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Methods and tools for stimulating foreign investment in the industrial sector

Yodgorov Sardorbek Samadovich

Lecturer of the Department of Economic Theory, Tashkent State University of Economics

ANNOTATION.

The article discusses modern methods and tools for stimulating foreign investment in the industrial sector. Both international practice and domestic approaches to attracting foreign capital are analyzed, attention is paid to a set of legal, institutional and economic mechanisms that ensure the formation of a favorable investment environment. Special attention is paid to such instruments as tax and customs privileges, public-private partnerships, special economic and industrial zones. The key factors contributing to increasing the investment attractiveness of the industrial sector, including the stability of government policy, the level of infrastructural development and the effectiveness of regulatory institutions, have been identified. The conclusion is made about the need for a comprehensive and flexible investment strategy focused on long-term sustainable development.

Keywords: foreign investment, industrial sector, investment policy, investment promotion, public-private partnership, investment instruments, special economic zones, investment attractiveness.

1. Introduction:

In a globalized economy and increasing competition for investment resources, attracting foreign investment into the industrial sector is becoming one of the key objectives of state economic policy. Industry, being the foundation of sustainable economic growth, provides not only job creation and increased exports, but also stimulates the development of related industries, the introduction of high technologies and increased labor productivity. However, despite the obvious importance of this industry, the experience of various countries shows that attracting foreign capital to the industrial sector poses a number of challenges, including institutional barriers, risks of instability, imperfect legal regulation and the lack of a coherent investment strategy.

Modern practice shows that in order to increase the investment attractiveness of the industrial sector, it is necessary to go beyond traditional approaches and use effective tools that combine both direct (financial incentives, tax incentives) and indirect measures (improving the business climate, infrastructure development, and institutional support). In addition, the issue of adapting incentive tools to industry-specific, regional, and global trends such as digitalization, the green economy, and sustainable development is receiving increasing attention.

The study of the problems of stimulating foreign investment in industry is based on an extensive body of theoretical and empirical work covering both macroeconomic aspects of investment attractiveness and applied public policy tools. The scientific literature traces various approaches to classifying and evaluating the effectiveness of measures aimed at attracting foreign capital to the industrial sector, reflecting the complexity and versatility of this topic.

The theoretical basis for the formation of investment policy is laid by the works of classics of economic thought, including J. M. Keynes and P. Samuelson, who emphasize the role of the state in stimulating investment in the face of market flaws. In a more modern context, the concepts of institutionalism (D. North, O. Williamson) are actively developing, according to which the quality of the institutional environment and the predictability of legal norms have a critical impact on the behavior of foreign investors. This point of view is supported by empirical studies demonstrating a direct correlation between the level of protection of property rights, the effectiveness of the judicial system and the volume of foreign direct investment (FDI).

In addition to the institutional approach, there are widely presented models in the literature that focus on specific instruments of state support. So, in the works of J. Duning's paradigm (OLI: Ownership, Location, Internationalization) analyzes the motivational factors of FDI placement, including the presence of competitive advantages of the host country. This model has formed the basis for numerous studies aimed at identifying how tax preferences, subsidies, free economic zones and improved logistics infrastructure affect the investment decisions of multinational corporations.

At the same time, there has been a growing interest in diagnosing the effects of incentive measures in recent decades. One of the key issues remains the effectiveness of the tools used: whether they are a catalyst for sustained industrial growth or a form of "overheating" of the economy and irrational redistribution of resources. Some authors (for example, Blomstrom & Kokko, 2003) warn of the risk of the effect of crowding out national investors and reducing technological sovereignty if the capital raising policy is conducted without strategic planning and assessment of long-term consequences.

A special place in the modern scientific discussion is occupied by the topic of regional and sectoral investment targeting. Recent studies have noted the need to move away from a universal approach to stimulating foreign investment in favor of developments that take into account the specifics of industrial clusters, the level of infrastructure development, the availability of qualified labor and priority technological areas. This is especially relevant in the context of industry 4.0, where attention is paid not only to financial incentives, but also to the creation of an innovative industrial environment.

A comparative analysis of the practices of stimulating foreign investment in different countries deserves special attention. For example, in China, government policy focuses on institutional stability and long–term planning, while in Eastern European countries it focuses on the rapid implementation of tax and regulatory incentives. A number of studies (for example, UNCTAD, World Bank Reports) show that sustained success is achieved in those economies where support measures are integrated into the national industrial strategy, with special attention being paid to post-project support and localization of production.

Due to the complex nature of the problem being studied — stimulating foreign investment in the industrial sector — the study is based on interdisciplinary and systematic approaches that allow analyzing not only the economic and structural aspects, but also the institutional, legal and managerial components of the process of attracting foreign investment. The methodology is based on the need to compare theoretical models and practical tools used in different countries and regions in order to develop universal and adaptable recommendations to increase the investment attractiveness of the industrial sector.

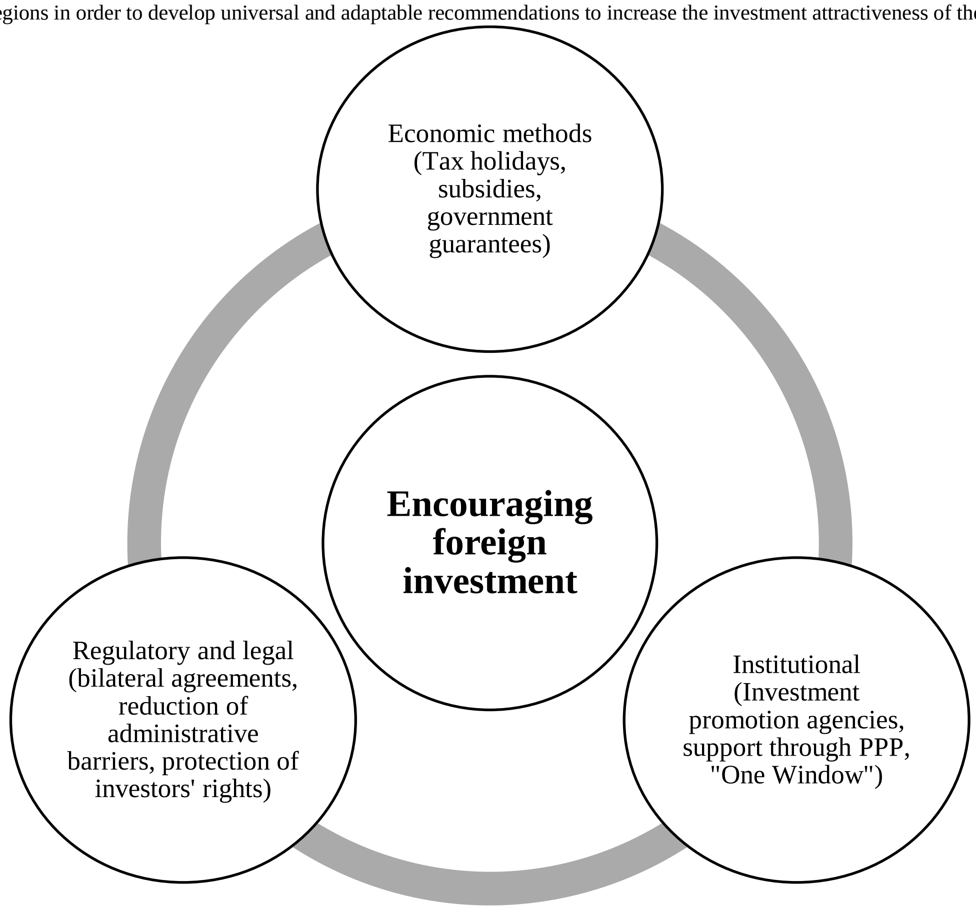

Figure 1 – An integral model of methods and tools for stimulating foreign investment in the industrial sector

In the context of the rapid transformation of global production chains and increasing competition for investment resources, the industrial sector is becoming a key strategic investment target. According to UNCTAD, in 2022, global flows of foreign direct investment (FDI) into the manufacturing industry amounted to about $650 billion, which indicates the continued interest of investors in the real sector. At the same time, there is a rapid change in the format of investments: preference is given not only to investments in fixed assets, but also to projects related to innovation, green industry, and digitalization of production processes.

Foreign investments in industry provide an influx of technology, create new management quality standards, create jobs, and contribute to the deep integration of national economies into global value chains. At the same time, the factor of competition between countries for a limited investment resource strictly actualizes the issue of the effectiveness of methods and instruments of state policy in this area.

Methods of stimulating FDI in industry can be conditionally classified into three groups.

1. Fiscal instruments remain the most common method of stimulating investments. These include:

- tax benefits (exemption from income tax, VAT reduction, accelerated depreciation);
- customs relief (exemption from import duties on equipment and components);
- subsidies and grants for the initial phase of the investment project.

For example, in Poland, companies implementing projects in special economic zones (SEZs) can receive an exemption from income tax for up to 15 years, and in India, the government offers a refund of part of the investment in the form of an investment loan, subject to deep localization of production.

2. Administrative and institutional measures. This group of tools is aimed at creating a favorable institutional environment:

- simplified procedures for registration and project support ("one window");
- availability of investment intermediaries (development agencies, investment nannies);
- protection of investors' rights (special arbitration procedures, guarantees against expropriation);

- stable legal regime for the entire investment period (stabilization clauses).

An example of effective institutional support is the Czech Investment and Trade Agency (Czech Invest), which accompanies foreign investors from the moment the application is submitted until the project reaches full capacity.

3. Infrastructural and organizational tools. The creation of an industrial infrastructure is one of the main tasks in attracting investments. This category includes:

- creation of industrial parks, technoparks and priority industrial development zones;
- provision of transport, energy and digital infrastructure;
- organization of educational and scientific clusters to ensure human resources;
- developing partnerships with local manufacturers to localize supply chains.

For example, the Chinese initiative "Made in China 2025" includes the creation of intelligent industrial complexes with complete infrastructure, where the state assumes the costs of logistics, energy supply and administrative support.

Despite the widespread use of fiscal preferences, they do not always turn out to be decisive factors in making an investment decision. Modern investors increasingly rely on criteria such as access to skilled labor, the level of logistics, digitalization, the stability of the legal regime and a low level of corruption.

According to a World Bank study (Doing Business, 2020), the most important for FDI are:

- simplicity of regulatory procedures;
- predictability of investment legislation and law enforcement practice;
- access to markets and logistics hubs;
- Government guarantees and project support in times of uncertainty.

Thus, an effective investment policy in the industrial sector requires a balanced combination of tools: from short—term fiscal incentives to long-term institutional reforms and infrastructural renewal.

Modern challenges, including the transition to a green economy, digitalization of production, deindustrialization in developed countries, and the pursuit of technological sovereignty, require not just short—term stimulus measures, but a paradigm shift in industrial policy.

Table 1 – Comparative analysis of methods of stimulating foreign investment in industry: international practice and experience of Uzbekistan

№	The incentive method	Method characteristics	Examples of implementation in OECD countries	Implementation in Uzbekistan
1	Tax benefits	Exemption from income tax, VAT and customs duties for a certain period of time	Ireland, Singapore, Poland	Exemption from income tax for 3-10 years for FEZ residents
2	Government subsidies	Financing of part of the costs: equipment, staff training, infrastructure	Germany (KfW Bank), South Korea	The program of compensation of interest rates and co-financing of investment projects
3	Industrial and free economic zones	Territories with special preferences and dedicated infrastructure	China (SEZ), UAE (Jebel Ali Free Zone)	More than 20 FEZs (Navoi, Jizzakh, Angren, etc.), tax/customs privileges
4	Administrative simplifications	Simplified procedures for registration, permits, guarantees	Georgia, Estonia, Lithuania	Single investment window, licensing reform
5	Preferential tariff policy	Reduction of duties, guarantee of access to large markets	Mexico (NAFTA/USMCA), Vietnam (FTA Agreements)	CIS membership, agreements with China, Turkey, Korea
6	Creation of reputable development institutions	Investment agencies, development funds, B2B platforms	Invest India, Enterprise Singapore	Investment Agency of Uzbekistan, Direct Investment Fund
7	Ensuring macroeconomic stability	Inflation control, stable exchange rate, independent regulator	Czech Republic, Vietnam, India	Currency liberalization since 2017, inflation targeting

In conclusion, it should be noted that effective promotion of foreign investment in the industrial sector requires an integrated approach combining regulatory, institutional and economic mechanisms. An analysis of the methods and tools used in global practice and at the national level shows that the key factors in attracting investors are the predictability of government policy, the availability of investment preferences, the development of infrastructure and the provision of legal protection of capital. The use of such instruments as tax incentives, public-private partnerships, the creation of special economic zones and investment funds allows us to create a favorable investment environment. At the same time, for the sustainable growth of foreign investments in industry, it is necessary not only to apply incentive mechanisms, but also to build trust on the part of international business by increasing transparency, stability and effectiveness of institutions. The prospects for further research in this area suggest a more in-depth analysis of the impact of specific measures on investment inflows, as well as the development of adaptive investment policy models taking into account the specifics of national industrial development.

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