

ECONOMIC MECHANISMS OF ATTRACTING FOREIGN INVESTMENT

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Abstract. The article is devoted to the study of economic mechanisms of attracting foreign investment. It analyzes the means of encouraging investors, including tax incentives, state subsidies, grants and preferential credit programs. It also examines the main economic incentives used in different countries and their impact on investment attractiveness, growth of the national economy and creation of new jobs. The results of the study help to identify strategies for forming an effective investment environment to increase foreign capital inflows and ensure sustainable economic development.

Keywords: foreign investment, economic mechanisms, investment incentives, tax incentives, subsidies, grants, investment environment, capital attraction, economic growth, employment.

Introduction. Foreign investments are important for the development and competitiveness of the national economy. They not only provide capital inflows, but also serve to create new jobs, introduce technologies, and increase production efficiency. Therefore, countries develop various mechanisms to increase investment attractiveness and attract foreign capital. Economic mechanisms are tools for stimulating and managing investments, which play an important role in attracting investors. These mechanisms include tax incentives, state subsidies, grants, soft loans, and other incentive instruments. Their effective use allows for increasing investment flows, accelerating economic growth, and creating new jobs. This article analyzes the economic mechanisms for attracting foreign investment, shows their effectiveness, and assesses their impact on national economic development. The aim is to develop recommendations to improve the investment climate and ensure sustainable economic growth.

Main part. Attracting foreign investment is an important factor in the sustainable growth and development of the national economy. Effective economic mechanisms serve to create a favorable investment climate by encouraging investors, increase capital flows and develop the national economy. In the context of global competition, state policy plays a decisive role in attracting foreign investment, as it provides long-term cooperation conditions for investors.

One of the most common tools is the provision of tax incentives. Reducing the tax on profits, exempting property taxes or reducing duties on the import of equipment makes investments more profitable for foreign companies. As D. Becker noted: "Promoting

investment through tax incentives is one of the most effective ways to attract capital”[1]. This idea means that a rational taxation policy makes the country attractive to foreign investors and creates conditions for long-term investments.

State subsidies are also an important economic mechanism. Subsidizing part of the costs of opening or expanding a business reduces financial risks for investors and encourages them to act actively. For example, in a number of countries, the state provides subsidies for the construction of industrial facilities or the introduction of modern technologies. K. Hart writes: “Support for investors through subsidies serves to increase economic activity and create new jobs”[2]. This is of social and economic importance not only in terms of attracting capital, but also in terms of creating jobs for the local population. Grants are also an effective means of encouraging foreign investment. Unlike subsidies, grants are provided for specific projects and are not repaid, which reduces financial risks for investors. Grants are often directed to the development of innovative projects or high-tech industries. J. Schumpeter writes: “Investments in innovation and new technologies are the main driving force of economic growth”[3]. This idea shows that grants not only help attract capital, but also serve to modernize the economy, introduce new technologies, and increase the country's competitiveness. Preferential credit programs and convenient financing play an important role in attracting investment in developing countries. The possibility of obtaining loans on preferential terms for investors reduces barriers to market entry and encourages long-term investments. As P. Drucker noted: “Effective resource management involves creating conditions in which stakeholders receive maximum benefits with minimal risk”[4]. In the context of foreign investment, this means that the state should create favorable financial conditions for investors, provide a reliable and stable investment environment.

Economic mechanisms also include the creation of special economic zones. These zones have simplified taxation rules, favorable rental conditions, and fast processing of documents. Such zones attract large international companies, develop industry, and help create highly skilled jobs. As M. Robinson noted: “The creation of special economic zones is a strategic tool for attracting foreign investment and developing the national economy”[5]. This indicates the importance of comprehensively considering economic, legal, and administrative aspects in shaping the investment climate. Transparency and stability of legislation are also important. Investors are interested in stable conditions, clear taxation rules, and protection of property rights. Legal uncertainty or instability in economic policy reduces the ability to attract foreign investment. Therefore, economic mechanisms should be used in conjunction with legal and institutional measures. The social impact of foreign investment is also important. They not only bring economic benefits, but also create new jobs, improve the skills of local personnel, and develop infrastructure. The introduction of modern technologies by foreign companies increases production efficiency and integrates the country into global economic processes. Thus, economic mechanisms for attracting foreign investment are a complex system consisting of tax incentives, subsidies, grants, preferential loans, special economic zones and other tools. They play an important role in attracting capital, stimulating economic growth and increasing social benefits. Effective mechanisms and the strategy for their application serve to ensure the sustainable development of the national economy. Economic mechanisms for attracting foreign investment are not limited to financial incentives. They also have an impact by simplifying the

country's business environment, reducing administrative barriers and creating safe conditions for investors. In this regard, economic mechanisms can be expanded in the following areas:

1. Economic incentives combined with legislation and regulatory documents. A stable and predictable legal environment is important for foreign investors. For example, investment contract guarantees, capital return mechanisms, and arbitrage mechanisms reduce the risk of investors investing, making the country more attractive to international investors.
2. Incentive economic packages. Some countries combine several mechanisms for investors: tax breaks, subsidies, grants, soft loans and special economic zones. Such complex packages increase their effectiveness in attracting investors. For example, a company investing in the manufacturing sector can simultaneously be granted a tax exemption, exemption from customs duties on imported equipment and a discount on land rent.
3. Financial and currency mechanisms. For foreign investors, the convertibility of capital and the ability to transfer capital abroad are important. In this regard, economic mechanisms include tools that reduce currency risk for investors: currency guarantees, long-term loans, insurance and hedging instruments. This increases financial stability for investors and strengthens confidence in investing.
4. Market and infrastructure mechanisms. It is necessary to create sufficient infrastructure to attract investments. This includes the development of transport, energy, telecommunications and logistics. Economic mechanisms can also offer investors incentives to invest in high-quality infrastructure. For example, state subsidies or tax breaks for the development of logistics centers.
5. Support for innovation and scientific and technological development. Foreign investors often invest in order to introduce advanced technologies and implement innovative projects. Therefore, economic mechanisms can stimulate innovative activity through grants, technological loans or support for the patent system. This contributes to the technological development of the country and the development of high-value-added production.
6. Mechanisms that stimulate competition. Investors are often interested in a competitive market environment. Therefore, economic mechanisms include antitrust measures, ensuring market openness and transparency. This creates fair and transparent competition conditions for investors, increasing the efficiency of investment.
7. Promoting social responsibility. Economic mechanisms for attracting foreign investment also take into account social responsibility. For example, encouraging investors to employ local workers, comply with environmental standards, and participate in community development projects. This mechanism not only attracts investment, but also protects the social and economic interests of the local population.

Economic mechanisms for attracting foreign investment are closely related not only to financial incentives, but also to legislative stability, infrastructure development, innovation support, competitive conditions, and social responsibility. Their comprehensive and systematic



application increases the country's investment attractiveness, increases capital inflows, stimulates economic growth, and ensures the social benefits of society.

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