

INVESTMENT CLIMATE & UZBEKISTAN

INVESTMENT CLIMATE OF UZBEKISTAN

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Abstract

Every country wants to develop its economic status in the world. Both developing and developed countries need investment. Bringing foreign investment is one of the best ways to enhance the degree of economic growth. As increased globalization in business has occurred, it has become very common for big companies or affluent people to invest money in other companies located in own country or in the other. The current article stresses on the investment climate in Uzbekistan.

Keywords: investment, Uzbekistan, finance, economy, foreign investment

Local and foreign investments provide the country with modern technologies, help reaching its economic potential by providing capital to finance new industries and enhance existing ones, boosting infrastructure, productivity, and employment opportunities in the process. Foreign investment has other benefits beyond injecting new capital. By bringing in new businesses with connections in different markets, it opens up additional export opportunities, boosting overall export performance. It also encourages competition and increased innovation by bringing new technologies and services to the country. As more foreign investment comes into a country, it can lead to even greater investments because others see the country as economically stable. [1] Uzbekistan also needs foreign investment. What benefits does Uzbekistan obtain from foreign investment? Foreign investment fills the gap between what Uzbekistan saves and invests every year. Domestic savings fund total investment and foreign investment makes up the difference.

After a sharp decrease in Foreign Direct Investment (FDI) in 2011 (-35%), Uzbekistan decided to review the country's restrictive commercial policy (temporary closure of the border, increase in customs tariffs, heavy import procedures) and implemented new rules such as fiscal exemptions and administration reforms. More than 58 mixed companies work in Tashkent. This change in investment attraction policy had borne results until 2011, as investment influx grew steadily from 1 billion USD to nearly 3 billion USD in a span of 4 years. Foreign investment to Uzbekistan reached 1.2 billion USD in the first half of 2016 and USD 2.7 billion in total, according to preliminary findings. The volume of used direct and other foreign investments in fixed assets in Uzbekistan exceeded USD 2.4 billion in 2017.

Table 1 The amount of Foreign Direct Investment [2]

Foreign Direct Investment	2014	2015	2016
FDI Inward Flow* (million USD)	632	65	67
FDI Stock** (million USD)	8,825	8,890	8,957
Number of Greenfield Investments***	16	19	23
FDI Inwards (in % of GFCF****)	3.2	0.3	0.3
FDI Stock (in % of GDP)	14.0	13.6	13.5

Source: UNCTAD(United Nations Conference on Trade and Development) – Latest available data.

Note:

*The UNCTAD Inward FDI Performance Index is Based on a Ratio of the Country's Share in Global FDI Inflows and its Share in Global GDP.

**The UNCTAD Inward FDI Potential Index is Based on 12 Economic and Structural Variables Such as GDP, Foreign Trade, FDI, Infrastructures, Energy use, R&D, Education, Country Risk.

***Green Field Investments Are a Form of Foreign Direct Investment Where a Parent Company Starts a New Venture in a Foreign Country By Constructing New Operational Facilities From the Ground Up.

****Gross Fixed Capital Formation (GFCF) Measures the Value of Additions to Fixed Assets Purchased By Business, Government and Households Less Disposals of Fixed Assets Sold Off or Scrapped.

The provided analysis of investment shows that the rate of FDI appeared to be almost stable during several years only including tiny changes. Without support of the government or state-affiliated entities, foreign investors have limited business opportunities in Uzbekistan. The government generally welcomes investors and investment projects that are in line with its importsubstitution and export-oriented industrialization policy, and discourages investments in import-consuming sectors by controlling access to currency exchange.

Formally, foreign investors are welcome in all sectors of the Uzbekistan economy. According to law, the government cannot discriminate against foreign investors based on nationality, place of residence, or country of origin. However, the government control of key industries can have discriminatory effects on foreign investors. The government closely scrutinizes all foreign investment, with special emphasis on sectors of the economy that it considers strategic, such as mining, cotton processing, oil and gas refining, and transportation. There is no standard and transparent screening mechanism, and some elements of the legal framework are designed to protect domestic industries and limit competition from abroad.

The government also uses licensing as a tool to control enterprises in several important sectors such as energy, telecommunications, wholesale trade businesses, and tourism. In January 2018, the GOU launched pilot projects for a new integrated value chain system in the industry to allow private investors to independently manage cotton cultivation, harvesting, processing, and exports.

The state still reserves the right to export some commodities, such as nonferrous metals and minerals. In theory, private enterprises may freely establish, acquire, and dispose of equity interests in private businesses, but in practice, this is difficult to do because Uzbekistan's securities markets are still underdeveloped.

Private capital is not allowed in some industries and enterprises. The Law on Denationalization and Privatization (adopted in 1991, last amended in 2017) lists state assets that cannot be privatized, including land with mineral and water resources, the air basin, flora and fauna, cultural heritage sites, state budget funds, foreign and gold reserves, state trust funds, the Central Bank, enterprises that facilitate monetary circulation, military and security-related assets and enterprises, firearms and

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ammunition producers, nuclear research and development enterprises, some specialized producers of drugs and toxic chemicals, emergency response entities, civil protection and mobilization facilities, public roads, and cemeteries.

There are several other official limits on foreign investment. Foreign ownership and control are prohibited for airlines, railways, power generation, longdistance telecommunication networks, and other sectors deemed related to national security. Foreign nationals cannot obtain a license or tax permission for individual entrepreneurship in Uzbekistan.

Restrictions also apply to media, finance, and insurance. Foreign investment in media enterprises is limited to 30 percent. In finance, foreign investors may operate only as joint venture partners with Uzbek firms, and banks with foreign participation face minimum fixed charter funding requirements (100 billion Sum for commercial and private banks, and 7.5-30 billion Sum for insurance companies – equivalent to USD 12.2 million and USD 1-3.7 million respectively), while the required size of charter funds for Uzbek firms is set on a case-by-case basis.[3]

Therefore, government should reduce the control and regulating policies for producing and other fields of economy to increase the amount of Foreign Investment. A set of following activities should be carried to increase attractiveness of Uzbekistan to investors: to know the potentials and perspectives of its industry well; to make realistic projections as well as forecasts and then fight to exceed those projections (investors will not be impressed by unrealistic numbers); to use the country's strong points while doing business (for instance, Uzbekistan is the most populated country in Central Asia with more than 33 million populations. Moreover, its population is young with an average age of 24,7 years. The country is rich in raw materials (copper, zinc, gold, silver, tungsten, lead and natural gas). In terms of consumption, it is potentially the largest market in the region. In addition, the Uzbek State had been careful to strengthen the commercial banks, especially eight of the most important ones, before the financial crisis. To organize special events to inform investors more about our country and make them show interest to our business. To make special "investor portal" to give more information and announce daily news, good chances created by authority for foreign investors. [4]

To conclude, foreign investment helps country's economy to increase both manufacturing and infrastructure, develop existing potentials of a country. It leads to the increase in the living standards of the population. By tackling the obstacles in accordance with the foreign investment, high economic results will be reached in Uzbekistan.

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