

THE ROLE OF ECONOMIC INDICES IN ASSESSING THE INVESTMENT CLIMATE IN UZBEKISTAN



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Annotation: *The article studied the attractiveness of the investment environment in Uzbekistan and the opinions of the world's leading scientists on its assessment, studied the factors that determine the investment attractiveness of the regions, studied the Doing Business Index and Economic Freedom Index, which assess the attractiveness of the investment environment, and compared with several other countries and developed conclusions and proposals.*

Keywords: *Investment environment, investment attractiveness, Doing business, economic freedom indices, infrastructure.*

РОЛЬ ЭКОНОМИЧЕСКИХ ПОКАЗАТЕЛЕЙ В ОЦЕНКЕ ИНВЕСТИЦИОННОГО КЛИМАТА В УЗБЕКИСТАНЕ

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Аннотация: *В статье изучалась привлекательность инвестиционной среды в Узбекистане и мнения ведущих мировых ученых по ее оценке, изучались факторы, определяющие инвестиционную привлекательность регионов, изучались индекс Doing Business и Индекс экономической свободы, которые оценивают привлекательность инвестиционной среды, и сравнивались с рядом других стран и разработали выводы и предложения.*

Ключевые слова: *Инвестиционный климат, инвестиционная привлекательность, ведение бизнеса, Индекс экономической свободы, инфраструктура.*

Introduction. One of the important conditions for ensuring the economic stability of the Republic of Uzbekistan is the formation of a favorable investment climate and increasing attractiveness. In conducting our scientific research to

ensure the comprehensive development of the country and increase the attractiveness of the investment environment, we aimed, first of all, to research the potential of the country and its territories, evaluate them, classify the factors that affect them, reveal the aspects that have acquired reciprocity through economic and mathematical methods. The formation and increase in attractiveness of a favorable investment environment have a very positive effect on the further liberalization of sectors of the economy, improving the competitive environment between them, strengthening economic stability, expanding foreign economic ties, increasing the issue of Labor, and ensuring their employment. As President Shavkat Mirziyoyev noted, "Without investment, the economy will not develop. When we create an environment and infrastructure for investors, there will be a workplace, the product will increase, and the tax will fall. It is necessary to stimulate the development of the activities of enterprises, turning their own funds again" (President. uz, 2020). Also, according to the "strategy of action on the five priority areas of development of the Republic of Uzbekistan in 2017-2021", approved by Presidential Decree on February 7, 2017, the third priority is called further development and liberalization of the economy, which indicates the tasks "improving the investment environment, attracting foreign, above all, foreign direct investment in sectors and territories of the country's economy"(decree, 2017). It is in order to attract more investors and generate more income from this it is much more necessary to form a free, stable, favorable investment climate in the country and increase its investment attractiveness.

Literature review. In the process of analyzing the literature on the topic, we witnessed the attractiveness of the investment climate in Uzbekistan and the scientific research carried out by several leading economic scientists and experts on its assessment, which consists of those below. Of these, the increase in investment attractiveness by Volik Olga Andreevna, Solntseva Oksana Glebovna, Tsunaeva Yulia Olegovna contributes to the effective functioning, development and growth of the company in the conditions of modern competition(Volik Olga Andreevna, Solntseva Oksana Glebovna, Tsunaeva Yulia Olegovna, 2018).

The approach proposed by F.S. Tumusov is also noteworthy. He defines "investment potential" as a collection of investment resources, which is a part of the accumulated investment, which is manifested in the form of investment demand in the investment market, which has the opportunity to turn into real investment demand, which ensures the satisfaction of the material, financial and intellectual needs of investment reproduction(Tumusov F.S., 1999).

Interprets Views that define investment attractiveness as the sum of socio-political, natural-economic, and psychological descriptions are common. Such a

methodology in terms of investment attractiveness used by” Euromoney " consists of nine different indicators (Euromoney, 2020). These are economic efficiency, political risk, borrowing, debt recovery (non-fulfillment or extension of obligations on payment), solvency, bank loans, the possibility of obtaining SSU capital, and opportunities for the emergence of force majeure situations. The importance of these indicators is determined by an expert or by calculation-analysis. They are calculated on a 10-point scale and are then measured according to one indicator or another and their contribution to the final assessment.

From all indicators that determine investment attractiveness by Smaglyukova distinguish indicators that are more in line with the requirements of complex assessment. In his opinion, these indicators are included in the composition of factors of investment attractiveness, reflecting all aspects of the investment process. The sum of the formed indicators covers the external and internal factors of the economic system and the activity of the regions as objects of investment. (Smaglyukova T.M., 2014).

G.Marchenko, O.Investment attractiveness has been interpreted by Machulskayas through a Multiple-factor regression model. Considering the investment attractiveness of the territory as a general indicator, it is noted that it is determined by two descriptions, namely investment potential and investment risk. In their opinion, the total potential of the territory includes resources – raw materials, production, consumption, infrastructure, innovation, labor, institutional and financial indicators. The general risk of the territory is determined by taking into account political, economic, social, criminal, environmental, financial, and legislative risks(Marchenko G., Machulskaya O.,2005).

As important conditions for determining investment attractiveness, the following can be cited: the natural conditions of the regions, the formed business environment, socio-economic and administrative-managerial principles, the readiness of the population to manage business entities, risk perception, and the competence of labor resources and the presence of various institutional systems and their development(Sherzod Mustafakulov, 2017).

The main priority of the approach under consideration is the following: objectivity; the importance of factors determining investment potential and investment risk; a universally accepted system of monitoring and assessment in world practice; the ability of foreign investors to use the final results and the level of knowledge.

Nevertheless, this methodology also has a number of disadvantages: the lack of connection between investment attractiveness and investment activity; the subjectivity of expert opinions, and the lack of clarity of the methodology for

assessing investment potential and risks in bringing it to an integral indicator.

Most of the methodologies considered have a narrow field of application, in which networks are often not taken into account. Therefore, investors are forced to make decisions about it based on a subjective perception, due to the fact that they do not have analytical support for assessing investment attractiveness.

Analysis and results discussion. When conducting scientific research on ensuring the comprehensive development of the country and increasing the attractiveness of the investment environment, the most important thing is to research the potential of the country and its territories, evaluate them, classify the factors affecting them, reveal the aspects that have acquired interdependence through economic-mathematical and econometric methods, as noted, are considered from the tasks of this.

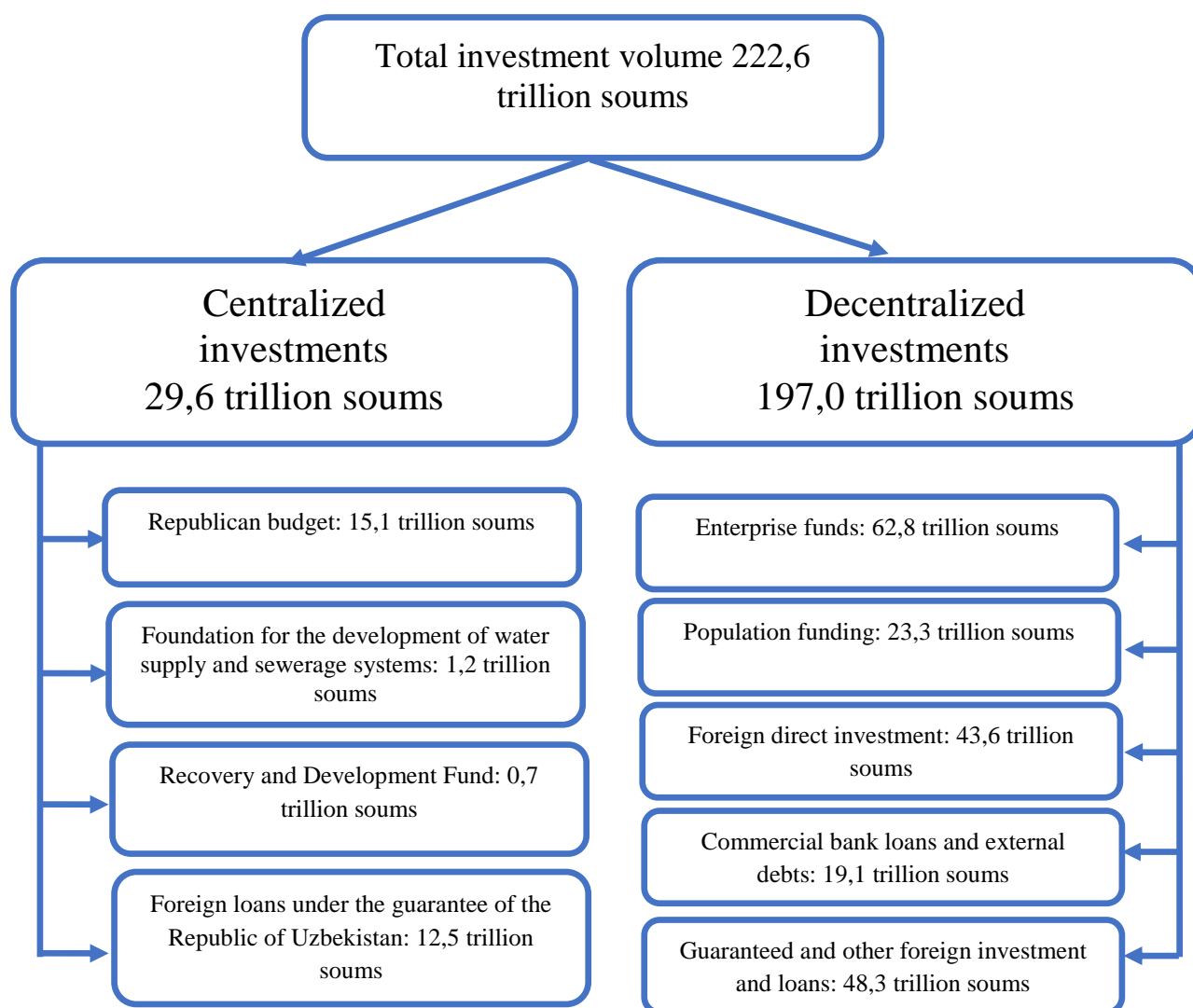


Figure 1. Investments in fixed capital by sources of financing¹⁰

¹⁰ Prepared by the author based on the data of the Statistical Agency.

In January 2023, investments in fixed capital totaling 226,6 trillion soums were appropriated and amounted to 111.8% compared to the corresponding period of 2022. In the structure of investments in fixed capital, 62,0% or 140,5 trillion soums were financed from the funds invested, while 38,0% or 86.1 trillion soums were financed from the funds of the enterprise organization and the population.

Also, at the expense of centralized sources of financing, investments in fixed capital amounted to 29,6 trillion soums, while at the expense of decentralized sources of financing, investments in 197,0 trillion soums were appropriated.

In January 2023, investments in equity financed by enterprises and organizations amounted to 62,8 trillion soums or 27,7% of total fixed capital investments -10.3 % of total fixed capital investments or 23,3 trillion soums were appropriated from the population's funds. The volume of investments received from foreign direct investment amounted to 43,6 trillion soums, and its share in total investments increased by 4,5 points compared with the corresponding period of 2022-19.2 percent.

Also, at the expense of commercial bank loans and other debt funds, 19,1 trillion soums (8.4% of total investments in fixed capital, increased by 0,9 points compared with the corresponding period of 2022 year Foreign loans under the guarantee of the Republic of Uzbekistan increased by 12,5 trillion soums 5.5 and 0.5 points unsecured, and other foreign investment and loans decreased by 48,3 trillion soums 21.3 and 3.1 points. Rehabilitation and Development Fund 0,7 trillion soums decreased by 0.3 and 0.2 points), Republican budget 15,1 trillion soums decreased by 6.7 and 1.3 points), Water Supply and sewage systems development fund 1,2 trillion soums decreased by 0.6 and 0.4 points).

To do this, it is important to develop scientific and methodological and theoretical and practical proposals, recommendations on the analysis of experiments that have been used in developed countries and brought high results, the methods and methods that led to success, the implementation of factors on the scale of Uzbekistan and its territories.

The investment attractiveness of countries depends on several factors, namely political, economic, social, cultural, organizational legal, and geographical factors. From these factors, investors decide whether to invest in the country or not. In assessing the attractiveness of the state's investment environment, one of the most common methods today is the Doing Business Index(Doing Business Report, 2020), and the index of Economic Freedom (Index of Economic Freedom Report, 2023). The Doing Business Report, published annually by the World Bank, publishes a ranking of 190 countries for doing business (10 indicators in total) by more than 6,700 experts from different countries. As such, the Heritage Foundation

Research Center in collaboration with The Wall Street Journal published its Economic Freedom Index-2023 report. The "Economic Freedom Index-2023" report was reviewed from a database dating from July 1, 2022, to July 1, 2023.

In a 2021 report, the Republic of Uzbekistan ranked 108th among 186 countries with a score of 58.3 (an improvement of +1.1 points according to the latest report), rising to 6 positions, while ranking 44 positions (from 152nd to 108th) in the last four years, The most important indicators of efficiency (CPI) established by the decree of the president of the Republic of Uzbekistan “on improving the position of the Republic of Uzbekistan in internationalization and indices and the introduction of a new mechanism for systematic work with them in state bodies and organizations” are achieved (Table 1).

Table 1.

Changes in indicators in the structure of the index of Economic Freedom in the Republic of Uzbekistan¹¹

Komponent	2017	2018	2019	2020	2021	2022	2023
Property Rights	48.0↑	48.7	49.8↑	59.1↑	57.8↓	31.6↓	30.9↓
Judicial Effectiveness	27.5↑	24.2	25.2↑	28.2↑	30.5↑	23.8↓	24.9↑
Govt Integrity	41.9	35.3	34.3↓	34.2↓	50.8↑	13.1↓	13.0↓
Tax Burden	90.7↑	91.0	91.3↑	91.6↑	92.4↑	90.8↓	92.8↑
Gov't Spending	66.2↓	65.5	67.4↑	74.7↑	79.9↑	78.1↓	74.9↓
Fiscal Health	99.8	99.7	98.7↓	98.9↑	98.3↓	96.6↓	85.3↓
Business Freedom	64.8↓	66.9	72.5↑	72.6↑	73.5↑	59.1↓	58.9↓
Labor Freedom	50.4↓	52.0	58.7↑	59.9↑	61.2↑	48.0↓	48.1↑
Monetary Freedom	61.1↓	61.9	58.9↓	59.9↑	60.3↑	61.6↑	63.4↑
Trade Freedom	66.8↑	62.5	62.6↑	67.6↑	55.4↓	75.6↑	76.0↑
Investment Freedom	0.0	0.0	10.0↑	20.0↑	20.0	50.0↑	60.0↑
Financial Freedom	10.0	10.0	10.0	20.0↑	20.0	40.0↑	50.0↑

As a result of the reforms carried out in our country, according to the last report of the index, it recorded positive changes in 7 of the 12 indicators, thus decreasing in 5 indicators. Uzbekistan was ranked 23rd out of 40 countries in the Asia-Pacific region.

The top 3 of the world rankings are Singapore (83.9 points), Switzerland

¹¹ https://www.heritage.org/index/pdf/2023/book/2023_IndexOfEconomicFreedom_FINAL.pdf

(83.8 points) Ireland Australia (82.0 points), while the lowest places are Cuba (24.3 points), Venezuela (25.8 points) and North Korea (2.9 points).



Figure 2. The role of the Republic of Uzbekistan in the index of Economic Freedom until 2018-2023¹²

In the last six years, Uzbekistan has risen to 43 places higher than in general terms in this ranking, according to the 2023 report, it has gained 109 places. The methodology of this report is one of the main factors, including the change of a number of indicators and the calculation of indicators in determining points, as well as the change of sources in international data(Figure 1).

At the same time, according to a report published by The Heritage Foundation, the 2023 index has adopted other open sources of information for subfactors measuring ownership rights, judicial efficiency, government integrity, business freedom, and labor market freedom due to the World Bank suspending its annual” Doing Business “Report. In particular, the index now includes information from Freedom House and other sources in its assessments.

It is also noted that the volatility of state policy in response to the COVID-19 pandemic has led to significant fluctuations in economic conditions in many countries around the world, including the level of economic freedom, noting that it is currently unknown whether these changes are permanent or temporary.

It is worth noting that as a result of the above-mentioned changes, a decrease was recorded in 119 of the 179 countries in the points Section (65.4%).

¹² https://www.heritage.org/index/pdf/2023/book/2023_IndexOfEconomicFreedom_FINAL.pdf

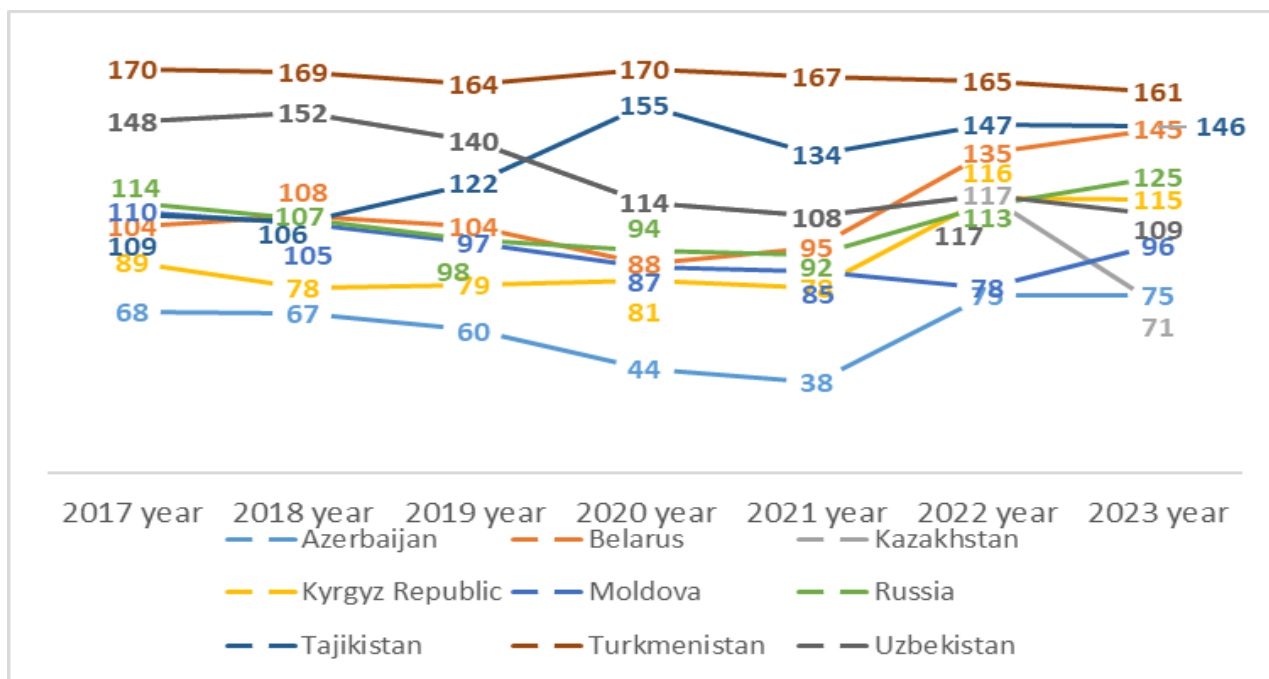


Figure 3. The role of the CIS countries in the index of Economic Freedom by 2017-2022¹³

As a result of the amendments to the index methodology, a decrease in the value of points was recorded in the ranking of all CIS countries, and only three countries (Tajikistan, Turkmenistan, and Uzbekistan) improved their positions (Figure 3).

**Table 2
Change of indicators in the composition of the index of Economic Freedom¹⁴**

Country Name	2022 year		2023 year		Change	
	Place	Score	Place	Score	Place	Score
Azerbaijan	75	61,6	75	61,4	0	-0,2
Belarus	135	53	145	51,0	-10	-2,0
Kazakhstan	117	64,4	71	62,1	46	-2,4
Kyrgyz Republic	116	55,8	115	55,8	1	0
Moldova	78	61,3	96	58,5	-18	-2,8
Russia	113	56,1	125	53,8	-12	-2,3
Tajikistan	147	49,7	146	50,6	1	0,9
Turkmenistan	165	46,2	161	46,5	4	0,3
Uzbekistan	117	55,7	109	56,5	8	0,8

¹³ https://www.heritage.org/index/pdf/2023/book/2023_IndexOfEconomicFreedom_FINAL.pdf

¹⁴ https://www.heritage.org/index/pdf/2023/book/2023_IndexOfEconomicFreedom_FINAL.pdf

The regions of Uzbekistan are characterized by their color. Therefore, in order for a potential investor to make an investment decision, objective information about the investment potential of each area should be available. The creation of a system for assessing the investment attractiveness of territories is a prerequisite for the development of the state and territories.

The transformation of the country's economy from a centralized management system to a decentralized system led to an increased role of administrative-territorial bodies in the regulation of economic processes. The presence of discrepancies in the socio-economic development of each territory presupposes the need to form a balanced territorial investment policy.

As you know, the exact methodology for assessing the investment attractiveness of a country is not determined by any international, therefore, in recent times, various methods for calculating indicators regarding investment attractiveness are used. According to some economists, investment attractiveness is determined by the level of income from investing. This approach covers a very narrow area of application, since in order to obtain accurate and correct results, investments must be made in the event that the level of risk (risk) is the same, which is practically impossible in practice.

To assess investment attractiveness, it will be necessary to focus on two important aspects. The first is the investment attractiveness of investing in a particular object. In this case, the economic status of industries, industries, and clusters that exist in a specific territorial system is analyzed. When carrying out economic analysis, the base indicators of determining the effectiveness of investment projects and programs (net discounted income, repayment period, profit norm, internal profitability norm) are evaluated.

The second is the investment attractiveness of the territorial economic system. To do this, it is assumed to analyze the following circumstances: the existing legal-regulatory framework, the political situation, investment exclusion, socio-economic conditions, the level of protection of the interests of investors, the level of taxation, and strategic and administrative resources.

As noted above, investment attractiveness is an economic category, manifested by its influence on investment activity through objective and subjective data.

In our view, investment risk is assessed and determined due to a comprehensive, in-depth analysis of the investment environment. The investment environment and risk levels are inversely proportional to each other. The more favorable the investment environment, the lower the investor's entrepreneurial risk, and this activates the penetration of investors. On the contrary, if the investment

environment is unfavorable, the risk level will be high. This leads to an increase in investment-receiving party spending. The state of the investment environment is important not only for the investor but also for the investment recipient.

Not all indicators reflected in this rating can be called perfect, of course. They were left without a reflection on the following important factors: Macroeconomic Policy, quality of infrastructures, workforce qualifications, fluctuating exchange rates, investor opinion, risk of corruption, and factors related to its level.

The ranking published by the World Bank includes state-created administrative dishes for opening and running a business, which also does not take into account the main factors relevant to the country's economic potential (market size, labor cost, etc., as well as the risks that a potential investor may face.

According to the research carried out and the survey conducted, the conditions created for opening and maintaining a business in Singapore and achieving a high result were influenced by the stability of the state political system, effective economic policy, the availability of high investment opportunities, and the development of infrastructure. The Global Competitiveness Index is estimated from 0 to 100 points in the areas given below in 141 countries, with an average of. These are quality of institutions, infrastructure, macroeconomic stability, health and Primary Education, Higher Education and retraining, efficiency of goods and services markets, labor market efficiency, development of financial markets, level of technological progress, scale of the domestic market, competitiveness of companies, indicators related to innovative potential.

As part of the study of the above-mentioned experiments, it became clear that the implementation of the experiences of the states of China and Singapore in increasing the attractiveness of the investment environment in attracting foreign investments in Uzbekistan, the use of which will serve to ensure that in the future the country will develop at a higher pace, the source of In particular, the implementation of measures to ensure that Uzbekistan, like these countries, actively participates in surveys conducted by international organizations, participates in ALL Ratings that show the investment attractiveness of world countries, in particular, in the “Global Innovation Index” and the “business environment index”, will have a positive effect on the decisions of investors to invest in the future. The reason is, that a foreign investor needs reliable information about the investment environment of that country before investing in any state. Of course, one of the most reliable sources is the International, which are indices maintained by economic organizations. From these indices, investors can gain the information they need and trust.

According to experts of the World Bank, the main reforms in improving the business environment in Uzbekistan are as follows:

- ✓ strengthening the protection of minority investors by expanding the rights and role of shareholders in the most important corporate decisions, clarifying ownership and management structures, as well as increasing corporate transparency;

- ✓ simplification of taxation by combining social infrastructure development taxes with income tax;

- ✓ international by introducing a risk-based customs control mechanism, as well as easing requirements for import documents;

Conclusions and suggestions. Today, the main disadvantages inherent in many of the existing methodologies for assessing the state of the territories to increase their investment attractiveness are as follows:

- scientific justification of forecasting methodological circumstances and their investment attractiveness in the analysis of territories;

- insufficient justification of the principles of sorting dozens of indicators for evaluation;

- the complexity of the criteria for substantiating the applied methodologies.

These include the fact that evaluation is not conducted regularly. Thus, the need arises to develop a systematic approach to assessing the investment attractiveness of territories in terms of network specialization and to continue research in this direction.

Therefore, the above-named indexes have a positive value in the manifestation of the investment climate of Uzbekistan to foreign investors. Also, the next factor that made it possible to increase the attractiveness of the investment environment of the states of China and Singapore is the implementation of the “annual statistical map” on the attractiveness of the investment environment of each region (regions, Tashkent City and the Republic of Karakalpakstan) by the State Statistical Committee, taking into account the socio-economic potential of the regions of Uzbekistan on From this map it is considered acceptable that the following indicators take place:

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