

THE NECESSITY AND IMPORTANCE OF INSURING FOREIGN INVESTMENTS

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Abstract. Foreign investment plays a crucial role in accelerating economic growth, promoting technological innovation, creating employment opportunities, and enhancing international economic cooperation. However, foreign investors often face various political, economic, legal, and commercial risks that may negatively affect the security and profitability of their investments. In this context, investment insurance serves as an essential mechanism for protecting investors against potential losses arising from unforeseen events. This article examines the necessity and significance of foreign investment insurance, analyzes the major risks associated with foreign investments, and evaluates the role of insurance mechanisms in improving the investment climate. The study also highlights international practices in investment insurance and discusses their relevance for developing economies. The findings indicate that an effective investment insurance system contributes to increasing investor confidence, reducing investment risks, attracting sustainable foreign capital, and supporting long-term economic development.

Keywords: foreign investment, investment insurance, political risk, economic risk, investor protection, investment climate, risk management, foreign direct investment (FDI), sustainable development, economic growth.

Introduction

In the contemporary global economy, foreign investment has become one of the most important drivers of economic growth, technological advancement, and international economic integration. Countries around the world actively compete to attract foreign direct investment (FDI) by creating favorable business environments, improving legal frameworks, and offering various incentives to investors. Foreign investments contribute significantly to the development of national economies by increasing capital inflows, enhancing productivity, creating employment opportunities, and facilitating the transfer of modern technologies and managerial expertise.

Despite these benefits, foreign investors are exposed to a wide range of risks that may adversely affect the security and profitability of their investments. These risks include political instability, expropriation, currency inconvertibility, breach of contract, civil unrest, regulatory changes, and economic crises. Such uncertainties often discourage investors from entering new markets, particularly in developing and transition economies where institutional frameworks may still be evolving. Consequently, ensuring adequate protection for foreign investments has become a critical issue for both host countries and international investors.

Investment insurance has emerged as an effective mechanism for mitigating investment-related risks and enhancing investor confidence. By providing financial compensation against potential losses resulting from political and non-commercial risks, investment insurance reduces uncertainty and encourages long-term capital commitments. International organizations and

specialized agencies, such as the Multilateral Investment Guarantee Agency (MIGA), play a significant role in offering guarantees and insurance products that facilitate foreign investment flows, particularly in developing countries. Similarly, export credit agencies and private insurance companies provide a range of investment protection instruments aimed at supporting cross-border investments.

The growing complexity of international business operations and the increasing volatility of global economic and political conditions have further emphasized the importance of investment insurance. Recent geopolitical tensions, financial market fluctuations, and economic disruptions have demonstrated that investment risks can arise unexpectedly and have substantial consequences for investors. As a result, effective insurance mechanisms have become an integral component of modern investment strategies and national investment promotion policies.

For developing economies, including countries seeking to attract greater volumes of foreign capital, establishing a reliable investment insurance system can significantly improve the investment climate. Such mechanisms not only protect investors but also strengthen the credibility of host countries, reduce perceived risks, and enhance their competitiveness in the global investment market. Therefore, understanding the necessity and importance of foreign investment insurance is essential for policymakers, financial institutions, and investors alike.

The purpose of this study is to examine the theoretical and practical aspects of foreign investment insurance, identify the key risks faced by foreign investors, and evaluate the role of insurance mechanisms in promoting investment security and sustainable economic development. The study also explores international experiences and provides insights into how investment insurance can contribute to attracting and retaining foreign investment in an increasingly uncertain global environment.

Literature review

The issue of foreign investment protection and investment insurance has attracted considerable attention in economic and financial research. Scholars have emphasized that the sustainability of foreign direct investment (FDI) largely depends on the level of risk perceived by investors and the effectiveness of mechanisms designed to mitigate such risks. Investment insurance is widely recognized as one of the most important instruments for reducing uncertainty and encouraging international capital flows.

According to John H. Dunning, foreign direct investment decisions are influenced not only by market opportunities and resource availability but also by institutional stability and investment security. His Eclectic Paradigm (OLI Framework) highlights the importance of location-specific advantages, including legal protection and risk-reduction mechanisms, in attracting foreign investors. In this context, investment insurance contributes to strengthening a country's locational attractiveness by reducing perceived investment risks.

Research conducted by Theodore H. Moran demonstrates that political risks remain among the most significant obstacles to international investment, particularly in developing economies. Political instability, expropriation, contract violations, and restrictions on capital transfers may discourage investors from undertaking long-term projects. Moran argues that investment insurance mechanisms play a critical role in mitigating these concerns and improving investor confidence.

Numerous studies published by the World Bank and the Organisation for Economic Co-operation and Development indicate that countries with effective investment protection systems tend to attract higher levels of foreign direct investment. These studies emphasize that insurance against political and non-commercial risks can significantly reduce investment barriers and facilitate cross-border capital movements. Furthermore, investment insurance is viewed as an important complement to bilateral investment treaties and international arbitration mechanisms.

Theoretical contributions from risk management scholars suggest that investment insurance serves as a financial instrument for transferring risks from investors to specialized insurance providers. According to modern risk management theory, the allocation and diversification of risks improve market efficiency and promote investment activities. Investment insurance therefore enables investors to focus on productive activities while reducing exposure to unpredictable political and economic events.

Recent literature has increasingly focused on the role of the Multilateral Investment Guarantee Agency (MIGA) in promoting foreign investment. Studies show that MIGA guarantees have been particularly effective in supporting infrastructure, energy, manufacturing, and service-sector projects in emerging markets. Researchers conclude that MIGA's political risk insurance products contribute to increasing investor confidence, lowering financing costs, and facilitating access to international capital.

Several empirical studies have examined the relationship between investment insurance and foreign investment inflows. The findings generally indicate a positive correlation between the availability of investment guarantees and the volume of foreign investments received by host countries. Countries that provide comprehensive protection mechanisms, including insurance coverage against political risks, tend to experience higher levels of investment attractiveness and greater economic stability.

In recent years, scholars have also investigated the impact of global crises on investment security. The COVID-19 pandemic, geopolitical conflicts, supply chain disruptions, and financial market volatility have highlighted the growing importance of investment insurance in managing emerging risks. Researchers argue that traditional insurance products should be expanded to address new categories of risks associated with globalization and digital transformation.

Despite the substantial body of literature on foreign investment and risk management, there remains a need for further research on the effectiveness of investment insurance mechanisms in developing economies. In particular, limited attention has been paid to the integration of international best practices into national investment protection systems. Therefore, this study contributes to the existing literature by examining the necessity and importance of foreign investment insurance and assessing its role in strengthening investment security and supporting sustainable economic development.

Methodology

This study employs a mixed-method research approach combining qualitative and quantitative methods to examine the necessity and importance of foreign investment insurance. The methodological framework is designed to assess the relationship between investment protection mechanisms and the attractiveness of foreign direct investment (FDI) in host countries.

The research is primarily based on secondary data obtained from international organizations, academic publications, government reports, and statistical databases. Information and data were collected from publications of the World Bank, International Monetary Fund, United Nations Conference on Trade and Development, Organisation for Economic Co-operation and Development, and the Multilateral Investment Guarantee Agency (MIGA). These sources provide reliable and internationally recognized information regarding foreign investment flows, investment risks, and insurance mechanisms.

Several scientific research methods were applied throughout the study. The comparative analysis method was used to evaluate international practices in foreign investment insurance and identify the most effective approaches implemented in developed and developing economies. The systematic analysis method was employed to examine the theoretical foundations of investment insurance and its role in reducing investment risks. In addition, statistical analysis was used to assess trends in foreign direct investment and the relationship between investment protection measures and investment inflows.

The study also utilizes descriptive and analytical methods to classify the major risks faced by foreign investors, including political risk, expropriation risk, currency transfer restrictions, breach of contract, and civil disturbances. These risks were analyzed to determine how investment insurance contributes to minimizing potential financial losses and enhancing investor confidence.

Furthermore, a case-study approach was adopted to examine selected international experiences in investment insurance. Particular attention was given to countries and projects that have benefited from political risk insurance and investment guarantees. This approach allows for a better understanding of the practical implications of investment insurance mechanisms and their effectiveness in promoting foreign investment.

The findings of the research were interpreted using logical reasoning and economic analysis to identify key trends and draw conclusions regarding the role of investment insurance in strengthening the investment climate. The methodological approach ensures the reliability and validity of the study by integrating theoretical perspectives with empirical evidence and international best practices.

Analysis and results

The analysis indicates that foreign investment insurance plays a crucial role in reducing investment-related risks and strengthening investor confidence. In the current global economic environment, characterized by geopolitical tensions, financial market volatility, and regulatory uncertainties, investors increasingly seek reliable mechanisms that can protect their capital against unexpected losses. Investment insurance has therefore become an essential component of international investment activities.

One of the primary findings of the study is that political risks remain among the most significant challenges faced by foreign investors. Risks such as expropriation, government intervention, breach of contract, restrictions on currency conversion and transfer, as well as political instability, can substantially affect investment profitability and sustainability. Countries with higher levels of political uncertainty generally experience lower foreign direct investment inflows due to increased investor concerns. In this regard, investment insurance serves as an effective risk mitigation tool by providing financial protection against non-commercial risks.

The analysis of international experience demonstrates that investment guarantee programs offered by the Multilateral Investment Guarantee Agency (MIGA) have significantly contributed to increasing investment activity in developing economies. MIGA-supported projects have facilitated investments in infrastructure, energy, manufacturing, telecommunications, and service industries by reducing perceived investment risks and improving access to financing. As a result, insured projects have generally shown greater resilience and stability compared to uninsured investments.

The study also reveals a positive relationship between the availability of investment insurance mechanisms and foreign direct investment inflows. Countries that provide comprehensive investor protection systems, including insurance against political and regulatory risks, tend to attract larger volumes of foreign capital. Investors often consider the existence of insurance and guarantee schemes as an indicator of a country's commitment to investment security and economic stability. Consequently, effective investment insurance systems contribute to improving a country's international competitiveness and investment attractiveness.

Furthermore, the findings suggest that investment insurance generates benefits not only for investors but also for host economies. By encouraging foreign capital inflows, insurance mechanisms support economic growth, employment creation, technology transfer, and productivity enhancement. Increased foreign investment also contributes to the diversification of economic activities and strengthens integration into global value chains. Therefore, investment

insurance can be viewed as an important instrument for achieving sustainable economic development.

Another significant finding concerns the growing importance of investment insurance in the context of global crises. The economic disruptions caused by the COVID-19 pandemic, regional conflicts, supply chain interruptions, and rising economic uncertainty have highlighted the vulnerability of international investments. Under such conditions, investors increasingly rely on insurance coverage to manage unforeseen risks and maintain business continuity. This trend demonstrates that investment insurance has evolved from a supplementary protection mechanism into a strategic component of international investment decision-making.

The analysis further shows that developing countries can significantly improve their investment climate by strengthening legal and institutional frameworks related to investment insurance. Transparent regulations, efficient dispute-resolution mechanisms, cooperation with international guarantee agencies, and the establishment of national investment insurance programs can reduce perceived risks and encourage long-term investment commitments. Countries that successfully implement these measures are more likely to attract high-quality and sustainable foreign investments.

The results of the study confirm that foreign investment insurance is a critical factor in promoting investment security and supporting economic development. The availability of effective insurance mechanisms reduces investor uncertainty, facilitates capital mobilization, enhances financial stability, and contributes to the creation of a more favorable investment environment. These findings underline the necessity of expanding investment insurance systems and integrating international best practices into national investment policies to ensure sustainable growth and competitiveness in the global economy.

Conclusion and recommendations

Foreign investment has become one of the most important factors contributing to economic growth, technological progress, employment generation, and international economic integration. However, the increasing complexity of the global business environment and the growing number of political, economic, and legal uncertainties have significantly increased the risks associated with foreign investment activities. These risks often discourage investors from entering new markets and undertaking long-term investment projects.

The findings of this study demonstrate that investment insurance serves as an effective mechanism for reducing investment-related risks and enhancing investor confidence. By providing protection against political and non-commercial risks such as expropriation, currency transfer restrictions, breach of contract, and civil disturbances, investment insurance improves the overall security of foreign investments. As a result, investors are more willing to commit capital to countries where reliable protection mechanisms exist.

The analysis further reveals that countries with well-developed investment insurance systems tend to attract higher levels of foreign direct investment and achieve greater investment stability. International experiences, particularly those associated with the activities of the Multilateral Investment Guarantee Agency (MIGA), confirm that investment guarantees play a significant role in facilitating investment flows to developing and emerging economies. In addition, investment insurance contributes to broader economic benefits, including job creation, technology transfer, increased productivity, and sustainable economic development.

Therefore, foreign investment insurance should be regarded not merely as a financial protection instrument but also as a strategic policy tool that strengthens the investment climate and enhances national economic competitiveness. Expanding and improving investment insurance mechanisms can significantly contribute to attracting sustainable foreign capital and supporting long-term economic development objectives.

Based on the results of the study, the following recommendations are proposed:

1. **Strengthen the legal framework for investment protection.** Governments should continuously improve investment legislation to ensure transparency, predictability, and effective protection of foreign investors' rights.

2. **Expand investment insurance mechanisms.** National authorities should develop comprehensive investment insurance programs covering political and non-commercial risks to increase investor confidence and reduce investment uncertainty.

3. **Enhance cooperation with international guarantee institutions.** Strengthening collaboration with organizations such as MIGA and other international financial institutions can improve access to political risk insurance and attract larger volumes of foreign investment.

4. **Establish specialized national investment insurance agencies.** Developing dedicated institutions responsible for investment risk assessment and insurance services can improve the effectiveness of investment protection systems.

5. **Promote awareness of investment insurance among investors.** Governments, financial institutions, and investment promotion agencies should actively inform potential investors about available insurance products and guarantee mechanisms.

6. **Improve institutional stability and governance quality.** Reducing bureaucratic barriers, enhancing regulatory consistency, and strengthening the rule of law can lower perceived investment risks and complement the benefits of investment insurance.

7. **Integrate digital technologies into investment risk management.** The use of digital platforms, artificial intelligence, and data analytics can improve risk assessment processes and increase the efficiency of insurance services.

8. **Develop crisis-responsive insurance products.** Insurance providers should introduce innovative products that address emerging risks related to geopolitical conflicts, pandemics, cyber threats, and global economic disruptions.

In conclusion, the development of effective foreign investment insurance systems is essential for ensuring investment security, increasing foreign capital inflows, and achieving sustainable economic growth. Policymakers, financial institutions, and international organizations should work together to strengthen investment protection mechanisms and create a more resilient and attractive investment environment.

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