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The role and importance of investments in the development of the real sector of the economy

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Abstract

The article examines the essence, features, and classifications of investments, emphasizing their role in the real sector of Uzbekistan's economy. It analyzes the structure and dynamics of fixed capital investments by activity type, highlights their impact on industrial development, and outlines key tasks for economic growth. Scientific conclusions are drawn on the importance of investments in strengthening the real sector.

Keywords: Investments; Real Sector; Fixed Capital; Production; Profit; Long-Term Investments; Innovation; Infrastructure; Efficiency; Costs.

1. Introduction

The real sector constitutes the fundamental driver of economic growth across nations, as it generates employment opportunities, secures a substantial share of gross domestic product (GDP), and underpins export-oriented development. Expansion of industrial and production activities within this sector not only increases the supply of consumer goods but also mitigates inflationary pressures, thereby reinforcing macroeconomic stability. Sustainable progress in the real sector plays a decisive role in ensuring national welfare, social cohesion, and geopolitical resilience. Consequently, the attraction of investment flows into the real sector, coupled with the improvement of institutional and financial mechanisms for supporting investment projects, remains a strategic priority of global economic policy.

According to the United Nations Conference on Trade and Development (UNCTAD), global foreign direct investment inflows declined by 11 percent in 2024, reaching $1.51 trillion — marking the second consecutive year of contraction [1]. Furthermore, the World Investment Report indicates a 26 percent reduction in international project financing, including investments in manufacturing, markets, and social infrastructure, which are indispensable for sustainable economic growth in both advanced and emerging economies [2]. These dynamics underscore the urgent necessity for developing countries to intensify efforts in mobilizing and effectively channeling investments into their real sectors, ensuring resilience against external shocks and fostering long-term economic transformation.

2. Literature review

To date, the concept of investment has been interpreted differently by economists, reflecting its multifaceted nature and evolving role in economic theory and practice. Scholarly definitions encompass a wide spectrum of perspectives: investment as the sacrifice of present value for uncertain future returns [3]; as the accumulation of productive resources and capital formation [4]; as the forgoing of current consumption to ensure future growth [5]; as the portion of profits reinvested into capital during the production cycle [6]; or as the expansion of capital circulation within an economic system [7]. Other scholars emphasize its broader dimensions, viewing investment as the mobilization of financial,

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material, and technical resources to generate economic, social, environmental, or political outcomes [8]; as the allocation of funds into tangible and intangible assets for the purpose of income generation [9]; or as the long-term placement of resources across national and international projects in diverse spheres, including entrepreneurship, innovation, and socio-economic programs [10–13]. Modern approaches also frame investment as a process of resource mobilization that balances value preservation, risk assessment, and efficiency in pursuit of measurable outcomes [14–15].

Although these definitions converge on the fundamental principle of sacrificing present resources to achieve future value, they highlight distinct dimensions of the phenomenon. At the macroeconomic level, investment is understood as the expansion of productive capacity and accumulation of capital at the scale of the national economy. At the microeconomic level, investment reflects the behavioral choice of households and firms to limit current consumption in favor of future profit or alternative benefits. Thus, investment embodies both systemic capital accumulation and individual decision-making under uncertainty.

Individual definitions emphasize specific facets of investment. The notion of "sacrificing present value for future value" [3] encapsulates the essence of economic choice and intertemporal exchange. The focus on "accumulation of reserves and means of production" [4] underscores its role in strengthening the real sector. The definition as "foregoing current consumption for future investment" [5] interprets investment through a behavioral model, while the view of "retained profits as investment" [6] restricts the concept to internal savings, excluding external and debt-based sources. Meanwhile, definitions linking investment to "the expansion of capital in circulation" [7] capture its systemic role but understate the efficiency motive. The more modern interpretations [8–9] extend the scope of investment to encompass tangible and intangible assets and a variety of outcomes, including social and environmental benefits, which align more closely with contemporary global practices.

National legislation further institutionalizes the concept by defining investments as "tangible and intangible assets and rights to them, including intellectual property, invested in the social sphere, entrepreneurship, scientific and other activities on a risk basis for profit, including reinvestments" [16]. This legal framework reflects several essential features: (i) the central economic motive of profit-seeking; (ii) the broad scope of investment activities beyond industry and finance to include social and scientific domains; (iii) explicit recognition of intangible assets such as intellectual property, patents, and brands as key investment objects; (iv) the inclusion of reinvestment, highlighting the long-term strategic dimension of investment; and (v) explicit acknowledgment of risk, which is inherent to all investment activity.

Nevertheless, while such legal definitions are comprehensive and suitable for academic and policy contexts, they may remain abstract for students and non-specialists. Moreover, the reference to "benefit" remains somewhat ambiguous, as it does not clearly specify whether social and environmental benefits are included alongside economic gains. A more refined approach would ensure conceptual clarity while preserving inclusivity.

In sum, each definition captures particular aspects of investment—its economic essence, productive role, behavioral rationale, resource type, or desired outcomes. The most complete and academically rigorous definition, therefore, should integrate multiple dimensions: various forms of investment (financial, technical, social), diverse objectives (profit, efficiency, social benefit), and recognition of the inherent risk-return trade-off. This holistic perspective provides a comprehensive basis for both theoretical inquiry and practical application in modern economic systems.

3. Research methodology

The real sector of the economy refers to the areas of economic activity that are directly related to the production, distribution, exchange and consumption of goods and services, and this sector serves to create material wealth. "Real (lat. realis) means material, real" [17]. In turn, the real sector includes industry (production), agriculture, construction, transport and logistics, trade (retail and wholesale) and service sectors (tourism, education, medicine, etc.). The real sector is a set of sectors that develop the economy "real", that is, on a visible, material basis, through production and service provision. The development of this sector goes back to the issue of financial security. Investments play a decisive role in this. Because investments represent tangible and intangible assets and rights to them, invested by investors in various activities in order to obtain profit or achieve efficiency, and are one of the main factors and sources in developing the real sector, expanding production, and ensuring economic growth.

The real sector, which is the basis of the economy of any country, is a set of sectors that include material production, services and agriculture. The sustainable development of the real sector is an important condition for ensuring economic growth, the well-being of the population and national security. Today, in the conditions of globalization and increasing competition in the world economy, the role of investments in the modernization and development of the real sector is increasingly increasing.

4. Analysis and results

When describing the content of investments, it is also necessary to pay attention to their types. In our opinion, investments are divided into several types according to their classification characteristics (Figure 1).

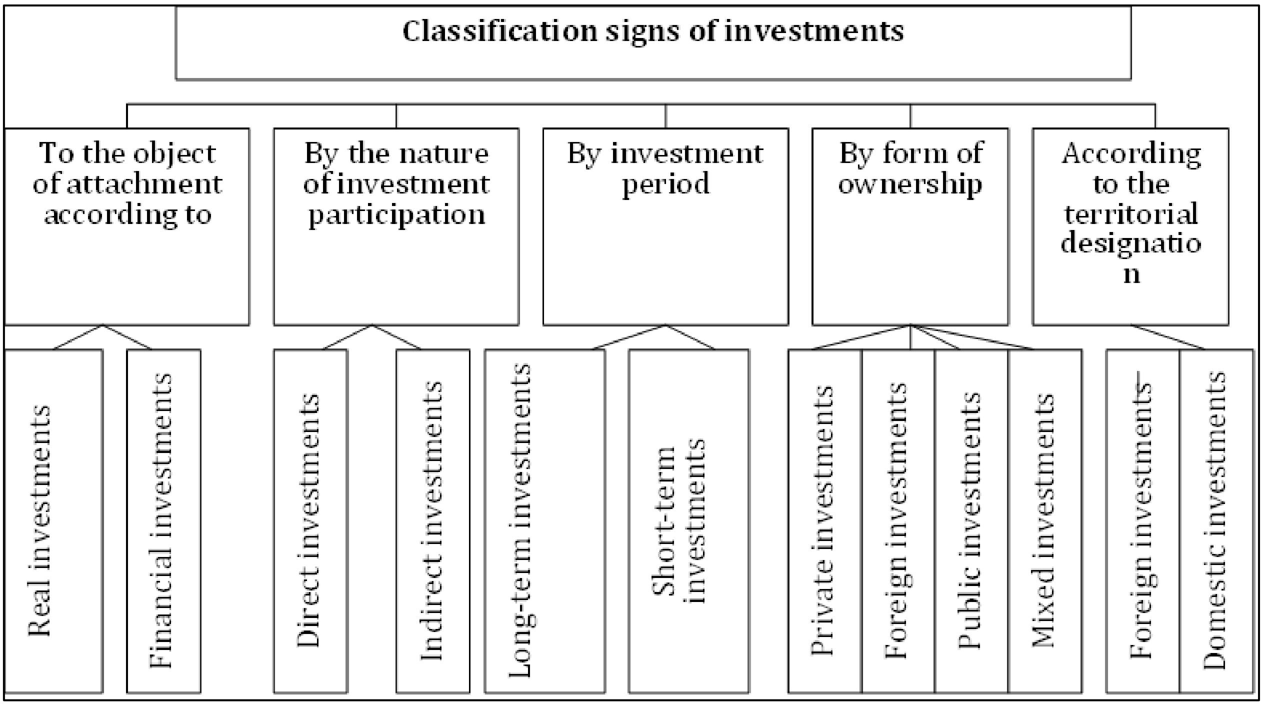

Figure 1 Classification of investments [18]

Investments are long-term capital investments directed to production, infrastructure, the social sphere and other economic sectors with the aim of generating income or profit. Investments are a key condition for the development of the real sector, as they provide:

- Expansion of production capacity: Investments allow for the expansion of production capacity through the construction of new enterprises, modernization of existing ones, and the purchase of equipment. This serves to increase production volumes and ensure economic growth.
- Technological innovation: Investments help to modernize production processes by introducing modern technologies and equipment. This allows to increase production efficiency, improve product quality and ensure competitiveness.
- Infrastructure development: Investments in transport, energy, communications and other infrastructure facilities serve the development of all sectors of the economy. Developed infrastructure helps reduce production costs, improve logistics and increase economic activity.
- Job creation: Investments create new jobs through the establishment of new enterprises and the expansion of existing ones. This helps to ensure employment, increase incomes, and solve social problems.
- Economic diversification: Investments allow the development of new sectors and diversification of the economy. This helps to increase resilience to external economic shocks and ensure economic security.

The importance of investments in the real sector is manifested, first of all, in increasing production capacity, creating jobs, strengthening export potential, improving infrastructure, and ensuring the introduction of advanced technologies and innovations. Investments are the "heart" of the real sector, and their attraction and effective direction stimulate economic growth, create jobs, increase the volume of national product and strengthen competitiveness. This is achieved through effective financing or improvement of financing of investment projects in this sector.

Investment is crucial for the sustainable and long-term economic development of any country. Investment is not just a means of funding economic activity, but also a strategic tool for technological progress, expansion of production, creation of new jobs and development of the domestic market.

World experience shows that countries with high investment potential achieve sustainable growth and gain an advantage in global economic competition. Therefore, investments are one of the priorities of each country's economic policy.

Investments can be divided into types based on several criteria. Their impact on the real sector also varies:

- By form of ownership: private investments; state investments and foreign investments. Investments made by private enterprises and individuals. They are usually directed to projects with high profitability. Investments made by the state budget and state-owned enterprises. They are usually directed to projects of social importance and infrastructure development. Investments made by foreign investors. They allow the economy to bring new technologies, management experience and capital.
- By economic content: gross investment; net investment; autonomous investment; incentive investment. Gross investment represents the total amount of investment in fixed capital and working capital. Net investment is the remainder after deducting investments made to replace obsolete fixed capital from gross investment. Autonomous investment is investment that is made independently of production. Incentive investment refers to investment that occurs as a result of an increase in production.
- By purpose: real and financial investments. Real investments represent investments in fixed assets and working capital, while financial investments describe investments in stocks, bonds, and other securities.
- The most important investments for the real sector are investments in fixed capital and modern technologies. They allow to increase production efficiency, improve product quality and ensure competitiveness.

The main tasks of investment in economic development are:

- Increasing production capacity. Investments will allow for the construction of new production facilities, modernization of existing ones, and technological innovation. This will increase production volumes, improve efficiency, and create the basis for the creation of competitive products.
- Infrastructure development. Without infrastructure, the economy cannot develop. Investments in roads, electricity, water, telecommunications, and transportation networks will boost economic activity and accelerate regional development.
- Job creation. The opening of new projects and enterprises will increase activity in the labor market and ensure employment of the population. This will strengthen not only economic but also social stability.
- Production of competitive products for domestic and foreign markets. The introduction of innovative technologies and high-quality equipment will create the opportunity to meet the demands of the domestic market and produce export-oriented products. This will have a positive impact on the foreign trade balance of the national economy.
- Strengthening the financial system. Banks, insurance companies, financial institutions, and stock markets will actively participate in financing investment projects. This will contribute to the development of the financial sector.

The role and importance of investment in economic development can be clearly seen from world experience. Singapore has pursued a policy of “rapid industrialization” over the past 30 years by attracting foreign investment and investing in innovation. This has turned the country into a financial and technological center of Southeast Asia. China Since the 1980s, China has been able to attract a large flow of investment through free economic zones. This has strengthened its industrial potential and taken a leading position in the global production chain. In Germany, large investments are being made in innovative projects through technological innovation and cooperation between the public and private sectors within the framework of the “Industry 4.0” programs.

In recent years, reforms aimed at improving the investment climate have also been implemented in Uzbekistan. As a result of a number of legal guarantees, tax incentives and the creation of free economic zones, the inflow of foreign investment is increasing. This is a clear proof of economic stability and the effectiveness of reforms. For example, in 2024, 493.7 trillion soums of investments were absorbed from total sources of financing for the development of economic and social sectors in the Republic of Uzbekistan, which is 127.6% compared to 2023. The dynamics of investments in fixed capital in 2020-2024 shows that it increased by almost 2.3 times and had an upward trend. This indicates an increase in expenditures for the purchase and reproduction of new fixed assets, which is a positive situation from the point of view of the development of the real sector of the economy. The dynamics of the technological composition of investments in fixed capital shows that, compared to 2020, the share of investments in construction and installation works has slightly decreased in the current period, from 43.4 percent to 43.1 percent, and the share of investments in machinery, equipment and inventory has decreased from 49.5 percent to 46.9 percent (Figure 2).

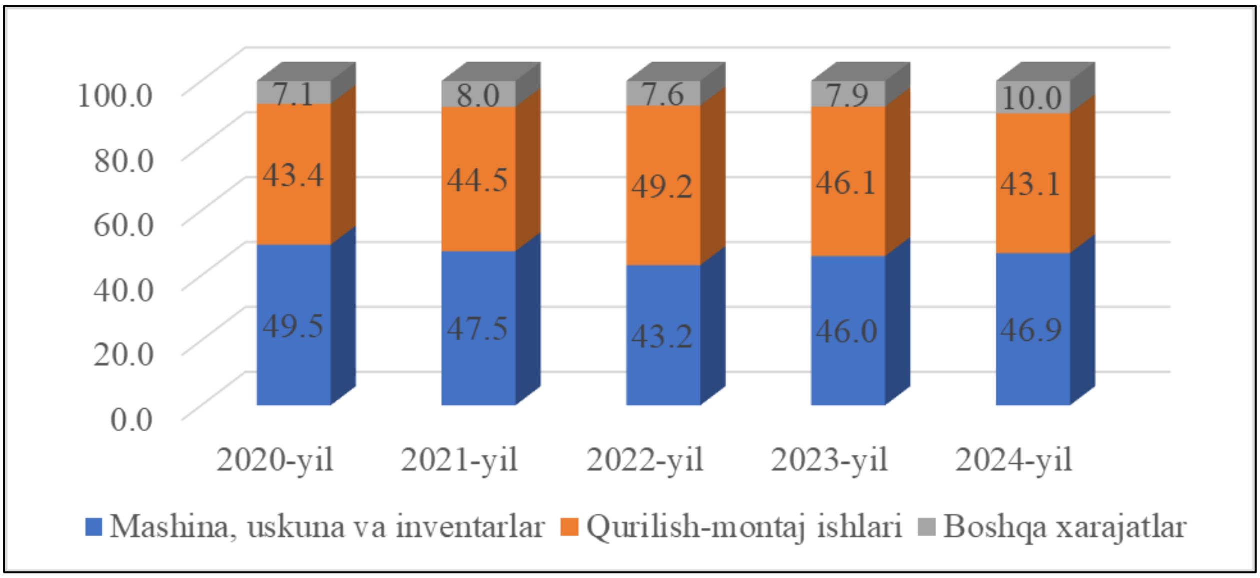

Figure 2 Dynamics of the technological composition of investments in fixed capital (in percentage terms)[19]

However, the fact that during the analyzed period, an average of 46.6 percent of total investments in fixed capital were mobilized for the purchase of machinery, equipment and inventory, and 45.26 percent for construction and installation works, demonstrates positive dynamics in terms of developing the real sector of the economy, attracting investments in this area, and modernizing production.

During 2020-2024, the majority of investments in fixed capital by type of economic activity fell on the real sector of the economy. In particular, during the analyzed years, an average of 28.62 percent of investments in fixed capital fell on the manufacturing industry, an average of 10.04 percent on electricity and gas supply, another 40.46 percent on mining, an average of 7.26 percent on agriculture, and an average of 5.18 percent on construction (Table 1).

Table 1 Volume and share of fixed capital investments by type of economic activity in the Republic of Uzbekistan[20]

Indicators	**2020**	**2021**	**2022**	**2023**	**2024**
Manufacturing industry	31.1	25.8	28.3	28.6	29.3
Electricity and gas supply	8.9	8.0	7.5	11.9	13.9
Mining industry	11.6	9.5	8.0	10.3	12.9
Agriculture	8.9	7.7	7.4	5.7	6.6
Construction	4.7	5.8	5.6	4.3	5.5
Other networks	34.8	43.2	43.2	39.2	31.8

The remaining share is absorbed in other sectors of the economy, namely the production of textiles and clothing, water supply, sewage system, waste collection and disposal, transportation and storage, wholesale and retail trade, repair of motor vehicles and motorcycles, information and communication, professional, scientific and technical activities, financial and insurance activities, health care and social services, and other types of economic activities.

5. Conclusion and recommendations

Investments are the foundation of economic development. They play a crucial role in restoring production, renewing infrastructure, creating new jobs, and introducing innovations. The higher the investment activity, the more stable and priority the economic growth rates will be. That is why countries are creating the basis for economic development by improving the investment climate, protecting the rights of investors, creating legal guarantees, and ensuring transparency. Uzbekistan is also actively participating in this process, and the continuation of reforms in this area will determine economic prospects.

The role and importance of investments in the development of the real sector of the economy is incomparable. Investments serve to expand production capacities, technological innovation, develop infrastructure, create new jobs, and promote economic diversification.

Uzbekistan is taking important steps to attract investments to the real sector. However, much work still needs to be done in this regard. By improving the investment climate, developing infrastructure, training personnel, supporting local enterprises and increasing investment attractiveness, conducting in-depth research into the scientific and theoretical foundations of financing investment projects in the real sector and improving financing on this basis, it will be possible to further develop the real sector, thereby increasing the flow of foreign investments into our country's economy and ensuring its sustainable development.

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