

**THE ROLE OF INSTITUTIONAL MECHANISMS IN OPTIMIZING THE
ATTRACTION OF FOREIGN INVESTMENTS****Bahadirov Shokhrukhbek Anvarovich**

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Annotation. This paper examines the role of the institutional environment in attracting and optimizing foreign direct investment (FDI) flows. An analysis of modern institutional theories shows that the quality of formal and informal institutions is a key factor determining a country's investment attractiveness. Empirical evidence confirms that optimizing legal, political, and economic mechanisms can reduce risks, transaction costs, and create sustainable incentives for foreign investors.

Keywords. foreign direct investment, institutional mechanisms, institutional economics, investment climate, transaction costs, legal institutions.

Introduction.

In the context of the globalization of the global economy, attracting foreign direct investment (FDI) is becoming a strategic objective to ensure economic growth, technological transfer and increase the competitiveness of national economies. However, FDI flows are extremely unevenly distributed. Traditional explanations focusing on macroeconomic stability, market size, and resource availability are insufficient to understand the causes of this imbalance. The institutional approach, which considers the quality of institutions as a fundamental basis for making investment decisions, is becoming increasingly relevant. The purpose of this article is to analyze the role of institutional mechanisms in optimizing the attraction of FDI and to develop theoretical provisions for their improvement.

The main part. Theoretical foundations of the institutional approach to FDI

North's classic work (1990) defines institutions as the "rules of the game" in society, man-made restrictive frameworks that structure political, economic, and social interaction. According to North, institutions reduce uncertainty by creating a stable structure of interaction. In the context of foreign direct investment, this means that investors are looking for jurisdictions with clear, transparent, and respected "rules of the game" that minimize the risks of expropriation, contract violations, and bureaucratic arbitrariness.

Developing this idea, Williamson (2000) in his work "Levels of Social Analysis" pays special attention to transaction costs. The institutional environment (the first level, according to Williamson) determines the main costs of doing business. Weak institutions (corruption, inefficient judicial system, unstable legislation) dramatically increase transaction costs, making potentially profitable projects

impractical. However, countries with economies in transition are often characterized by hybridity, where official tier 1 institutions declare one thing, while informal tier 1 norms and practices actually create a different, more costly environment. The theory needs to be complemented by an analysis of the conflict between formal and informal institutions in the context of foreign direct investment. Thus, the optimization of institutional mechanisms is nothing more than a targeted reduction in transaction costs for foreign capital.

D. Acemoglu and J. A. Robinson (2012) emphasize the long-term effect in their concepts of "inclusive" and "extractive" institutions. Inclusive economic institutions that ensure property rights, fair competition, and equal access to opportunities create the conditions for long-term investment and innovation. Foreign investors focused on long-term presence will prefer countries with inclusive institutions. The theory describes age-old trends, while policy makers need a roadmap of institutional change that would provide quick signals to investors. Perhaps the concept of "intermediate" institutional reforms is needed, which, although not fully inclusive, demonstrate an irreversible vector of movement towards them.

A similar, though less practical, idea was put forward by S. Johnson, J. McMillan, and K. Woodruff (2002). Their research, based on surveys of firms in post-socialist countries, has empirically proved that the protection of property rights (provided by effective courts) is a more important factor for entrepreneurs (including foreign ones) than access to finance. They have shown that weak property rights in principle hinder investments, redirecting assets to short-term, fast-paying projects or abroad. This directly explains why foreign direct investment in countries with weak judicial institutions is often limited, commodity-based, or speculative.

The theory of institutional distance by P. S. Bundy and W. J. Goodenough (2010), developing the ideas of W. Scott (2008) on the three pillars of institutions (regulatory, regulatory, cultural, and cognitive) provides a key clarification. She argues that the problem lies not only in the absolute quality of the institutions of the host country, but also in the degree to which they differ from those of the investor's country of origin. A large institutional gap increases the costs of adaptation, "lapping" business models and management. Consequently, FDI flows between countries with similar institutional profiles will be more intense. This approach explains the regional concentration of investments and the importance of "bridges" in the form of bilateral investment agreements that harmonize rules.

Finally, the works of D. Rodan (2000) and H. Greifa (2006) completes the picture. Rodan emphasizes that in order to attract investment, institutions must ensure not only the protection of property rights, but also social and political stability. Democratic institutions and social insurance systems, in his opinion, reduce the risks of populist coups and expropriation. Greif, exploring the historical roots of institutions, shows that informal institutions (norms, traditions of trust) have great inertia and can both support and undermine formal legal reforms. This explains why simply copying the "best" laws of the West often does not have the expected effect of attracting high-quality FDI to countries with a different informal institutional matrix. Consequently, the modern institutional approach to FDI represents a multi-level theoretical framework that explains investment decisions through the prism of reducing transaction costs, minimizing uncertainty, protecting property rights, bridging the institutional gap, and taking into account the long-term sustainability of the institutional environment.

Key institutional mechanisms and their optimization

Legal and regulatory mechanisms. Reliable protection of property rights, including intellectual property, is the cornerstone of the work of Glaeser et al. (2004). Optimization requires not only the creation of modern laws, but also ensuring their effective and impartial application by the judicial system, which is a direct way to reduce the key risk for the investor. Dispute resolution procedures (including international arbitration) should be accessible and predictable. However, the absolutization of this mechanism in isolation from others (for example, political stability or a competitive environment) can lead to the effect of a "fortress under siege", when the rights of a foreign investor are protected, but doing business is hindered by other institutional failures.

Political and administrative mechanisms. The stability of the political regime and the low level of corruption are crucial. The work of Kaufman et al. (2011), devoted to global indicators of public administration (public administration, efficiency, rule of law), provides empirical evidence of a direct correlation between the quality of public administration and the volume of FDI. The optimization includes increasing the transparency of public procurement, the introduction of digital administrative services (e-government) and the creation of independent anti-corruption bodies.

Economic and financial mechanisms. The predictability of macroeconomic policy, the liberalization of currency regulation, the development of the financial market and the corporate governance system create an environment for the effective use of investments. Institutions that ensure the free movement of capital and repatriation of profits directly influence investment decisions.

Informal institutions and development institutions. Cultural norms, attitudes towards foreign capital, the level of trust in society, and business ethics form the informal basis. The purposeful formation of a positive image of the country through development institutions (investment agencies, CCI) plays the role of a catalyst that reduces information asymmetry.

Empirical analysis and discussion

A comparative analysis of successful recipient countries of foreign direct investment (for example, Singapore, the Baltic States, Poland) shows that their success was based not on one-time benefits, but on deep institutional reforms aimed at building a transparent, accountable and investor-oriented system. At the same time, countries relying solely on tax breaks or raw material rents with weak institutions demonstrate instability and volatility of low-value-added FDI flows.

Conclusion

The analysis shows that optimizing the attraction of foreign investment is impossible without priority development and improvement of institutional mechanisms. The investment climate is, first of all, a climate of trust created by high—quality institutions. The strategy should shift from the tactic of providing individual preferences to the strategy of creating a universally attractive institutional platform. This implies systematic work to strengthen the rule of law, improve the efficiency of public administration, protect property rights and develop a competitive environment. Future research may focus on developing indicators to assess the effectiveness of specific institutional reforms in terms of their impact on the structure and quality of incoming FDI.

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