



## UZBEKISTAN ON THE PATH TO IMPROVING THE INVESTMENT CLIMATE

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### ABSTRACT

*Uzbekistan, with its rich natural resources, strategic geographical location and economic reforms, has become an attractive center for foreign direct investment (FDI). The reforms implemented in order to support the country's investment environment and economic growth require a deep study of the theoretical and methodological foundations of FDI. The article analyzes existing problems and gives own solutions.*

Investment is vital for the development of any country's economy because it directly depends on the inflow of capital. This capital does not come automatically; it requires an enhanced business environment, a solid legal foundation, and consistent reforms that protect investor interests. Uzbekistan, opening up to the world, has taken steps in this direction.

A Platform for Collaboration. Regular hosting of the Tashkent International Investment Forum, which continues to grow in prestige and scale, is a testament to this progress. During the preparations for the third Tashkent International Investment Forum, President Shavkat Mirziyoyev noted that, while the first forum in 2022 attracted over 1,000 foreign guests from 56 countries, this year saw over 2,500 participants from more than 90 countries. This included government representatives, leaders of major companies, and high-ranking guests from international organizations like the UN, EBRD, OPEC, and SCO.

The forum provides a productive venue for showcasing the economic potential of Uzbekistan and for agreeing on mutually beneficial projects. It includes more than 40 events, such as sectional meetings, roundtables, presentations, and intergovernmental commissions. Project launches are planned as well. The forum serves as a presentation platform for promising projects needed for Uzbekistan's economy, while providing foreign investors with ample opportunities.

Investment Appeal. For investors, evaluating a state's investment potential is crucial. In Uzbekistan, a priority is constant improvement of the investment environment to attract foreign capital. This demands a unique investment policy to define the key areas, stimulate investment, and establish legal norms.



Global experience shows that countries with active investment policies achieve sustainable economic growth. Capital injections and new production capacities can spur rapid economic development, helping to address social issues. Furthermore, foreign investments improve productivity, facilitate the introduction of new products and services, and positively impact capital funds by introducing technology that may not be locally available.

International investments strengthen economic and political ties, boost production, and external trade, and increase employment. They also help expand technological capabilities and promote the adoption of new technologies and know-how.

Globalization entails working with leading nations and aligning economic, political, and social policies with mutual interests. Uzbekistan plays a crucial role in this ecosystem due to its socio-economic development, geographic position, natural resources, and investment policies.

**A Supportive Business Climate.** To enhance the investment climate, a presidential decree was signed on August 1, 2018, to “radically improve” it. Foreign citizens investing in Uzbekistan now have access to a three-year multiple-entry visa with unlimited renewals. The required minimum foreign investment in companies was reduced from 30% to 15%, and the requirement for a foreign legal entity was also removed.

The Law “On Investments and Investment Activity” offers tax incentives and simplified systems to support a competitive environment. Global competition for foreign capital is fierce, and developed countries constantly innovate to attract it.

Uzbekistan has made significant progress by offering investors financial incentives and legal rights while developing market infrastructure. First came a Development Strategy that involved extensive democratic reforms covering governance, rule of law, competition, and anti-corruption efforts. In 2017, free currency conversion was introduced, and banks and companies obtained international ratings. National currency bonds have been issued on global financial markets.

**Policy of Transparency.** A transparent policy also affects investment flows. Visa-free entry has been extended to over 90 countries, making Uzbekistan the most open in the region. Anti-corruption measures have also been prioritized, and a dedicated agency was established for this.

A National Strategy for Human Rights was introduced, and Uzbekistan became a member of the UN Human Rights Council for the first time. The aim is to create a democratic state with a fair legal system.

**Business-Friendly Conditions.** In Uzbekistan, the VAT rate was reduced to 12%, and dividends from foreign investors’ shares are tax-free for three years. No new punitive measures will be added to tax and customs laws. Over 7,000 types of raw materials and products required by investors are exempt from customs duties.

A unified system has been set up to support investors at every stage, with a “one-stop shop” to guide them. A Presidential Council of Foreign Investors has been established to facilitate dialogue and resolve issues. Administrative courts are empowered to protect investors’ rights.

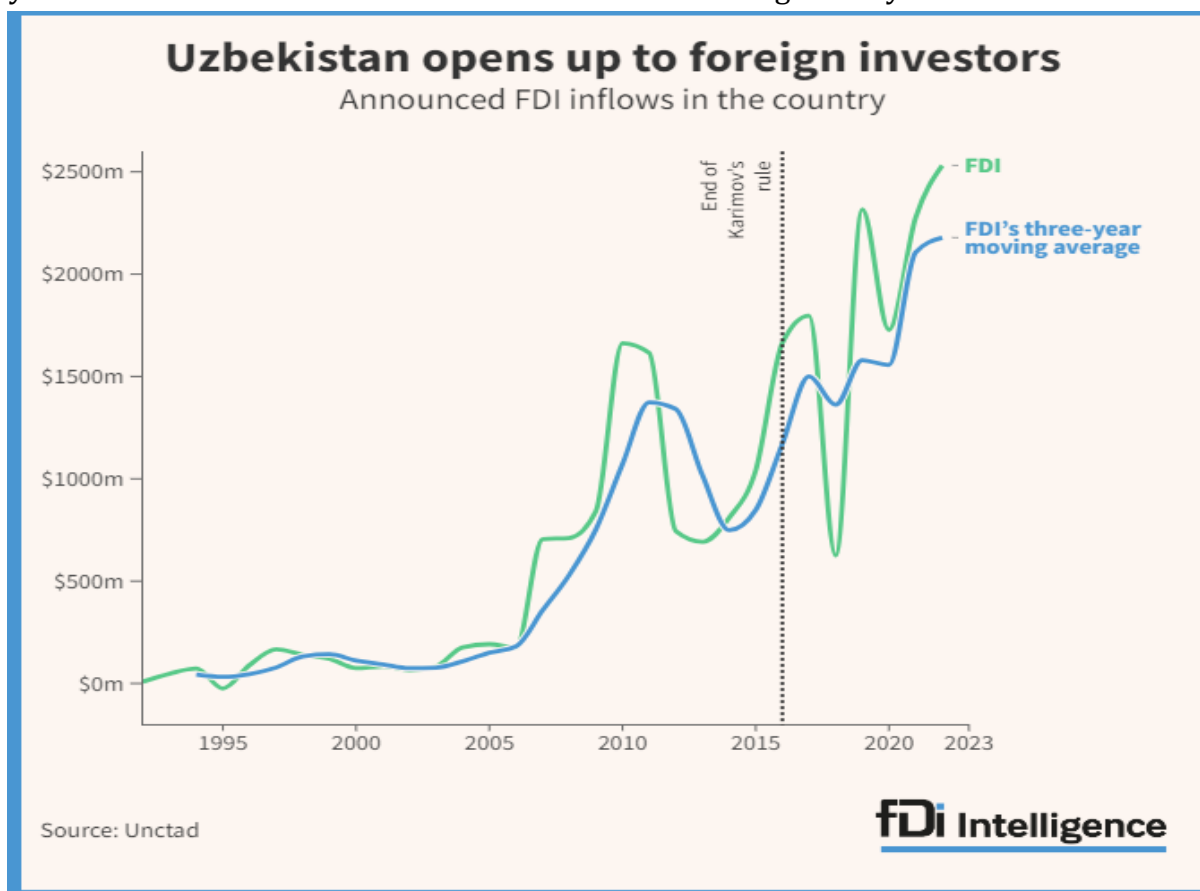
Priority Investment Areas:

- **Green Economy:** Uzbekistan aims to improve the environment and economic efficiency through green energy. Projects for solar and wind power plants are underway, aiming to generate over 8,000 MW.
- **Public-Private Partnerships:** Key sectors like aviation, technology, and healthcare are increasingly accessible to private investment.
- **Privatization:** A program aims to sell government stakes in 1,000 enterprises and 1,000 properties and take 40 strategic enterprises public.
- **Industrial Development:** With ample raw materials and skilled labor in various sectors, production and export could double.
- **Regional Collaboration:** Joint funds and large projects with neighboring countries have been created.

**Irreversibility of Reforms.** The irreversibility of reforms is a significant achievement. The New Uzbekistan Development Strategy is people-focused, promoting a robust civil society, entrepreneurial activity, and property rights.

The aim is to integrate Uzbekistan further into global markets and achieve high-income status by 2030, attracting foreign investors from top countries.

Despite global challenges, Uzbekistan’s appeal as a safe and stable place to work continues to grow. Oliver Hughes, head of international business at TBC Bank Group, a London-listed Georgian Bank that entered Uzbekistan through the acquisition of a controlling stake in Payme in 2019, says: “We see tremendous opportunities for nimble digital banking players like TBC Uzbekistan and for fintech investors more generally.”



**1-picture FDI inflows in Uzbekistan between years 1995-2023.**



From 2018 to 2023, despite external shocks such as the Covid-19 pandemic, the Russia-Ukraine war and higher global interest rates, Uzbekistan averaged a growth rate of 6%, according to the International Monetary Fund.

Key FDI projects in recent years include the \$2.4bn 1.5 gigawatt Karakalpakstan wind project being developed by Saudi Arabia's ACWA Power, one of the biggest of its kind in the world.

"This is in line with the government's announced strategy of increasing the share of renewable energy in the total energy mix to 40% by 2030," says Arvind Ramakrishnan, director of Fitch Ratings' sovereign team.

A large proportion of FDI projects are concentrated in the energy, oil and gas sector, but the government is looking at other sectors. For example, in September 2023, Chinese electric vehicle manufacturer BYD partnered with state-owned automobile firm UzAuto Motors to manufacture electric cars. The factory opened in July.

The involvement of institutions like the European Bank for Reconstruction and Development (EBRD) has also boosted Uzbekistan's attractiveness. The country has been the largest recipient of EBRD lending in Central Asia since 2020.

The financial sector has attracted some investment too, thanks to the market being underbanked and the emergence of digital banking/e-commerce, according to an EBRD spokesperson.

Despite early wins, the reform process seems to have lost some momentum. According to the Economic Freedom Index compiled by the Washington-based think tank The Heritage Foundation, the reform process slowed in the wake of the Covid-19 pandemic. In the latest (2023 edition) index, the organisation highlights that although Uzbekistan has pursued reforms to develop a more competitive and free-market economy, the overall regulatory system lacks transparency and clarity. Mr Ramakrishnan at Fitch says the pace and implementation of structural reforms, including reducing the state footprint in the economy, improving capacity and efficiency of institutions and governance standards are key challenges to Uzbekistan's FDI drive. "There appears to be a slower pace of implementation of phasing out subsidised lending, which has been a long-standing characteristic of the economy," he says. "This is particularly relevant for banks that are set to be privatised, given that some of them have substantial preferential loans on their books."

A few clouds loom on the country's political horizon too. In April 2023, in a tightly controlled referendum, Uzbeks voted to constitutional amendments that enabled Mr Mirziyoyev to run for two more seven-year terms. So far, he has been able to strike a delicate balance between pursuing reform and safeguarding the status quo. But the path ahead remains uphill and the country's FDI potential has yet to be fulfilled.

Uzbekistan is on a clear path toward improving its investment climate, driven by comprehensive reforms and a commitment to economic diversification. The country presents a unique opportunity for investors looking to tap into a growing market in Central Asia. As the government continues to implement reforms and enhance the business environment, Uzbekistan is poised to become a significant player in the global investment landscape. Investors who engage with the country now may find themselves well-positioned to benefit from its evolving economic landscape.



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