

DYNAMICS OF INVESTMENT POLICY OF THE REPUBLIC OF UZBEKISTAN

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Annotation. *This scientific article analyzes the dynamics of the investment policy of the Republic of Uzbekistan. It explores the key steps and reforms designed to attract both foreign and local investments, create a good environment for businesses to thrive, and boost the economy. The article also examines the factors that affect these policies and how successful they have been in reaching their goals. The results of the study may be useful for understanding the investment climate of Uzbekistan and developing recommendations for improving the country's investment policy.*

Keywords. *Investment policy, investment reforms, foreign investment, favorable investment climate, economic growth, investment policy effectiveness*

Uzbekistan is strategically located in Central Asia, serving as a gateway to the region, connecting with all Central Asian countries and Afghanistan. Its proximity to major markets like China, Russia, and the Middle East makes it an attractive location for businesses looking to expand their operations.



Picture 1. Geographic location of Uzbekistan.

The country has a large and growing population, providing a significant domestic market for goods and services. The increasing purchasing power of the population presents

opportunities for investment in consumer-oriented sectors, more than half of regional population are living in Uzbekistan around 37 million¹, which means big local market in the region.

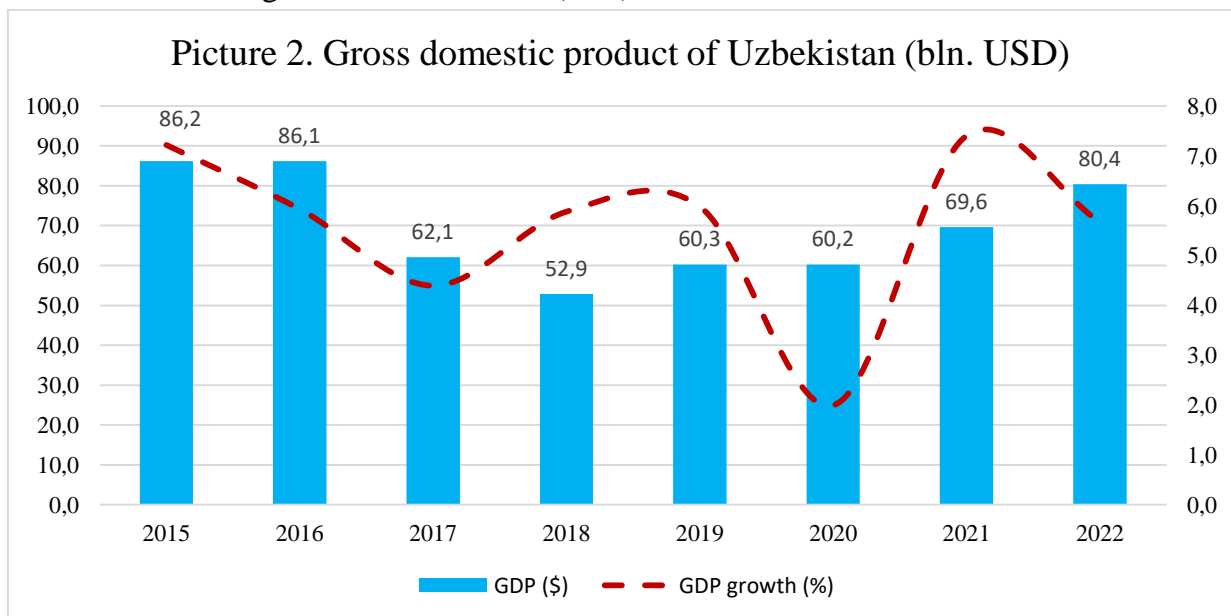
According to the United Nations Educational, Scientific and Cultural Organization (UNESCO), the literacy rate is 97%², comparable to Singapore and other developed countries. Additionally, there are 114 local universities and 85 branches of foreign universities³.

Currently, the Republic of Uzbekistan has the largest able-bodied population, which is about 19 million people, which exceeds the number of able-bodied populations of Central Asian countries combined.

Uzbekistan possesses vast natural resources, including gold, copper, uranium, and cotton. These resources offer significant investment opportunities in mining and related industries.

The Republic of Uzbekistan has tremendous potential for energy development. There are more than 310 sunny days a year in the country, the technical potential of solar energy exceeds 2 trillion kW * h, wind energy 1 trillion kW * h and hydropower 27 billion kW * h. It is also important that in terms of low cost of energy (cost per kWh of electricity and m3 of gas), second place among the CIS.

Uzbekistan has made significant strides in recent years to improve its investment climate and attract foreign direct investment (FDI).



Source: World bank. data.worldbank.org

¹ The official channel of the head of the press service of the Statistics Agency.

https://t.me/statistika_rasmiy/4594

² Uzbekistan is a resource. Investment Promotion Agency under the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan. <https://invest.gov.uz/investor/uzbekistan-is-a-resource/#:~:text=At%20this%20time%2C%20according%20to,21%20branches%20of%20foreign%20universities>

³ Ministry of Higher Education, Science and Innovation of the Republic of Uzbekistan.

<https://edu.uz/uz/pages/sss#gsc.tab=0>

From 2017 started liberal reforms in all aspects of development of the country. Under his presidency, Mirziyoyev implemented a range of liberal reforms in Uzbekistan's political and economic system by attracting foreign investment, improving relations with neighboring Central Asian countries.

As a starting point it is accepted national plan called “**Action strategy for 2017-2022**”⁴ where indicated all existing issues.

Starting from 2017, the approach to relations with partner developed countries and international financial institutions has been changed based on the priority measures defined in the Action Strategy.

In 2019, the page of the Republic of Uzbekistan was opened in the main statistical data platform of the International Monetary Fund - "International Financial Statistics" system. As a result, the attitude of the international community, international organizations and financial institutions to Uzbekistan changed, and the ongoing reforms were recognized.

In 2020, Uzbekistan scored 63 points in the Open Data Inventory (ODIN) and ranked 44th in the world and 1st in Central Asia. Uzbekistan is the country with the largest increase among Asian countries in the rating of open data, rising by 125 positions according to this indicator.

Since the end of 2016, full-fledged relations with international financial institutions have been restored in the country. In particular, in this year, the French development agency began to implement its first project in Uzbekistan. Also, Uzbekistan became an equal member of the newly created Asian Infrastructure Investment Bank.

In 2017-2018, a number of reforms were carried out, which led to sharp changes in the banking and financial sector in the country, in particular, a number of reforms were carried out on the liberalization of the foreign exchange market, development of financial markets, monetary and credit policy, development of domestic money and foreign exchange markets, and the introduction of modern mechanisms for regulating the activities of commercial banks increased.

Active cooperation with the International Monetary Fund, the World Bank, the European Bank for Reconstruction and Development, the International Finance Corporation and other international financial institutions and organizations was carried out.

This new approach of the country allowed the European Bank for Reconstruction and Development to resume its activities in the country, to open a new office in Tashkent, and in September 2018, the EBRD Board of Directors adopted a new strategy for the country.

In 2018, significant efforts were made to strengthen cooperation with international financial institutions and rating agencies such as Standard and Poor's, Moody's, Fitch, JR Morgan and Chase in order to obtain an international sovereign rating and increase the country's investment attractiveness.

In 2019, the first international euro bonds of the Republic of Uzbekistan were placed on the London Stock Exchange, thereby ensuring the republic's entry into the international financial market.

⁴ Decree of the president of the Republic of Uzbekistan on the Strategy of actions for further development of the Republic of Uzbekistan. <https://lex.uz/docs/-3107036>

On November 19, 2020, the total amount of 750 mln. sovereign international bonds in the amount of USD in two tranches - 555 mln. with a 10-year term. dollar in dollars and 2 trillion in national currency - Uzbek soum for the first time for a period of 3 years. was successfully placed on the London Stock Exchange in the amount of soums⁵.

The structure of "JP Morgan Development Finance Institution" ("JP Morgan DFI") gave the status of "Development Finance Qualification" to the first international bond transaction of the Republic of Uzbekistan in the national currency issued on November 19, 2020, and the impact of the transaction on development is "high" was evaluated.

It is noteworthy that in 2019 Uzbekistan entered the top 20 countries in the world that achieved the greatest results in improving the business environment. It is worth noting that in the "Doing Business" 2012 ranking, Uzbekistan was in 166th place (an increase of 97 positions). In the 2020 ranking, the country achieved the best results in protecting minority investors, paying taxes, enforcing contracts and international trade. In fact, the republic moved up from 76th to 69th place in "Doing Business 2020" ranking among 190 countries;

The country is making efforts to increase the capacity of the transport system, remove existing barriers to unimpeded transit through the territory of Uzbekistan, which plays great importance for the development of international transport corridors in Central Asia.

Large-scale reforms have been carried out in the tax system, the rates of a single tax payment, VAT, property tax, social payment have been reduced, a flat taxation scale has been introduced for personal income, and some types of taxes and obligatory payments have been canceled. Moreover, the VAT rate has been reduced from 20% to 12%.

Uzbekistan has declared that business facilitation and improvement of the business environment are among its top policy priorities. The introduction of one-window and on-line registration practices and electronic reporting systems simplified and streamlined business registration procedures. Uzbekistan has created 23 Free Economic Zones (FEZ), as well nearly 502 special small industrial zones (SIZ) in all regions of the country to attract more FDI. New legislation has created additional tax incentives for private businesses and promised firms protection against unlawful actions by government authorities.

By legislation (effective from January 2018), foreign and domestic private investors can register their business in Uzbekistan using any Center of Government Services (CGS) facility, which operate as "Single Window" (SW) registration offices, or the Electronic Government (EG) website – <https://my.gov.uz/en>.

Moreover, an "investment visa" has been introduced for investors who have contributed at least 200,000 US dollars;

The introduction of free conversion of the national currency, the reduction of trade barriers and customs payments allowed to significantly increase the volume of trade.

The Council of Foreign Investors under the President began to work in November 2019, in order to quickly resolve issues related to the activities of investors, to establish direct communication with the head of state. This council started its activity in 4 areas - capital market development, responsible business conduct, promotion of alternative investments, digitization of the system of working with investors.

⁵ Center for Action Strategy. <https://strategy.uz/index.php?news=1308>

The composition of the Council is formed from among foreign companies, banks, investment and other structures, international financial institutions and foreign governmental financial organizations, including leaders and representatives of the European Bank for Reconstruction and Development, as well as other participants, which carry out investment and entrepreneurial activities in Uzbekistan.

Another important document “**The development strategy of the New Uzbekistan for 2022 — 2026**”⁶ was accepted in January 2022. According to the new strategy it was planned:

- further improvement of the investment climate in the country and attract 120 billion US dollars, including 70 billion dollars of foreign investment in the next five years;
- to hold "Tashkent International Investment Forum" every year in Tashkent;
- offering new geological objects to investors and etc.

On April 30, 2023 the referendum held and the new Constitution of the Republic of Uzbekistan was adopted by popular vote. On July 9 2023, Presidential elections were held in accordance with the new Constitution, and the government of Uzbekistan set new goals. Therefore, in September 2023, the "**Uzbekistan - 2030**" Strategy was adopted.⁷ According to the strategy it was planned:

- increasing the investment attractiveness of the country and rapid development of the securities market;
- to attract 250 billion dollars of investments in our country, including 110 billion dollars of foreign investments and attracting investments of 30 billion dollars within the framework of public-private partnerships;
- to increase the volume of trading of freely traded securities to 8 billion dollars;
- maintaining the investment rating of regions, based on the capabilities of each region, further increasing its attractiveness for investors;
- doubling the volume of portfolio investments by starting the activities of equity and venture funds;
- creation of opportunities for continuous use of the necessary infrastructure (road, electricity, water and sewage system) in all special economic zones;
- attracting foreign investors to geological research aimed at increasing reserves of hydrocarbons;
- attracting a total of 15 billion dollars of investments in the agricultural sector;
- establishment of 30 large tourism clusters in the republic at the expense of attracting private investments;
- increasing the flow of private investments in the irrigation sector due to the wide introduction of public-private partnership mechanisms;
- transition to the "green economy", increasing the use of renewable energy, increase the share of renewable energy sources in the total consumption to 40%.

⁶ Decree of the president of the Republic of Uzbekistan on the development strategy of the new Uzbekistan for 2022-2026. <https://lex.uz/uz/docs/-5841063>

⁷ Decree of the President of the Republic of Uzbekistan on the Strategy "Uzbekistan - 2030" <https://lex.uz/ru/docs/-6600413>



Picture 3. Investment Promotion Agency under the Ministry of Investments and Foreign Trade of the Republic of Uzbekistan. www.invest.gov.uz

On May 2-3, 2024, the third Tashkent International Investment Forum was held in Tashkent. During the forum pointed by the president that the main areas of work being carried out to improve the investment environment:

1. Green energy. Uzbekistan aims to increase the share of green energy in the economy to 40% by 2030. For this, projects with a total capacity of 20 gigawatts will be launched. Currently, 28 projects are being worked on in Uzbekistan. These are solar and wind power plants with the participation of the UAE and China, as well as hydroelectric power plants built in cooperation with Tajikistan and Kyrgyzstan.

2. Banking and finance sector. Approaches to the development of the capital market in Uzbekistan are being revised. In particular, privatization of state-owned banks has begun in recent years. In particular, an agreement on the privatization of Asakabank, one of the largest banks of Uzbekistan, was signed. Second, the world's leading banks began to enter the financial market of Uzbekistan.

3. Minerals. Uzbekistan has mineral resources and reserves of gold, copper, tungsten, silver, uranium and more than 30 other important metals. Recently, the Law on Subsoil Resources, developed on the basis of international experience in this field, will be adopted. It is planned to invite leading companies to Uzbekistan to process these raw materials and create an added value chain.

4. IT transformation. Uzbekistan plans to increase the export of IT services and software products to 5 billion dollars in the future. For this purpose, it is planned to increase the number of IT-park residents by 10 times, to create an international center of digital technologies for foreign companies. Also, a "Data center" operating on the basis of "green" energy is being established with the "Data Volt" company of Saudi Arabia.

5. Development of transport infrastructure. Uzbekistan is striving to create convenient and modern transport systems. In particular, fundamental reforms are being carried out in

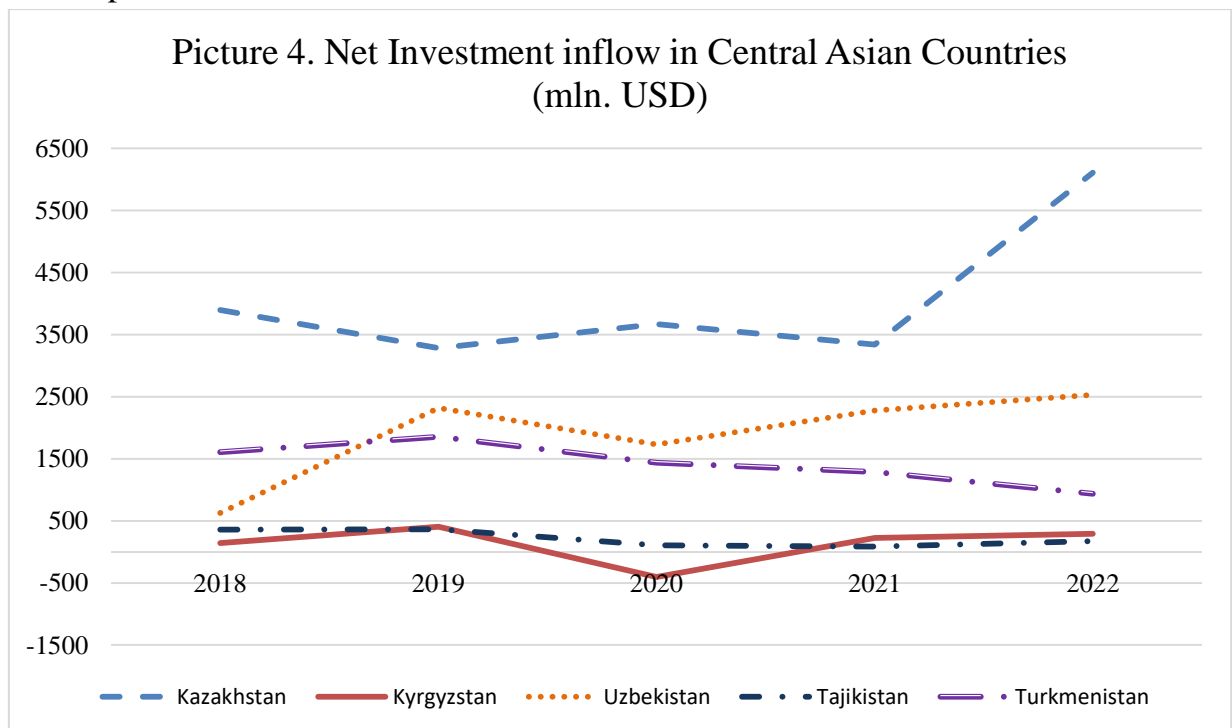
the railway sector. The strategic projects on the construction of international railways "China-Kyrgyzstan-Uzbekistan" and "Uzbekistan-Afghanistan-Pakistan" will completely change the geo-economic situation in the region and will turn Central Asia into a global transit center connecting North and South, East and West.

Table 1. Main investment partners of Uzbekistan (%)

2019	2020	2021	2022	2023
China – 28	China – 25	China – 23	China – 20	China – 18
Russia – 22	Russia – 20	Russia – 18	Russia – 16	EU
USA – 17	USA – 15	USA – 14	USA – 13	(Germany, Italy) – 18
Korea – 14	Kazakhstan – 10	EU	EU	Russia – 15
Turkey – 10	Korea – 8	(Germany, Italy) – 13	(Germany, Italy) – 17	USA – 12
		Turkey – 7	BAA – 7	Korea – 6

Source: The official website of the Statistical Agency under the President of the Republic of Uzbekistan. <https://invest.gov.uz/en/>

According to the above information, China and Russia were the biggest partners of Uzbekistan in 2019. In 2019-2021, China (28%) and Russia (22%) were considered high percentage partners. In recent years, many countries, like European Union members have become interested in investing in Uzbekistan due to the numerous activities it has been doing. This, in turn, helps to reduce dependence on a small number of countries with large percentages. In particular, the share of Chinese investment in 2022-2023 (18%) decreased by 10% compared to 2019. Russia's share fell to 15%.



Source: World bank. data.worldbank.org

In this picture we can see gradual increase in the amount of attracted FDI. In 2020 Central Asia saw a decrease in the flow of investments due to the pandemic, but in recent years, 5 countries are also trying to attract investments in various fields. The sharp decrease in investment flows to Uzbekistan in 2018 can be explained by the equalization of the official exchange rate with the black market rate. Kazakhstan saw FDI increase by 83 per cent to \$6.1 billion. While equity turned negative, reinvested earnings reached \$10 billion – the highest value ever recorded – boosted by high profits in the extractive industries. Flows to Uzbekistan reached a record \$2.5 billion, mostly due to the doubling of reinvested earnings to \$1.2 billion. Flows rose by 11 per cent to \$2.5 billion in Uzbekistan.

Overall, the recent economic and investment policies implemented by the government of Uzbekistan show a clear strategic direction towards increasing foreign direct investment, boosting industrial production, expanding the stock market, and enhancing the private sector's role in the economy. The emphasis on creating a favorable investment climate, attracting foreign investment in priority sectors, and implementing radical reforms in various areas demonstrates a proactive approach to achieving high growth rates and sustainable development. By setting ambitious goals and outlining specific measures to achieve them, Uzbekistan aims to position itself as an attractive destination for investors and pave the way for accelerated economic growth in the coming years.

The trajectory of economic reforms and policy measures in Uzbekistan, from the adoption of a three-pronged approach in 2017 to the recent decree on the development strategy for 2022-2026, reflects a commitment to improving corporate governance, restructuring state-owned enterprises, and attracting private investments. Despite the challenges posed by the COVID-19 pandemic, the country's resilience and determination to pursue economic reforms have contributed to maintaining positive GDP growth and increasing foreign direct investment inflows. The focus on diversifying industries, expanding exports, and promoting regional development underscores a holistic approach to driving economic growth and ensuring sustainable development in Uzbekistan.

Looking ahead, the successful implementation of the outlined economic and investment policies will be crucial for achieving the stated goals and transforming Uzbekistan into a dynamic and competitive economy in the region. By continuing to enhance the investment climate, attract foreign investors, and promote private sector participation, Uzbekistan can unlock its full potential and capitalize on its strategic location, abundant resources, and skilled workforce to drive economic progress and improve the well-being of its citizens. The comprehensive and forward-looking approach outlined in the government's development strategy sets a strong foundation for realizing the country's economic growth aspirations and fostering a climate of innovation, entrepreneurship, and inclusive prosperity in Uzbekistan.

CONCLUSION

In recent years Uzbekistan has made significant strides to improve its investment climate and attract foreign direct investment (FDI). Government implemented ambitious economic reforms, including currency liberalization, privatization, and streamlining

business regulations. These reforms have led to increased economic growth and created a more favorable environment for investment. The Uzbek government has actively promoted investment by introducing incentives like tax breaks, subsidies, and streamlined procedures for foreign investors. Uzbekistan is prioritizing investments in key sectors like tourism, textiles, agriculture, and renewable energy, creating opportunities for specialized investors.

However, challenges remain, creating a mixed bag of opportunities and hurdles for investors. While the government is working to improve transparency and reduce bureaucracy, challenges remain in dealing with government agencies and navigating legal procedures. Uzbekistan needs to invest heavily in infrastructure development, including transportation networks, energy supply, and telecommunications, to support further economic growth and attract more investment.

Uzbekistan's investment attractiveness is a work in progress. While the country offers significant potential, particularly in its natural resources and growing domestic market, challenges remain in areas such as bureaucracy, infrastructure, and skilled labor.

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