

CONDITIONS AND FACTORS AFFECTING POSITIVE INVESTMENT CLIMATE IN THE KYRGYZ REPUBLIC

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Abstract: *In the context of globalization, the investment attractiveness of a country is essential for the economy of the country. The purpose of this paper is to explore the factors affecting the inflow of foreign direct investment in the example of the Kyrgyz Republic as a member of the Eurasian Economic Union (EAEU). The paper introduces the ways and changes in the country's investment activities and explains how the country attempts to attract investors and improve state legislation, ideology, and economic policy to create a favorable investment climate. The investment climate discussed in this paper as a set of factors plays a decisive role in attracting investment to the country's economy. In addition, this paper identifies the factors determining investment climate that depend on political stability, the transparent legal framework, the tax coefficient, and the attractive benefits, and concludes by emphasizing that all of these factors create a favorable climate for investors and help the Kyrgyz Republic to form a positive investment image.*

Keywords: *the Kyrgyz Republic, investment attractiveness, investment climate, state investment policy.*

JEL Classification: *F21, F43, C23, O47, P45*

Introduction

One of the distinguishing features of the modern world economy is the intensive development of international economic relations. The latter manifests itself in the globalization of economic life, in deepening financial and economic ties, the international division of labor, increasing openness of national economies, and exchange between different countries' types of resources, including investment. Implementation of economic transformations in the Kyrgyz Republic is closely associated with the attraction and use of foreign investment, which is especially important in conditions of acute underfunding of the national economy. In addition to financial resources, which makes it possible to overcome the contradiction to some extent between the continuous growth of demand for investment resources and limited in the national economy, the foreign investment provides the Kyrgyz Republic with intangible values, such as managerial experience, innovations, and scientific and technical developments. Foreign capital also contributes to the process of modernization of national production, as well as increased competition between companies, which determines the increase in investment activities.

In the context of globalization, the investment attractiveness of a country is an essential part of its economy. That is why countries around the world are trying to improve their legislation, ideology, and economic policy to create a favorable investment climate and attract investors. Investment attractiveness consists of many factors and is quite subjective. Often, each investor makes decisions based on their preferences for various indicators of the country's economic activity. One of the main factors in making decisions by investors is the country's investment climate. Some countries have already formed a positive investment image. The development of any country's economy is closely connected with investment resources. Studies show investment activity refers to the investment and implementation of practical actions for profit and (or) achieving another beneficial effect [Bogatyrev, 1999].

It should be noted that the investment activity includes two main stages. The content of the first stage - "investment of resources - investment" - is an investment activity. The second stage is "investment of funds - the result of investment" which involves the payback of the costs incurred and the receipt of income as a result of the use of investments. It characterizes the relationship and interdependence of the two necessary elements of any type of economic activity: costs and returns [Kiseleva, *et al.*, 2005].

In an attempt to create a country's positive investment image, we attempted to classify the following main factors that include the ways and changes in the country's investment activities. We consider that these factors identify the ways to attract investors and improve state legislation, ideology, and economic policy to create a favorable investment climate:

- the development and implementation of investment activities by the current liberal legislation laws;
- the visa-free regime;
- the accession of Kyrgyzstan to the Eurasian Economic Union (EAEU);
- liberal legal framework for protecting the rights of foreign investors.

Literature review

According to the Law of the Kyrgyz Republic “On Investments in the Kyrgyz Republic” investment is defined as: "Investments are tangible and intangible investments of all types of assets owned or controlled directly or indirectly by an investor in objects of economic activity to generate profit and (or) achieving another beneficial effect" [The Law of the Kyrgyz Republic, 2012]. Investment attractiveness is defined by Aliev A. and Nagdiev S. who proposed seven ways of rating the investment climate assessment, [Aliev & Nagdiev, 2004, p.122–123], which shows how to build an investment attractiveness rating, which took into account indicators in the following seven areas:

- macroeconomic stability and development;
- ease of doing business in the country;
- inflow investment in the country;
- innovative development;
- management quality,
- the level of compliance with the law, protection of property rights;
- risk interaction with the country;
- the quality of the banking system, accessibility of loans [Aliev & Nagdiev, 2004];

The final indicator of investment attractiveness (rating) is the sum of weighted, taking into account the degree of importance of commensurate factors-indicators.

The following analysis is given from the practical point of view of [Kiseleva, *et al.*, 2005], using an econometric approach to assessing investment attractiveness countries. The use of the econometric models allows, based on available statistical data, to obtain a quantitative assessment and determine the factors that contribute

to an increase in investment country attractiveness. It identifies 22 factors influencing the investment attractiveness of a country. Indicators for calculating the rating of investment attractiveness of countries:

- Gross domestic product (GDP)
- GDP per capita PPP
- inflation rate
- Population growth rate
- Unemployment rate
- The average number of days to open a business
- The average number of days to pay taxes
- Share of taxes in government revenue
- Foreign direct investment (FDI)
- Share of FDI in GDP
- Portfolio investment
- Global Innovation Index
- Science intensity of GDP
- Percentage of the population with Internet access
- economic freedom
- Corruption index
- Quality of public administration
- Shareholder protection
- Share of public debt in GDP
- Refinancing rate
- Percentage of adults using credit
- Credit availability [Kiseleva, *et al.*, 2005].

The paper uses both qualitative and quantitative methods of research of data from studies by scholars and other authors, law regulations, reports of international organizations, and the database of the World Bank to assess the investment climate in the country. They are based on various economic, political, and financial indicators, according to the totality of which a country is assigned an investment rating. In addition, for assessing the attractiveness of the country, econometric and factorial approaches are used. The use of econometric models allows, based on available statistical data, to obtain a quantitative assessment and determine the factors that contribute to an increase in investment country attractiveness [Kiseleva, *et al.*, 2005]. In addition, this paper summarizes the results of the analysis of the main approaches to examining the investment attractiveness of the

country and concludes that the most productive and meaningful is the factorial approach, in which the four main factors are identified, determining the investment attraction.

Preliminary studies show that one of the priority areas of economic policy of the Government of the Kyrgyz Republic (KR) and mutually beneficial economic cooperation with other states is the attraction of investments in the country's economy. It should be noted that the scope of legal regulation is a key non-economic resource of investment activity, having a significant impact on the degree of risk for investors. This relationship allows us to talk about the legal risks of this activity. According to the scientist A.G. Bogatyrev, legal regulation of investment relations is divided into two parts: national legal and international legal [Bogatyrev, 1992]. The essence of legal regulation consists in stimulating investment activities, which is to provide favorable conditions and guarantees to participants in the investment process, in creating conditions for civilized competition in the markets of labor, capital, and goods. Among the legal acts directly or indirectly regulating investment activity in the Kyrgyz Republic, including the Civil Code of the Kyrgyz Republic, the Tax Code of the Kyrgyz Republic, the Laws of the Kyrgyz Republic "On investments in the Kyrgyz Republic", "On Investment Funds", "On Joint Stock Companies", "On public-private partnership in the Kyrgyz Republic", "On Free Economic Zones in the Kyrgyz Republic", "On the securities market", as well as several resolutions and orders of the Government of the Kyrgyz Republic, in particular, the legal regulation laws of the Kyrgyz Republic, such as, "On Investment Promotion and Protection Agency of the Kyrgyz Republic", "On the activities of the State Service for Regulation and Supervision of financial market under the Government of the Kyrgyz Republic", etc.

Legal Framework for Implementation of Foreign Investments in The Kyrgyz Republic

The first factor in attracting investors is the development and implementation of investment projects by the current liberal legislation laws. This type of investment activity has a rationale, and economic feasibility, in which the volume and timing of capital investments, including the necessary design and estimate documentation are discussed and developed by the legislation law of the Kyrgyz Republic [The Law of the Kyrgyz Republic, 2012]. Investors investing in priority sectors of the economy and social sphere, conducting work in certain territories of the republic, may be granted benefits by state development programs (projects).

The Kyrgyz Republic is now in the process of creating its image, and every year we have new, progressive changes made to improve investment attractiveness. Changes are given to the important document for investment climate is the Law of the Kyrgyz Republic "On Investments in the Kyrgyz Republic" which is the most liberal legislation, and in which improvements are also being made in terms of innovation [The Law of the Kyrgyz Republic, 2012].

According to the news of the Ministry of Economy and Commerce of the Kyrgyz Republic, the Kyrgyz Republic has concluded 33 bilateral agreements on the promotion and protection of investments with such countries as Austria, Great Britain, Germany, India, Kazakhstan, Qatar, Turkey, China, Kuwait, Russia, USA, Switzerland, South Korea, etc. [World Bank in the Kyrgyz Republic]. The Kyrgyz Republic, like other Central Asian countries of the post-Soviet space, is an example of an economy that is still in the transition period; however, in some of the post-soviet countries, for instance, Kazakhstan has already formed a positive investment image.

The second factor is the visa-free regime. It is necessary to note that the Kyrgyz Republic has introduced a visa-free regime for up to 60 days for citizens of 61 states to attract tourists and increase investment opportunities.

The third factor is the accession of Kyrgyzstan to the Eurasian Economic Union (EAEU) [4] in which, EAEU opened up wide opportunities for economic development and attraction investments to the republic. With the accession to the EAEU, barriers to the movement of goods, services, and capital to the markets of EAEU's five member countries with a population of more than 180 million people create a favorable climate for Kyrgyzstan and its partners. At present, the EAEU is 3.2% of the world GDP, one of the largest world markets or 2.5% of the world's population, and the largest territory in the world (more than 20 million sq. km) [4].

The fourth factor is the legal framework. The Kyrgyz Republic has a relatively liberal legal framework for protecting the rights of foreign investors. The main principles of the state investment policy aimed at improving the investment climate in the republic and stimulating the attraction of domestic and foreign investments are established by the Law "On Investments in the Kyrgyz Republic", which also regulates relations between the state and the investor [The Law of the Kyrgyz Republic, 2012]. The legislation provides for the non-interference of the state in the economic activities of investors, and the recognition of their interests, except for cases provided for by legal acts. At the same time, officials of the Kyrgyz Republic

who do not comply with the requirements are liable by the law [The Law of the Kyrgyz Republic, 2012].

Thus, we may note that the Kyrgyz Republic provides foreign citizens making investments in its territory with the national regime of economic activity applicable to legal entities and individuals of the Kyrgyz Republic. At the same time, foreign investors have the right to free movement throughout the country, except for territories, the conditions, and the procedure for staying on which are determined by the relevant legislative acts of the Kyrgyz Republic [2]. In recent years, according to the Law of the Kyrgyz Republic “On Investments in the Kyrgyz Republic” [The Law of the Kyrgyz Republic, 2012]., the Government of the Kyrgyz Republic has carried out the following reforms to attract investment to the country:

- to guarantee and protect investments, a stabilization regime was introduced for foreign investors, which allows the investor to choose the most favorable regulatory regime in the event of amendments and additions to the regulatory legal acts of the Kyrgyz Republic governing tax and non-tax payments. According to the Law of the Kyrgyz Republic "On Investments in the Kyrgyz Republic", the investor, as well as the invested enterprise, within ten years from the date of signing the stabilization agreement, have the right to choose the most favorable conditions for them to pay taxes, including value-added tax, but excluding other indirect taxes, and non-tax payments (except for payments for services rendered by state bodies) in the manner established by the legislation of the Kyrgyz Republic;

- the Government has established the Business Ombudsman Institute, whose activities are aimed at ensuring the protection of the legitimate interests of entrepreneurs and investors before state and local bodies and officials;

- the Agency for the Protection and Promotion of Investments of the Kyrgyz Republic was also established, which is the body responsible for supporting and protecting investments;

- to stimulate foreign investment in preferential industrial enterprises and determine preferential settlements, the Law of the Kyrgyz Republic “On Amendments to the Tax Code of the Kyrgyz Republic” and the Decree of the Government of the Kyrgyz Republic dated April 24, 2019 [6], which provide conditions for newly created enterprises (from January 1, 2019) based on concluded investment agreements for exemption from property tax, land tax, income tax and sales tax in within 5 years [Sultanov, 2019];

Here we give a brief review of the changes “On Investments in the Kyrgyz Republic” [The Law of the Kyrgyz Republic, 2012]. By the Law of the Kyrgyz Republic "On Investments in the Kyrgyz Republic", the following conditions and guarantees are provided by investment legislation of the Kyrgyz Republic:

- for foreign investors making investments in the territory of the Kyrgyz Republic, the national regime of economic activity applied to legal entities and individuals of the Kyrgyz Republic;

Foreign investors, their representatives, and foreign employees who are in the Kyrgyz Republic in connection with investment activities have the right to free movement throughout the territory of the Kyrgyz Republic, except for territories, the conditions, and procedure for staying in which are determined by the relevant legislation of the Kyrgyz Republic;

- equal investment rights for local and foreign investors regardless of citizenship, nationality, language, gender, race, religion, place of their economic activity, as well as the country of origin of investors or investments, except as otherwise provided by the legislation of the Kyrgyz Republic;

- the Kyrgyz Republic, represented by authorized state bodies, officials, and local self-government bodies, refrains from interfering in economic activity, the rights and legally recognized interests of investors, except as otherwise provided by the legislation of the Kyrgyz Republic;

- investors making investments in priority sectors of the economy and the social sphere, as well as in certain territories of the republic, by state development programs (projects) may be provided with investment benefits by the legislation of the Kyrgyz Republic;

- investments can be made in any form in objects and types of activities not prohibited by the legislation of the Kyrgyz Republic, including in licensed types of activities by the Law of the Kyrgyz Republic "On the licensing system in the Kyrgyz Republic";

- guarantees for the export or repatriation of investments, property, and information outside the Kyrgyz Republic;

- guarantees of protection against expropriation of investments and compensation for losses to investors. By paragraph 5 of Article 6 of the above Law of the Kyrgyz Republic, investors whose investments in the Kyrgyz Republic were damaged as a result of war or another armed conflict, revolution, state of emergency, civil strife, or other similar circumstances are provided with legal

status and conditions no less favorable, than applied to legal entities and individuals of the Kyrgyz Republic;

-guarantees for the use of income; freedom of monetary transactions; free access to open information; economic independence of investors and recognition of the rights of investors;

In the Kyrgyz Republic, the state executive body for the implementation of state policy in the field of investments is the Agency for the Promotion and Protection of Investments of the Kyrgyz Republic [Investment portal of the Kyrgyz Republic].

According to the Law of the Kyrgyz Republic, the Agency provides communication between state bodies and investors, so, the following activities are done for promoting investment: - prepares and distributes information about investment opportunities and conditions; - advises potential investors on legal, economic and other issues regarding specific activities; - provides investors with the necessary information related to the licensing procedure for carrying out activities, and provides appropriate assistance; - actively helps in solving the problems of existing and potential investors, including assistance and protection if they encounter illegal or obstructive actions of state and other bodies; - develops proposals for government agencies to improve the investment climate in the Kyrgyz Republic; - carries out an authorized representation of the Kyrgyz Republic and, within its competence, has the right to participate in international negotiations or consultations on investments; - takes measures aimed at fulfilling the obligations of the Kyrgyz Republic arising from international treaties, conducts activities for international cooperation, organizes the study and use of foreign experience; - advises state bodies and officials on existing or planned investment policies; organizes and conducts, together with interested ministries and departments, a competition of investment projects and programs; - performs other functions aimed at promoting investments, supporting and protecting investors in the Kyrgyz Republic [Investment portal of the Kyrgyz Republic].

According to the National Statistical Committee of the Kyrgyz Republic the following Table no. 1, the structure of foreign investments entrance (thousand dollars USA) shows the increasing percentage of foreign investment in 2021 and 2022:

Table no. 1. The structure of foreign investments entrance (thousand dollars USA)

<i>Items</i>	<i>2021</i>	<i>2022</i>
Direct foreign investments	537,553.8	1,006,091.2
Portfolio investments	27.1	930.3
Other	6,363,670.7	5,289,015.8
Grants, technical assistance	25,530.2	35,318.7

Source: National Statistical Committee of The Kyrgyz Republic
<http://www.stat.kg/en/statistics/investicii/>

In addition, by regulations of the Law, investors on an equal basis have the right to use the services for the development and protection of their interests, which are provided by the Investment Promotion Agency [Investment portal of the Kyrgyz Republic].

Investment-attractive countries are countries in which the private sector, carries out reforms in the field of innovation development. Kyrgyzstan should take examples from countries that are adjusting their social and economic policies. All this is inherent in Kyrgyzstan's development strategy. The country is on the path to improving its investment and innovative potential. However, due to low-quality management and the lack of a sufficient competitive level innovative development country is intensively fighting poverty and pursuing a policy of attraction of resources, which may attract investors in the future. When the country lacks stability, the investment climate is deteriorating sharply. In order to achieve the desired result in the development of the investment attractiveness of the country, all organizations should follow the principles that were mentioned in the article by Negulescu, O. H. (2016): "a company based on knowledge is characterized by the following features that bring success: strategic resources: highly qualified employees, know-how, knowledge, information, intellectual ownership; strategic competencies: high level of technology, innovation, market opportunities for customers, investment in knowledge and people, dissemination of knowledge and use of competitive advantages of capitalization" [Negulescu, 2016].

The results obtained in the work revealed the main "weak points" of Kyrgyzstan. Researching relationships between indicators led to a conclusion about what should be emphasized in determining the direction of country policy. As a rule, an experienced, conscientious institutional investor receives information about how strictly the laws work in the country, and how convenient it is to do business

in this country, based on international reports and ratings. One of the most credible ratings is the World Bank's Doing Business rating. Currently, Kyrgyzstan ranks 80th in this rating [World Bank in the Kyrgyz Republic]. This rating consists of the following 10 evaluation criteria:

- Starting a business (42)
- Possibility of obtaining a building permit (90)
- Electrical connection (143)
- Property registration (7)
- Getting a loan (15)
- Protection of minority investors (128)
- Paying taxes (117)
- Cross-border trade (89)
- Enforcement of contracts (134)
- Conflict resolution (78)

[Source: World Bank in the Kyrgyz Republic, 2021].

As can be seen above, the criteria require activities in different directions, in addition, different public services are responsible for each direction.

The Kyrgyz Republic, like most other countries, has fully experienced the consequences of the global economic crisis. Nevertheless, the state's economy is in the process of recovering after the crisis and showed relatively stable growth. Estimated analysts, according to the results of 2022 and 2021, its GDP indicators will grow by 7.74 and 8.54 respectively [Source: World Bank in the Kyrgyz Republic].

Table no. 2. The macroeconomic indicators of the Kyrgyz Republic in January and October 2022

Population <i>million people (based on the data of the 2022 census.)</i>	7.0
Gross domestic product <i>by January-October 2021, in %</i>	107.0%
Agriculture <i>by January-October 2021, in %</i>	106.7%
Fixed asset formation	101.0%
Manufacturing <i>by January-October 2021, in %</i>	114.3%
Inflation <i>by December 2021</i>	12.1%
Export <i>by January-September 2021, in %</i>	61.2%
Import <i>by January-September 2021, in %</i>	178.8%

Source: National Statistical Committee of The Kyrgyz Republic.

Undoubtedly, the country's economy was not without losses, but in general, the country is managing to position itself as a country of good opportunities, attractive to investors. Above we used data from the macroeconomic indicators of the Kyrgyz Republic in January and October 2022#National Statistical Committee of The Kyrgyz Republic.

Conclusion

Overall, we conclude that the Kyrgyz Republic is in an attempt to create a positive investment image and works out reforms for building an attractive country for foreign investors. If the state can effectively use all the resources, that the country has to offer and continue to diversify investments, the future of the Kyrgyz Republic remains to be promising. Thus, summarizing the results of the main approaches to examining the investment attractiveness of the country, we believe that the most productive and meaningful is the factorial approach, in which the main factors are identified, determining the investment attraction.

Despite existing investments from the US, Canada, Europe, Turkey, Russia, and China, the overall level of investment in the republic is still insufficient. In this regard, the stimulation of foreign direct investment has become a priority of economic policy, and therefore we recommend the public and private sectors have joined forces to attract additional investors.

Thus, the issue of attracting foreign investment in our economy and creating favorable conditions for investors in the Kyrgyz Republic remains one of the main priority tasks set before our state. Existing measures to improve the institutional environment of the national economy during the implementation of economic reforms in the Kyrgyz Republic will overcome the currently existing "barrier of dependence" on donor countries so that the problem of attracting foreign investment forever has been exhausted with the best outcome for the Kyrgyz Republic.

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