



THE THEORETICAL FOUNDATIONS OF THE STATE'S ROLE IN ECONOMIC PROCESSES AND THE ATTRACTION OF FOREIGN INVESTMENTS

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Abstract

In this study, the theoretical foundations of the state's role in economic processes and the attraction of foreign investments are analyzed. The state is regarded as the main institution that regulates and directs the economy toward sustainable growth. Through production, fiscal, tax, and foreign trade policies, it enhances the competitiveness of the national economy, creates a favorable environment for investments, and ensures social stability. At the same time, the process of attracting foreign investments is substantiated as a crucial factor for economic growth, technological modernization, and deepening international integration. The research scientifically highlights the strategic directions of economic policy, mechanisms for shaping the investment environment, and the theoretical and practical functions of the state.

Keywords: State economic policy, economic processes, state regulation, foreign investments, investment environment, economic stability, national economy, market mechanisms, international integration.

Introduction

Under market economy conditions, the role of the state in economic processes is closely linked to stabilizing the national economy, ensuring the rational use of resources, and maintaining social justice. Intensifying global competition, volatility in financial markets, and dynamic investment flows require the state



Modern American Journal of Business, Economics, and Entrepreneurship

ISSN (E): 3067-7203

Volume 01, Issue 07, October, 2025

Website: usajournals.org

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to actively regulate economic policy. From this perspective, managing economic processes, improving the investment environment, and attracting foreign capital have become strategic priorities of the state.

The “Uzbekistan – 2030” Strategy, approved by the President of the Republic of Uzbekistan, envisions transitioning the country to a qualitatively new stage of economic growth through the development of an innovative economy, industrial modernization, and the broad attraction of foreign investments. Within this strategy, one of the state’s key objectives is to ensure the balance of economic processes, support the private sector, create a favorable business environment for investors, and deepen international cooperation. Moreover, introducing “green economy” principles, digital technologies, and advanced management mechanisms to enhance the efficiency of investment activity is among the most relevant issues.

The purpose of this research is to analyze the theoretical foundations of the state’s role in economic processes and in attracting foreign investments, as well as to identify their interrelations. The subject is the mechanisms of state regulation within the economic system, the forms of investment policy, and their impact on national economic stability. The findings of the study provide a scientific basis for increasing Uzbekistan’s investment attractiveness, effectively managing international capital flows, and implementing the economic priorities outlined in the “Uzbekistan–2030” Strategy.

Literature review

Firstly, in the article “Study of The Role and Impact of Foreign Investment on Economic Growth in Developing Countries” (published on ResearchGate), the positive impact of foreign investments on the economies of developing countries is analyzed based on empirical examples. The article reveals a tendency to view the role of the state as limited: the state’s main task is to create a favorable investment environment, while reliance on market mechanisms is emphasized as essential. At the same time, the authors of the study highlight institutional



Modern American Journal of Business, Economics, and Entrepreneurship

ISSN (E): 3067-7203

Volume 01, Issue 07, October, 2025

Website: usajournals.org

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challenges, political instability, and the lack of legal guarantees as major constraints.¹

In the second direction, the article “Foreign Direct Investment, Economic Growth, Governance ...” analyzes data from 63 regions and reveals the relationship between foreign investment inflows and the interaction between formal and informal economic activities. In this study, the researchers demonstrate that factors such as the quality of state institutions, the rule of law, and the integrity of control systems are key components determining the effectiveness of FDI. This approach focuses on analyzing the role of the state in economic processes at the institutional level.²

In the publication “Recommendations for a National FDI Strategy and Roadmap for Uzbekistan: New Sources of Growth”, which analyzes investors and policies in the context of Uzbekistan, the country’s investment strategy, historical FDI experience, and global megatrends are thoroughly examined. In this document, the authors provide recommendations for identifying Uzbekistan’s potential investment directions, improving the legislative framework, and strengthening the system of guarantees for foreign investors. Furthermore, the regulatory role of the state is discussed through mechanisms such as the “one window” principle, tax incentives, and special economic zones.³

Another important scholarly work — “The International Anticorruption Agenda, Legal Culture, and Business Environment in Uzbekistan” (OECD, 2023) — identifies the strengths and weaknesses of the country’s business and investment environment. The researchers positively assess the state’s liberalization policy, regulatory and legal reforms, and proactive approach to attracting foreign investors. However, they also emphasize risks such as global macroeconomic shocks, inflation, and external conditions. Within this body of literature, the role of the state in economic processes is viewed not only as a regulator but also as a strategic participant.⁴

¹ Lailieva E. et al. Study of the role and impact of foreign investment on economic growth in developing countries //International Journal of Accounting and Economics Studies. – 2025. – T. 12. – №. 2. – C. 372-380.

² Bouchoucha N., Yahyaoui I. Foreign direct Investment and economic growth: The role of the governance //Economics Bulletin. – 2019. – T. 39. – №. 4. – C. 2711-2725.

³ Weltbankgruppe. Recommendations for a National FDI Strategy and Roadmap for Uzbekistan: New Sources of Growth. – World Bank, 2022.

⁴ Mustafoev T. The International Anticorruption Agenda, Legal Culture, and Business Environment in Uzbekistan //The Political Economy of Central Asian Law: A Law and Society Analysis. – Cham : Springer Nature Switzerland, 2024. – C. 23-51.



Methodology

In this research, only theoretical research methods were applied, through which the scientific foundations of the state's role in economic processes and the attraction of foreign investments were thoroughly analyzed. During the study, logical analysis, comparison, abstraction and generalization, systematic approach, as well as scientific induction and deduction methods were used. With the help of these methods, the state's participation in economic processes, the theoretical concepts of investment policy, and the mechanisms of their interrelation were identified. In addition, the theoretical views of major economic schools (classical, Keynesian, institutional, and modern state interventionism) were analyzed, and their practical applicability in the context of Uzbekistan was theoretically substantiated.

Analysis and Results

Under market economy conditions, the significance of the state in economic processes is becoming increasingly complex, requiring new functions and mechanisms. Every state, in order to ensure its economic stability, achieve macroeconomic balance, increase employment, and strengthen social welfare, applies various instruments of economic policy. Especially in the context of deepening globalization, active participation in international economic relations, attraction of foreign capital, and creation of a favorable environment for foreign investors are becoming among the main strategic priorities of the state. In such circumstances, the role of the state is not limited to being a regulator but extends to being a catalyst, guarantor of confidence, and stabilizer of economic balance. Therefore, finding the optimal balance between the state and the market, particularly in policies related to foreign investment, is one of the most pressing issues of today.

Attracting foreign investments serves as an important source of resources for any economy. These investments contribute not only to economic development in the form of financial capital but also facilitate the flow of new technologies, managerial experience, modern knowledge, and innovations. For developing countries, in particular, foreign investments serve as a crucial economic driver



Modern American Journal of Business, Economics, and Entrepreneurship

ISSN (E): 3067-7203

Volume 01, Issue 07, October, 2025

Website: usajournals.org

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in conditions where internal resources are insufficient. However, attracting and effectively managing foreign capital does not happen automatically — in this process, the role of the state is indispensable. The state stimulates investors by creating an investment climate and providing legal, political, and economic guarantees, as well as financial, tax, and administrative incentives. At the same time, directing investment flows toward strategic sectors and harmonizing them with the development of domestic production are key directions of state policy. Thus, in attracting foreign investments, the state acts not only as a supervisor but also as an active participant.

Economic systems within the market are interrelated, and their effective functioning requires active state participation. Households, enterprises, and resource markets interact under state regulation, as the state plays a coordinating and controlling role in economic processes. For instance, households pay taxes established by the state when forming their income and plan their expenditures accordingly. Enterprises also pay taxes from their production revenues, yet their efficiency largely depends on state economic policy. The resource market serves as a key mechanism for allocating and effectively utilizing production factors. The state ensures the stable functioning of the economy by monitoring, incentivizing, and maintaining balance within these processes.

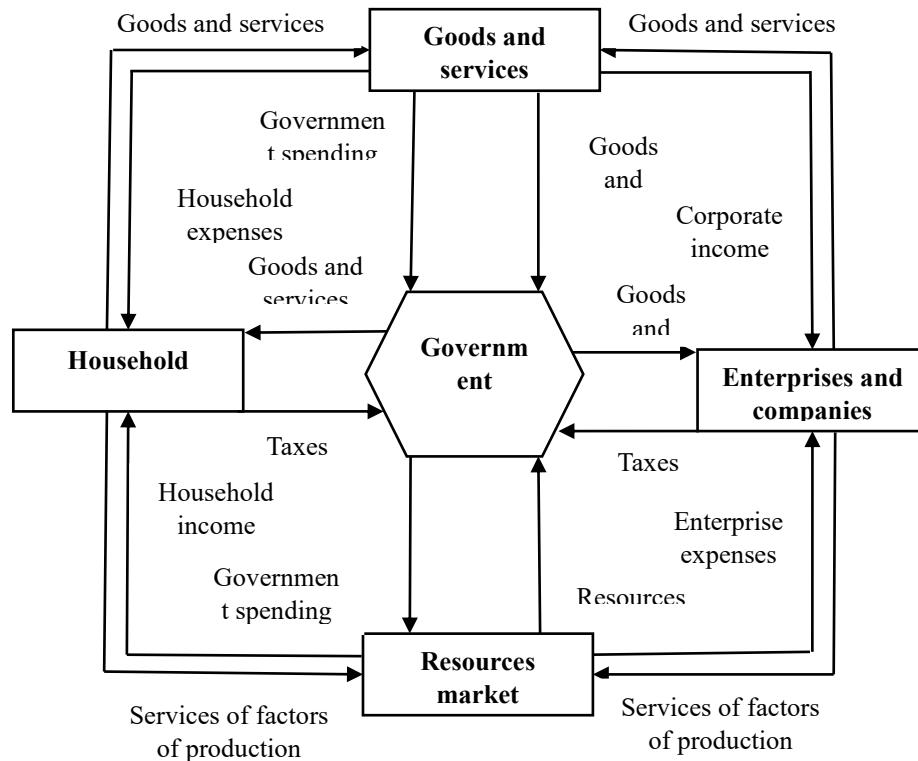


Figure 1. The role of the state in the economy.⁵

The role of the state in the economy is primarily manifested in its interactions with households and enterprises. Households supply the factors of production—labor, capital, land, and entrepreneurial ability—to the resource market and, in return, receive income. A portion of this income is transferred to the state budget through taxes, while the remaining part is spent on purchasing consumer goods and services. In this way, households actively participate in both the goods and services market and the provision of resources. Enterprises, on the other hand, purchase production factors from the resource market and produce goods and services through their activities. A portion of the profit earned by enterprises is also paid to the state budget in the form of taxes. In turn, the state uses these tax revenues to fund social services, infrastructure projects, the development of education and healthcare systems, defense, and other essential expenditures. Moreover, the state implements redistribution policies to reduce economic disparities—for instance, by supporting low-income populations with social

⁵ Kuznetsova E. I., Kuznetsova M. V. On the relevance of the problem of determining the role of the modern state in the economy // Scientific Notes of the Russian Academy of Entrepreneurship. – 2014. – №. 41. – C. 220-226.



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ISSN (E): 3067-7203

Volume 01, Issue 07, October, 2025

Website: usajournals.org

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benefits or allocating subsidies to specific sectors. Through these measures, the state ensures the social orientation of the economy.

The state's regulatory role becomes even more evident in the resource market and production processes. To ensure the efficient allocation of production factors, the state establishes a legal framework, guarantees the inviolability of private property, and supports a competitive environment. This creates favorable conditions for the stable development of enterprises. At the same time, the state monitors the effective use of resources and ensures that production processes comply with environmental standards. The goods and services produced by enterprises are delivered to households through the market, a process also supported by the state. For example, by setting quality standards, protecting consumer rights, ensuring competition, and preventing monopolies, the state guarantees balanced economic development. In this way, the state integrates households, enterprises, and the resource market into a unified economic system and ensures their effective cooperation. As a result, conditions are created for achieving economic growth, stability, and social well-being.

Table 1 The role of the state in the economy and the theoretical foundations of attracting foreign investment⁶

Approach	The role of the state in the economy	Theoretical foundations of attracting foreign investment	Key policy measures	Expected efficiency
Classical approach	The role of the state is minimal, limited only to ensuring legal order and protecting property rights.	Investments flow through free market mechanisms, with limited state intervention.	Lower tax rates, freedom of trade, guaranteeing property rights.	An environment of free competition will be formed, capital flows will accelerate, but the risk of social inequality will increase.
Keynesian approach	The state pursues an active economic policy, stimulating demand and supporting investment.	Foreign investments are attracted to projects guaranteed by the state.	Increase government spending, investment in infrastructure, credit incentives.	Economic activity will increase, employment will increase, and the investment climate will stabilize.
Institutional approach	The state appears as a shaper of institutions and a creator of a stable environment in the economy.	Legal, political, and economic stability are necessary to attract investment.	Fight corruption, strengthen the judicial system, and provide guarantees to investors.	Long-term investments are attracted, and a reliable business environment is created.
Neoliberal approach	The state participates only as a regulator and a means of promoting competition.	Foreign capital is attracted through the free market, with the state only setting the "rules of the game."	Privatization, tax reduction, creation of incentives for foreign investors.	Capital flows will increase, competition will increase, but local businesses may remain under pressure.
Mixed economy approach	The state and the market work together: the state coordinates, and the market allocates resources.	Foreign investments will be attracted in accordance with national interests.	State control in strategic sectors, market freedom in the rest.	Economic growth and social stability will be harmonized, and national interests will be protected.

⁶ Kolesnikov A. M., Antokhina Yu. A. Theoretical foundations of organizing the attraction of foreign investments: transnational aspects // Time of the pioneers: innovations, innovations, investments. - 2021. - P. 64-72.



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ISSN (E): 3067-7203

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As shown in the table, the role of the state in the economy varies significantly depending on different theoretical approaches. Representatives of the classical economic school consider the state's role to be minimal, emphasizing the self-regulating nature of market mechanisms. According to their view, foreign investments flow naturally in an environment of free competition, low taxes, and guaranteed property rights. However, such an approach tends to increase the risks of social inequality and economic imbalance. In contrast, the Keynesian approach calls for active state intervention, justifying the attraction of foreign capital through stimulating demand and investing in infrastructure and social projects. Since investments are guaranteed by the state, this approach fosters a stable economic environment. The institutional approach emphasizes the state's role in ensuring legal and political stability, as transparency and reliability of the business climate are the most critical factors for foreign investors. From this perspective, reducing corruption, strengthening the judicial system, and providing investor guarantees encourage the inflow of foreign capital. Meanwhile, the neoliberal approach limits the state's role to supporting and regulating competition, focusing primarily on privatization, tax reduction, and creating favorable conditions for foreign investors.

However, practice shows that purely theoretical approaches are not always effective in ensuring economic balance. Therefore, the mixed economy model is considered the most optimal approach, in which the state and the market complement each other: state control is preserved in strategic sectors, while market freedom is ensured in others. This allows foreign investments to be attracted in line with national interests. In the context of globalization, the state's role in international economic integration becomes even more significant, as investments often enter through global capital flows. Thus, the creation of free economic zones, participation in international agreements, and liberalization of currency policy enhance investment attractiveness. In conclusion, the state's role in the economy is directly linked to the theoretical foundations of attracting foreign investments and serves as a decisive factor in ensuring economic stability, social welfare, and international competitiveness. Therefore, in modern conditions, the state's mission should include not only regulation but also active integration into global economic processes.

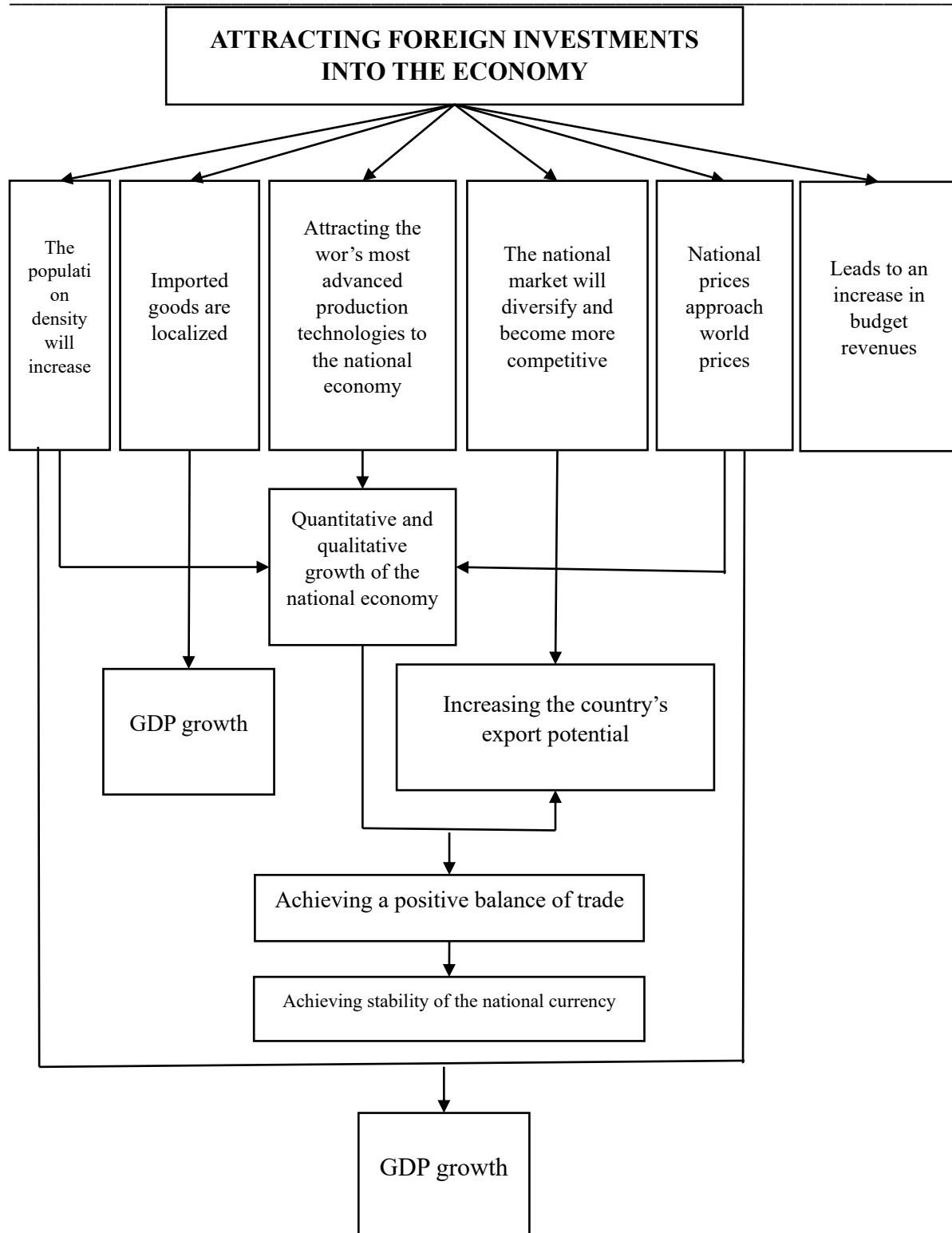


Figure 2. Prospects for attracting foreign investment to the country's economy.



Modern American Journal of Business, Economics, and Entrepreneurship

ISSN (E): 3067-7203

Volume 01, Issue 07, October, 2025

Website: usajournals.org

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The inflow of foreign capital into the economy generates numerous positive outcomes and serves as an important factor in a country's economic development. First and foremost, the attraction of external investments leads to the establishment of new production capacities, which in turn increases employment levels. At the same time, import-substituting production processes are launched, meaning that goods previously imported from abroad begin to be produced domestically. This process strengthens the national economy and reduces external economic dependence. The modern technologies introduced through foreign capital ensure qualitative renewal of production and enhance competitiveness. As a result, the national economy grows both quantitatively and qualitatively, and the indicators of Gross Domestic Product (GDP) show positive improvements.

In addition, foreign investments contribute to the diversification of the national market and stimulate competition. The production of new types of goods in various sectors provides domestic consumers with a wider range of choices, and national prices become more aligned with global prices. This deepens economic integration and increases the country's international competitiveness. Furthermore, the expansion of production and technological modernization strengthen the export potential. The growth in export volumes leads to a positive trade balance, meaning that the country exports more and gains greater profit from foreign trade. This not only increases foreign currency inflows but also ensures the stability of the national currency. Thus, foreign capital flows exert a comprehensive impact on the economy by expanding exports, improving the trade balance, and strengthening currency stability.

Conclusion

In conclusion, the role of the state in economic processes is of crucial importance in effectively regulating market mechanisms, maintaining economic balance, and ensuring sustainable development. The state not only manages production, consumption, and distribution processes through macroeconomic policy instruments but also serves as the key guarantor of social justice, economic security, and public welfare. Although direct state intervention is limited under market economy conditions, it still supports all participants in economic activity



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ISSN (E): 3067-7203

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Website: usajournals.org

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by shaping the institutional environment, strengthening the legislative framework, developing infrastructure, and creating favorable business conditions. Therefore, the state's role in the economy functions as a strategic management mechanism, ensuring the effective allocation of economic resources and serving as a guarantee for sustainable development.

Furthermore, the theoretical foundations of attracting foreign investments are explained by the need to expand capital inflows, introduce modern technologies, and promote international cooperation. Classical theories justify foreign investment as a means of compensating for capital shortages, while modern approaches emphasize innovative development, human capital, and institutional reforms. In this process, the role of the state lies in reducing constraints, providing guarantees to investors, introducing tax and customs incentives, and supporting the operation of free economic zones. Foreign investments increase the country's production capacity, expand export potential, create new jobs, and strengthen economic stability. Therefore, the active participation of the state in economic processes and the practical application of theoretical principles for attracting investments are decisive factors in enhancing the competitiveness of the national economy and achieving sustainable development.

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***Modern American Journal of Business,
Economics, and Entrepreneurship***

ISSN (E): 3067-7203

Volume 01, Issue 07, October, 2025

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