

**CAPITAL INVESTMENTS AND CAPITAL MARKET****Ezoza Toshtemirova
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ABSTRACT

This article examines the role of capital investments and the capital market in the economic system, their interrelationship, and their impact on the country's economic development. Capital investments are analyzed as a key factor in expanding the production process, accelerating technological innovation, and enhancing the competitiveness of the national economy. Furthermore, the capital market is studied as a primary mechanism for attracting investments, efficiently allocating financial resources, and fostering entrepreneurship. The article analyzes the structure of the capital market, its participants, and modern trends for achieving economic growth through it.

Introduction. Capital investments are financial resources spent on creating and updating fixed assets related to production and non-production sectors, increasing working capital, and constructing facilities. They initially exist in monetary form and later transform into a material factor of production, which leads to economic growth. Capital investments hold a significant place in the economy, as they are essential for creating production capacities, modernizing them, and ensuring economic development. They are financed through the state budget, bank loans, company profits, and population savings. Capital investments are directed towards construction and installation works, purchasing equipment and machinery, and other production-related expenses. The history of capital investments dates back a long way, linked to economic development, emerging with the growth of the means of production, technological advancements, and the formation of economic systems. Their role in macroeconomics is substantial, serving as a fundamental factor in ensuring the stable functioning and growth of the economy. Thus, capital investments are one of the main types of economic processes, playing a crucial role in the sustainable development of the country's economy and the creation of new jobs. The concept of capital investment emerged at a certain stage of economic development.

Its history can be divided into three main stages:

1. **Pre-Monetary and Early Monetary Societies:** In those eras, "investment" as a concept virtually did not exist. People worked for their immediate needs, and there was almost no surplus product. The primary "capital" was one's own strength and simple labor tools (axe, hoe). In developing agricultural societies, farmers engaged in a simple form of capital investment by investing long-term labor, such as irrigation or fertilization, to increase

the fertility of their land. With the emergence of cities, the development of craftsmanship, and international trade, the first capital investments began to form. Wealthy merchants and craftsmen built new shops, caravanserais, and small workshops to increase their profits. While different from modern investments, this was the beginning of directing capital towards multiplication.

2. **Early Trade and Mercantilism:** This period laid the groundwork for the mass emergence of capital investments. Inventions like the steam engine and textile looms required large amounts of initial capital. It was difficult for a single craftsman to purchase such equipment. The transition from small workshops to large factories began. Building a factory, hiring hundreds of workers, and creating a stock of raw materials required significant capital. Banks and credit institutions emerged, creating the ability to accumulate and distribute the necessary funds for large projects. Entrepreneurs, when their own funds were insufficient, collected money from others and formed joint-stock companies (making partners in the profits). This was the beginning of the modern capital market. In this way, capital investments became a product of the Industrial Revolution and capitalist relations, turning into a primary mechanism for rapid economic development.

The Capital Market. The capital market is a vital economic system that collects idle monetary funds, converts them into loanable capital, and subsequently allocates them for production or other economic activities. Its emergence and development in society are primarily based on commodity production and circulation, a process linked to the advent of investment and its transformation into a crucial economic activity. Looking at the history of the capital market, we can see its roots in the 7th-10th centuries in China, particularly with the emergence of bonds and valuable securities. Authors also note that their initial forms relate to ancient Arab states and Italian merchants. The roots of the modern capital market began to appear in the cities of medieval Europe, especially in trade centers like Venice and Genoa. Wealthy merchants would pool their capital to finance large sea voyages. This was the beginning of the first joint-stock companies. These operations often took place in coffee houses, where merchants gathered. This was the most important period in the formation of the capital market. Inventions and projects like the steam engine, railways, and large factories required far more financial resources than one or a few individuals could provide. The need arose to pool the money of thousands of people to build large enterprises. These companies made it possible to collect funds from many small investors and implement large projects. Shareholders received a share of the profits (dividends) based on their stake in the company. Special organizations – stock exchanges – were established to regulate the buying and selling of shares. The first exchanges appeared in Antwerp, then in London (the London Stock Exchange was officially established in 1801) and New York. They became central venues for selling their securities. Financial crises like the Great Depression (1929) forced governments to control the capital market and pass laws to protect investors (e.g., the Securities and Exchange Commission - SEC in the US). Thanks to the internet and computer technologies, markets became global. Now, an investor from any corner of the world can buy a share of a US or Japanese company in a few seconds. Electronic trading systems were introduced. The capital market serves to expand and diversify financing in the country's economy. It is the main source of investment, providing the flow of domestic and foreign capital, and also helps

to develop a competitive environment. This system plays a vital role in accelerating the country's economic growth and supporting critical infrastructure and enterprises.

The Role of Digitalization. The role of the capital market in the process of digitalization is crucial. The capital market can operate more efficiently through digital technologies, and the implementation of information and communication technologies accelerates the flow of investments in the economy. Opportunities such as electronic trading platforms, real-time information exchange, and increased transparency and accountability contribute to the development of the capital market. This, in turn, raises the efficiency of investments in the economy, creates new opportunities for investors, and enhances market competitiveness. In Uzbekistan, the capital market digitalization index is increasing, and in 2023, the capital market infrastructure is being significantly modernized in a short period. This is evident in the growth of corporate bond volumes and the expansion of market capitalization. As a result of digitalization, the capital market's accessibility to foreign investors expands, costs decrease, and it becomes one of the key factors in modernizing the economy. Thus, in the process of digitalization, the capital market plays a central role in attracting investments, efficiently allocating capital, and supporting economic growth.

Digitalization requires the development of areas such as artificial intelligence, big data, the Internet of Things (IoT), blockchain, and fintech.

These projects:

- In many cases, their success is not guaranteed. It may take years to become profitable.
- They require large funds for research, development, attracting specialists, and marketing. Traditional banks, rather than lending to such high-risk projects, prefer stable and clearly profitable enterprises. The capital market, especially through venture funds, becomes the primary source of funds for such digital startups and projects. Giants like Uber, Tesla, and Spotify, despite suffering huge losses in their early years, were able to attract billions of dollars in investment from the capital market (from venture investors, and later through IPOs) due to their promising ideas. This allowed them to develop on a global scale.

Digitalization itself is also fundamentally changing the capital market. Services like trading on the exchange via mobile apps, robo-advisors (automated investment advisors), digital payment systems, and P2P (peer-to-peer) lending platforms have made it easier to access the capital market. Cryptocurrencies like Bitcoin and Ethereum and NFTs (non-fungible tokens) have created a new, highly volatile, but very popular class of investment. This has formed a new "digital capital market" developing in parallel with the traditional one. "Tokenization" of traditional shares or bonds on blockchain technology makes them more liquid, divisible, and tradable on a global scale.

Initially, the capital market was open only to wealthy investors, large institutions, and banks. Digitalization has changed this situation:

- Through the internet and mobile apps, a person from anywhere in the world can start investing with just a few dollars and buy the smallest stake in a company (e.g., fractional shares).

- Investors can easily access real-time information, analytical reviews, and financial reports about companies. This has made the decision-making process more transparent.

- People can unite through social networks and special platforms to jointly invest in common projects (e.g., building renewable energy sources).

Digitalization has also changed how investors operate:

- Artificial intelligence can now analyze millions of data points (news, social media, financial reports, satellite images) in seconds to identify investment ideas. This complements and sometimes even replaces traditional fundamental and technical analysis.

- Trades are now executed not only by humans but also by pre-written algorithms in milliseconds. This increases liquidity in the market but also introduces new risks.

- Digitalization has almost erased geographical boundaries. Investors can now trade in Asian markets after the US market closes, and then in Europe. Cryptocurrency markets operate 24/7. This leads to faster and more efficient allocation of capital.

Uzbekistan is currently on the path of digitalizing its economy, including implementing the "Digital Uzbekistan-2030" strategy. The role of the capital market in this process is enormous:

- Hundreds of talented young people in Uzbekistan are creating their own startups. For them, bank loans are not always a solution. A developed local capital market (venture funds, "business angels") and the effective operation of the Tashkent Stock Exchange provide them with the opportunity to finance their projects.

- The capital market is the most effective tool for selling shares in large state-owned enterprises to international and local investors (e.g., parts of "Uzbekneftegaz" or "Uzavtosanoat"). This helps these enterprises attract direct foreign investment and technology.

- A transparent and reliable capital market is the "gateway" for the country to attract not only money but also the trust of foreign investors.

Conclusion. Capital investments and the capital market form the foundation of a country's economic development. Capital investments play a vital role in expanding production capacities, implementing technological innovations, and creating new jobs. The capital market, in turn, ensures the efficient circulation of financial resources and activates investment processes. In a market economy, the harmonious functioning of capital investments and the capital market manifests as a decisive factor in achieving economic stability and national prosperity.

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