of investments as an economic category determines their role and significance at the macro and micro levels:

1) At the macro level, investments act as a foundation for developing the national economy and increasing the efficiency of social production:

- systematically updating the main production assets of enterprises and non-production sector;
- accelerating scientific and technological progress, improving the quality and ensuring the competitiveness of domestic goods;
- developing all branches of the national economy in a balanced manner;
- creating the necessary raw material base;
- increasing the economic potential of the country;
- reducing production and handling costs;
- increasing and improving the export structure;

- solving social problems, including problems of unemployment;
- providing positive structural shifts in the economy;
- redistributing property between business entities, etc.

Investments ultimately determine economic growth. The economic state of the country is affected by how effectively all business entities function. Investments, and first of all, capital investments, act as the basis for ensuring that this efficiency is ensured at enterprises.

2. Micro-level investments are necessary in order to achieve the following goals:

- to increase and expand the scope of activity;
- to prevent excessive moral and physical deterioration of fixed assets;
- reduce the cost of production and sale of products, works and services;
- to increase the technical level of production by introducing new equipment and technologies;
- to improve the quality and ensure the competitiveness of products;
- improve safety and implement environmental protection measures;
- to ensure the competitiveness of enterprises;
- purchase securities and invest in assets of other enterprises, etc.

Thus, investments are the most important economic category, they are significant both at the macro and micro levels, and primarily for simple and expanded reproduction, structural transformations, obtaining maximum profit and on this basis solving many social problems.

Uzbekistan today is a developing economy, which is becoming more and more attractive to the world market from year to year. The country is among the top 20 countries that have made the most progress in improving the business climate. The conditions for doing business are improving in the country, foreign investments are attracted here.

Over the past five years, Uzbekistan has taken 69th place in terms of creating the most favorable conditions for business and entered the top 20 of the best reformer countries, taking 12th place among 190 states. The project of the European Union "Assistance to the process of Uzbekistan's accession to the WTO" is being successfully implemented. The European Commission gave Uzbekistan the status of a beneficiary country of the Universal System of Preferences Plus (GSP+) ahead of schedule, which will allow the country to increase exports of, for example, textiles to the EU from 150 million euros in 2022 to a billion euros by 2025. The EBRD has improved Uzbekistan's economic growth forecasts from 4.5% to 5.6%, which is higher than in most countries of the world.

Also, a new digital financial and transport infrastructure is gradually being formed, which, together with attractive economic conditions, increases business activity in Uzbekistan, including a sharp increase in foreign direct investment.

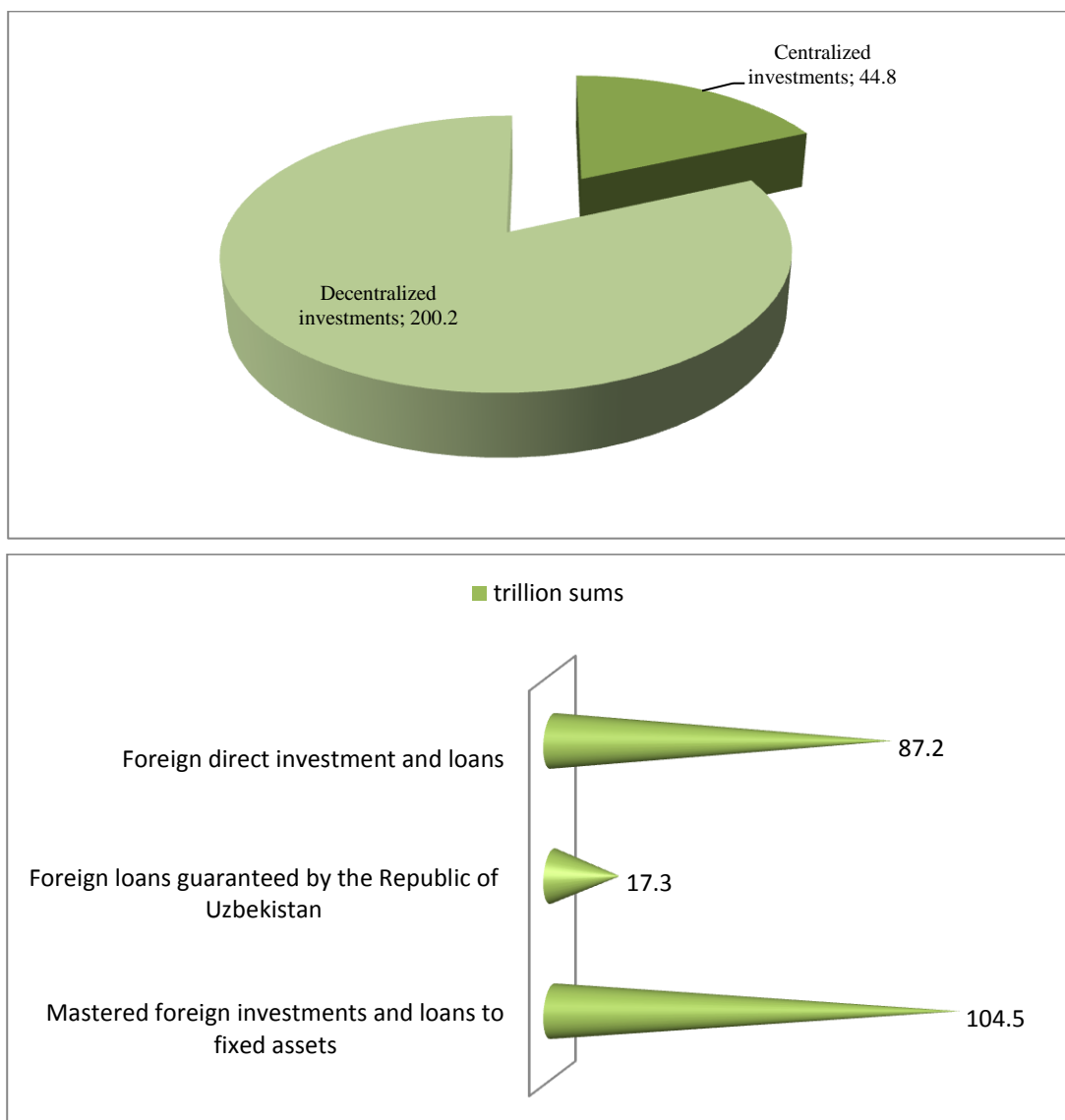
In 2021, the economy of Uzbekistan reached record growth rates, despite the continuation of the pandemic, the persistence of increased turbulence in the global economy. The country's GDP grew by 7.4% at the end of the year against the background of last year's modest growth of 1.9%.

Uzbekistan has begun the transition to a policy of forced investments. The three-year investment program until 2022 was designed to attract more than \$35 billion from outside. The country with one

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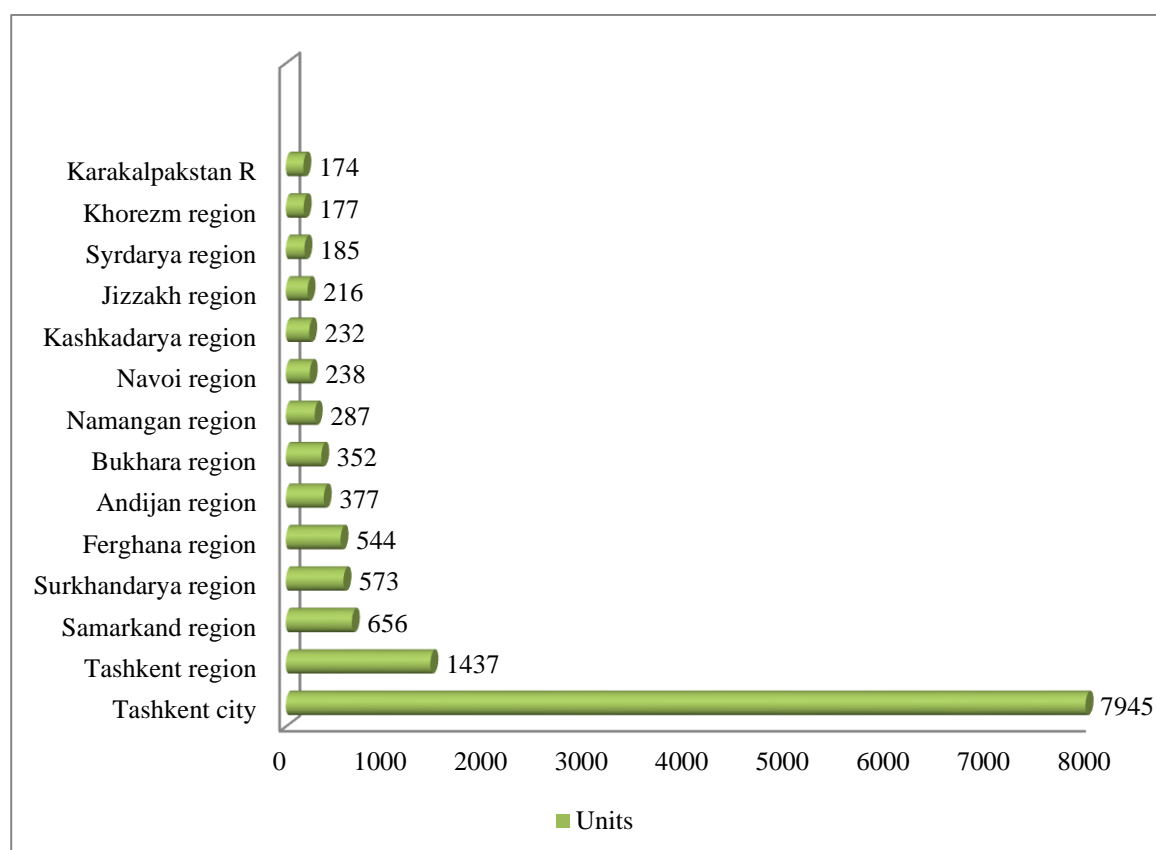
of the fastest growing economies in the CIS offers investors to invest assets not only in industry, but also in energy, pharmaceuticals, communications, retail.

The state of investments in fixed assets in the Republic of Uzbekistan in 2021 (trillion soums)



As of February 1, 2022, the number of enterprises with foreign capital in the republic amounted to 13,393, an increase of 1,474 units compared to the same period last year.

Number of enterprises with foreign capital by regions of Uzbekistan.



Investments in fixed assets increased by 5.2%, overcoming the decline in 2020, by 4.4%. The increase is noted in terms of non-centralized investments by 7.4% mainly due to foreign direct investment and loans, by 18.4%. There is also an increase in investments at the expense of the population by 4.5%. Meanwhile, investments from the sides of enterprises decreased by 3.6%. Centralized investments decreased by 3.6%, due to a sharp decrease in the attraction of foreign investments and loans guaranteed by the government - by more than 30%. It should also be noted that such investments in the total volume of investments decreased from 11% in 2020 to 7.1% at the end of last year. At the same time, there is an increase in investments from the budget, which increased by 36%. In general, by the end of 2021, the trend continued to decrease the share of centralized investments in the total volume of investments in fixed assets from 19.9% to 18.3%, and, accordingly, the share of non-centralized investments increased.

The Agency for Attracting Foreign Investments of the Republic of Uzbekistan positions the country before investors as one of the most dynamically developing CIS countries. According to the World Bank, in recent years Uzbekistan has made serious progress in the ranking of doing business – from 166th to 69th place. The advantages are: the geographical position of the country as the center of Asia, the so-called crossroads between China and Europe, cheap labor (average salary \$ 240), reduced tax and regulatory burden.

Systemic risks of developing countries and investment protection are the main issues that investors face when developing new markets. Some experts, citing as an example the development of investments in the energy sector of Uzbekistan, note that the most significant negative internal factor for investors is the discord of ministries and departments in the country. This is due, firstly, to the lack of a state doctrine or strategy linked to the development plans of industries and regions. Secondly, there is a low quality of state control over investment activities.

There are still many restrictions in the economy, such as high import duties, and a significant part of business is based on relations with the state and local elites, rather than market principles. The situation seems to be gradually changing for the better, but the process will definitely not be fast.

Probably, the main immediate risk for potential investments is the possible devaluation of the local currency (Uzbek sum). If you look at history, there was a sharp depreciation in 2017, just as a result of the fact that the currency became freely convertible. Since then, the Uzbek sum has been gradually devalued against the dollar. Uzbekistan has a negative trade balance (exports are less than imports), but it is compensated by remittances to the country from migrant workers, i.e. there seem to be no obvious reasons for currency devaluation. Uzbekistan produces a lot of different raw materials, which can also be positive for the economy in the current realities.

Investing in Uzbekistan at the current stage is a very specific idea, given the very low liquidity and underdevelopment of the local market. However, in our opinion, it may be interesting in the long term due to the positive macroeconomic dynamics in the country and the gradual liberalization of the economy.

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