

## SUPPORTING INVESTMENTS IN UZBEKISTAN: OPPORTUNITIES AND CHALLENGES

<https://doi.org/10.5281/zenodo.11402749>

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**Annotation.** *The article examines the essence and significance of state financial support for investments, identifies the conditions and tasks that ensure a favorable investment climate. Researched and developed recommendations to continue to identify and promote priority sectors for investment, including energy and infrastructure, agriculture and tourism, and to create additional incentives, such as tax breaks or reduced import tariffs, to attract investment in these sectors.*

**Key words:** *foreign investment, investment climate, incentives for investment, reforms and initiatives, challenges for investors, opportunities.*

Uzbekistan is a country with significant potential for economic growth and development. The country's strategic location in Central Asia and vast natural resources make it an attractive destination for foreign investors. However, Uzbekistan faces significant challenges in attracting foreign investment, including a complex legal and regulatory environment, corruption, and currency controls. Despite these challenges, the government of Uzbekistan has taken steps in recent years to improve the investment climate and attract foreign investment.

The government has pursued a number of reforms to improve the business environment, including simplifying procedures for starting and operating a business, improving intellectual property protections, and streamlining regulatory processes. These reforms have been recognized by international organizations, including the World Bank and the International Monetary Fund, which have praised Uzbekistan's progress in improving the investment climate.

If you look at the growth rate of investment over the past five years, it becomes obvious that until 2019 it increased and reached 158.9%, in 2020 there was a decrease - 90.6%, in 2021 it increased to 102.5 %, and then continued to grow and currently amounted to 107.9%.



Picture 1. Dynamics of growth rates of investments in fixed assets<sup>1</sup>

In addition to these reforms, Uzbekistan has also pursued a policy of economic diversification, aiming to move away from a dependence on cotton exports and develop other sectors of the economy. The government has identified several priority sectors for investment, including energy and infrastructure, agriculture, and tourism. These sectors offer significant opportunities for foreign investors, and the government has taken steps to create incentives for investment in these sectors, including tax breaks and streamlined regulatory processes.

Despite these efforts, however, Uzbekistan still faces significant challenges in attracting foreign investment. The legal and regulatory environment remains complex, and corruption continues to be a significant challenge. Additionally, there are significant infrastructure gaps in the country, particularly in the areas of transportation and telecommunications. Addressing these challenges will require continued reforms and targeted policies to create a more attractive investment climate.

Overall, supporting investments in Uzbekistan has the potential to create significant opportunities for both the country and foreign investors. By pursuing a balanced approach that addresses the challenges while also capitalizing on the opportunities, Uzbekistan can unlock its potential for economic growth and development.

<sup>1</sup> [www.stat.uz](http://www.stat.uz)

Uzbekistan's economy has traditionally been based on natural resources, including oil, gas, and cotton. In recent years, the country has diversified its economy, with growing sectors including agriculture, tourism, and construction. Uzbekistan has a population of over 34 million, making it the most populous country in Central Asia. With a median age of 29, the country has a young and growing workforce, providing a potential source of economic growth in the future.

In recent years, the Uzbek government has taken a number of steps to improve the investment climate and attract foreign investment. These reforms and initiatives have focused on simplifying business procedures, improving intellectual property protections, and streamlining regulatory processes.

One of the key reforms implemented by the Uzbek government is the simplification of procedures for starting and operating a business. The government has reduced the number of licenses required to start a business, and has implemented an electronic system for registering new businesses. Additionally, the government has reduced the time and cost required to obtain construction permits, making it easier for businesses to build new facilities.

The government has also made efforts to improve intellectual property protections, including implementing new laws and regulations to strengthen patent and copyright protections. The government has also established a new agency responsible for enforcing intellectual property rights.

To streamline regulatory processes, the government has established a "one-stop shop" for investors to obtain the necessary approvals and licenses for their projects. The government has also established a new system for online tax payments and simplified customs procedures, making it easier for businesses to import and export goods.

In addition to these reforms, the Uzbek government has identified several priority sectors for investment, including energy and infrastructure, agriculture, and tourism. To encourage investment in these sectors, the government has established a number of incentives, including tax breaks, reduced import tariffs, and streamlined regulatory processes.

The government has also established a number of special economic zones, including the Navoi Free Economic Zone and the Angren Special Industrial Zone. These zones offer a range of incentives to investors, including tax holidays, reduced customs duties, and streamlined regulatory processes.

Overall, these reforms and initiatives have made significant progress in improving the investment climate in Uzbekistan. However, there are still challenges that remain, including corruption and currency controls. Addressing these challenges will be crucial to attracting foreign investment and unlocking the country's full potential for economic growth and development.

Based on the decree of the President of the country “On measures to implement the Investment Program of the Republic of Uzbekistan for 2023–2025” dated December 28, 2022 and programs for the socio-economic development of regions, 465 investment projects with a total value of 2 billion US dollars will be implemented this year. To finance these projects, 1.2 billion US dollars of foreign investments and loans will be attracted, and 5 thousand new jobs will be created through their implementation. Large investment projects will be implemented in the Republic of Karakalpakstan, Fergana, Samarkand, Jizzakh, Navoi, Namangan, Bukhara regions and the city of Tashkent. For example, in JSC “Kizilkumcement” of the Navoi region, at the expense of \$126 million of investments, a project for the production of clinker with an annual volume of 1.8 million tons will be launched, and 40 new jobs will be created. In the Karauzyak region of the Republic of Karakalpakstan, at the Karakalpakcement LLC JV, with investments of 65 million US dollars, work will be carried out to expand the production of high-grade cement and bring its volume to 1.1 million tons. As a result, 150 new jobs will appear.

While Uzbekistan offers significant opportunities for foreign investors, there are also a number of challenges that investors may face when doing business in the country.

One of the biggest challenges for investors in Uzbekistan is corruption. Uzbekistan ranked 126th out of 180 countries in Transparency International's 2022 Corruption Perceptions Index, indicating a high level of corruption in the country. Bribery and

other forms of corruption can be a significant obstacle to doing business in Uzbekistan, particularly for foreign investors who may not be familiar with the local business culture.

Another challenge for investors in Uzbekistan is the country's limited access to finance. While the government has made efforts to improve access to finance, including implementing a credit guarantee system and establishing a development bank, access to finance remains a challenge for many businesses. This can be particularly challenging for small and medium-sized enterprises (SMEs), which may have difficulty obtaining financing from traditional sources such as banks.

Uzbekistan's legal system is also a potential challenge for investors. While the government has taken steps to improve intellectual property protections and simplify regulatory processes, the legal system can still be unpredictable and subject to political influence. Disputes between investors and local partners or government agencies can be difficult to resolve through the legal system, particularly for foreign investors who may not be familiar with Uzbekistan's legal procedures.

Finally, Uzbekistan's currency controls can be a challenge for investors. The government tightly controls the exchange rate of the Uzbek som, which can make it difficult for businesses to obtain foreign currency for imports or to repatriate profits. This can also create difficulties for businesses that need to convert foreign currency into Uzbek some to pay local suppliers or employees.

Overall, while Uzbekistan offers significant opportunities for foreign investors, there are also challenges that investors should be aware of when considering investments in the country. Addressing these challenges will be crucial to unlocking the country's full potential for economic growth and development.

### Recommendations

To address the challenges facing investors in Uzbekistan and support continued investment in the country, there are several recommendations that can be made.

Firstly, the Uzbek government should continue its efforts to improve the investment climate in the country, particularly in relation to corruption and access to finance.

This could include further reforms to simplify business procedures, improve access to finance for SMEs, and strengthen anti-corruption measures.

Secondly, the government should continue to identify and promote priority sectors for investment, including energy and infrastructure, agriculture, and tourism. This could include establishing additional incentives, such as tax breaks or reduced import tariffs, to attract investment in these sectors.

Thirdly, the government should continue to work to improve the legal system in Uzbekistan, particularly in relation to intellectual property protections and dispute resolution mechanisms. This could include establishing specialized courts for commercial disputes and working to improve the transparency and predictability of the legal system.

Finally, investors should take a proactive approach to managing risks when doing business in Uzbekistan. This could include conducting thorough due diligence on potential local partners and suppliers, implementing robust anti-corruption policies and procedures, and ensuring compliance with local regulations and legal requirements.

Overall, while there are challenges facing investors in Uzbekistan, the country offers significant opportunities for those willing to invest in its growing economy. By taking a strategic and proactive approach to investment, both the government and investors can work together to support continued growth and development in Uzbekistan.

### Conclusion

Uzbekistan offers immense potential for foreign investors, with its abundant natural resources, strategic location, and a large and growing population. While the country remains a challenging place to do business, recent reforms and initiatives have created new opportunities for investment. By continuing to improve the business environment and providing more support to investors, Uzbekistan can attract more investment and realize its potential for economic growth.

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