

STRENGTHENING THE COUNTRY'S ECONOMY THROUGH ATTRACTING FOREIGN INVESTMENT DEVELOPMENT PROSPECTS

OBLOMURADOV NARZULLO NAIMOVICH

Rector of Tashkent State Agrarian University, Tashkent, Uzbekistan

Annotation: *This article provides an in-depth analysis of the current state of foreign direct investment (FDI) in the national economy. It thoroughly examines the investment climate, existing opportunities, and emerging challenges. Furthermore, the article presents a set of practical proposals and recommendations aimed at accelerating economic growth by increasing FDI inflows, introducing modern technologies and advanced practices, creating new jobs, and modernizing the industrial sector.*

Keywords: *Foreign investments, investment climate, economic development, practical analysis, industrial modernization, investment policy, direct investments, technology transfer, job creation, investment attraction strategy.*

INTRODUCTION

The role of investments, particularly foreign capital, is immensely significant in rapidly developing Uzbekistan's economy, broadly introducing advanced innovations into production processes, ensuring macroeconomic stability, and achieving high rates of economic growth. Currently, due to the special attention given to investment processes, investment activity in our country is steadily progressing. The practical achievements gained in this field and the thorough and comprehensive analysis of the results form the basis for important conclusions, helping to determine future priority tasks. In this context, the role of foreign investments and strategies aimed at their active attraction hold particular importance.

Specifically, the President of the Republic of Uzbekistan, Shavkat Mirziyoyev, in his Address to the Oliy Majlis, emphasized:

"Global experience shows that only countries that actively attract investments have achieved economic stability and growth. Therefore, investments are considered the main driving force, or in other words, the heart of the economy. Only by attracting investments and launching new production capacities can we achieve economic progress. As a result, the rise in the economy will allow us to systematically resolve social sector problems. Realizing this deeply, we must organize our activities in this direction. Hence, actively attracting foreign investments and fully demonstrating our country's investment potential remains one of the top priorities," he noted.

In recent years, although the volume of loans provided by commercial banks for the modernization of the national economy has increased several times, certain challenges are emerging in the context of intensifying competition. For example, banks are not providing sufficient liquidity assessments for projects submitted by enterprises engaged in innovative activities, which leads to an unmet need for financial resources in such companies. This creates certain obstacles in the financing process. Therefore, identifying ways to overcome these challenges and thoroughly studying the scientific-theoretical and methodological foundations of financing and managing modern innovative projects remains a pressing task.

LITERATURE REVIEW ON THE SUBJECT

The term “innovation” (from the Latin “innovatio” – meaning renewal or change) refers to ideas, products, services, technologies, or forms of management that are newly introduced into social life, which did not exist before or have been improved to a new qualitative level. By its nature, innovation represents something new that is recognized within a cultural environment and manifests as a material or immaterial value.

In economic theory and practice, various scholars have offered different approaches to the concept of innovation:

According to I.L. Balabanov, “innovation” is a tool for the effective attraction of capital through the practical implementation of previously unused new techniques, technologies, and methods of production and service delivery.

A.B. Borisov interprets innovation as a process of achieving positive economic outcomes by creating, developing, and disseminating technologies and introducing new organizational forms.

Uzbek economists R. Gimush and F. Matmurodov consider “innovation” as the introduction of novelty—that is, the practical application of an idea or method that did not previously exist.

Other local researchers, B.E. Toshmurodova and N. Jiyanova, associate innovation not only with technological advancements but also with changes in the organizational and managerial styles of enterprises.

According to the World Bank’s 2010 report, innovation is defined as the application and implementation of something new in societal life or technological fields.

G. Popov defines innovation as the result of applying completed scientific research and developments through advanced technological processes in production.

Similarly, P. Drucker describes innovation as “the creation of new solutions through systematic implementation of organizational changes and opportunities.”

J. Schumpeter views innovation as the driving force of economic development and calls it “creative destruction”—renewal through the replacement of old systems with new ones.

In recent years, against the backdrop of global financial and economic crises, the significance of innovation-based approaches has sharply increased. In particular, this trend has promoted innovative projects and activities as one of the main drivers of economic development. From this perspective, strategies and programs aimed at fostering innovative development are being implemented in Uzbekistan as well. In this process, commercial banks play a crucial role by financing innovative ideas and serving as an essential source of resources for the technological renewal of the economy.

According to economist R.Kh. Karlibayeva, during the ongoing economic reforms in the country, strategies aimed at modernizing the national economy, increasing production capacity, and enhancing competitiveness require the active implementation of innovative approaches.

From our point of view, bank credit resources play an invaluable role in developing the national economy, launching and expanding production. Since establishing new production capacities requires substantial financial investment, this demand is often met through long-term loans from commercial banks. Therefore, banks play a key role in the implementation of innovative projects.

Today, the number of entrepreneurial entities in need of innovative activity but lacking financial resources is growing. In such a situation, the credit mechanisms provided by

commercial banks should not only be directed at the purchase of working capital but also at financing the long-term strategic development plans of enterprises. This, in turn, implies a high level of risk and the probability that investors will earn profits only if the projects are successfully implemented.

Unfortunately, at present, the credit policies of commercial banks in the country do not fully align with the advanced practices of international financial institutions. Credit procedures still do not adequately meet client needs, and the infrastructure for modern financial services is not sufficiently developed. The experience of developed countries shows that increasing the efficiency of banking activities, supporting enterprises, and creating a competitive economic environment are of critical importance.

Therefore, identifying existing issues in the crediting of innovative projects by commercial banks, studying and analyzing the best practices of foreign financial institutions, and developing scientifically grounded proposals for their implementation in local conditions define the relevance of this scientific article.

RESEARCH METHODOLOGY

During the research, various methods were employed to analyze the role, development, and specific characteristics of enterprises operating based on innovative projects in the national economy, as well as to determine the level of employment among the population in this process. These methods include the dialectical and systematic approach, comprehensive evaluation methods, comparative and contrastive analysis, statistical and dynamic approaches, as well as classification methods.

One of the key factors contributing to the consistent and sustainable growth of the economy is the financial support of innovative projects. In this process, the increasing level of employment among the population, conducting comparative analyses based on these indicators, and developing specific recommendations accordingly hold particular importance.

The growing need for investments in the economy and the insufficiency of allocated investment funds necessitate the efficient use of available resources. This is because the proper allocation of attracted financial resources ensures high profitability. In managing and analyzing investment projects, it is essential to thoroughly study the economic and financial condition of the project initiator.

In order to further develop investment activity and enhance financial support in the national economy, it is considered necessary to analyze the experiences of developed countries and apply their best practices in local conditions.

Based on the above, it can be concluded that in order to organize a more effective implementation of investments in the country's economy, financial issues related to the investment environment and problems in financing investment processes are being addressed step-by-step in a systematic manner.

A well-planned investment policy plays an invaluable role in ensuring rapid economic growth and maintaining macroeconomic stability in our country. This is because investments, as a fundamental driver of economic development, serve to modernize production, accelerate technical and technological advancement, promote innovations, create new jobs, and increase the incomes of economic entities. The urgency of this issue is clearly confirmed by the increasing volume of investment inflows year by year in the country.

According to World Bank data, in 2022, the demand for bank loans among enterprises operating based on innovative projects was relatively high in developing countries. While in

developed countries, on average, 40% of enterprises had a need for loans, in Eastern Europe and Central Asian countries, this figure ranged from 45% to 60%. At the same time, the requirement for collateral in the lending process averaged over 60% in developed countries, whereas in Eastern Europe and Central Asian countries, it exceeded an average of 80% (see Figure 1).

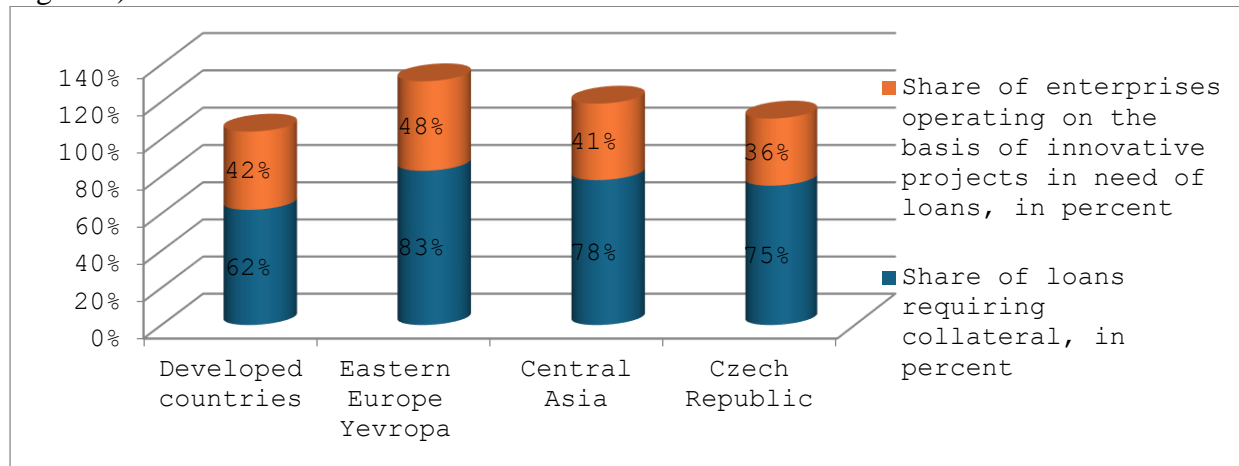


Figure 1: Global demand for bank loans by enterprises operating based on innovative projects, in percentage

Based on the experience of the above-mentioned countries, the financing of enterprises' innovative projects should be directed toward addressing specific socio-economic issues such as improving the population's living standards, increasing employment, and enhancing their economic activity. In the context of the developing market in this area in the Republic of Uzbekistan, the use of the positive aspects of investment lending practices tested in global experience serves as an important theoretical and practical source.

Taking the CIS countries as an example, the adoption of the "State Program for Innovative Development" in Belarus in 2007 led to the commercialization of scientific research, contributing to the development of innovative activity in the republic. The country's innovation infrastructure includes more than 80 companies providing consulting services, information, and organizational support in this field. Various technoparks, two innovation centers, eleven technology transfer firms, three international centers for technology transfer, and other innovation infrastructure organizations are operating.

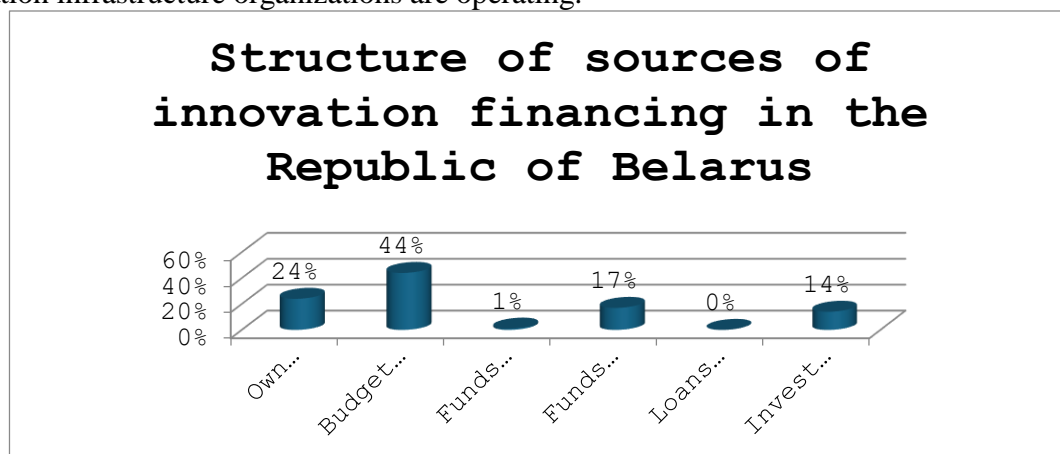


Figure 2: Structure of Innovation Financing Sources in the Republic of Belarus

In Belarus, innovation financing is mainly carried out using enterprises' own funds and, in particular, budget funds. Bank loans and extra-budgetary funds together account for less than one percent of total expenditures. This is primarily due to the high-risk nature of investment projects in the field of innovation and the relatively low probability of returns. Therefore, efforts are being made in Belarus to widely develop venture financing (see Figure 2).

In Uzbekistan as well, based on strategic economic goals, steps are being taken to manage investment projects and facilitate their development. In 2022, a total of 202.0 trillion UZS was absorbed from all financing sources for the development of economic and social sectors in the Republic of Uzbekistan, which supports the validity of our viewpoint in this regard..

Table 1: Structural Composition of Investments Directed to the Economy of Uzbekistan in 2024

Centralized investments 39310.2 billion sum	-	Total investments in fixed assets 202 000.1 billion sum	Decentralized investments 162689.9 billion sum
Foreign loans under the guarantee of the Republic of Uzbekistan 22 467.1 billion sum		Foreign investments and loans utilized in fixed capital 86 647.0 billion sum	Foreign direct investment and loans 64 179.9 billion soums

In 2024, a decline in investment activity was observed, with the volume of investments assimilated into fixed capital amounting to 91.8% compared to 2023. In 2024, a total of 202.0 trillion UZS of investments were assimilated into fixed capital. Of this, 39,310.2 billion UZS or 19.5% of the total investment volume came from centralized financing sources, which is 8.0% less compared to 2023.

Accordingly, 162,689.9 billion UZS or 80.5% of the total volume was assimilated from non-centralized financing sources. In 2024, 51,911.3 billion UZS of investments into fixed capital were made from the own funds of enterprises and organizations, accounting for 25.7% of total investments. Investments made from the population's funds amounted to 18,077.8 billion UZS or 8.9%. Direct foreign investments accounted for 28,740.5 billion UZS, which is a 5.3% decrease compared to 2023 and made up 14.2% of the total investment volume.

In 2023, more than 10 billion USD in total, including 8.1 billion USD in direct foreign investment, was assimilated. As a result, 318 large-scale and over 15,000 regional projects were implemented, creating more than 273,000 jobs. The newly established enterprises are capable of replacing over 1 billion USD worth of exports and 530 million USD worth of imports.

PROPOSALS

In recent years, the main objective of the investment policy being pursued in our country has been to orient the products and services of enterprises established with the participation of foreign investors toward export. For this purpose, it is important to modernize the activities of enterprises established on the basis of local economic entities, to participate in them on a shareholder basis—i.e., to be involved in the decision-making process through equity participation—and to increase the competitiveness of products or services produced with foreign investment in the global market. In our opinion, the practical application of these recommendations plays an important role in actively attracting investment projects to the national economy and ensuring the stability of the investment environment.

The various mechanisms being used to attract foreign investments have already begun to yield

results. A clearly defined and active investment policy is one of the decisive factors in accelerating economic growth, deepening structural reforms, and diversifying the economy by sectors. Uzbekistan has successfully formed a distinctive investment environment. This, in turn, is creating favorable conditions for attracting foreign investors, especially through the broad opportunities available for establishing new enterprises and modernizing existing ones in sectors related to the extraction and processing of natural resources.

Additionally, when evaluating the profitability of investments in certain sectors, attention should be paid to the following aspects:

- increasing the volume and quality of investment resources directed toward science, education, and culture;
- activating targeted innovation-investment strategies based on mastering fundamental innovations;
- thoroughly studying and analyzing the technological level, scientific potential, and inventions of existing productions that need state support;
- accelerating the creation of favorable conditions for the business environment, as this serves to improve mechanisms for attracting foreign investment in the development of Uzbekistan's construction materials industry.

It can be concluded that to improve the system of attracting and effectively utilizing foreign investments in the economy, the following tasks must be fulfilled:

- protecting investors' funds with state guarantees and creating program platforms aimed at assessing the opportunities and conditions for attracting foreign investment in the regions;
- improving the regulatory framework for granting tax incentives during the process of attracting and assimilating investments into the regions, and increasing the share of tax revenues retained in local budgets;
- directing foreign investments toward restructuring the internal structure of industrial sectors, expanding production, and creating competitive industrial products based on advanced technologies;
- using various legal mechanisms for promoting investment activities by the state, harmonizing investment-related legislation, and establishing a digital investment services system on this basis;
- utilizing public-private partnerships to supply modern foreign technologies for innovative projects, implementing a modern integrated system for managing investment projects, and improving mechanisms for effectively managing project risks.

List of references:

1. Hasanov A., Islomov S. Establishment of Innovation Centers and Their Economic Efficiency. Tashkent: "Uzbekistan", 2022. – 320 pages.
2. Jumaev R. International Investments: Theoretical Foundations and Practical Experiences. Tashkent: "Economy-Practice", 2020. – 450 pages.
3. Karimova N. Financing Innovations in Public–Private Partnership. Tashkent: "Science and Technology", 2023. – 212 pages.
4. Nurmukhamedov U. Innovation Financing in the Context of Emerging Economies. Asian Journal of Economics, vol. 8, no. 1, 2024, pp. 55–72.
5. L. Peng, M. Zhang. Foreign Direct Investment as a Driver for Tech Innovation in Central Asian Economies. Journal of World Investment & Trade, 2022.
6. OECD. Enhancing Business and Innovation Financing in Emerging Markets. Paris: OECD

Publishing, 2020. DOI:10.1787/12345.

7. World Bank. Innovative Enterprise Financing in Uzbekistan. Washington D.C., 2023.
8. Bozorov R.H. Ensuring Uzbekistan's Broader Participation in Global Indices as a Key Factor in Enhancing Investment Climate Attractiveness. "International Finance and Accounting" Scientific E-Journal, No. 4-5, August–October, 2018.
9. www.stat.uz – Official website of the State Committee of the Republic of Uzbekistan on Statistics.