

FACTORS AFFECTING INVESTMENT ACTIVITY AND THEIR CHARACTERISTICS

*Tashkent State University of Economics
Independent Researcher at National University of Uzbekistan*

Mamatkulova Mukhlisa Komiljon kizi
mamatqulova.muxlisa@mail.ru

Abstract: This article examines the key factors affecting investment activity and analyzes their main characteristics from a theoretical perspective. The study systematizes macroeconomic, institutional, financial, and structural determinants that influence investment decisions of economic agents. Particular attention is paid to the role of economic stability, regulatory quality, access to finance, and expectations under conditions of uncertainty. By synthesizing classical, Keynesian, neoclassical, and institutional approaches, the paper highlights the transmission mechanisms through which these factors shape the level and dynamics of investment activity. The results contribute to a deeper theoretical understanding of investment processes and provide a conceptual framework for assessing investment performance and designing effective investment policies.

Key words: investment activity, investment determinants, macroeconomic factors, institutional environment, financial development, investment policy.

Аннотация: В статье рассматриваются основные факторы, влияющие на инвестиционную активность, и анализируются их ключевые характеристики с теоретической точки зрения. В работе систематизированы макроэкономические, институциональные, финансовые и структурные детерминанты, определяющие инвестиционные решения экономических субъектов. Особое внимание уделяется роли экономической стабильности, качества регулирования, доступности финансовых ресурсов и ожиданий в условиях неопределенности. На основе классических, кейнсианских, неоклассических и институциональных подходов раскрываются механизмы воздействия указанных факторов на уровень и динамику инвестиционной активности. Полученные выводы формируют концептуальную основу для оценки инвестиционных процессов и разработки эффективной инвестиционной политики.

Ключевые слова: инвестиционная активность, факторы инвестирования, макроэкономические факторы, институциональная среда, развитие финансовой системы, инвестиционная политика.

Investment activity is a key driver of economic growth, productivity enhancement, and structural transformation in modern economies. The scale and efficiency of investment determine the capacity for capital accumulation, technological advancement, and long-term competitiveness. However, investment activity does not evolve in isolation; it is shaped by a complex interaction of economic, institutional, financial, and structural factors that influence the decision-making processes of investors.

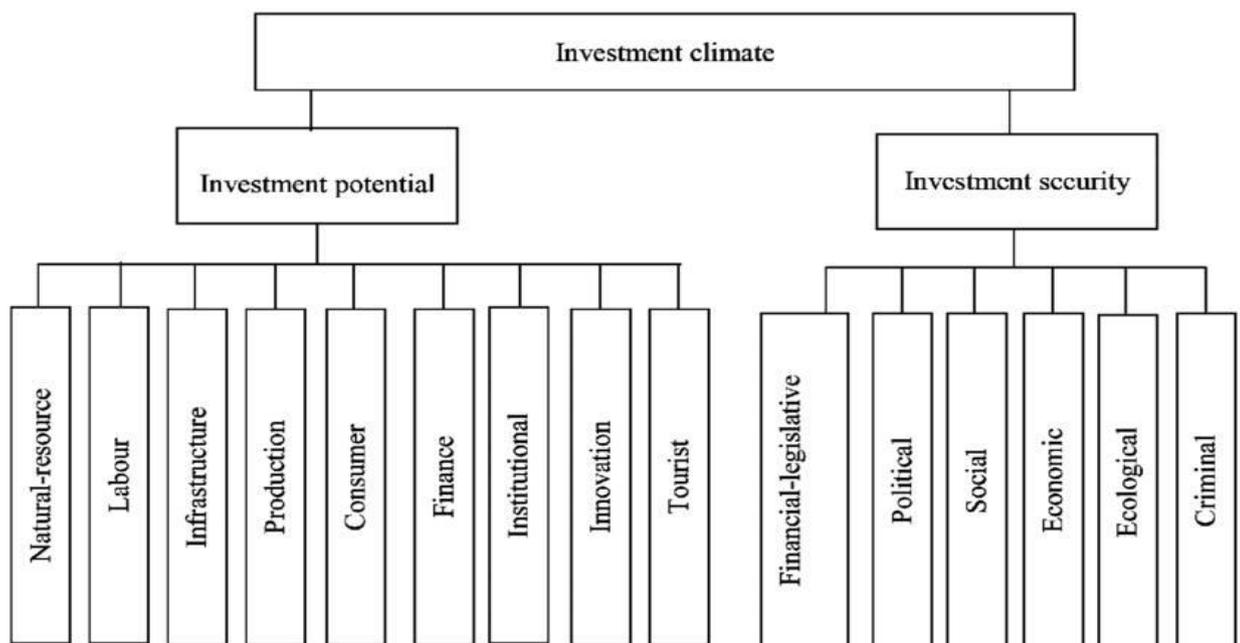
Economic theory offers diverse explanations of investment behavior and activity. Classical and neoclassical approaches emphasize capital formation, interest rates, and expected profitability, while Keynesian theory highlights the role of expectations, uncertainty, and effective demand. More recent institutional and structural perspectives extend these views by focusing on the quality of governance, regulatory frameworks, financial system development, and market efficiency. Despite the richness of these theoretical contributions, there remains a

need for a comprehensive and systematized analysis of the factors affecting investment activity and their specific characteristics.

In the context of globalization, technological change, and heightened economic volatility, understanding the determinants of investment activity has become increasingly important. Developing and transition economies, in particular, face structural constraints related to macroeconomic instability, limited access to finance, and institutional weaknesses, which significantly influence investment dynamics. Identifying and characterizing the key factors affecting investment activity is therefore essential for both academic research and policy design.

The purpose of this article is to analyze the main factors influencing investment activity and to examine their characteristics within a theoretical framework. By synthesizing macroeconomic, institutional, financial, and structural determinants, the study aims to provide an integrated perspective on investment activity. The findings of this theoretical analysis are intended to contribute to the literature by offering a conceptual basis for evaluating investment performance and formulating effective investment and development policies.

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.



Pic.1. Investment climate¹

“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,

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”

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.

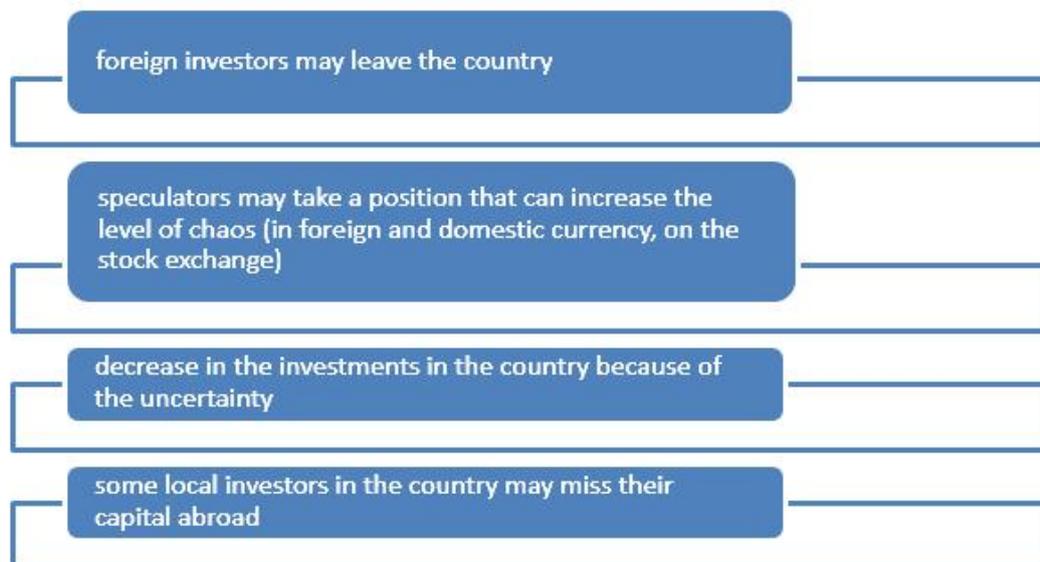
1) Political factors include the following components:

- 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;
- 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 (Türkay 2013). Some of them are given as:



Pic.2. Political risks that effect negatively to the investment atmosphere²

² Creates by the author

“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”³.

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-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 activities⁴.

³ “Do political risks affect the foreign direct investment inflows to host countries?” Hatice Erkekoglu , Zerrin Kilicarslan Journal of Business, Economics And Finance

⁴ <https://www.mayerbrown.com/en>

- 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 investment⁵. 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.

This article has provided a theoretical analysis of the key factors affecting investment activity and their characteristics. By integrating classical, Keynesian, neoclassical, and institutional perspectives, the study has demonstrated that investment activity is influenced by a broad set of interrelated determinants, extending beyond traditional financial considerations. Macroeconomic stability, institutional quality, access to finance, and investor expectations emerge as critical factors shaping both the level and dynamics of investment activity.

The analysis highlights that favorable economic and institutional conditions reduce uncertainty, improve risk assessment, and enhance investor confidence, thereby stimulating investment activity. Conversely, macroeconomic volatility, weak regulatory frameworks, and underdeveloped financial markets can constrain investment and lead to inefficient allocation of capital. These findings emphasize the importance of a holistic approach to understanding investment activity, in which the characteristics of different influencing factors are jointly considered.

From a policy perspective, the results suggest that stimulating investment activity requires coordinated measures aimed at ensuring macroeconomic stability, strengthening institutional frameworks, and improving financial market development. For developing and transition economies, particular attention should be paid to reducing structural barriers and enhancing the predictability and transparency of economic policies.

In conclusion, the theoretical framework presented in this study provides a foundation for future empirical research on investment activity. Further studies may expand this analysis by incorporating quantitative methods, cross-country comparisons, or sector-specific investigations to deepen the understanding of how different factors interact to influence investment behavior and economic development.

⁵ "The effect of foreign direct investment" ; The Journal of Developing Areas

References

1. UNCTAD. (2022). *World Investment Report*. Geneva: United Nations.
2. Raximov, Eshmurod, and Madina Berdivaliyeva. "GREEN ECONOMY IS THE DRIVER OF SUSTAINABLE ECONOMIC GROWTH IN UZBEKISTAN." *Modern Science and Research* 3.6 (2024): 25-31.
3. International Monetary Fund (2024). *Republic of Uzbekistan: Article IV Consultation Report*. Washington, DC: IMF.
4. Raximov, Eshmurod Normuradovich. "METHODODOLOGICAL INNOVATIONS FOR STRENGTHENING EXPORT POTENTIAL AS A DRIVER OF SUSTAINABLE ECONOMIC GROWTH." *Integration of Innovative Education and Training* 1.3 (2025): 41-49.
5. Ministry of Investment, Industry and Trade of Uzbekistan (2024). *Annual Export Performance Report*. Tashkent.
6. OECD (2023). *Trade Facilitation and Digitalisation in Developing Countries*. Paris: OECD Publishing.
7. 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.
8. State Committee of the Republic of Uzbekistan on Statistics (2017–2025). *Foreign Trade Statistics: Monthly and Annual Bulletins*. Tashkent: UzStat.
9. 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.
10. World Bank (2024). *Uzbekistan Systematic Country Diagnostic Update: Pathways to Export Competitiveness*. Washington, DC: World Bank Group.
11. World Trade Organization (2023). *World Trade Statistical Review 2023*. Geneva: WTO.
12. Avazkhodjaev, Salokhiddin, et al. "Trade War Shocks and Volatility Spillovers between Fossil Fuel Markets and Biofuel Feedstocks: Empirical Evidence from the US–China Trade Dispute." *International Journal of Energy Economics and Policy* 16.1 (2026): 719.
13. Normuradovich, Raximov Eshmurod. "YASHIL IQTISODIYOT O'ZBEKISTONDA BARQAROR IQTISODIY O'SISHNING DRAYVERI." (2024).
14. Rahimov, E. N. "Ensuring The Well-Being of The Population Through Macroeconomic Stability and Economic Development." *International Conference of Economics, Finance and Accounting Studies*. Vol. 2. 2024.