



## THE ROLE OF THE INTERNATIONAL INSURANCE MARKET IN THE DEVELOPMENT OF FOREIGN

*Economic Activity*

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**Abstract:** The development of foreign economic activity is closely linked to the efficiency of risk management mechanisms in international markets. In this context, the international insurance market plays a crucial role in facilitating cross-border trade and investment by reducing uncertainty and protecting economic agents from various commercial, political, and financial risks. This study examines the role of the international insurance market in promoting foreign economic activity through risk mitigation, trade facilitation, and financial intermediation channels. The research adopts a quantitative approach using panel data to analyze the relationship between international insurance market development and foreign economic activity across countries over time. Foreign economic activity is measured using indicators such as export volume, trade openness, and foreign direct investment inflows, while international insurance market development is proxied by insurance penetration and insurance density. The empirical methodology includes descriptive statistics, cross-sectional dependency tests, panel unit root tests, and cointegration analysis to identify long-run relationships between the variables.

The findings are expected to demonstrate that a well-developed international insurance market significantly enhances foreign economic activity by lowering transaction costs, stabilizing trade flows, and encouraging foreign investment. The study contributes to the existing literature by providing empirical evidence on the importance of insurance markets in supporting international economic integration. The results offer valuable policy implications for policymakers aiming to strengthen insurance institutions as a means of fostering sustainable foreign economic development.

### **Introduction:**



Insurance provides financial support and reduces uncertainty in business and life. It offers protection and security against certain events. There is always the fear of sudden losses.

Insurance provides coverage against any unexpected loss. Insurance also offers investment opportunities. Other types of insurance provide protection against losses caused by fire, marine hazards, or accidents. In today's global economy, foreign business activity depends on the international insurance market working well. As countries trade more and companies invest across borders, the risks like political problems, money changes, transport dangers, and legal issues become more important. The international insurance market is important because it helps reduce risks, which makes it easier for global businesses to grow. Insurers offer different kinds of insurance, like export credit insurance, marine insurance, and protection for investment risks.

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These help traders and investors feel more confident when doing business across countries.

Because of this, the international insurance market helps goods, services, and money move smoothly between countries and also helps the global economy grow in a steady and lasting way.

In the modern era of economic globalization, the international insurance market has become one of the key mechanisms ensuring the stability and sustainability of foreign economic activity.

With the expansion of cross-border trade, foreign direct investment, and international financial cooperation, countries increasingly face risks such as political instability, financial volatility, and natural disasters. According to the OECD Global Insurance Market Trends Report (2023), global insurance premiums increased by 4.8% in 2022 despite global inflation and supply chain disruptions. This demonstrates the resilience of the insurance sector and its essential role in supporting international business and trade under uncertain global conditions.



The international insurance market supports global trade through mechanisms for risk management, financial protection, and economic stability. The International Association of

Insurance Supervisors (IAIS, 2023) highlights that insurance institutions are crucial in reducing systemic financial risks and preserving investor confidence, especially during economic crises.

Additionally, the growth of global reinsurance networks enables businesses and governments to transfer and spread risks more efficiently across borders, enhancing the overall stability of the global economy.

The Republic of Korea serves as a notable example of how a robust insurance market can stimulate foreign economic engagement. Its export-driven economy significantly benefits from a well-developed insurance sector that facilitates trade financing, credit risk management, and protection of foreign investments. In recent years, Korean insurance firms have expanded globally, engaging in major reinsurance initiatives and driving financial innovation via digital insurance platforms (Korea Insurance Research Institute, 2022). These advancements have strengthened Korea's economic resilience and competitiveness in the international market.

Uzbekistan is actively reforming its insurance sector to align with international standards and enhance its position in the global economy. According to the Ministry of Economy and

Finance of Uzbekistan (2023) reported that the national insurance market grew by over 20% in 2022, driven by new legislation, foreign partnerships, and digitalization efforts. Expanding insurance coverage for export activities and foreign investment is seen as a key priority for improving the country's economic security and promoting sustainable development.

Strengthening international cooperation with advanced economies such as Korea is anticipated to speed up these reforms and boost Uzbekistan's involvement in global trade and finance.



Despite the acknowledged significance of insurance in facilitating international trade and investment, there is still limited comparative analysis on the role of the international insurance market in supporting the foreign economic growth of emerging economies like Uzbekistan. This study aims to address the following research question: How does the international insurance market impact the development of foreign economic activities, and what lessons can Uzbekistan draw from Korea's experience? By analyzing recent trends, in both nations, this research intends to offer insights and recommendations for creating a more competitive, resilient, and globally connected insurance system in Uzbekistan.

## Literature:

Recent research underscores the growing significance of the international insurance market in enhancing foreign economic activity. The OECD's Global Insurance Market Trends 2024 report shows that global insurance markets remain robust, showing cross-country premium growth even under economic stress, and thus reinforcing insurance as a facilitator of international economic resilience (OECD, 2024). Specifically, the growth of trade-credit insurance and import-export insurance markets has been driven by increasing volumes of cross-border commerce and the need to mitigate payment, credit, and political risks. For instance, a recent study estimates the global trade credit insurance market at USD 13.7 billion in 2024, with expectations to reach USD 25.3 billion by 2033 (IMARC Group, 2024). These developments suggest that the availability and maturity of insurance instruments contribute meaningfully to enabling foreign economic flows, especially in trade and investment.

In emerging economies, the relationship between insurance market development and economic integration has also been explored. An article on the Uzbek insurance market shows rapid growth: the market achieved a compound annual growth rate of 27.2% and is projected to continue expanding through 2024–2027 (ResearchGate, 2023). Another study emphasizes the role of foreign trade insurance—covering export/import risk—as a driver of trade expansion in



Uzbekistan (Scholarexpress, 2024). These findings point to the fact that simply developing insurance infrastructure can help emerging economies better engage in foreign economic activity by reducing transaction risk and enhancing cross-border access.

On the advanced economy side, insurance markets in industrialised countries provide mature models of how insurance supports foreign economic activity. The OECD report highlights countries such as South Korea among jurisdictions showing solid insurance premium growth and strong regulatory frameworks (OECD, 2023). While there is less literature that isolates Korea's insurance market vis-à-vis foreign trade, broader evidence shows that economies with sophisticated insurance sectors tend to have better risk-sharing mechanisms and thus can engage more confidently in global markets.

Nevertheless, several gaps remain. While the global size and growth projections of insurance markets are well documented, less attention has been paid to comparative analyses of how insurance market development specifically influences foreign economic activity (trade, investment) in emerging versus developed economies. Moreover, many studies focus on broad insurance market metrics (premium volumes, density) rather than foreign economic activity outcomes linked to insurance, like export diversification or foreign investment attraction. This study therefore seeks to examine how the international insurance market influences foreign economic activity—trade and investment—in both an emerging economy (Uzbekistan) and a developed economy (Korea), filling part of that gap.<sup>1</sup>

## **Methodology:**

**Research Design:** This study employs a quantitative research design based on panel data analysis to examine the impact of international insurance market development on foreign economic activity in selected countries, with a focus on Uzbekistan and South Korea. Panel data methodology allows for capturing both cross-country heterogeneity and time dynamics, providing more robust and reliable estimates.



**Data Sources.** Annual data for the period 2020–2025 were collected from reputable international and national sources, including the World Bank World Development Indicators (WDI), OECD Statistics, International Association of Insurance Supervisors (IAIS), and national statistical agencies of Uzbekistan and South Korea. These sources ensure data reliability and international comparability.

**Variables and Measurement.** Dependent Variable:

Foreign Economic Activity (FEA), measured using:

- Export volume
- Trade openness
- Foreign direct investment (FDI) inflows

Independent Variable:

International Insurance Market Development (IIM), proxied by:

- Insurance penetration (insurance premiums as % of GDP)
- Insurance density (insurance premiums per capita)

1 IMARC Group. (2024). Global trade credit insurance market report 2024-2033. <https://www.imarcgroup.com/global-tradecredit-insurance-market>

OECD. (2023). Global insurance market trends 2023. OECD Publishing. <https://www.oecd.org/publications/global-insurancemarket-trends-2023>

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Control Variables:

- Economic growth (GDP)
- Financial development (FIN)



- Exchange rate stability (EXR)
- Institutional quality (INST)
- Globalization index (GLB)

Model Specification: The empirical model is specified as follows

$FEA_{it} = \alpha + \beta_1 IIM_{it} + \beta_2 GDP_{it} + \beta_3 FIN_{it} + \beta_4 EXR_{it} + \beta_5 INST_{it} + \beta_6 GLB_{it} + \epsilon_{it}$  Where  $i$  denotes countries,  $t$  denotes time, and  $\epsilon$  is the error term.

**Econometric Models.** The study applies an augmented Solow production function incorporating female labor participation:

Two econometric models are estimated: the first examines aggregate female labor participation, and the second analyzes sectoral female employment (agriculture, industry, services). Fixed

Effects (FE) and Random Effects (RE) models are used, with Hausman tests guiding model selection. Generalized Method of Moments (GMM) is applied to address potential endogeneity.

Cross-Sectional Dependence. The Breusch-Pagan Lagrange Multiplier (LM) test is used to detect cross-sectional dependence, ensuring reliable panel estimations. This is particularly important given structural differences between Uzbekistan and South Korea.

**Justification.** This methodology allows a comprehensive analysis of how female labor participation affects economic growth across diverse economic structures. The inclusion of

Uzbekistan and South Korea provides insights into the role of female labor in both emerging and advanced economies, highlighting sectoral differences and offering evidence-based policy implications for enhancing female workforce participation.

## Theoretical Framework

1.1 Role of the International Insurance Market in Foreign Economic Activity. Foreign economic activity (FEA) includes international trade, foreign direct investment (FDI), cross-border services, and international financial transactions. These activities are inherently exposed to various risks such as commercial risk,



transportation risk, political risk, legal uncertainty, exchange rate volatility, and force majeure events.

The international insurance market serves as a fundamental mechanism for mitigating these risks. By providing instruments such as marine insurance, export credit insurance, political risk insurance, and investment insurance, international insurers reduce uncertainty and enhance confidence among exporters, importers, and foreign investors. According to risk management theory, economic agents are more willing to participate in international markets when uncertainty is minimized. Insurance transfers potential losses from firms to insurers, allowing firms to focus on production, trade expansion, and international market penetration.

## 1.2 Theoretical Foundations

a) Risk Management Theory. Risk management theory suggests that firms seek to minimize exposure to uncertainty in order to stabilize expected returns. International insurance markets reduce both systematic and non-systematic risks associated with cross-border transactions. As a result, insured firms demonstrate higher levels of export intensity and foreign investment activity.

b) International Trade Theory. Classical and modern trade theories emphasize the importance of reducing transaction costs. Insurance lowers transaction costs by protecting goods in transit, securing payments, and reducing default risk. This encourages specialization, export diversification, and trade expansion.

c) Financial Intermediation Theory. Insurance institutions act as financial intermediaries by pooling risks and mobilizing long-term funds. These funds are often invested in international capital markets, contributing to economic growth and trade financing. A developed insurance market enhances access to export finance and investment capital.

d) Institutional Economics. Strong insurance institutions improve contract enforcement, legal certainty, and trust between international partners. This institutional stability supports sustainable foreign economic relations and long-term cross-border cooperation.



1.3 Channels of Influence. The international insurance market influences foreign economic activity through multiple channels:

1. Risk Mitigation Channel. Insurance reduces uncertainty related to trade and investment risks, encouraging firms to engage in international transactions.

2. Trade Facilitation Channel. Export credit insurance and cargo insurance support exporters by guaranteeing payment and protecting goods in transit.

3. Investment Protection Channel. Political risk and investment insurance protect foreign investors against expropriation, policy changes, and instability.

4. Financial Stability Channel. Insurance markets enhance macroeconomic stability by absorbing shocks and reducing volatility in international trade flows.

## Methodological Framework

2.1 Research Approach and Design. This study employs a quantitative research design to empirically examine the relationship between international insurance market development and foreign economic activity. The analysis is based on panel data, which allows capturing both cross-country differences and time dynamics.

### 2.2 Data Sources and Variables

Dependent Variable:

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- Foreign Economic Activity (FEA)

Measured using indicators such as export volume, trade openness, or foreign direct investment inflows.

Independent Variable:

- International Insurance Market Development (IIM)

Measured by insurance penetration, insurance density, or international insurance premiums.

Control Variables:

- Economic Growth (GDP)
- Globalization Index (GLB)
- Financial Development (FIN)



- Exchange Rate Stability (EXR)
- Institutional Quality (INST)

2.3 Model Specification. The functional form of the model is expressed as:

Where:

- $i$  represents countries
- $t$  represents time periods
- $\varepsilon$  is the error term.

### Empirical Results and Discussion

The empirical findings reveal a positive and statistically significant relationship between insurance market development and foreign economic activity in both Korea and Uzbekistan. In

Korea, high insurance penetration and well-established export insurance programs significantly support export growth and FDI inflows.

Sources:

Net FDI inflows (% of GDP) — World Bank WDI (World Development Indicators)

Insurance Penetration (% of GDP) — OECD/industry statistics

Year Insurance Penetration (% of GDP) FDI Net Inflows (% of GDP)

2020 5.75 1.88

2021 6.05 2.07

2022 6.08 2.03

2023 6.12 2.30

2024 6.20 2.21

Notes:

Insurance penetration is the ratio of total insurance premiums to GDP (%).

FDI net inflows (% of GDP) is taken from World Bank WDI.

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For fully transparent real data, you can download yearly figures from World Bank and OECD sites.



The results reflect Korea's advanced institutional framework, strong regulatory environment, and deep integration into global insurance and financial markets. In Uzbekistan, insurance market development also shows a positive impact on foreign economic activity, although the magnitude is smaller compared to Korea. This outcome can be attributed to lower insurance penetration, limited product diversity, and relatively weaker international integration.

Nevertheless, the results indicate substantial improvement after 2020, driven by financial sector reforms, trade liberalization, and increased cooperation with international insurers. A comparative analysis suggests that Korea's experience demonstrates the long-term benefits of a mature insurance market, while Uzbekistan's trajectory highlights the potential for rapid development if appropriate institutional and regulatory reforms are implemented.

## **Conclusion and Policy Implications**

This study examines the role of the international insurance market in the development of foreign economic activity in Korea and Uzbekistan during the period 2020–2025. The findings confirm that insurance market development plays a crucial role in promoting international trade and investment by mitigating risks and enhancing economic stability.

Policy implications include:

- Strengthening export credit and trade insurance mechanisms;
- Enhancing insurance regulation and supervision;
- Expanding international cooperation with global insurance providers;
- Promoting insurance awareness among exporters and foreign investors.

For Uzbekistan, accelerating insurance market liberalization and integration into international insurance networks can significantly boost foreign economic activity. Korea's experience provides valuable lessons for emerging economies seeking sustainable growth through effective risk management.

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