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Factors Affecting the Investment Climate and the Role of Investments in Economic Development (In the Case of Uzbekistan)

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ABSTRACT

This article analyzes the factors affecting the investment climate on the example of the Uzbekistan's economy. The article also discusses the economy of Uzbekistan and the investments attracted to it. Based on the analysis, proposals have been developed to increase the volume of investments in the Uzbekistan's economy.

KEYWORDS: *investment, investment climate, economy, foreign investment, economic growth*

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INTRODUCTION:

Today, the movement of investment in the global economy and its inflow into the economy of a country, or the movement of domestic investment in a country, is one of the main factors influencing economic development.

An increase in investment in the country's economy usually has a positive effect on economic growth. In general, investment is one of the main components of GDP. If we pay attention to the calculation of GDP by the expenditure approach[$Y = C + I + G + (X - M)$], it becomes clear that as a result of increased investment, GDP will also increase. Based on the above formula, it can be concluded that an increase in investment in the country's economy will lead to an increase in GDP. Of course, if we analyze the investments in depth, there are several types of investments. It takes into account domestic investments, foreign investments, portfolio investments, direct investments and all other investments.

This means that if high economic growth can be achieved as a result of increased investment, then the main strategies for the development of the country's economy will have to focus on increasing the volume of investment in the country. Investment in the economies of developing countries, in particular, has a huge positive impact on the country's economic development.

The growth of direct investment depends on the investment climate in the country. If a favorable investment climate is created for investors, then the volume of investments in the economy of this country will be high. The investment climate is always influenced by several factors. These factors create an investment climate[1]. Therefore, it is important to study and analyze the factors influencing the inflow of investment.

Literature review

Today, various scientists in the field of investment are conducting research based on different methods.

Scholars Francesca Barbiero, Alexander Popov, and Marcin Wolski have made the following point in their article entitled "Debt overhang, global growth opportunities, and investment". Using a pan-European data set of 8.5 million firms, they find that firms with high debt financing invest relatively more, than otherwise similar firms, if these firms are operating in sectors facing good global growth opportunities. The positive impact of a marginal increase in debt on investment in good-global-growth-opportunities sectors disappears if firm debt is already excessive, if it is dominated by short maturities, and during systemic banking crises. Our results are consistent with theories of the disciplining role of debt, as well as with models highlighting the negative link between firm- and bank-related agency prob- lems and corporate investment(Francesca Barbiero, Alexander Popov, Marcin Wolski, 2020)[2].

Marcel Ausloos, Ali Eskandary, Parmjit Kaur, GurjeetDhesi mentioned following statements in their article "Evidence for Gross Domestic Product growth time delay dependence over Foreign Direct investment. A time-lag dependent correlation study". They stateted that an often forgotten relationship the time delay between a cause and its effect in economies and finance. They treat the case of Foreign Direct Investment (FDI) and economic growth, - measured through a country Gross Domestic Product (GDP). The pertinent data refers to 43 countries, over 1970–2015, - for a total of 4278 observations. When countries are grouped according to the Inequality-Adjusted Human Development Index (IHDI), it is found that a time lag dependence effect exists in FDI–GDP correlations. This is established through a time-dependent Pearson's product-moment correlation coefficient matrix. Moreover, such a Pearson correlation coefficient is observed to evolve from positive to negative values depending on the IHDI, from low to high. It is "politically and policy relevant" that the correlation is statistically significant providing the time lag is less than 3 years. A "rank-size" law is demonstrated. It is recommended to reconsider such a time lag effect when discussing previous analyses whence conclusions on international business, and thereafter on forecasting(Marcel Ausloos, Ali Eskandary, Parmjit Kaur, Gurjeet Dhesi, 2019)[3].

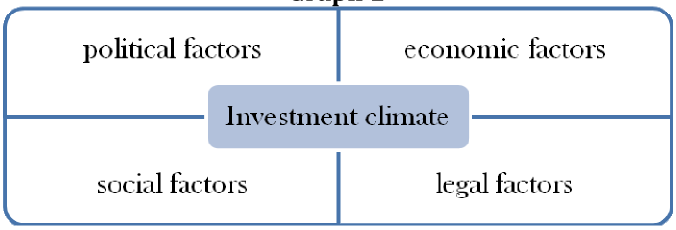
Takeo Hoshia and Kozo Kiyotab mentioned following information in their article titled "Potential for inward foreign direct investment in Japan". Promotion of inward foreign direct investment (FDI) into Japan has been an important policy in the Abenomicsgrowth strategy. If they observe positive impacts of the policy in the data. They first estimate agravity model of bilateral FDIs using data for 35 OECD countries as destination countries. In estimating the model, They handle zero values for FDI stock explicitly. The model includes (origin and destination) country specific effects as well as destination-country specific time trends. They take the model prediction as a reasonable counterfactual and compare that to the actual inward FDI stock for Japan. Although the actual inward FDI stock has been growing and is likely to achieve the goal of 35 trillion yen by 2020, the growth under the Abe administration has been comparable to or slightly lower than the counterfactual suggested by the estimated model. They also estimate the model without Japan as a destination country and use the estimated model to calculate the counterfactual level of Japan's inward FDI. Although they expect the gap between the counterfactual and the actual become narrower if Abenomics policy has been successful, we fail to find that. These results cast a doubt on the effectiveness of the Abenomics policies to encourage inward FDI at least as of 2015(Takeo Hoshia, Kozo Kiyotab , 2019)[4].

Data and methodology

Various conclusions have been drawn from this study based on international research. In addition, the study examines the economy of Uzbekistan by analytical methods. The study also used induction, deduction and scientific abstraction methods.

The increase in investment in the country's economy depends on the investment climate in the country. Therefore, it is expedient to study the factors affecting the investment climate in the country.

Graph 1



Each of these factors includes several elements. These factors are divided into components depending on their nature. Each component, in turn, consists of several influential factors.

Political factors include the following components:
- Public investment, especially foreign investment policy;
- The level of state intervention in the economy;
- The degree of accession of the country to international agreements;
- Compliance of the country with international agreements;
- Stability of the political situation (political movements, conflicts, peace in neighboring countries);
- Targeted action of political power;
- Effective functioning of the state apparatus;
- Position of multi-party and political groups;
- Tax, currency, price, monetary policy to investment policy compatibility;
- The environmental situation in the country and the environmental situation of the government the scope of health policy[5].

Social factors include the following components:
- Indigenous people in relation to private property and foreign investment
- attitude;
- Socio-economic situation of the country;
- Ideological views of the population and their diversity;
- Attitudes towards different nationalities in the country;
- Literacy rate of the population;
- Increased skills, competencies and experience of staff to go and strive for it;
- The attitude of the population to innovations and various inventions and their acceptance degree of making [6].

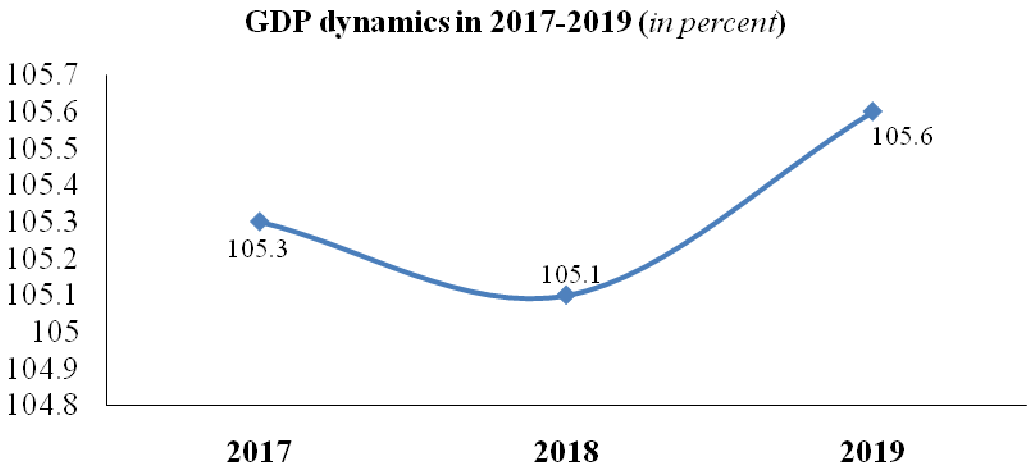
Economic factors include the following components:
- Economic situation of the country;
- Inflation rate;
- Tax benefits;
- Customs procedure;
- Status of natural and raw material resources of the country;
- Status and value of labor;
- The order of use of labor;
- Demand and supply for certain goods;
- Freedom of competition and price;
- Currency conversion and national exchange rate stability;
- Bank interest rates;
- Foreign economic relations of the country;
- Geographical and territorial location of the country (natural disasters, sea andland routes, climatic conditions)[7].

Legal factors include the following components:
- The level of robustness of the legal framework for investment activities;
- The legal framework that directly provides for investment activities degree of durability;
- Normative bases of investment activity (decrees, decisions, laws, regulations, guidelines, etc.)[8].

Analysis and results

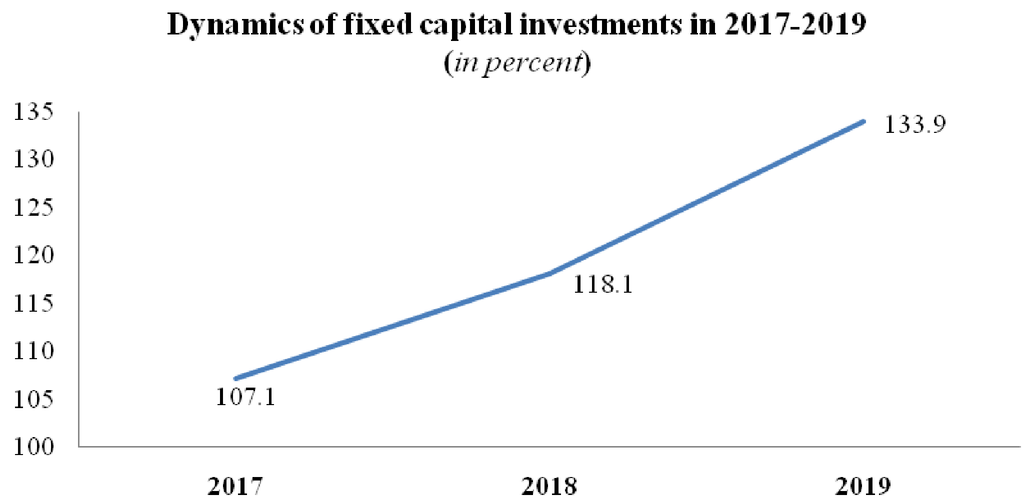
We analyze the growth of investment in the Uzbekistan's economy and GDP growth.

Graph 1



Source: Compiled according to the State Committee on Statistics of the Republic of Uzbekistan. URL: http://www.stat.uz

During the period under review, the economy grew by at least 5%. If in 2017 the economic growth was 5.3%, in 2018 it was 5.1% and in 2019 it was 5.6%.



Source: Compiled according to the State Committee on Statistics of the Republic of Uzbekistan. URL: http://www.stat.uz

During the period under review, there has been a sharp increase in the dynamics of fixed capital investments. At the same time, it can be seen that the growth rate increased from 7.1% in 2017 to 33.9% in 2019. This is definitely a positive sign in the economy.

Based on the above data, it can be seen that investment has a positive impact on the economy of Uzbekistan. The data also show that a favorable investment climate is developing in Uzbekistan. High economic growth can be achieved in the economy of Uzbekistan on the basis of focusing economic policy on the formation of a favorable investment climate.

Conclusions

Investment has a positive effect on the economy. Investment is especially important for GDP growth or economic growth. Investments, in turn, have several components. There are individual approaches to each of the components. The increase or decrease of investments in the country depends on the investment climate in the country. In general, the investment environment can be considered as a set of opportunities created for the movement of investments.

As mentioned above, the investment climate is influenced by political, economic, social and legal factors. When each factor is studied separately, certain components are also distinguished from them. These factors create a favorable investment climate. The basis of the country's economic policy is to ensure the positive impact of these factors on the investment climate. If the country can do that, investment in the economy will increase.

If we pay attention to the economy of Uzbekistan, the country has been achieving high economic growth in recent years. There are, of course, a number of factors that contribute to this achievement. Investment also has a positive effect on this indicator. In addition, the volume of investment in the country's economy has grown significantly. Therefore, the economy of Uzbekistan can be considered as one of the main tools for economic growth of investments and increase the volume of investments in the country's economy on the basis of creating a favorable investment climate.

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