

THE NECESSITY OF CREATING A BUSINESS ENVIRONMENT AND ITS ROLE AND SIGNIFICANCE IN THE NATIONAL ECONOMY

Amanov Davron Ravshan ugli

Independent Researcher

Tashkent State University of Economics

Abstract. In the context of modern globalization and intensifying competition, the sustainable development of the national economy largely depends on the quality of the business environment. The business environment is a complex set of institutional, legal, financial, and organizational conditions created to ensure the free operation of entrepreneurial entities, attract investment, implement innovations, and promote effective competition through market mechanisms. Therefore, the formation and improvement of the business environment are considered one of the priority directions of national economic policy.

Keywords: business environment, national economy, globalization, sustainable growth, institutional conditions, small business and private entrepreneurship, export potential.

INTRODUCTION

In modern economic conditions, the business environment is considered one of the key factors ensuring sustainable economic growth and enhancing competitiveness. The business environment refers to the set of legal, economic, social, and institutional conditions that influence the establishment, operation, and development of entrepreneurial entities. The necessity of creating a favorable business environment is primarily explained by the need to increase the share of the private sector in the economy, deepen market relations, and form sustainable sources of economic growth.

An effective business environment performs several important functions. First of all, it stimulates entrepreneurial activity. A favorable environment encourages the establishment of new enterprises, as well as the expansion and diversification of existing business entities. In attracting investments, legal guarantees, tax incentives, and financial stability increase the confidence of both domestic and foreign investors. At the same time, opportunities expand for the implementation of scientific research results into practice, the development of start-ups, and the production of high value-added products. Small business and private entrepreneurship are among the most effective sources of employment for the population. In this regard, the development of the business environment activates the internal drivers of economic growth.

In economic literature, the business environment is generally interpreted as a set of legal, institutional, financial, and organizational conditions created for the implementation of entrepreneurial activity. In classical and neoclassical economic theories, this environment is considered a mechanism for the efficient allocation of resources through free market mechanisms. In the experience of many developing countries, including Uzbekistan, the state plays an active role in shaping the business environment. The government introduces tax incentives, credit support mechanisms, and administrative simplifications to promote business development.

In the process of modernizing the national economy, the formation of a favorable business environment is considered a strategic necessity for several reasons. First, increasing investment attractiveness is of particular importance. Before investing capital, both foreign and domestic investors analyze the level of bureaucratic barriers in the country, the tax system, and the protection of property rights. In promoting innovation, free competition and a healthy business climate encourage entrepreneurs to introduce new technologies and improve product quality. Moreover, the simplification of administrative procedures and the optimization of the tax burden contribute to

reducing the share of the shadow economy by encouraging businesses to operate within the formal economic system.

Within the national economic system, the business environment has strategic importance as it determines the efficiency and competitiveness of the economic system. A favorable business environment demonstrates its impact in several directions. In particular, the expansion of entrepreneurial activity increases production volumes and contributes to the growth of the private sector's share in GDP. The business environment also supports the development of new sectors in industry, services, and agriculture. The production of competitive goods and services expands opportunities to enter international markets. A favorable environment also helps reduce regional economic disparities and supports local business initiatives. As a result, the business environment becomes an important factor in ensuring the systemic stability of the national economy.

LITERATURE REVIEW

Research on the **system-integrated management tools for sustainable entrepreneurship development** has been conducted by S. V. Filippova, Yu. Kovtunenکو, and V. Filippov. In their studies, the authors emphasize the decisive role of entrepreneurship in ensuring sustainable development and highlight system-integrated management tools proposed to achieve this objective. The researchers consider entrepreneurship as a crucial process and a key factor in sustainable development. According to their findings, entrepreneurship contributes significantly to national economic growth and the improvement of public welfare. The studies underline that entrepreneurship performs three important roles in sustainable development: as a key participant, as an economic component, and as a mechanism that ensures sustainable development.

The article entitled **“Does the Business Environment Improve the Competitiveness of Start-ups? The Moderating Effect of Cross-border Ability and the Mediating Effect of Entrepreneurship,”** written by Peng B., Zhao Y., Elahi E., and Wan A. X., analyzes the relationship between the business environment and the competitiveness of start-up enterprises. The main objective of the research is to determine how entrepreneurial opportunities can be utilized to enhance the survival and development of start-ups. The study is based on the concepts of the entrepreneurial ecosystem and resource integration theory. To identify the mechanisms of influence, the researchers applied linear regression analysis and structural equation modeling (SEM). The results scientifically demonstrate that both the legal environment and the market environment have a significant and positive impact on entrepreneurship and the competitiveness of start-ups.

Representatives of **institutional economics** also play a significant role in substantiating the necessity of creating a favorable business environment. In particular, **Douglass North** emphasizes the existence of effective institutions as a fundamental condition for economic development and argues that the business environment depends on legal norms, property rights protection, and the stability of state institutions (North, 1990). According to the scholar, the institutional environment creates favorable opportunities for entrepreneurial activity and reduces transaction costs.

Similarly, in the works of **Oliver Williamson**, the effectiveness of the business environment is associated with the reduction of transaction costs. According to his theory, the more developed the institutions regulating contractual enforcement and market relations in an economy, the more favorable the business environment becomes (Williamson, 1985).

One of the scholars who studied the relationship between the business environment and innovative economic growth in the national economy is **Joseph Schumpeter**. He regarded entrepreneurship as the driving force of economic development and argued that supporting innovation within the business environment is a crucial condition for the modernization of the national economy (Schumpeter, 1911).

The importance of the business environment is also highlighted in **Paul Romer's endogenous economic growth theory**. The scholar emphasizes that knowledge, innovation, and technological progress serve as internal sources of economic growth, and the entrepreneurial environment is considered one of the main factors stimulating innovative activity (Romer, 1990).

The relationship between the business environment and the competitiveness of the national economy is extensively examined in the works of **Michael Porter**. He concludes that a country's competitive advantage depends on the business environment, production clusters, market infrastructure, and government policy (Porter, 1990). According to Porter's concept, the primary role of the state is to ensure a competitive environment conducive to entrepreneurial activity.

The protection of property rights and the effectiveness of the legal system, as key elements of the business environment, are central themes in the studies of **Hernando de Soto**. The scholar argues that the expansion of the informal economy is largely associated with the lack of sufficient legal guarantees within the business environment (de Soto, 2000). Therefore, strengthening property rights registration and legal protection mechanisms is considered an important direction for improving the business environment.

The role of the state in the economy and the regulation of the business environment have also been widely analyzed in the works of **John Maynard Keynes** and **Joseph Stiglitz**. Keynes emphasized the importance of government intervention in supporting aggregate demand and ensuring economic stability (Keynes, 1936), while Stiglitz highlighted that government policy plays a crucial role in addressing market failures and improving the business environment (Stiglitz, 2002).

Scholars from the **CIS countries** have also studied the significance of the business environment within the national economy. For instance, **S. Yu. Glazyev** analyzed the relationship between economic security and the business environment (Glazyev, 2015). Among Uzbek scholars, **U. V. Gafurov** and **Q. X. Abdurakhmonov** have conducted scientific research on the institutional foundations of the entrepreneurial environment and the mechanisms for supporting small business development.

RESEARCH METHODOLOGY

In this article, several research methods were employed to assess the impact of the business environment on the national economy, including **theoretical analysis, a systemic approach, statistical analysis, and comparative analysis**. In addition, the relationship between economic growth and the business environment was examined using the **correlation method**. Through the application of these methods, the influence of the business environment on economic development processes was scientifically substantiated.

ANALYSIS AND RESULTS

The business environment performs a crucial function in the economic system, similar to the **"circulatory system" of the economy**. Its role within the national economy manifests in several directions.

First, the activity of **small and medium-sized enterprises (SMEs)** is one of the main sources of value creation contributing to the growth of **gross domestic product (GDP)**. In terms of employment, a favorable business environment facilitates the creation of new jobs and contributes to the reduction of unemployment. As a result, the overall welfare of the population increases.

Moreover, a business environment that meets **international standards** expands the opportunities for domestic products to enter external markets. The business environment has not only economic but also social significance. The development of entrepreneurial activity diversifies the sources of income for the population, contributes to the formation of a **middle class**, and strengthens **social stability**.

In addition, a favorable business environment leads to the following positive outcomes:

- contributes to the reduction of poverty levels;
- promotes increased competition in the labor market;
- stimulates investments in human capital;
- fosters a culture of economic activity and entrepreneurial initiative in society.

These factors play an important role in achieving the **long-term strategic goals of national development (Table 1).**

Table 1

Key Indicators Determining the Business Environment¹

Dimension	Description
Institutional Environment	Transparency of government institutions, the level of anti-corruption measures, and the independence of the judicial system
Financial Opportunities	Availability and accessibility of credit resources, the appropriateness of interest rates, and the development of leasing services
Infrastructure	Development of the transport and logistics system, energy supply, and digital technology infrastructure
Human Capital	The qualification level of the workforce and the alignment of the education system with labor market demands

According to the results of the analysis of the business environment conducted in the country, the following findings were identified: the overall business environment index amounted to 55 points; in the service sector this indicator increased to 68 points; and the majority of entrepreneurs evaluated the condition of their business activities as “satisfactory” (Figure 1).

Ўзбекистонда бизнес муҳитининг динамикаси

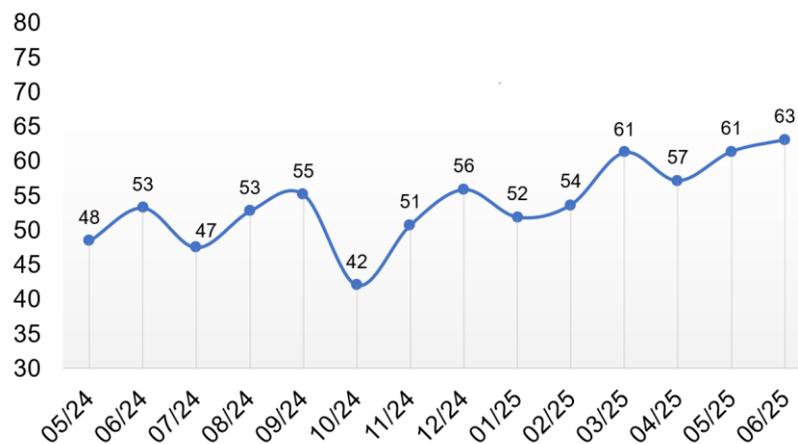


Figure 1. Dynamics of the Business Environment in Uzbekistan²

In Uzbekistan, the volume of gross domestic product (GDP) reached a record level of USD 114.97 billion in 2024. Since 1990, GDP has averaged approximately USD 41.87 billion, with the highest value recorded in 2024.

¹ Source: Compiled by the author.

² Source: Compiled by the author.

The international Doing Business ranking evaluates the level of the business environment in countries, and Uzbekistan ranked 69th among 190 economies. Additionally, according to the Corruption Perceptions Index (CPI), Uzbekistan scored 32 points and ranked 121st in the global ranking (Figure 2).

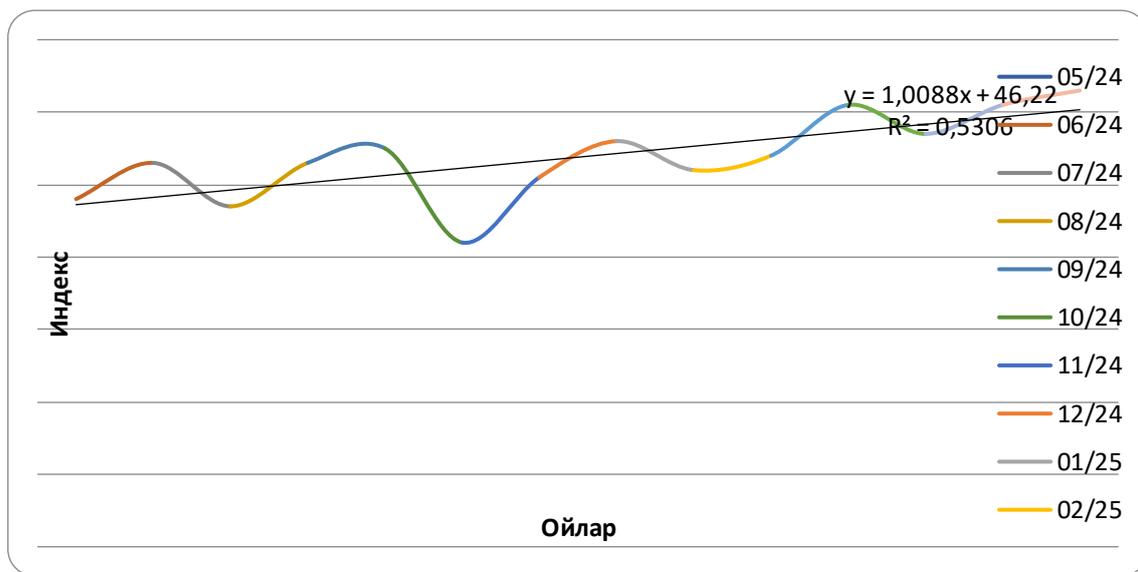


Figure 2. Dynamics of the Business Environment in Uzbekistan³

During 2024–2025, the business environment index in Uzbekistan demonstrated an overall positive growth trend. According to the linear trend analysis, the index increased by an average of 1 point per month. The result $R^2 = 0.53$ indicates that the time factor plays an important role in the dynamics of the business environment; however, external economic and institutional factors also exert a significant influence.

The main limitation of these approaches is that they often portray the business environment as an ideal model and do not sufficiently take into account institutional failures, market imperfections, and the negative consequences of excessive government intervention. Practical experience shows that improving the business environment cannot be achieved solely through normative-legal reforms. Its effectiveness largely depends on the practice of law enforcement, the quality of administrative institutions, and the level of economic culture.

From this perspective, it is appropriate to analyze the business environment within the framework of institutional economics theory, as this approach allows for a deeper examination of the interactions between formal and informal institutions.

In some cases, excessive state participation may lead to distortions in market mechanisms, inefficient allocation of resources, and restrictions on the competitive environment. In particular, the selective provision of privileges can increase imbalances among economic actors and raise the risk of institutional rent-seeking.

Therefore, in policies aimed at improving the business environment, the role of the state should mainly be limited to regulatory and coordinating functions, while direct intervention in economic activity should be minimized. Such an approach helps preserve the natural mechanisms of market competition.

³ Source: Compiled by the author.

The impact of the business environment on the national economy is often assessed through indicators such as overall economic growth, investment volume, and employment levels. However, several challenges remain in determining the causal relationship between the business environment and economic growth. These include:

- the influence of external macroeconomic factors;
- institutional differences between regions;
- the high share of the shadow economy.

Without considering these factors, it is difficult to draw comprehensive scientific conclusions about the effectiveness of the business environment. At present, the development of the business environment in the national economy is constrained by several systemic problems, including:

- limited access to financial resources;
- insufficient practical enforcement of legal guarantees;
- the complexity of administrative procedures;
- uneven development of infrastructure and logistics services.

Despite formal improvements in the business environment, these challenges reduce its practical effectiveness and hinder the sustainable growth of entrepreneurial activity.

CONCLUSIONS AND RECOMMENDATIONS

The creation and improvement of the business environment is one of the decisive conditions for ensuring the **sustainable and competitive development of the national economy**. A favorable business environment stimulates entrepreneurial activity, accelerates investment and innovation processes, and contributes to increasing employment and the overall welfare of the population. Therefore, strengthening the institutional foundations of the business environment, reducing administrative barriers, and ensuring the effective functioning of market mechanisms are among the key priorities of state economic policy.

The high share of the **shadow economy** reduces the quality of the business environment, distorts the competitive landscape, and limits the financial capacity of the state budget. Moreover, it increases the risk of corruption and diminishes the country's investment attractiveness. For this reason, reducing the scale of the shadow economy, improving tax administration, expanding the digitalization of economic processes, and ensuring institutional transparency should be considered important directions for enhancing the business environment within national economic policy.

Institutional disparities between regions also have a significant impact on the quality of the business environment, entrepreneurial activity, and investment attractiveness. Therefore, improving regional economic policy, organizing public services based on unified standards, developing business infrastructure, and strengthening legal guarantees are among the key measures necessary to eliminate institutional imbalances between regions.

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