

# The Role of Investments in the Development of the Economy of Uzbekistan

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**Abstract:** In the article, the role of investments in development and modernization of the economy is highlighted, in which the opinions of foreign and domestic scientists are studied. An analysis of the current state of both domestic and foreign investments is presented. As a result of bringing an analysis of the technological composition and production composition of investments in the main funds, appropriate conclusions are drawn and scientific proposals and practical recommendations are formed.

**Keywords:** investments, foreign investments, foreign direct investments, fixed capital, investment climate, enterprises with foreign investments, modernization, technological structure of investments, reproductive structure of investments, financing, investment efficiency, digitalization, investment projects, competitiveness, and infrastructure.



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## 1. INTRODUCTION

Investments are a key factor in economic growth and development. When used wisely, they create jobs, improve living standards, stimulate innovation, and ensure sustainable development of the economy as a whole. «Global foreign direct investment flows in 2023, estimated at \$1.37 trillion, were up slightly from 2022, falling short of experts' expectations. The dynamics of global investment were affected by general economic uncertainty in the world and rising interest rates in many countries. Foreign direct investment flows to developing countries fell by nine percent. In developing Asia, foreign direct investment fell by 12 percent, in Africa by one percent. In Latin America and the Caribbean, growth remained stable» [1].

The President of our country Sh. Mirziyoyev emphasized that the growth rate of the global economy has been slowing down over the past three years. The growth trends in foreign direct investment also do not live up to expectations. Thus, in 2023, the total volume of investment in developing countries decreased by 9 percent. «Of course, we understand well that today there is a serious struggle for investors in the world», said Shavkat Mirziyoyev. «However, one constant truth is becoming increasingly clear: no country can solve such pressing problems alone. The spirit of trust and respect, the principle of mutual support remain a solid foundation for long-term cooperation» [2].

The relevance of issues related to investments in modernization and economic development is increasing in the modern conditions of globalization and technological change. Let's consider the main aspects:

1. Increased productivity: investments in new technologies and modernization of production processes can significantly increase labor productivity; the introduction of automated systems and information technologies helps reduce costs and increase efficiency.
2. Competitiveness: the development and modernization of infrastructure (transport, energy, communications) create the basis for increasing the competitiveness of the national economy; investments in the modernization of domestic production make it possible to improve the quality of products and increase their competitiveness in international markets.
3. Creation of new jobs: investments in new projects create jobs and improve working conditions, which improves the standard of living of the population; Investing in employee training and development helps create a more skilled workforce.
4. Social improvements: investments in social infrastructure (education, healthcare, housing) help improve the quality of life of the population; investments in regional development and social programs help reduce the gap between different segments of the population.
5. Sustainable development: investments in environmentally friendly and sustainable technologies help solve environmental problems and ensure sustainable economic development; Investments in energy efficiency projects can reduce resource consumption and improve energy security.
6. Attracting foreign investment: effective investments in economic modernization create an attractive investment climate for foreign investors; foreign investment facilitates the transfer of technology and knowledge, which has a positive impact on economic development.
7. Long-term planning: investments in key sectors of the economy (technology, agriculture, energy) ensure sustainable development for the long term; Investing in research and development helps prepare for future economic and technological changes.

## 2. LITERATURE REVIEW.

Issues of the content, structure, and dynamics of investments, sources of their financing, and their role in the functioning of a market economy have been studied by many economists and scientific schools (classical, Marxism, neoclassical, Keynesianism, neoclassical synthesis, their modern varieties, and branches). Modern foreign researchers pay special attention to investment markets and transactions; analysis of the role of various sources of investment; and investing in certain areas and objects, incl. in innovative industries. All these areas are related to the need to solve an important economic problem - attracting investments and their effective use. The works of such foreign economists as G.Birman, L.J.Gitman deserve the greatest attention from the scientific community and practitioners in Uzbekistan [3], M.D.Jonk [4], Bodi Zvi, Marcus Alan J., Kane Alex [5] , Sharp William Forsyth, Alexander Gordon J., Bailey Jeffrey W. [6] , N.Leventsev, G.Kostyunina [7], D.Mukha [8], M.Suleymanov, A.Mikhin [9], G.P.Oksyutik [10], E.N.Petrushkevich [11], R.A.Sarkisyan [12], M.G.Shallaeva [13] and some others.

From the scientists of Uzbekistan A.V.Vakhobov, Sh.H.Khazhibakiev, N.G.Muminov [14], B.B.Valiev [15], D.G.Gozibekov [16], U.S.Nadyrkhanov [17], G.A.Karimova [18], A.E.Kobilov [19] in their scientific works, they studied and analyzed the problems of attracting foreign investment into the national economy, the activities of free economic zones, financial mechanisms for attracting foreign investment, and increasing the efficiency of foreign investment, they developed scientifically based conclusions, proposals and recommendations.

At the same time, relatively few studies are devoted to the study of this issue in relation to countries with economies in transition and, in particular, Uzbekistan, as well as to research into the practical possibilities of using foreign direct investment to solve pressing problems of the country's economic development.

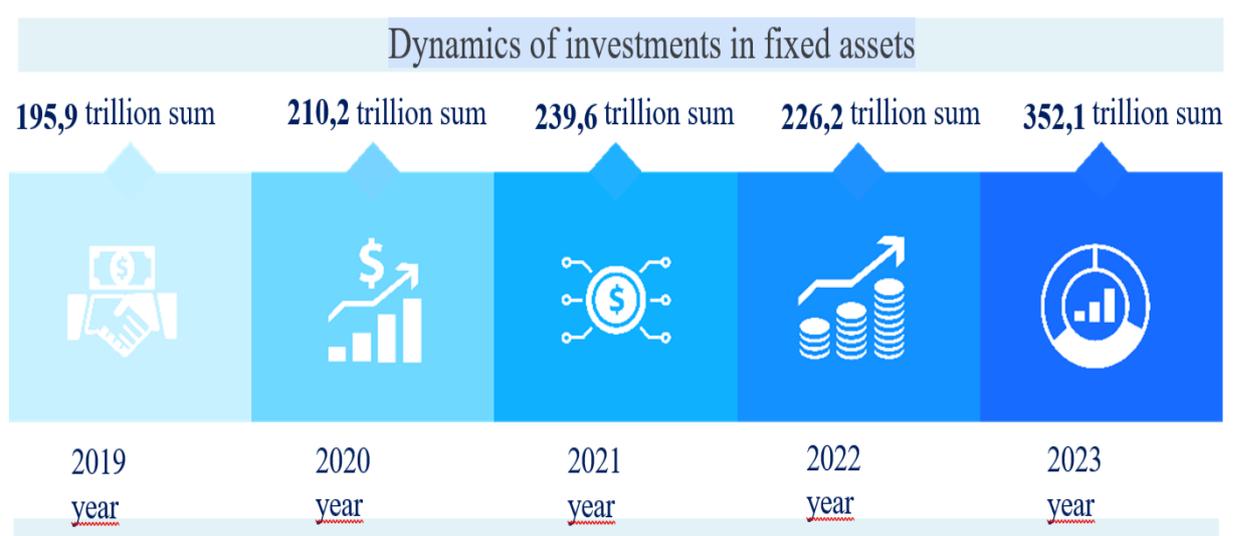
### 3. RESEARCH METHODOLOGY

Methods of grouping, comparative and economic analysis, induction and deduction, economic and statistical methods and expert assessment were widely used in the research.

### 4. ANALYSIS AND RESULTS.

In recent years, Uzbekistan has been actively working to improve the investment climate and attract foreign and domestic investment. Below is an overview of the current state of investment in the country.

In recent years, there has been a steady increase in the volume of both domestic and foreign investment. The government is implementing a number of reforms aimed at stimulating investment and improving the business environment. For the development of the economy and social sphere of the Republic of Uzbekistan in 2023, 352.1 trillion soums of investments in fixed capital were used from all sources of financing, which is 122.1% by 2022. The dynamics of the volume of investment in fixed capital over the past five years has shown that it has almost doubled and is trending upward (Figure No. 1).



**Figure No. 1. Dynamics of the volume of investments in fixed capital (in trillion soums) [20]**

If you look at the growth rate of investment over the past five years, it becomes obvious that until 2019 it increased and reached 138.1%, in 2020 there was a slight decrease - 95.6%, in 2021 it increased to 102.9 %, and then continued to grow and currently amounted to 122.1%.

Due to centralized sources of financing, in January-December 2023, 44.8 trillion soums of investments in fixed capital were disbursed, or 12.7%, which is 3.0 percentage points less compared with 2022. Accordingly, due to non-centralized sources of financing during this period, 307.3 trillion soums of investments were disbursed, or 87.3% of their total volume, which is 3.0 percentage points more than in 2022.

Based on the results of investments made directly through foreign direct investment, 84.3 trillion soums were disbursed in the Republic of Uzbekistan, which, compared to 2022, is more by 9.1 percentage points, or 24.0% of their total volume. The highest indicators and growth rates by sources of financing investments in fixed assets were noted through foreign direct investment, which, compared to 2022, amounted to 196.4%.

The manufacturing industry prevails in the structure of investments in fixed capital by type of economic activity. As a result of large investment projects, for example, the organization of production of new car models (“Onyx”, “Tracker”), cement, and technical gas (CO<sub>2</sub>), the creation of a complex for the production of mineral fertilizers, a cotton-textile and agro cluster, and others, due to of all sources of financing in this industry, 100.6 trillion sums were disbursed, or 28.6% of the total investment in fixed capital.

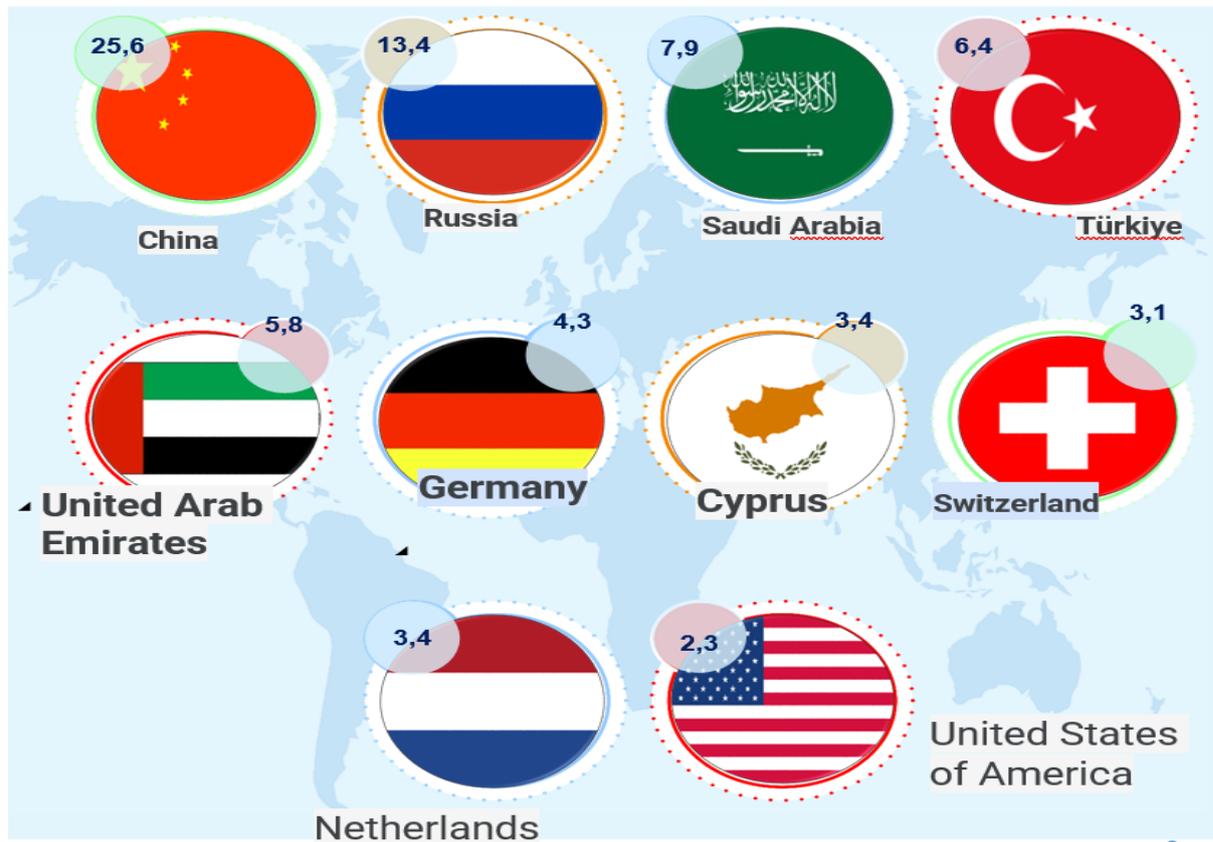
In the technological structure of investments in fixed capital in the Republic of Uzbekistan, 161,540.2 billion sums were allocated for the purchase of machinery, equipment, and inventory, which amounted to 45.9% of their total volume, investments in construction and installation work reached 160,440.2 billion sums (share in the total volume 45.6%), for other costs – 30,083.7 billion sums (8.5%)

The highest share of construction and installation work in the total volume of investments in fixed assets was observed in the Andijan region - 66.8%, or 12,141.9 billion sums. A low level of this indicator was noted in the Jizzakh region - 27.6%, or 4,583.8 billion sums; accordingly, the highest share of costs for the purchase of machinery, equipment, and inventory was recorded here - 66.0%, or 10,967.3 billion sums. Most of the investments in fixed assets during the reporting period were aimed at new construction, the volume of which reached 211,400.6 billion sums, which amounted to 60.1% of its total volume.

Investments in the expansion, reconstruction, modernization, and technical re-equipment of existing facilities amounted to 86,383.1 billion sums, or 24.5% of their total volume. The remaining 15.4%, or 54,280.5 billion sums, were sold in other areas. In 2023, as a result of the development of investments aimed at the construction of a new power plant with a capacity of 1500 MW and a gas piston power plant with a capacity of 220 MW, their largest share for new construction was noted in the Syrdarya region, which reached 75.8% of their total volume.

In 2023, the volume of disbursed foreign investments and loans in fixed capital reached 187.9 trillion sums (in dollar equivalent 16.0 billion US dollars), or 152.8% by 2022. The share of foreign investments and loans in fixed assets in the total volume of disbursed investments for January-December 2023 amounted to 53.4%. Foreign direct investments and loans for the specified period amounted to 166.7 trillion sums, foreign loans guaranteed by the Republic of Uzbekistan - 21.2 trillion sums. The share of foreign direct investment and loans, as well as foreign loans guaranteed by the Republic of Uzbekistan in the total volume of foreign investments and loans in fixed capital, amounted to 88.7% and 11.3%, respectively. As part of foreign direct investment and fixed capital loans, foreign direct investment reached 84.3 trillion sums, or 50.6% of their total volume, and other investments and non-guaranteed loans - 82.4 trillion sums, or 49.4% of the total. In the overall structure of foreign investments and loans, foreign investments reached 94.5 trillion sums, or 50.3% of the total volume of foreign investments and loans in fixed capital, and, accordingly, 93.4 trillion sums, or 49.7% of their total volume came from foreign loans.

According to the Statistics Agency, in 2023, the volume of capital investments in Uzbekistan amounted to 352.1 trillion soums. Of these, the share of total foreign investment and loans used in fixed capital reached 53.4%. Investor countries with the largest share in the volume of foreign investment and loans: China - 25.6%; Russia - 13.4%; Saudi Arabia - 7.9%; Turkey - 6.4%; UAE - 5.8%; Germany - 4.3%. (Figure No. 1).



**Figure No. 2. Foreign investment and loans in fixed capital by top 10 investor countries, % of total [21]**

Uzbekistan has become more attractive to foreign investors thanks to an improved legal framework, tax incentives, and political stability. Main sources of foreign investment: The main investor countries are Russia, China, South Korea, Japan, and the CIS countries. Investments are also actively attracted from the European Union and international financial organizations. Uzbekistan signs various cooperation and investment agreements with international financial institutions, which helps attract capital.

It should be noted that Uzbekistan has large resources in the field of solar and wind energy. Investment in renewable energy is becoming a priority for the government. Projects to modernize transport infrastructure, including roads, railways, and airports, require significant investment. Uzbekistan is creating free economic zones, offering investors tax incentives and simplified administrative procedures. Within the framework of legislation, the country provides guarantees to protect the rights of investors, which increases confidence in the economy. The government is actively working to diversify the economy, which opens up new opportunities for investment. Improving technology, developing irrigation, and processing agricultural products are important areas for investment.

Uzbekistan is also actively developing the tourism sector, investing in creating infrastructure, improving services, and promoting tourist routes.

Thus, the dynamics of investment in Uzbekistan shows positive trends with a steady increase in the volume of both domestic and foreign investment. Successful economic reforms and the creation of a favorable business environment help attract capital to key sectors of the economy. However, to achieve even greater results, it is necessary to continue working to eliminate existing problems and threats associated with investment activities.

Despite the positive dynamics and active efforts to improve the investment climate in Uzbekistan, the country faces several problems that may hinder the attraction and effective use of investments. Let's consider the main ones:

1. Corruption and bureaucracy. Despite ongoing reforms, the level of corruption remains high, which reduces investor confidence and complicates business processes. Long and complex procedures for obtaining permits and registering a business can discourage potential investors.
2. Lack of transparency. Lack of information about the market, legislative changes, and the business environment makes it difficult to make investment decisions. Changes in legislation and regulations sometimes occur spontaneously and are not always subject to public discussion.
3. Problems with access to financing. Bank lending conditions are often unfavorable for small and medium-sized businesses, which limits their ability to attract investment. High interest rates on loans make borrowing funds for investment projects less accessible.
4. Lack of skilled labor. The lack of specialists with the necessary skills and knowledge to implement modern innovative projects may become a barrier for some investors. The education system does not always prepare personnel that meets the requirements of modern markets.
5. Infrastructural problems. The need to develop transport and logistics infrastructure to improve business efficiency and attract further investment. Regular power outages and energy shortages can limit production capabilities and operational efficiency of businesses.
6. Economic instability. Exchange rate fluctuations can create additional risks for investors, especially those dealing in foreign currencies. Changes in tax laws that can occur suddenly also pose challenges for investment planning.

## 5. CONCLUSION

Investments in modernization and economic development are the key to successful and sustainable growth. The relevance of these investments is obvious in the context of the current challenges facing the global economic community related to global changes, technological innovation and social demands. Effective investment strategies ensure not only economic growth, but also an improvement in the quality of life of the population, the creation of new jobs and sustainable development.

To create a favorable investment environment and attract both foreign and domestic investment in Uzbekistan, it is necessary to implement a number of strategic initiatives. Here are the main recommendations:

- improving the investment climate: simplifying the procedure for registering a business and obtaining the necessary permits; development of a clear and stable regulatory framework that facilitates forward-looking planning of investment projects;
- fight against corruption: strengthening anti-corruption measures; it is necessary to create effective mechanisms to combat corruption, including independent inspections and audit of government processes; establishing transparent mechanisms for tenders and supplies, which will increase confidence in the government system;
- infrastructure development: modernization and development of transport infrastructure to increase the efficiency of cargo transportation and reduce time costs; development and implementation of projects to modernize the energy system and introduce renewable energy sources;

- support for small and medium-sized private businesses: creation of funds and support programs for small and medium-sized businesses, including subsidies and soft loans; providing training and consulting for entrepreneurs on business management and attracting investments;
- creating attractive conditions for foreign investors: introducing tax holidays for strategically important sectors; establishing clear legal standards to protect the rights of investors and their assets;
- conducting information campaigns: organizing information events for foreign investors about opportunities and conditions for doing business in Uzbekistan; development of a strategy to promote Uzbekistan as an investment-attractive country in the international arena.

The implementation of the above recommendations will create more favorable conditions for attracting and effectively using investments in Uzbekistan. This, in turn, will contribute to sustainable economic growth and improved well-being of the population. A systematic approach and comprehensive measures can provide the country with long-term investment and growth.

It should be noted that investments should be aimed at long-term development: It is necessary to invest in the development of human capital, scientific and technological progress and infrastructure to ensure sustainable economic development. The state plays an important role in stimulating investments by creating favorable conditions for business, providing tax incentives and subsidies, developing infrastructure and education. Investors must be socially responsible, taking into account the environmental and social impacts of their investments to ensure sustainable and equitable development.

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