BG Pulse Journal USA
ISSN:1947-2536 http://www.bgpulseusa.com/index.php/bg

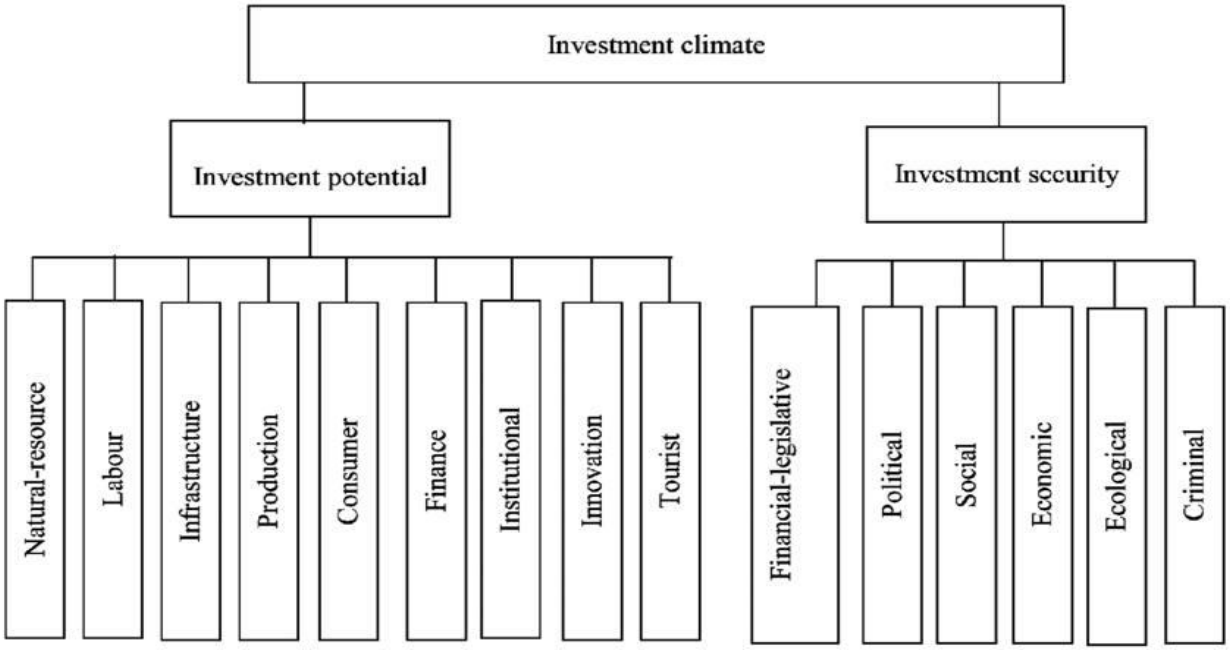
FACTORS AFFECTING INVESTMENT ACTIVITY AND THEIR CHARACTERISTICS

Mamatkulova Mukhlisa Komiljon qizi
Tashkent State University of Economics
Independent Researcher at National University of Uzbekistan
mamatqulova.muxlisa@mail.ru

Abstract: Investment activity is one of the key drivers of economic growth, productivity enhancement, and sustainable development. The level and effectiveness of investment activity are influenced by a wide range of economic, financial, institutional, political, and social factors. This study examines the main factors affecting investment activity and analyzes their characteristics and impact on investment decision-making processes. Particular attention is given to macroeconomic stability, interest rates, inflation, access to finance, government policies, legal frameworks, infrastructure development, technological progress, and market conditions. The research highlights that favorable investment environments are characterized by stable economic conditions, transparent regulations, efficient financial systems, and strong institutional support. Conversely, economic uncertainty, political instability, weak legal protection, and limited access to capital can significantly hinder investment activity. The study also emphasizes the growing importance of innovation, digitalization, and human capital development in attracting and sustaining investments in modern economies. Through a comprehensive review of theoretical and empirical literature, the paper identifies the interrelationships among various investment determinants and evaluates their relative significance. The findings contribute to a better understanding of investment behavior and provide useful insights for policymakers seeking to stimulate investment activity and promote long-term economic development.

Key words: investment activity, investment climate, economic growth, macroeconomic stability, financial markets, government policy, institutional factors, investment determinants.

Investment is a crucial driver of economic growth. By boosting investments, countries can modernize and expand their economies. The topic of increasing investments is always relevant in economic discussions. It is well-known that the amount of investment in a country is directly linked to the investment environment. Therefore, to enhance investment levels, creating a favorable investment climate is essential. This highlights the importance of investment as a key factor in economic progress. Hence, it is vital to raise investment levels in every country's economy. This involves examining and analyzing the factors that influence investments. Consequently, the following section will explore these factors that affect investment decisions and diversified.



Picture-1. Investment climate[1]

"On the basis of the analysis of the sources on the investment theory, and the risk approach towards understanding the investment climate, the classic economists distinguished various types of the investment potential that influence the favorableness of the investment climate: natural-resource, labor, infrastructure, production, consumer, finance, institutional, innovation, tourist, as well as various types of the investment security: political, social, economic, ecological, criminal, financial-legislative".

When we explore investment potential, the investment climate is affected by mainly five factors:

- political;
- economic;
- legal;
- social;
- criminal.

Each of these factors includes several elements.

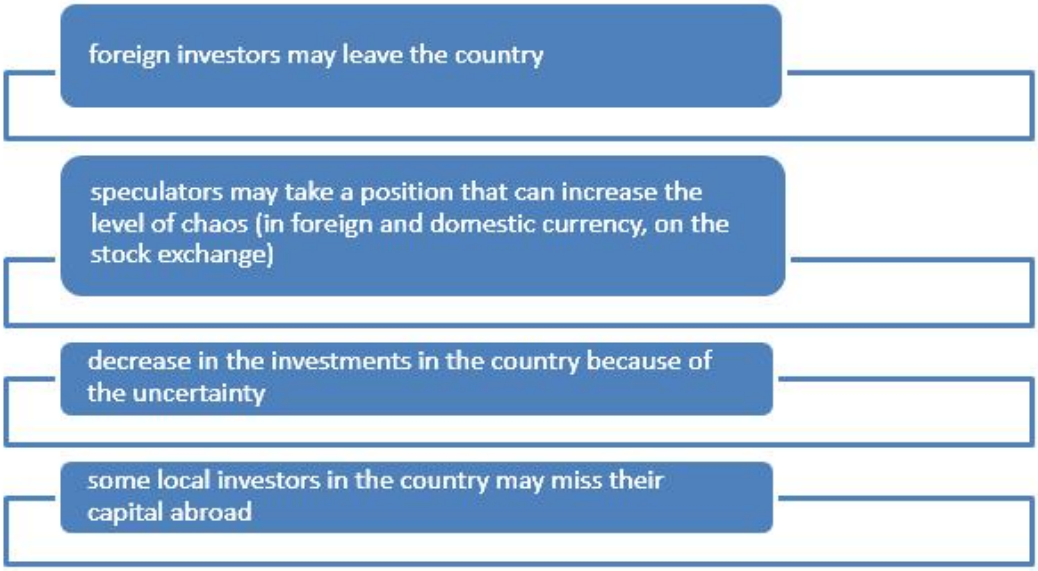
1)Political factors include the following components:

- public investment, especially foreign investment policy (policy related with foreign investment especially chances and liabilities for foreign investors or amenities for foreign investors);
- 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;

[1] "Socio-economic security as a determinant of regional differences in the investment climate in the region" Alina Ohotina , Olga Lavrinenko, Svetlana Ignatjeva , Jeļena Lonska "Journal of security and sustainability issues"

- 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.

The rise of the political risk can cause many adverse situations. Some of them are given as:



Picture-2. Political risks that effect negatively to the investment atmosphere[2]

"Several studies have been conducted to investigate the relationship between political risk and foreign direct investment (FDI) and different results have been obtained. Although there are some studies which put forward that foreign direct investment decreases as the political risk increases (Gastanaga et al. 1998, Wei 2000, Grosse and Trevino 2005, Demirhan and Masca 2008, Wyk and Lal 2008, Erramilli and Rao 1993), there are also some studies which claim that political risk has no effect on foreign direct investment (Wheeler and Moody 1992, Noorbakhsh et al. 2001). Some studies suggest that more entries into the risky countries would occur (Albuquerque 2000, Kolstad and Tondel 2002, Al-Khouri and Khalik 2013). In another group of studies, (Pan and Li 2000, Holburn 2001) it has been suggested that the effects of political risk in the country may vary from company to company. Pan and Li (2000) conclude that large companies are affected less when they are compared to small companies by the political risk conditions in the host country. According to Baek and Qian (2011), with each political risk component different results are obtained in the studies that use 12 Categories Political Risk Index, which was compiled by International Country Risk Guide (ICRG). Both in the industrialized and developing countries a good level of "accountability" and "investment profile" shows that these countries attract more foreign direct investment".

The study utilized political risk and 12 different aspects of institutions for its empirical analysis. The findings indicated that factors such as government stability, internal and external conflicts, corruption, ethnic tensions, law and order, democratic accountability of the government, and the quality of the bureaucracy are major determinants of foreign direct investment. The cross-

[2] Creates by the author

section analysis revealed a strong correlation between political risk and institutional variables, excluding government stability, law and order, and the quality of the bureaucracy. It was determined that the investment profile, internal and external conflicts, ethnic tensions, and democratic accountability significantly impact FDI flows.

Economic factors include the following components:

- Economic situation of the country;
- Inflation rate;

- Inflation rate reflects the speed at which investments erode their purchasing power and how rapidly prices escalate over time. Furthermore, inflation helps investors determine the necessary return percentage their investments must generate to sustain their current living standards.

- Tax benefits;

- When evaluating the potential impacts of tax incentives in a host country, it is crucial to go beyond just examining the tax regulations in that specific host country. It becomes essential to also take into account how foreign-sourced income in the host country is treated in the home country of the foreign investors. Understanding these tax-interaction effects is vital because the tax implications in the investor's home country can diminish or completely nullify the benefits of a particular incentive provided by the host country. The tax regulations of multiple countries may play a role in this analysis, especially when financing is routed through an offshore affiliate or a holding company.

Moreover, within this context, tax treaties and mutual agreement procedures are frequently highlighted by investors as critical elements for ensuring predictability and consistency in the treatment of cross-border investments. These instruments help provide a framework for resolving potential tax conflicts between different jurisdictions, offering clarity and stability for investors engaging in international investment activities.

- 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 and land routes, climatic conditions).

2) 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.).

3) 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.

Social factors are gaining increasing importance for investors, asset managers, and their stakeholders for various reasons. One significant factor is the mounting pressure and scrutiny from consumers, employees, financiers, and activists. In Asia, key sectors like manufacturing, agriculture, and e-commerce have come under the spotlight for their social practices. Companies are now expected to play a proactive role in addressing issues such as forced labor in supply chains, the rights of gig economy workers, and promoting gender equality.However, the primary driving force for many organizations is the rapidly evolving regulatory landscape. While most businesses in Asia currently adhere to national regulations concerning crucial issues such as modern slavery and child labor, the evolving regulatory environment necessitates a broader, global perspective on social risks and impacts for organizations. Investors and portfolios based in Asia will not remain insulated from regulatory changes in Europe, where social issues are a key focus for regulators at both EU and national levels. This dynamic regulatory environment emphasizes the need for businesses to adopt a more comprehensive approach toward managing their social responsibilities and risks on a global scale.

4) Criminal factors include the following components:

- thief crime;
- violent crime;
- crime rate;
- discrimination;
- corruption;
- financial crimes and so on.

Criminal activities have the potential to increase the cost of doing business and can even reduce the demand for goods and services that are sold in high crime areas. Professors Leanora Brown and Keva Hibbert have analysed impact of crime to the foreign direct investment. The findings have substantial policy implications for countries facing challenges in controlling violent crime while relying on foreign direct investment to support capital development. In such instances, policymakers face the critical task of tackling prevalent crime issues to prevent the decline in foreign capital inflows, particularly when these investments are essential for the country's sustainable economic progress. Existing economic research on crime highlights numerous strategies that are crucial in combating criminal activities. These strategies encompass various measures such as diminishing income inequality and enhancing the educational achievements of the population, among other interventions. By implementing these initiatives, countries can work towards creating a safer environment that is conducive to attracting and retaining foreign investments crucial for their economic advancement and long-term sustainability.

The impact on the investment climate has been studied a serious focus on economic factors as well as in the field it is expedient to eliminate the existing problems and shortcomings is calculated. Because economic factors play an important role in creating a favorable investment climate. Another factor is tax breaks. Tax It is advisable to improve the procedure for granting benefits. Most economists agree on the level of inflation in the country because of the choice of the wrong way to give tax breaks to the height they think. In addition, the improvement of customs regulations, the development of competition, reduction of bank interest rates is considered expedient. In short,

to achieve rapid economic development of the country requires an active investment policy. Active investment policy directly depends on the country's investment climate. That's why analysis of factors affecting the investment climate and their impact foreknowledge is the most pressing issue today.

LIST OF REFERENCES

1. Krugman, P., & Obstfeld, M. (2018). International Economics: Theory and Policy. Pearson.
2. Rahimov, Eshmurod. "THE ROLE OF MACROECONOMIC MECHANISMS AND FOREIGN TRADE POTENTIAL IN ACHIEVING INCLUSIVE ECONOMIC GROWTH IN UZBEKISTAN." Innovation Science and Technology 2.1 (2026).
3. World Trade Organization (WTO) (2023). World Trade Report 2023. Geneva: WTO Publications.
4. Raximov, Eshmurod Normuradovich. "GLOBAL DYNAMICS AND IMPACTS OF FOREIGN TRADE." American Journal of Modern World Sciences 1 (2024): 21-31.
5. IMF (2023). Exchange Rates and the Balance of Payments. International Monetary Fund.
6. Normuradovich, Rahimov Eshmurad. "WAYS TO INCREASE THE COMPETITIVENESS OF NATIONAL PRODUCTION IN THE PROCESS OF FOREIGN TRADE LIBERALIZATION." Journal of Contemporary Business Law & Technology: Cyber Law, Blockchain, and Legal Innovations 1 (2024): 17-24.
7. Raximov, Eshmurod Normuradovich. "METHODOLOGICAL INNOVATIONS FOR STRENGTHENING EXPORT POTENTIAL AS A DRIVER OF SUSTAINABLE ECONOMIC GROWTH." Integration of Innovative Education and Training 1.3 (2025): 41-49.
8. Raximov, Eshmurod Normuradovich. "BY INCREASING EXPORT CAPACITY ENSURING SUSTAINABLE ECONOMIC GROWTH." Bulletin news in New Science Society International Scientific Journal 2 (2025): 159-168.
9. Normuradovich, Rahimov Eshmurod. "THE PROSPECTS OF UZBEKISTAN'S MEMBERSHIP IN THE WORLD TRADE ORGANIZATION." International Journal of Education, Social Science & Humanities 12 (2024): 418-425.
10. Rahimov, Eshmurod. "Driving economic growth through service exports." Yashil iqtisodiyot va taraqqiyot 2 (2024).