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INVESTMENT ACTIVITY AND INVESTMENT SECURITY

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Abstract

This article is devoted to socioeconomic aspects of investment security, investment security indicators, economic theories on investment security, criteria for evaluating the investment climate, and issues of providing investment security in the Republic of Uzbekistan.

Keywords: Financial globalization, investment, foreign investment, investment attractiveness, economic security, investment security, investment security indicators, external debt of the country, macroeconomic stability, capitalization level of banks, investment in fixed capital, domestic investment, tax burden, investment volume, inflation rate.

Introduction

At the current stage of development of modern society, the investment sector occupies one of the leading positions. In light of internal and external threats and risks particularly the growing level of criminal activity which complicate the achievement of positive economic dynamics, the issue of developing a system to ensure investment security remains both a theoretical and practical priority.

Investment security is defined as a state of the economic system in which all investment resources directed toward the national economy are protected. This, in turn, facilitates the economically secure innovative renewal and restoration of both physical and intellectual capital, contributes to increased production efficiency and performance, improves product quality, and enhances the population's standard of living. The main goal of investment security, as an element of managing national economic development, is to ensure the long-term and stable functioning of all economic actors, while also combating criminal capital.

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The investment security system must ensure the orderly implementation of investment processes not only at the macroeconomic level but also at the meso- and microeconomic levels.

Investment security is a structural component of economic security and one of its most important elements. The economic security of any country is characterized by stable income and reserves, which make it possible to ensure a sufficiently high standard of living both at present and in the near future.

The need to address investment security issues separately from the broader economic security concerns of Uzbekistan is determined by the following factors:

➢ the urgency of tasks related to economic growth and development;
➢ the necessity of promptly solving issues of innovation-driven development and import substitution;
➢ the significance and role of the investment system in the national economy;
➢ the existence of an investment sector associated with criminal activity;
➢ the dominance of speculative interests among many foreign investors;
➢ the presence of foreign investments directed toward Uzbekistan's production and scientific sectors in the form of relocating industries that have lost their strategic importance elsewhere.

Literature Review on the Topic

Many scholars have studied the issue of investment security in their academic work, exploring various aspects of this concept. For example, P. Samuelson and W.D.Nordhaus define investment as "the sacrifice of current consumption in order to increase future production." According to their interpretation, investment includes both physical capital (infrastructure, equipment, reserves) and social capital (education or human capital, research and development, as well as healthcare). The advantage of this definition lies in the authors' emphasis on the inverse relationship between consumption and investment, while also acknowledging investments in intangible assets.

According to O.Svensson, investment security is defined as the ability of a state's economy to develop independently of internal and external threats, ensuring the country's political and economic independence, along with balanced development of financial sectors. L.S.Orlov explores both the theoretical and

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practical aspects of investment security, as well as the improvement of the state regulatory system in this area. In his view, "investment security is the national economic system's ability to efficiently regenerate its investment processes, with a primary focus on maintaining the country's competitiveness in the global community." S.Naryshkin describes investment security as "the ability of the national economic system to form an investment process that ensures stable economic growth and strategic competitiveness." From these perspectives, the national interest in the field of investment security lies in creating mechanisms that generate multiplier-accelerator effects in the economy and maintaining investment flows at a level that supports economic growth under conditions of low inflation.

Research Method

The article effectively employs scientific observation, analysis, and synthesis methods. In addition, it utilizes investment security indicators recommended in the normative-legal documents of the International Monetary Fund (IMF) and the World Bank, which assess threats that could lead to the deterioration of the country's economic situation.

Analysis and Results

In ensuring their investment security, each country must enhance its investment climate, which involves sustaining investment inflows and developing mechanisms to achieve low inflation as a foundation for economic development. Based on this premise, national interests in the sphere of investment security entail creating mechanisms that generate multiplier-accelerator effects in the economy, while maintaining investment flows at a level that supports economic growth under conditions of low inflation.

Threats to investment security may arise from targeted external sources or may be the unintended outcomes of "market relations dynamics." Such threats, particularly those that exacerbate the economic condition of a country, are considered serious. The consequences of such influences may include the deterioration of living standards, societal fragmentation, and threats to the stability of economic and political structures.

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To strengthen investment security, it is advisable to effectively utilize the regulatory frameworks governing capital flows, as outlined below. These frameworks consist of five investment regimes employed in the regulation of national and international capital movements, which will be examined in the following section.

1.Most-Favored-Nation (MFN) Regime. The most-favored-nation regime (MFN) is historically the standard foundation for investment agreements. Its essence lies in the principle that the host country shall not treat investors from one country less favorably than it treats investors from any other country. (In international law, the MFN regime is considered a minimum international standard.) The MFN regime guarantees foreign investors protection against discrimination in the host country and serves as a decisive factor in ensuring equal opportunities for investors from different countries.

The MFN regime allows the host country flexibility in shaping future investment agreements, including the unilateral extension of benefits granted to third countries. Such benefits automatically apply to all investors from countries that are signatories to MFN-based agreements. Typically, the MFN regime applies during the entry phase of foreign investment.

2. National Treatment Regime. The national treatment regime is among the most significant investment regimes in recent years. It defines how the host country treats foreign investors and is commonly applied during the operational phase of investment activity. Establishing this regime, however, is more complex due to its connection to the host country's sensitive economic and political considerations. In practice, national treatment is rarely granted without restrictions, particularly regarding the functioning of investments. In other words, equal competitive conditions for domestic and foreign investors are not provided without exceptions.

3.Non-Discrimination Regime. The non-discrimination regime requires the host country to treat all foreign investors in a non-discriminatory manner in the broadest sense. While national treatment is considered non-discriminatory, the MFN regime may still involve forms of discrimination against foreign investors. In countries with high investment risk, the non-discrimination regime may allow investors to select the most favorable treatment — either national or MFN. For

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example, many of the investment treaties signed by Russia in the 1990s included such provisions.

4.Fair and Equitable Treatment (FET) Regime. In recent decades, the practice of applying the fair and equitable treatment (FET) regime has become increasingly widespread. Although originally included in several post-war multilateral initiatives (e.g., in the draft agreement for the establishment of the International Trade Organization, which was never signed due to U.S. opposition in 1947), in the past two decades it has been prominently featured in bilateral investment treaties. The FET regime serves as a benchmark for assessing the relationship between foreign investors and the host government. It signals the host country's readiness to admit foreign capital under fair and equitable terms. However, to date, no universally accepted definition of this regime has emerged. Nevertheless, most countries aim to treat domestic and foreign investors equally and fairly, which facilitates the inclusion of FET clauses in investment agreements without significant complications.

5.Transparency Regime. The transparency regime is a relatively recent development in international investment practice. It requires host countries to keep foreign investors informed in a timely manner about changes in investment regimes. This includes providing information — via official publications or other means — about the existing legal framework, amendments and additions to laws, current investment policies, government intentions, administrative procedures, registration and licensing processes, and related clarifications.

In the context of ensuring investment security, a number of indicators widely utilized in the economies of foreign countries have been developed. Below, we examine several of the most important ones.

Volume of Investments in Fixed Capital (% of GDP). The volume of investments made in a country's fixed capital should not fall below 25% of its gross domestic product (GDP). Investment serves as a fundamental driver of economic growth; the greater the volume of investments, the more developed the economic relations, and the more expanded the potential for additional production. According to global expert assessments and the practices of developed countries (based on comparative analysis), the volume of investment in fixed capital should not be less than 22% of GDP.

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If this indicator drops below the 22–25% range, it may lead to a slowdown in the return on investment. Therefore, the threshold value for this indicator (referred to as IO1) is conditionally set at 22%. This benchmark is supported by experts from countries such as Germany, France, Taiwan, and others, who define 22% as the minimum acceptable level.

In Uzbekistan, the volume of investments in fixed capital amounted to 42.0 trillion soums in 2021, 53.9 trillion soums in 2022, and 67.0 trillion soums in 2023. Investments in fixed capital are considered a key indicator of economic development, as they directly influence job creation, infrastructure modernization, and national competitiveness.

In 2024, the Republic of Uzbekistan achieved significant success in attracting capital. Compared to the previous year, the volume of investments increased by 143.9%. The total amount of assimilated funds reached 104.5 trillion soums.

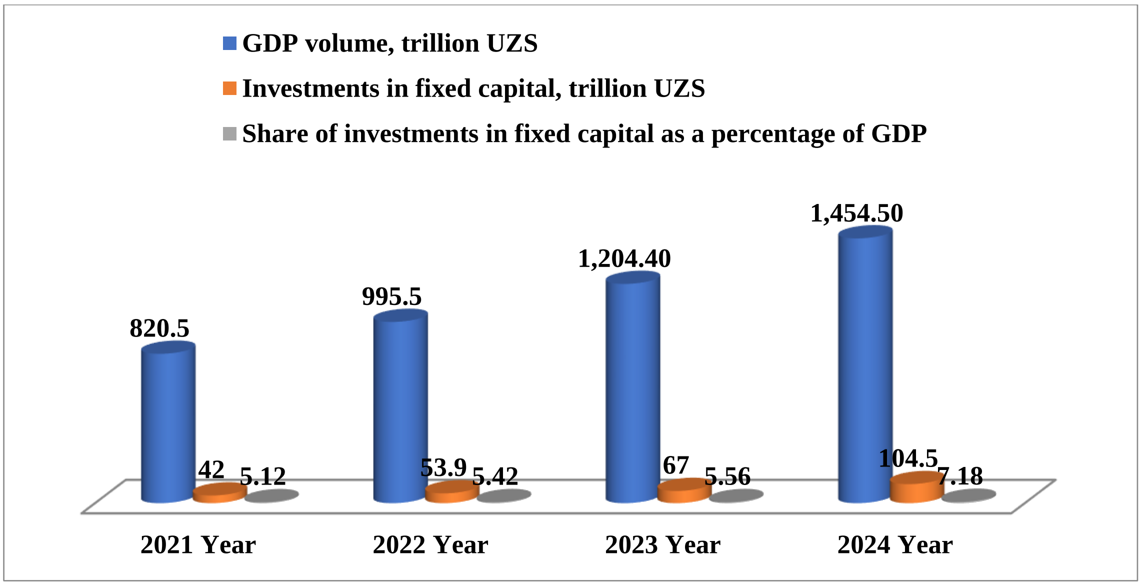

Figure 1. Volume of Investments in Fixed Capital in the Republic of Uzbekistan, 2021–2024[1]

This indicator stood at 5.12% in 2021, 5.42% in 2022, 5.56% in 2023, and 7.18% in 2024. These figures indicate that the return on investment in Uzbekistan has

[1]Balance of Payments, International Investment Position, and External Debt of the Republic of Uzbekistan. Prepared by the author based on the data from https://cbu.uz/upload/medialibrary/fee/24Q4.pdf.

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been relatively low during the observed period. However, a noticeable improvement was observed in 2024, when the indicator rose to 7.18%, suggesting a positive trend in investment efficiency.

Public Debt as a Share of GDP (%). As of the end of 2024, Uzbekistan's total external debt amounted to USD 64.1 billion, representing 55.7% of GDP. Of this, the government's external debt totaled approximately USD 33.9 billion (29.5% of GDP), while corporate external debt accounted for USD 30.2 billion[2].

According to the IMF's Public Sector Debt Statistics: Guide for Compilers and Users (PSDSG, 2011, No. 6), public external debt includes not only the principal but also accrued interest that has not yet been paid.

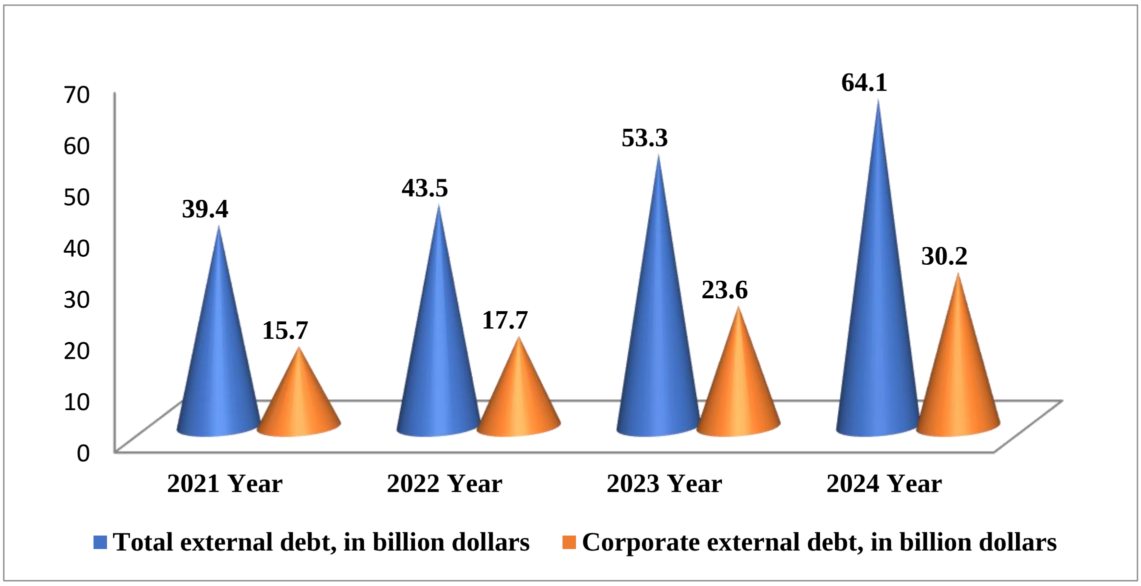

Figure 2. Total external debt of the Republic of Uzbekistan in 2021-2024[3]

The state's external debt should not exceed 25% of GDP. This indicator is one of the most important economic indicators when evaluating the investment security of a country.

Foreign experts emphasize that this indicator defines the level of a country's investment attractiveness. If this indicator approaches a crisis period (near I1), it indicates a low level of investment attractiveness in countries. As a result, a lack

[2]Balance of Payments, International Investment Position, and External Debt of the Republic of Uzbekistan. https://cbu.uz/upload/medialibrary/fee/2024Q4.pdf.

[3]Balance of Payments, International Investment Position, and External Debt of the Republic of Uzbekistan. Prepared by the author based on the data from https://cbu.uz/upload/medialibrary/fee/24Q4.pdf.

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of necessary investments negatively affects the economic growth of these countries.

The above analysis shows the total external debt of the Republic of Uzbekistan. Within this total external debt, there is also corporate external debt, which will be analyzed separately below.

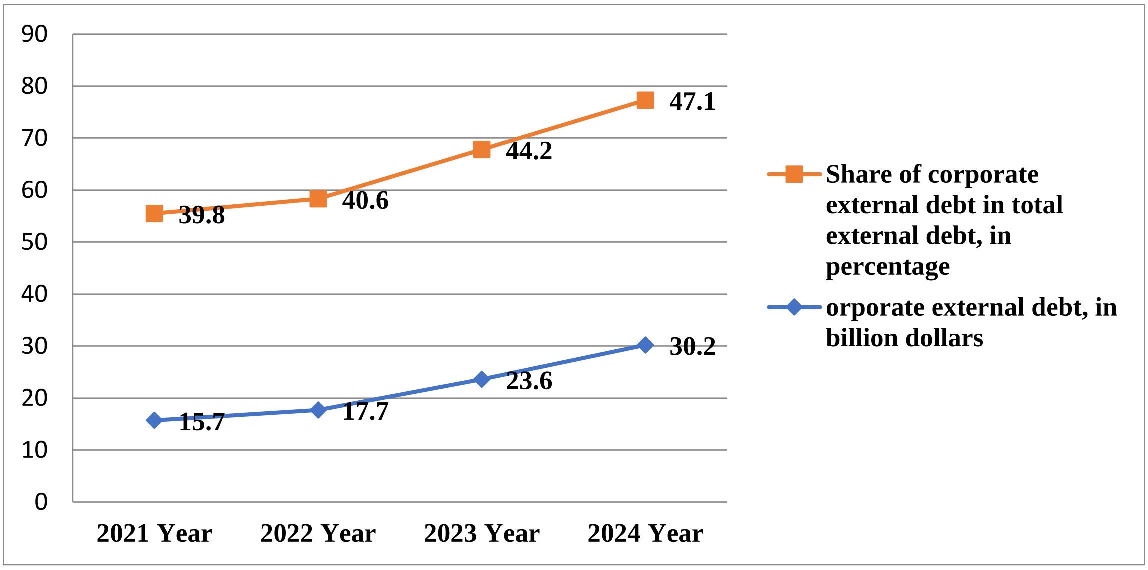

Figure 3. Share of corporate external debt in the total external debt of the Republic of Uzbekistan in 2021-2024[4]

Corporate (private) debts increased by 4.2 billion dollars, reaching 30.2 billion dollars (26.2% of GDP), while the state external debt increased by 6.6 billion dollars, totaling 33.9 billion dollars (29.5% of GDP). In recent years, the growth rate of state external debt has slightly decreased, but an increase in corporate (private) debts was observed. Corporate debts are mainly attracted by state banks and companies.

The threshold value for this indicator, i.e., IO1, is set at 25% by global experts. However, according to Danish economist F. Rassondelf, the threshold value (IO1) is set at 35%. According to his view, a state external debt ratio above 35% of GDP indicates a pre-crisis situation. He argues that when determining the investment attractiveness of a country, the growth rate of production and the

[4]Balance of Payments, International Investment Position, and External Debt of the Republic of Uzbekistan. Prepared by the author based on the data from https://cbu.uz/upload/medialibrary/fee/24Q4.pdf.

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country's natural resources should primarily be considered. In determining the threshold value, the following formula was used:

$$\mathbf{I\ (limit) = (R + W) / G * 100}$$

I – Investment attractiveness indicator
R – State external debt
W – 25% of the calculated mineral wealth
G – Gross Domestic Product
Unfortunately, we were not able to use this formula to determine the threshold value.

Conclusion

In conclusion, it can be said that while sufficient work is being done to ensure investment security in Uzbekistan, some indicators exceed the established threshold values. Furthermore, in ensuring investment security, investments should primarily be directed towards key sectors. Additionally, it is necessary to deeply analyze the investment security situation in foreign countries, study their positive aspects, and adapt them for the national economy.

One of the main indicators defining the investment climate of a country is the insufficient increase in the inflow of foreign direct investments. From this perspective, it is necessary to revitalize the activities of foreign-invested enterprises and increase the inflow of foreign investments by implementing the following measures:

1.Improving the investment climate: In order to improve the investment climate and find solutions, it is necessary to organize open discussions with specialists from foreign-invested enterprises, representatives of regional authorities, leaders of large companies with investment opportunities, and leading scholars in the field of investments. During these discussions, existing problems should be openly and comprehensively debated. Based on this, a unified investment policy should be developed, drawing on the opinions of specialists, scholars, and practitioners, ensuring the implementation mechanisms of adopted laws and decisions.

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2.Marketing research and internal consumption: One of the factors influencing investment flows (not only foreign but also multilateral domestic investments) is the weak implementation of marketing research. As a result, many products remain unsold in warehouses. This issue should not solely be addressed by focusing on investments themselves. It is advisable to raise the purchasing power of the population and enterprises and increase the healthy demand for produced goods and services.

3.Financial and economic indicators: There is still no reliable and unbiased information supply regarding the financial performance of enterprises and economic indicators. To address this issue, it is necessary to establish alternative and independent non-governmental information agencies. Improving the investment environment in Uzbekistan and attracting foreign capital requires shaping a favorable macroeconomic policy. This includes keeping inflation at a low level, minimizing its impact on the cost of investment projects, and focusing on sharply increasing the amount of foreign direct investments. Investments should be directed towards the real production sector, particularly the industries that process raw materials.

Proposals and Recommendations

To effectively utilize external economic factors in deepening and developing economic reforms in Uzbekistan, the following should be noted:

1.Improving the domestic environment for foreign investment: It is necessary to improve the domestic environment for attracting foreign investments, reduce the tax burden further, simplify the tax system, and streamline the registration system for foreign investments.

2.Identifying sectors and objects of interest to foreign investors: It is essential to identify the sectors and objects that attract foreign investors, form a comprehensive set of information about them, develop business plans, and create economically viable projects. Foreign capital should be directed towards these economically beneficial sectors.

3.Increasing the share of processed, finished products in exports: Efforts should be made to increase the share of processed and finished goods in exports,

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particularly focusing on increasing the processing of cotton and agricultural products. Foreign investments should be broadly attracted to this sector.

4.Developing import substitution and localization of production: It is necessary to ensure effective collaboration between large manufacturing enterprises and small businesses and private enterprises to foster the development of import-substituting products and localizing production. Large enterprises should have suppliers for semi-finished products and components.

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