

FINANCING OF INVESTMENTS IN THE REAL SECTOR OF THE ECONOMY IN DEVELOPED COUNTRIES

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Abstract

Based on the experience of developed countries, the article tried to reveal the peculiarities of financing investments in the real sector of the economy, that is, fixed capital. The study revealed that in countries where the share of fixed capital investments in GDP decreased, global trends, economic conditions and changes in economic structure were more pronounced, while in countries where the share of investments in GDP increased, active public investment policy, post-pandemic recovery strategy, trends in transition to a capital-intensive growth model were identified. Also, at the end of the study, relevant conclusions and recommendations are given.

Keywords: Investment, real investments, venture capital, investment funds, capital market, credit, bonds, government grants, inflation, economic situation.

Introduction

At present, real and financial investments are the main types of investment flow that exist in any market economy. Due to the fact that the main role of real investment is in the creation, duplication and expansion of the material and technical base of individual enterprises and the economy as a whole, such investments form the basis of any company's activity and for most economic entities real investments is the only area of investment activity. Real investment will enable the development of new product markets and ensure the growth of the company's market value.

Real sector-oriented investments play an important role in ensuring sustainable growth in the world economy and increasing production potential. "The experience of developed countries shows that investments in the sectors of industry, agriculture, transport and energy create the financial basis for long-term economic growth" [1].

In the EU countries, the capital market is developed, investment options for enterprises through bank loans, bonds and shares are expanded. At the same time, "state intervention in the economy is largely carried out through regulatory and incentive mechanisms - for example, tax incentives and subsidies, public-private partnership projects for the development of strategic industries" [2].

In the U.S., venture capital and private equity funds serve as the primary financial source for real sector projects. Innovative technologies and projects aimed at creating high added value will also be supported by government programs. The example of Japan shows the potential for



modernization of industry and the development of high-tech industries through an effective combination of government support and corporate financing. In this regard, it is important to analyze the specifics of financing investments in the real sector of the economy in developed countries, their effective financial and institutional mechanisms, summarize best practices and scientifically substantiate the prospects for implementation in the developing countries, in particular, in the economy of Uzbekistan.

Review of literature on the topic

One of the main features of financing investments in the real sector of the economy in developed countries is the possibility of highly developed capital markets and diversification of financial resources.

"From the experience of developed countries, it is clear that government programs and the institutional environment play a key role in ensuring the effectiveness of investment. Robust institutional rules, reduced transaction costs and efficient distribution of financial resources serve to expand investment activity"[3]. In this regard, it is important for developing countries to study best practices and integrate them into national economies. For example, the ways of attracting private and foreign investment through public-private partnership, tax and subsidy policies, financing mechanisms for strategic sectors need to be analyzed scientifically.

Global research suggests that financial markets, institutional environments, and government mechanisms play an important role in investment financing. "For example, the work of the OECD emphasizes the efficient use of financial resources through bank loans, bonds and capital markets to finance the real sector. Meanwhile, the Uzbek-sector sector growth and the effectiveness of investment expenditures are the main factors that the financial system and expanding access to credit are the most important factors, according to the report[4].

At the same time, Uzbek scientists A. Vakhobov, D. Gozibekov, N. Karimov and Sh. Mustafakulov conducted research on the economic essence of investments, issues related to the attractiveness of the investment climate, difficulties in attracting foreign investment into the national economy, factors affecting investment activity and investment potential. Professor N. Karimov believes: "The analysis of the economic development of highly developed countries shows that the link between investment activity and economic growth is not homogeneous. However, they are believed to follow one another. Since economic growth is dependent on economic activity, this in turn determines the real capabilities of the country at each specific stage of economic development"[5]. SH. Mustafakulov examined the ways of increasing investment attractiveness and developing a system of measures for regional economic development. According to the analysis of factors affecting investment activities, "One of the most important and solvable issues in the regulation of investment activities is the optimal, uniform distribution of enterprises involved in foreign investment across the territory. Among the important factors that determine the attractiveness of investment are the natural conditions of the regions, the created business environment, fair social, organizational and management principles, the population's enthusiasm for business and entrepreneurship, risk tolerance and qualification of the workforce, the presence and development of various institutional structures"[6].



Research methodology

In the process of conducting the research work, the methods of logical reasoning, forecasting, synthesis, systematic approach, structural and comparative analysis, economic comparison, scientific generalization, statistical calculation are used.

Analysis and discussion of results

In developed countries, including the United States, Canada, the United Kingdom, and Italy, the system of financing investments focused on fixed capital is formed on the basis of strategic directions that support infrastructure projects, stimulate active participation of the private sector, and serve sustainable economic growth. Investment processes in these countries are conducted as an integrated mechanism aimed not only at efficient capital allocation, but also long-term economic stability, innovative development and achievement of social goals. In this way, their experience provides important practical recommendations for other countries, in particular developing countries, on effective financing of investments focused on fixed capital. In the experience of these countries, fixed capital-oriented investment financing is characterized by: first, strategic focus, in particular, investments are directed to infrastructure projects, industrial modernization, development of energy and transport systems, as well as projects that serve sustainable growth in social spheres; Second, the financing process is organized on the basis of the involvement of the private sector along with public resources; Third, a combination of financial instruments, including investments, is financed through long-term loans, bonds, government grants, insurance, and tax incentives. At the same time, the financing structure will be directed to optimize project costs and improve efficiency; Fifth, the principle of sustainable development, including the focus of project effectiveness, is not only economic, but also environmental and social sustainability. For example, the introduction of energy efficiency and green technologies is an integral part of an investment strategy; Sixth, a system of control and monitoring, i.e. each investment project is gradually controlled, risks are analyzed and performance indicators are regularly evaluated. This ensures that the system provides maximum utilization of capital.

Since the early 1950s, the share of buildings, structures, and equipment in gross output has decreased from about 90% to 67%, while intellectual property products have risen from 10% to 33%. During the 1980-1990 years significant growth of intellectual production and the introduction of intensive innovations made it possible to control investment costs effectively. Thus, it has been found that increasing the share of intellectual capital in investments has a direct positive effect on economic development and improving productivity. Overall, the United States is a state with an intensively developing investment activity that is actively supported by the state. The innovative economic renewal of investment activity stems largely from the interdependence of the state's science, technology, and investment policy goals in the American economy. "The main goals of the scientific and technical policy are: - creating a favorable business environment to expand innovation and increase the competitiveness of the private sector; - to encourage the development, commercialization and use of new technologies; - Invest in world-class infrastructure to support American industry and trade; - to promote the integration of military and civilian production; - to develop a world-class workforce that can actively participate in a rapidly changing knowledge-based economy" [7].



At the same time, we analyze the dynamics of changes in the share of investments in fixed capital in the gross domestic product of countries in the economies of some developed countries over the past seven years.

Table 1 Dynamics of the amount of investments in fixed capital in some developed countries (bnrd) USD) [8].

| Countries | Years | | | | | | |
|-------------------|--------|--------|--------|--------|---------|--------|--------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| World | 22150 | 22740 | 22030 | 23580 | 24650 | 25090 | 25700 |
| Share in % of GDP | 25,4 | 25,7 | 25,6 | 24,0 | 24,1 | 23,5 | 23,1 |
| United States | 4326,3 | 4467,8 | 4333,5 | 4622,8 | 4844,01 | 4905,7 | 5076,7 |
| Share in % of GDP | 21,1 | 21,2 | 20,6 | 19,8 | 18,9 | 17,9 | 17,6 |
| Germany | 776,4 | 773,1 | 753,5 | 801,6 | 786,9 | 771,7 | 748,8 |
| Share in % of GDP | 19,1 | 19,5 | 19,1 | 18,4 | 18,7 | 16,9 | 15,9 |
| Japan | 1164,2 | 1164,9 | 1102,1 | 1126,8 | 1129,9 | 1132,1 | 1128,7 |
| Share in % of GDP | 23,1 | 22,7 | 21,8 | 22,4 | 26,5 | 26,9 | 28,0 |
| Italy | 362,8 | 359,4 | 323,6 | 415,0 | 459,7 | 456,3 | 457,6 |
| Share in % of GDP | 17,3 | 17,8 | 16,9 | 19,0 | 21,8 | 19,7 | 19,2 |
| United Kingdom | 562,9 | 571,1 | 516,2 | 574,1 | 581,1 | 591,5 | 628,0 |
| Share in % of GDP | 19,4 | 19,8 | 18,9 | 17,9 | 18,3 | 17,3 | 17,0 |
| Province, France | 572,7 | 594,0 | 552,8 | 592,9 | 602,9 | 595,9 | 568,7 |
| Share in % of GDP | 20,6 | 21,8 | 20,9 | 19,9 | 21,6 | 19,5 | 17,9 |
| Canada | 388,1 | 387,9 | 353,3 | 402,3 | 428,1 | 403,6 | 395,3 |
| Share in % of GDP | 22,5 | 22,2 | 21,3 | 19,9 | 19,5 | 18,6 | 17,6 |

According to Table 1 above, the share of fixed capital-oriented investments in gross domestic product across the globe and in the United States, Germany, the United Kingdom, France, and Canada has observed a downward trend from 2018 to 2024. Countries such as Japan and Italy, on the other hand, see mirror growth. The share of global fixed capital investment in world GDP stood at 23.1 percent in 2024, down 2.3 percentage points from 2018. As a result of the pandemic, geo-political and geoeconomic risks, uncertainties, conflicts and trade wars in 2019-2020 as the main reasons for this, investors' calculation of future profits and risks has become somewhat complicated. In times of uncertainty and high risks, many multinational companies do not prefer to invest in new projects. In developed economies, there has also been a decrease in the share of corporate capital in financing investments in fixed capital. In addition, a decrease in the prices of fixed assets (machinery, construction equipment, etc.) purchased on world markets through investment funds led to a decrease in these indicators. In the U.S., the share of fixed capital investment in GDP was 17.6 percent in 2024, down 3.5 percentage points from 2018. During these years, in the United States, more investments were made in intellectual assets, information technology, net social services, than in material capital, and investments in this direction were not taken into account in fixed capital investments. Businesses and organizations have been emphasizing more financial investment. In European countries, including Germany, the share of fixed capital investment in GDP is expected to be 15.9% in 2024, down 3.2 percentage points from 2018. European countries are adversely affected by

issues such as the challenges of the industrial sector in global competition, energy problems, economic uncertainty, political changes and infrastructure not responding to demand. This situation is also typical of the countries of Great Britain, France and Canada. Japan's share of fixed capital investment in GDP stood at 28 percent in 2024, an increase of 4.9 percentage points from 2018. In Italy, the share of fixed capital investment in GDP is expected to be 19.2% in 2024, up 1.9 percentage points from 2018. Slow GDP growth in Italy and a decline in Japan also increased the share of investment in fixed capital. Also, Japan saw an increase in investment in infrastructure, digital technology, and the green economy, while low-interest rate loans and monetary stimulus supported private sector investment. In Italy, too, the intensification of public investment in transport, energy, digitalization and industrial modernization has also boosted private investment. The rapid aging of populations in Japan and Italy has stimulated the automation of labor, and there has been increased investment in modernizing obsolete production and improving production efficiency. In summary, while the share of fixed capital investment in GDP was more affected by global trends, economic conditions, and changes in economic structure in countries where the share of investments in GDP decreased, the share of investments in GDP is explained by active government investment policy, post-pandemic recovery strategy, transition to a capital-intensive growth model, and relatively low GDP growth rate.

Table 2 below shows the flows of foreign direct investment attracted to the economies of developed countries over the past seven years. The decrease in investment flows in all countries in 2020 will be justified by the consequences of the pandemic.

Table 2 Foreign Direct Investment (FDI) attracted to the economies of developed countries (billions. USD [9])

| Countries | Years | | | | | | |
|--------------------------|-------|-------|------|-------|-------|-------|-------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| United States | 203,2 | 230,0 | 93,4 | 386,1 | 316,9 | 233,1 | 279,0 |
| <i>Share in % of GDP</i> | 0,98 | 1,06 | 0,44 | 1,63 | 1,22 | 0,84 | 0,95 |
| Singapore | 74,4 | 98,1 | 71,5 | 130,9 | 142,1 | 135,1 | 143,5 |
| <i>Share in % of GDP</i> | 19,7 | 26,0 | 20,4 | 30,1 | 28,5 | 26,9 | 26,2 |
| Canada | 37,7 | 50,5 | 25,6 | 61,4 | 45,8 | 46,5 | 64,1 |
| <i>Share in % of GDP</i> | 2,2 | 2,9 | 1,5 | 3,1 | 2,1 | 2,2 | 2,9 |
| Germany | 67,4 | 57,2 | 64,2 | 74,2 | 53,3 | 52,0 | 5,7 |
| <i>Share in % of GDP</i> | 1,7 | 1,4 | 1,6 | 1,7 | 1,3 | 1,1 | 0,1 |
| Province, France | 34,8 | 21,4 | 11,4 | 32,7 | 76,5 | 42,3 | 33,7 |
| <i>Share in % of GDP</i> | 1,2 | 0,8 | 0,4 | 1,1 | 2,7 | 1,4 | 1,1 |
| Japan | 10,0 | 13,7 | 11,8 | 34,3 | 34,2 | 20,8 | 13,5 |
| <i>Share in % of GDP</i> | 0,2 | 0,3 | 0,2 | 0,7 | 0,8 | 0,5 | 0,3 |

Against the backdrop of a -11% decline in the global foreign direct investment market in 2024 compared to 2023, this figure also decreased by -22% in developed countries. Since there was also a decrease in European countries, Germany (61.7 billion in 2024 compared to 2018). in USD) and France (in 2024 compared to 2018, \$ 1,1 billion. USD) was observed. Foreign direct investment flows in the United States, Canada, and Singapore were on an upward trend between 2018 and 2024. In Japan, these investments will increase to \$3.5 billion in 2024 compared to 2020. While it has increased to the US dollar, it has declined sharply in the last

two years. An analysis of the share of foreign direct investment in the country's gross domestic product shows that in the United States, Germany and France, the figure averages around 1 percent, while in Canada the average is 2.4 percent, and in Singapore, the figure was 19.7 percent of GDP in 2018, and by 2024 it will increase by 6.5 percent to 26.2 percent. That figure was around 0.4 percent on average in Japan.

As is known from international experience, the flow of foreign direct investment and international credit is mainly directed towards countries with high economic growth rates and striving for high labor productivity. Therefore, in the context of the global investment process, direct investment is of particular interest. The continued globalization of economic systems is accompanied by the expansion of the geography of investment ties, that is, their territorial expansion. Since the European Union is positioned as one of the most developed blocs of regional integration in the modern world, determines vectors of global trends that have a global impact on other countries, therefore, it is necessary to thoroughly study the investment policy of this regional association aimed at attracting foreign direct investment, critically analyze the achievements achieved or shortcomings. In general, foreign investment in the framework of the economic policies of the EU member states serves as a key infrastructure factor ensuring the integration of the European economy with world value chains. "Over time, three main directions have emerged in the regional (including investment) policies of the euro area on the basis of the integration movement: first, an economic convergence (consolidation) policy, which emphasizes narrowing the boundaries of socio-economic gaps with the developing regions, thus providing assistance (including investment) to the underside regions; second, policies to increase the competitiveness of the territories and employment of the population; and third, policies to promote regional and national cooperation to reduce the economic importance of the country's borders"[10].

"As you know, infrastructure development is the main condition for the development of the economy. According to some estimates, the global need for infrastructure investment will reach US\$ 50 trillion by 2030" [11].

"Studies on the effectiveness of infrastructure in economic development in developed countries show that an increase of 1% in the share of investment in this sector in gross domestic product increases economic growth by 0.4% and by 1.5% over the next four years" [12]. These indicators reflect the high efficiency of infrastructure projects, which increases the interest of the private sector in such investments.

At this point, let's dwell on Japan, one of the four Asian countries included in the list of developed countries by the UN. Japan is a member of the Group of Seven (G7) and is the only Asian country to enter the post-industrial era. In the 1980s, Japan became the world's second-largest economy after the United States, thanks largely to a manufacturing development strategy aimed at conquering foreign markets, Japan's share of global exports reached 10%. The stagnation of Japan's gross domestic product was driven by the following factors: a slowdown in economic growth in China; The population is aging the fastest in the world, with a high proportion of citizens over the age of 65, which causes significant social costs. Also an important factor is the lack of creation in Japan of innovative new generation firms capable of replacing traditional Japanese companies in foreign markets. Unlike Japan, the United States was able to ensure the continuity of generations of high-tech companies. Thus, IMB was



replaced by Misrosoft and Intel, which in turn were replaced by Google and Apple. In Japan, Sony and Panasonis have been unable to find a worthy successor of their own. Since 1946, not a single new company has been included in the list of Japan's 20 largest electronics manufacturers. Currently, Japan is actively seeking new market segments in order to effectively exploit its competitive advantages.

Table 3 Key indicators of Japan's economy [13]

| Bullets | Years | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|
| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| Capital investments (billion.dollar) | 1164,2 | 1164,9 | 1102,1 | 1126,8 | 1129,9 | 1132,1 | 1128,7 |
| Share in % of GDP | 23,1 | 22,7 | 21,8 | 22,4 | 26,5 | 26,9 | 28,0 |
| Imports (billions) | 748,5 | 720,9 | 635,5 | 768,9 | 897,2 | 785,8 | 742,6 |
| Exports (billion.dollar) | 738,2 | 705,7 | 641,3 | 757,1 | 746,7 | 717,9 | 727,8 |
| Balance of foreign trade (bls) | -10,3 | -15,2 | 5,8 | -11,8 | -150,5 | -67,9 | -14,8 |
| Inflation % | 1 | 0,5 | 0 | -0,3 | 2,5 | 3,25 | 2,74 |

Table 3 summarizes the main macroeconomic indicators of the Japanese state. The pandemic has disrupted global supply chains around the world, reducing demand for Japanese exports. Japan's exports are expected to reach \$727.8 billion in 2024. That was \$10.4 billion compared to 2018. Decrease in USD Imports of raw materials and components also faced logistical problems, resulting in imports expected to reach \$742.6 billion in 2024. In 2018, it was \$5.9 billion, up from \$5.9 billion in 2018. Decrease in USD The depreciation of Japan's national currency against the U.S. dollar has caused imports of energy resources, food, and industrial raw materials to become more expensive. Due to the increase in domestic prices, the inflation rate stood at 2.74 percent in 2024, an increase of 1.74 percentage points compared to 2018. Inflation has been accelerating since Japan is a country heavily dependent on energy resources. Moreover, the tight monetary policy has supported the economy, adding to inflationary pressures. However, even in such an economic environment, investments in fixed assets have been made in Japan.

In 2013, the government of Prime Minister Shinzo Abe announced a Global Excellence Strategy aimed at promoting advanced Japanese infrastructure technologies overseas. Investment in infrastructure is seen as one of the key drivers of economic growth in the near future. Public-private partnerships are central to infrastructure development in S. Abe's policy. The most common form of government-business partnership in Japan is the Private Finance Initiative, which currently has over 400 projects with a total value of USD 23.5 billion. Private finance initiative projects include airports, water and sewer networks, construction work, reconstruction, and the modernization of urban highways. The perfection of the system is that a private entity develops its business and works for quality, minimizing risk. That is, for the new business, it will be able to save on its costs and focus resources on providing quality service. And the ownership of the property remains with the state.

In 2022, the inflation rate also increased around the world, including in the G7 countries, where they ranged from 2.5% in Japan to more than 8% in Italy. Inflation rose sharply around the world through the end of 2022, which was caused by Russia's invasion of Ukraine in February 2022. The rise in gas and electricity prices has hit prices hard, especially after the outbreak of



the Russia-Ukraine war. In 2024, there has been a decline in the inflation rate in all G7 countries.

Conclusion and Suggestions

During the study, the specifics of financing investments in fixed capital in the economy in developed countries, in particular such countries as the USA, Canada, Great Britain and Italy, were studied. Studies have shown that financing is mainly focused on infrastructure projects, with a high share of the private sector in investment projects and a focus on sustainable development goals. In general conclusion, while the share of fixed capital investment in GDP was more affected by global trends, economic conditions, and changes in economic structure in countries where the share of investments in GDP decreased, the share of investments in GDP is explained by active government investment policies, post-pandemic recovery strategy, transition to a capital-intensive growth model, and relatively low GDP growth rate.

In the context of globalization and international materialization of countries, the intensification of states and economic systems acquires particular relevance for the activation of investment exchange on a global scale. This will allow financial-industrial groups and large companies to attract new production and management technologies to their countries, participate in major global production chains through the production of innovative, competitive products, and expand the possibilities for exports of national goods and services. Based on the results of the study, the following proposals and recommendations can be made in the real sector of the national economy, that is, in the development of mechanisms for financing investments in fixed capital: expansion of project financing; effective implementation of investment projects by increasing the participation of the private sector; achievement of sustainable development goals, that is, ensuring social and environmental stability with economic growth; investment effective cooperation between the public and private sectors should be developed.

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