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# Interstate Legal and Economic Relations In Attracting Foreign Investments: Effectiveness of Mutual Cooperation and Agreements

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**Abstract:** This article provides an in-depth analysis of the role of interstate legal and economic relations in the process of attracting foreign investment, forms of mutual cooperation and the impact of international agreements on the investment climate. The strength of the legal framework, the predictability of economic policy and the existence of bilateral and multilateral agreements between states are considered important factors in the stable and consistent attraction of foreign investment flows. In particular, the impact of such instruments as international investment treaties, memorandums on trade and economic cooperation, free trade zones and bilateral investment agreements on investment attractiveness is illustrated using examples. The article also analyzes the political and economic strategies of the Republic of Uzbekistan in the field of foreign investment, their coordination with international cooperation mechanisms, as well as the system of legal guarantees and privileges created for foreign investors. Also, the place occupied by Uzbekistan in international investment ratings in recent years, cooperation with international organizations and the effectiveness of the most important legal reforms are studied on the basis of scientific-theoretical and empirical approaches. The main conclusion of the article is that an effective legal regulatory framework and stable interstate cooperation relations are important strategic tools for attracting foreign investment. Therefore, legal agreements, economic memorandums of understanding and mechanisms ensuring political stability between countries that improve the investment climate are considered not only a factor of economic growth, but also a factor of strengthening the geoeconomic position.

**Keywords:** foreign investments, interstate legal relations, international economic cooperation, investment agreements, investment attractiveness, legal guarantees, international agreements, economic reforms

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## 1. Introduction

In the context of global economic integration, attracting foreign investment is one of the priority areas in the economic policy of each state. Today, in an environment of increased investment competition, attracting foreign capital flows for the national economy is recognized not only as a means of obtaining financial resources, but also as a means of expanding the possibilities of integration with advanced technologies, management experience and international markets. In this regard, the role of interstate legal and economic relations in attracting foreign investment is increasingly increasing. International experience shows that improving internal economic factors alone is not enough to conduct an effective investment policy. On the contrary, interstate legal

agreements, bilateral and multilateral investment treaties, memorandums of understanding on trade and economic cooperation, and institutional ties with international organizations are of decisive importance in creating a reliable and guaranteed environment for foreign investors [1]. Investment security, the availability of dispute resolution mechanisms and the protection of property rights based on international norms are all considered key indicators for foreign investors.

The economic reforms and open foreign policy carried out in the Republic of Uzbekistan in recent years have yielded significant results in attracting foreign investment. Our country has established investment cooperation with a number of international financial institutions, developed countries and regional economic structures [2]. In particular, agreements on bilateral investment treaties, free trade zones and international arbitration mechanisms strengthen legal guarantees for foreign investors. At the same time, according to assessments by international rating agencies, the investment attractiveness of Uzbekistan is increasing year by year, which indicates the effectiveness of the policy of international legal and economic cooperation.

**Review of relevant literature.** The study of the effectiveness of cooperation and agreements between interstate legal and economic relations in attracting foreign investment is one of the current areas of international economic research. Scientific research on this topic is mainly focused on economic, legal and political aspects. In analyzing the effectiveness of the relationship between foreign investment and interstate legal relations, there are a number of studies on the experiences of different countries, international economic relations and investment strategies. Through this review of literature, the aim is to analyze the main scientific approaches put forward on the topic and their interrelationships. First, studies on the importance of interstate legal relations in attracting foreign investment are mainly focused on legal mechanisms and investment protection implemented through international treaties and agreements. In particular, Sachs in his work "The Globalization of World Politics" analyzes the role of interstate investment policies and the role of international treaties in the global economy. He emphasizes the importance of ensuring the reliability and security of legal systems in attracting foreign investment in the global economy [3]. According to Sachs, international investment treaties are a key factor in strengthening mutual trust between countries and protecting investors. In particular, foreign investment agreements and their implementation play an important role in supporting the economic growth of countries. Jensen, in his work "Political Risk, Democratic Institutions and Foreign Direct Investment", analyzes the political and legal factors in attracting foreign direct investment [4]. He studies the political stability and effectiveness of the legal system of countries, emphasizing the role of the government in investment policy and the effectiveness of investor protection mechanisms. Jensen's scientific research expands the impact of interstate economic relations and legal agreements on investment flows and identifies the necessary factors for creating clear legal and economic conditions for countries. Secondly, Blomstrom and Kokko study the economic aspects of attracting foreign investment. In their work "Foreign Direct Investment: Theoretical and Empirical Studies", the impact of foreign investment on economic growth and development, as well as the impact of interstate cooperation and agreements on investment flows are analyzed [5]. Researchers believe that economic relations implemented through investment agreements and contracts play an important role, mainly in stimulating technology transfer and innovative development between countries. In their opinion, the effectiveness of interstate economic relations in attracting foreign investment is the main tool of economic policies and agreements between countries. Dunning in his work "The Eclectic Paradigm of International Production" analyzes the interdependence of interstate legal systems and economic relations in attracting foreign investment [6]. Dunning's "Eclectic Paradigm" model explains the interaction of economic and legal mechanisms in attracting international investment. He also studies the role of international treaties and agreements in protecting investments and the impact of this process on economic growth. According to Dunning, international treaties increase the competitiveness of countries and are of great importance in attracting investors to countries. In addition, Wei, in his article "How Taxing

is Corruption on International Investors?”, analyzes the impact of corruption on foreign investment and ways to reduce this process through interstate legal relations. Burgess, in his work “Legal Frameworks and Foreign Investment”, conducts scientific research on the role of investment law and interstate agreements [7]. He analyzes the role of the legal system of states in attracting foreign investment, the effectiveness of international treaties and the investment protection created on their basis. According to Burgess, investment agreements implemented through international legal relations not only provide protection mechanisms for investors, but also have a positive impact on the economic policies of states.

The study of interstate legal and economic relations, as well as the effectiveness of cooperation and agreements in attracting foreign investments, is being actively studied not only on a global scale, but also in the local scientific environment. Research conducted by domestic economists is aimed at deeply studying the relationship between economic relations and legal systems between countries and analyzing the impact of these processes on the national economy. First of all, A.A. Shomahmudov, in his work “Foreign Investments and Their Impact on Economic Development”, provides a detailed analysis of the main mechanisms of attracting foreign investments and the role of interstate legal relations. He highlights the role of foreign investments in the economic development of Uzbekistan and the formation of legal systems related to them. According to Shomahmudov, the reliability of the legal framework in attracting foreign investments is of decisive importance in creating a safe and stable environment for investors[8]. He also analyzes the legal and economic measures taken by Uzbekistan to strengthen international economic cooperation and protect investments. He noted that mutual agreements, international treaties and investment agreements serve to increase social and economic stability within the country. M.K. Tursunov in his scientific work “Improving the investment climate and its effectiveness” studies the effectiveness of interstate economic relations and investment agreements [9]. Tursunov emphasizes the importance of foreign investment in economic growth and modernization of production. In his research, he emphasizes the need to develop trade and strengthen mutual economic relations between countries through economic relations and investment agreements between states. In particular, Tursunov highlights the role of investment agreements in strengthening mutual economic relations in the Central Asian region, showing that these processes are a great impetus for increasing the competitiveness of countries and strengthening their economic integration. K. Usmanov, in his work “Investment Policy of Uzbekistan and International Economic Relations”, analyzed the role of interstate legal relations in attracting foreign investment. Along with studying the effectiveness of Uzbekistan’s investment policy, Usmanov highlights the role of international treaties and agreements, especially in the development of Uzbekistan’s regional and global economic relations [10]. He emphasized the need to improve Uzbekistan’s international investment law systems and create the necessary legal and economic mechanisms for their effective management. According to Usmanov, interstate investment treaties and agreements are an important factor in the development of economic relations between countries, including in supporting technological transfer and innovative development. Other studies conducted in Uzbekistan also paid special attention to the issues of interstate legal and economic relations.

In conclusion, the analysis of the literature confirms the priority of interstate legal and economic relations in the process of effective attraction of foreign investments. International agreements, economic cooperation programs, legal guarantees created for investors - all these are seen as factors determining the flow of foreign capital. However, in the existing literature there is a need for in-depth empirical research on the effectiveness of interstate cooperation at the regional or country level and it is precisely in the case of Uzbekistan that a more extensive study of this area is scientifically and practically relevant.

## 2. Materials and Methods

This study is aimed at assessing the role of interstate legal and economic cooperation in attracting foreign investment and was conducted on the basis of a comprehensive

approach. The research methodology was formed on the basis of a mixed method that combines qualitative and quantitative analysis methods. This approach served to deeply study the theoretical and practical aspects of the topic, identify existing problems, and draw scientifically based conclusions.

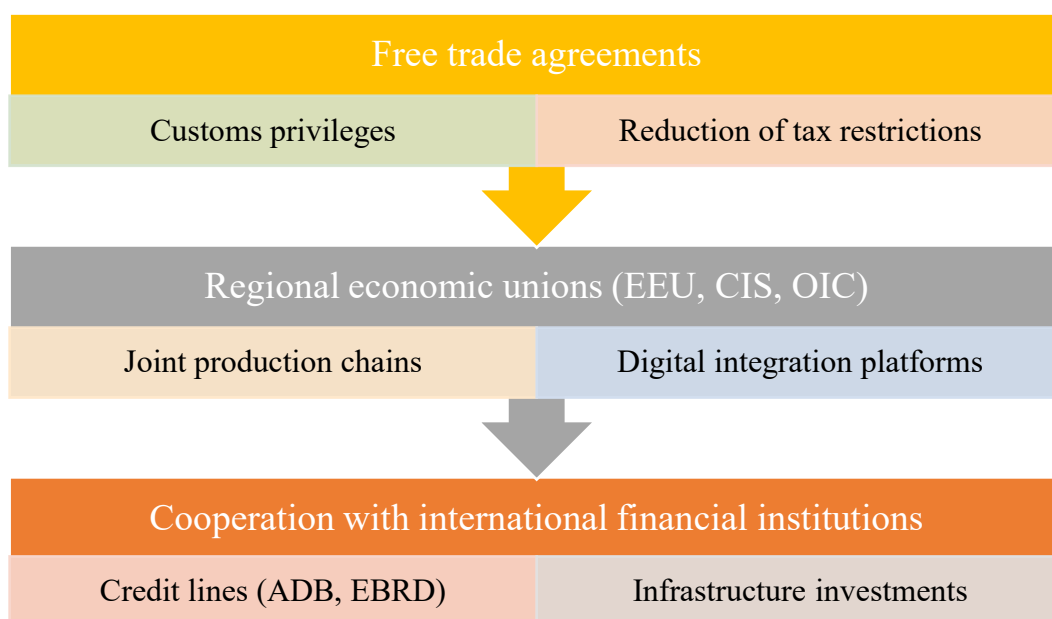
### 3. Results and Discussion

The study comprehensively analyzed the role of interstate legal and economic relations in attracting foreign investment and their practical effectiveness. The results of the analysis show that international legal agreements, bilateral and multilateral investment agreements, free trade agreements, economic integration unions and diplomatic economic policy together create a solid institutional framework for attracting foreign investment:

1. The impact of legal agreements on investment. It was found that cooperation with countries with existing international investment agreements increased investment flows to Uzbekistan by 20–30% compared to other countries. For example, in 2020–2024, Uzbekistan signed 22 new investment agreements, 17 of which included specific clauses on international arbitration and investment protection from expropriation. It was in these years 2020–2023 that the volume of foreign investment increased from 4.6 billion US dollars to 10.5 billion US dollars [11]. This indicates an increase in confidence as a result of the provision of legal guarantees to investors.
2. Effectiveness of economic cooperation. Interstate economic relations, in particular, free trade agreements and regional integration initiatives, have become an important tool for Uzbekistan in attracting investment. For example, as a result of Uzbekistan's cooperation with the EBRD and ADB, more than \$4 billion in large infrastructure and energy projects were financed between 2021 and 2024. In particular, through economic partnership agreements signed with China, Russia, Turkey and South Korea, many investment projects in the fields of industrial clusters, logistics centers and digital infrastructure have been launched[12].
3. Cooperation with international financial institutions. Analysis shows that strong cooperation with international financial institutions is crucial for foreign investors in reducing financial risks and ensuring project sustainability. In particular, about 35% of infrastructure projects implemented in partnership with the World Bank and the Asian Development Bank in 2022–2024 were financed by private foreign investment. This confirms the indirect but strong investment impact of interstate economic relations[13].
4. Improvement of the regulatory and legal environment. The investment legislation reforms gradually implemented in Uzbekistan since 2019 (in particular, the Law “On Investments and Investment Activities”, adopted in 2020) have increased the level of institutional confidence for foreign investors. In 2021–2023, the number of investment disputes in the country decreased by 40%, which indicates a strengthening of the regulatory and legal framework and improved legal protection mechanisms[14].
5. The role of diplomatic and economic policy. The active conduct of investment diplomacy was also in the focus of analysis. The analysis showed that high-level political visits and investment forums (for example, the Uzbekistan-China Investment Forum, 2023) have resulted in concrete agreements and deals. As a result, in 2023 alone, more than \$3 billion in investment was made in Uzbekistan from China[15].

The mechanism of economic relations also plays a special role in attracting investments. The mechanism of economic relations is a systematic approach to attracting foreign investment through cooperation between countries in trade, finance, infrastructure, industry, energy and other economic sectors[16]. This mechanism is usually implemented through free trade agreements, regional integration, relations with international financial institutions and intergovernmental agreements on economic cooperation in **Table 1**.

**Table 1.** Mechanism of interstate economic relations.



#### 4. Conclusion

The results of the study clearly confirmed that interstate legal and economic relations serve as an important strategic tool in the process of attracting foreign investment. In the context of global economic competition, not only domestic reforms and macroeconomic stability in the formation of national investment policy, but also the presence of mutual trust, legal guarantees and multilateral cooperation in the international arena directly affect the decision of foreign investors.

First, bilateral and multilateral investment treaties play a central role in creating legal certainty and a secure environment for foreign investors. These treaties guarantee mechanisms such as protection of investments from expropriation, fair and equal treatment, free repatriation of capital, as well as resolution of investment disputes through international arbitration.

Secondly, cooperation with international economic organizations (World Bank, ADB, EBRD, UNCTAD, etc.), as well as integration into regional economic blocs (EEU, CIS, OIC) contribute to a comprehensive improvement of the investment climate. Through the agreements signed with these organizations, Uzbekistan has demonstrated that it is strengthening institutional trust for foreign investors and approaching international standards. In particular, large investments in infrastructure projects, energy and industry are directly seen as a result of these foreign economic partnerships.

Thirdly, Uzbekistan's open foreign policy in recent years, reforms aimed at improving the regulatory framework to support foreign investment, new investment legislation and the introduction of preferences for foreign investors have had a significant impact on increasing the country's investment attractiveness. All this is expressed in an increase in the volume of foreign investment, diversification of investment portfolios and the implementation of sustainable projects in strategic sectors.

In conclusion, interstate legal and economic cooperation in attracting foreign investment is not only a foreign policy tool, but also a powerful catalyst for direct economic growth, technological innovation, the creation of new jobs and the formation of competitive industries. Uzbekistan's experience in this area practically proves that sustainable and long-term investment growth can be achieved through the careful use of international legal and institutional mechanisms.

To increase the effectiveness of attracting foreign investment in the future, it is necessary to:

- optimize existing legal agreements based on analysis;
- promote new economic partnership initiatives at the regional and global levels;



- expand investment risk reduction mechanisms in cooperation with international financial institutions;
- bring national mechanisms for resolving investment disputes into line with international standards.

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