ECONOMIC ASPECTS OF GREEN FINANCING OF FOREIGN INVESTMENTS

Jumanova Gavhar Abdurazzok kizi

PHD STUDENT AT TASHKENT STATE UNIVERSITY OF ECONOMICS

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ABSTRACT

This thesis examines the key economic aspects of green financing in the context of foreign direct investment (FDI), emphasizing how global sustainability goals reshape international capital flows. Green financing mechanisms — including green bonds, sustainability-linked loans, concessional finance, blended finance instruments, and climate funds — are analyzed as strategic tools that reduce environmental risk, stimulate innovation, and promote long-term economic resilience.

INTRODUCTION

In recent decades, the global economic landscape has undergone a fundamental shift as environmental sustainability has moved from a peripheral policy concern to a core strategic priority for governments, corporations, and international financial institutions. This transition has accelerated the rise of *green financing* as a central mechanism for supporting environmentally responsible economic activity, particularly in the context of foreign direct investment (FDI). Green financing of foreign investments encompasses all financial instruments, policies, and institutional frameworks designed to channel capital into projects that reduce environmental risks, enhance energy efficiency, support decarbonization, and advance sustainable development. Understanding the economic aspects of this emerging financial ecosystem is essential for evaluating how global investment flows are being reshaped in response to climate change, regulatory shifts, and technological innovation.

MATERIALS AND METHODS

At the macroeconomic level, green financing of foreign investments plays a vital role in reallocating global capital toward sustainable industries. Traditional FDI has long been driven by market size, resource availability, and production cost advantages. However, environmental policies—such as carbon taxes, emissions trading schemes, renewable-energy incentives, and stricter pollution standards—are increasingly influencing investment locations and sectoral composition. Countries that develop strong green-financing ecosystems, including green bonds, sustainability-linked loans, concessional credit lines, and public–private blended finance, attract more environmentally oriented FDI. This process creates a competitive advantage for host countries, accelerating economic modernization and reducing vulnerability to climate-related shocks. Moreover, green financing lowers the long-term systemic cost of environmental degradation by internalizing the negative externalities of carbon-intensive production.

RESULTS AND DISCUSSION

At the microeconomic level, the economic behavior of firms investing abroad is profoundly influenced by green financing mechanisms. Access to low-cost green capital reduces operational expenses, supports technological innovation, and increases the long-term profitability of sustainable projects. Companies engaging in foreign investment often face stringent environmental standards in host countries; green financing helps them meet these regulatory conditions while maintaining

competitive returns. Furthermore, firms that adopt sustainable investment practices often gain reputational benefits, improved ESG scores, and stronger access to international financial markets. These gains contribute to enhanced shareholder value and reduced risk exposure. The availability of green financial instruments also encourages multinational corporations to invest in renewable energy, waste management, circular-economy initiatives, and energy-efficient manufacturing in developing countries [1].

A core economic aspect of green financing is *risk mitigation*. Environmental risks—such as extreme weather events, resource scarcity, and regulatory penalties—pose significant threats to foreign investments. Green financing instruments reduce these risks by promoting projects aligned with environmental compliance and resilience. Green insurance schemes, risk-sharing funds, and climate-risk disclosure standards strengthen the financial stability of foreign investors while ensuring that capital flows remain sustainable. Credit-rating agencies increasingly incorporate environmental risk metrics, meaning that companies with poor sustainability performance face higher borrowing costs. As a result, green financing acts as an economic incentive structure that rewards environmentally responsible investment behavior [2].

Another key dimension is *technology transfer and innovation*. Green FDI promotes international diffusion of advanced technologies, including solar and wind power systems, green hydrogen, carbon-capture technologies, smart grids, and sustainable agricultural practices. Economic research shows that countries receiving technologically intensive green FDI experience spillover effects, such as increased labor productivity, improved skills, and the emergence of local green industries. Green financing mechanisms accelerate this process by lowering the financial barriers to adopting new technologies. Concessional financing, climate funds, and international development banks support projects that might otherwise be too costly or risky for private investors, creating multiplier effects on national innovation ecosystems.

The economic aspects of green financing of foreign investments highlight its transformative role in the global economy. Green financing not only directs capital into environmentally sustainable sectors but also alters investment incentives, reduces environmental and financial risks, accelerates technological modernization, and promotes resilient and sustainable economic growth. As the world confronts the challenges of climate change and ecological degradation, green financing will continue to shape the future trajectory of foreign investment flows. Strengthening its institutional foundations, improving transparency, and expanding access to green financial instruments remain essential steps for ensuring that global investment activity supports long-term environmental and economic stability [4].

CONCLUSION

Green financing has become an essential framework for directing foreign investment toward environmentally sustainable activities. By integrating environmental considerations into financial decision-making, green financing mechanisms reshape investor incentives, reduce ecological risks, and support technological modernization in host economies. Their influence extends from improving energy efficiency and renewable-energy deployment to encouraging circular-economy practices and strengthening long-term economic resilience. However, the effectiveness of green financing depends on transparent standards, institutional capacity, and global cooperation.

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