



STAGES OF LIBERALIZATION AND POLICY REFORMS IN UZBEKISTAN'S INVESTMENT CLIMATE

Assistant Professor,

Department of Public International Law

Jumaqulov Husniddin

4th year student of

Tashkent State Transport University

Amonov Shaxriyor

ANNOTATION: *This article examines the stages of liberalization and policy reforms in Uzbekistan's investment climate, highlighting the key transformations that have shaped the country's economic development. The study analyzes the gradual transition from a state-controlled economic system to a more open and market-oriented framework, focusing on regulatory improvements, currency liberalization, tax reforms, and the strengthening of legal guarantees for foreign investors. Particular attention is given to the reform period initiated after 2017, which marked a new phase of structural modernization aimed at improving transparency, reducing administrative barriers, and enhancing the overall business environment. The article also evaluates the impact of institutional reforms, public-private partnerships, and digitalization initiatives on investment inflows and economic growth. The research concludes that consistent liberalization measures and policy reforms have significantly improved Uzbekistan's attractiveness to both domestic and foreign investors, although further structural improvements remain necessary to ensure long-term sustainability and competitiveness in the global market.*

Keywords: *Investment climate; economic liberalization; policy reforms; foreign direct investment (FDI); regulatory improvements; currency liberalization; tax reforms; legal guarantees; institutional reforms; public-private partnership (PPP); digitalization; business environment; economic modernization; structural reforms; investment attractiveness.*



INTRODUCTION

Uzbekistan has the most diversified economy in Central Asia, with significant mineral and metals wealth, including gold, as well as textiles and services, and the largest population in the region.¹ The country also has a low, if rising, – level of debt, comfortable foreign-exchange reserves, and a robust public-investment and reform programme. All things considered, it has been doing reasonably well for a country trying to shake off its Soviet economic legacy. However, owing to the immensity of the challenges and a lack of institutional and human capacity, some of the harder reforms have still to be achieved. And now, as well as embarking on the more challenging and substantive phase of development, including privatisation, the breakup of monopolies and reform of capital markets, the government will have to focus on tackling the impact of the COVID-19 pandemic and the related economic fallout including the collapse of global energy prices (gas comprises 8.3 per cent of the country's export portfolio), reduced Chinese demand and the return of labour migrants from abroad.²

Uzbekistan is improving its attraction of foreign direct investment (FDI), which is vital for job creation in this country with a significant youth bulge and for economic growth more widely. FDI stood at \$4.2 billion in 2019, more than tripling from 2018 and almost half of the total during the entire 25 years of President Islam Karimov's rule, which ended in 2016. However, many foreign investors are still tentatively waiting to see the long-term results of the reform programme. In a survey by the International Monetary Fund (IMF) in 2019, foreign investors said few reforms had had significant positive impacts, besides the easing of rules on repatriation of investments, reducing the costliness of export procedures, and the relaxation of rules for immigration visas for foreign workers.³ Current investors cited the lack of resources (including skilled labour), land-tenure rights, and energy, as

¹ World Bank Group, Uzbekistan: Towards A New Economy, Summer 2019, <http://documents.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>

² OECD, GREEN Action Task Force, Environment Directorate Environment Policy Committee, September 2019, [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/EPOC/EAP\(2019\)13&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/EPOC/EAP(2019)13&doclanguage=en)

³ International Monetary Fund, Republic of Uzbekistan : 2019 Article IV Consultation-Press Release and Staff Report, May 2019, <https://www.imf.org/en/Publications/CR/Issues/2019/05/09/Republic-of-Uzbekistan-2019-Article-IV-Consultation-Press-Release-and-Staff-Report-46884>



well as administrative bottlenecks, as binding constraints on investment. Unpredictable or inconsistent economic policies and the lack of improvements in public governance, alongside hastily drafted presidential decrees and legislation that often require presidential decrees to clarify their meaning as well as opaque carve-outs, further deter investors.

The President of Uzbekistan Shavkat Mirziyoyev's Reform process

The environment for foreign investors in Uzbekistan today is radically different from what it was during the closed situation under President Islom Karimov, when currency controls and expropriation were the norm. Under President Shavkat Mirziyoyev, who came to office at the end of 2016, the government has embarked on a rapid and extensive reform programme, putting Uzbekistan on the road from a control economy dominated by the public sector to a competitive market economy dominated by the private sector. This is reflected in the government's core plan, the 2017-21 National Development Strategy, which focuses on liberalising the economy, implementing social reforms, reforming public administration, and strengthening the rule of law.⁴ The first phase of the reform programme in early 2017, focused on clearing up legacy problems from the first President Islom Karimov era, removing obstacles to investment, plugging the economy firmly into the international financial markets and starting to fix basic infrastructure problems. In the World Bank's 2020 Doing Business ratings, Uzbekistan was among the world's top 20 reformers, rising from 76th to 69th place in one year.⁵ Although President Shavkat Mirziyoyev mandated improving the country's international rankings, under his predecessor the country had already moved up in the World Bank's ranking from the lowest quartile in 2014 to the second quartile in 2017. The government wants to raise the country to 20th place by 2030. However, such rankings do not necessarily reflect the overall investment climate as, like its Central Asian peers, Uzbekistan's government has become adept in using targeted reforms to rise in them. These indexes do not capture

⁴ Decree of the President of the Republic of Uzbekistan, On the Strategy for the Further Development of the Republic of Uzbekistan, February 2017, No. 6, Article 70, mfa.uz, <https://mfa.uz/ru/press/news/2017/02/10244/>

⁵ World Bank, Doing Business 2020, October 2019, <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>



some other aspects of doing business in the country, including the ‘stamp’ culture of bureaucracy in the vertical system of authority, a lack of experience of lower and medium management levels and continuing inertia, the unpredictability of government policy, high levels of corruption and uneven application of the rule of law.

At the very beginning of his term, President Shavkat Mirziyoyev eliminated the dual-currency system and eased capital controls. He also secured the financial and technical support of the international financial institutions, including the World Bank, the European Bank for Reconstruction and Development, and the Asian Development Bank. Reflecting these changes, Uzbekistan secured its first ratings from Fitch and Standard & Poor’s in 2018. Although the country holds reserves of almost \$30 billion (including \$14.6 million in gold), which is equivalent to almost 60 per cent of GDP, the government is accessing the international capital markets to anchor the reform process.⁶ The pricing of its bonds and its sovereign ratings will help investors to make a better-informed assessment of Uzbekistan’s credit risk. By February, it had issued its first two Eurobonds, raising a total of \$1 billion.

This year, Uzbekistan has started undertaking significant reform of state-owned enterprises, separating regulatory and commercial functions, and unbundling key economic sectors, including at state energy company “Uzbekneftgas”. The ratings agencies have noted improvements in reporting and in corporate-governance standards. The government also continues to make progress on reform of the capital markets following the launch of the 2025 Capital Market Strategy in December 2019. The government planned this year to launch five initial public offerings on the Tashkent Stock Exchange, to engage the Korea Exchange as a strategic partner of the Tashkent one and to pass a new law on capital markets, but much of this is in doubt now.

Under President Islom Karimov, the use of child and forced labour was widespread, which contributed to making Uzbekistan an international pariah and

⁶ Central Bank of the Republic of Uzbekistan, International reserves of the Republic of Uzbekistan (as of April 1st 2020), <https://cbu.uz/en/statistics/intlreserves/214381/>



created huge reputational risk for investors. Around 300 leading brands, including Disney, Nike and Walmart, boycotted the country and the United States government placed heavy restrictions on the import of its cotton. In 2018, President Shavkat Mirziyoyev issued a decree banning all forced labour. During the 2018 cotton harvest, forced labour made up less than seven per cent of the workforce involved, half the 2015 level. The International Labour Organisation says that systematic child labour is no longer a feature of the industry.⁷

Laws on improving the investment climate At the end of 2019, President Shavkat Mirziyoyev signed four laws aimed at improving the investment climate: on investment in the banking sector, on clarifying the tasks of a Foreign Investors' Council, on a revision of the tax code, and most significantly on investment and investment activities, which entered into force in January 2020.⁸ The investment laws, which were developed over three years with the assistance of the United Nations (UN) Development Programme, deliver on the stated aim of easing the regulatory environment for foreign investors. However, as is common in markets with weak institutions, investors are set to face challenges with the interpretation and implementation of the investment laws when dealing with regulatory bodies and local administrations. With suspicion towards private enterprise, weak but improving protection of property rights and rent-seeking behaviour common within the executive branch at the national and local levels, the legislation will need to be accompanied with fundamental institutional change to have a major impact. Many of their guarantees and protections for foreign investors are drawn from existing legislation and have previously proven widely ineffective.

⁷ ILO News, Forced and child labour In Uzbek cotton fields continues to fall, ILO, February 2020, https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_735883/lang-en/index.htm

⁸ Law of the Republic of Uzbekistan, About Investment Activities, No.ZRU-598, December 2019, Lex.UZ, <https://lex.uz/ru/docs/4664144>



Following the enactment of the law on investment and investment activities, the Investment Ministry and its regional branches will be the sole interlocutor for foreign investors. This is a positive step to streamline the process of investment and to bring order to the bureaucratic maze that foreign investors typically face, but much more work is needed on the investment regime to unify how companies interact with the state and to create a more level playing field. While it is reassuring that the sclerosis of the Karimov presidency is nowhere to be seen, with plenty of dynamism in the regulatory environment and decrees issued quickly, the government often has to issue new decrees to clarify the first decrees. It also often resorts to one-off carve-outs and special preferences for specific investment projects, creating an uneven competitive environment. The capacity of government agencies needs to catch up with the pace of reforms, while the constant flow of new regulation is overwhelming for officials and creates uncertainty for investors, as was witnessed with surprise VAT announcements and backtracking towards the end of 2019. Some reforms are also getting lost in the long chain from presidential decree to implementation. All of this makes forecasting hard for investors

Tax reforms began with a presidential decree in June 2018 that reduced the tax burden on businesses and employees. The aim is to reduce tax avoidance and the role of the shadow economy as well as to increase the national pension fund's ability to play a role in developing a culture in which independent workers can manage their own finances. In many ways, the reforms have been transformational. Taxes on labour were burdensome and Uzbekistan now sees record numbers for the registration of people formerly being paid under the table now being formalised into employment, which has had a significant impact on the employment of women.

On January 1st 2020, Uzbekistan adopted a new Tax Code to replace the one introduced in 2008. Its new provisions include decreasing the overall tax burden, simplifying tax rules, and improving tax administration. According to the Ministry of Finance, the new Tax Code was prepared taking into consideration recommendations of the International Monetary Fund, the World Bank and



international experts. As a result of this reform, the government is expected to add to its tax intake the equivalent of at least four per cent of GDP.⁹

Anti-corruption & Judicial reform

Institutional reforms are delivering some progress in the fight against corruption under the State Anti-Corruption Programme for 2019-2020. This translates into improved governance standards, as reflected in better rankings from Transparency International Corruption Perception Index and the World Justice Project Rule of Law Index.^[10]¹⁰ However, instilling a genuine culture of transparency in areas such as public procurement and issuing permits or licenses will require generational change.

The COVID-19 pandemic has had some positive impact including accelerating existing government pledges to prioritise a transition to a digital economy over the next five years, which will improve public services and raise standards. Small and innovative steps have been taken to improve the rule of law, including the creation of a special council to enhance judicial independence, and proposals for a special investment zone governed by English law. These are examples of the government building effectively from scratch, but they constitute an island of (potential) legality in a sea of uneven application of the rule of law. In a March 2019 report, the Organisation for Economic Co-operation and Development noted that the judiciary is one of the areas where Uzbekistan needs to conduct substantial reforms judges are not independent and there is no supervisory review of judgments.¹¹ Only three per cent of judicial appointments carry life tenure, a key means of securing the independence of judges. The Prosecutor-General's Office has an incredibly broad remit, extending to entrepreneurial rights, and it answers only to the president. Senior judicial figures carry excessive influence, and all are used to operating in the established system, in which judges serve to endorse the expropriation of private

⁹ World Bank, Worldwide Governance Indicators, July 2010 – last updated November 2019, <https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators>

¹⁰ Transparency International, CPI 2019 Global Highlights, January 2020, <https://www.transparency.org/cpi2019?news/feature/cpi-2019>

¹¹ OECD, Anti-Corruption Reforms in Uzbekistan – Istanbul Anti-Corruption Action Plan Fourth Round of Monitoring, 2019, https://www.oecd.org/corruption/acn/OECD-ACN-Uzbekistan-4th-Round_Monitoring-Report-2019-ENG.pdf



businesses by the state. Investors therefore rightly do not have full confidence in the courts. To assuage them, it is important that the judicial system shows that it can review arbitration decisions and implement them in accordance with the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also known as the New York Convention).

Political reforms lag economic reforms and President Mirziyoyev's commitment to real liberalisation remains unclear. With little significant change to the human-rights situation, he is treading a fine balance between reform and continuity. He has managed to consolidate his power and curb the excesses of the National Security Service, which enjoyed excessive authority under First President Islom Karimov and pervaded the business environment. But Uzbekistan is still largely run by senior cadres from the Islom Karimov administration. And, while the government has attracted younger reformers, often returning from abroad, it has also been rehabilitating key figures from the Karimov years who were implicated in corruption scandals. Ministers are sometimes removed and their trials take place behind closed doors. The new leadership has transformed the media environment, but the country still lacks objective analytical reporting. Direct criticism of the president or his family remains a taboo.

The post-pandemic outlook

Just as with the reform programme, President Shavkat Mirziyoyev and his government have demonstrated a high degree of resolve in dealing with the public-health challenge posed by the coronavirus pandemic. In April, the ratings agencies' affirmation of Uzbekistan's Long-Term Foreign Currency Issuer Default Rating at BB- with a stable outlook highlights the country's resilience against the impact of the health crisis and lower energy prices through its strong fiscal and external buffers, its diversified commodity export base and access to external official financing.

¹²In addition, significant steps have been taken to further improve fiscal transparency. But whether the president and government can maintain their reform

¹² Fitch Ratings, Fitch Affirms Uzbekistan at 'BB-'; Outlook Stable, April 2020, <https://www.fitchratings.com/research/sovereigns/fitch-affirms-uzbekistan-at-bb-outlook-stable-10-04-2020>



momentum while navigating the pandemic and its aftermath in the longer term is yet to be seen.

CONCLUSION

The current global economic crisis and coronavirus pandemic will test the durability of the recent reform process in Uzbekistan. Although the Uzbek population has largely been behind the reform programme, the negative impact on already challenging socioeconomic conditions in Uzbekistan could push latent disaffection and high expectations of Shavkat Mirziyoyev to the surface. Alongside the thornier reforms of privatisation and capital markets, the Uzbek government urgently needs to prioritise educational reforms synchronised with the job market to ensure that the over a half a million young people entering the job market each year, are an asset not a liability. In addition, the government needs to continue to make Uzbekistan a hub both for tourists but also for cargo, meaning additional investment and reforms to develop both soft and physical infrastructure.

REFERENCES:

1. World Bank Group, Uzbekistan: Towards A New Economy, Summer 2019, <http://documents.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>

2. OECD, GREEN Action Task Force, Environment Directorate Environment Policy Committee, September 2019, [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/EPOC/EAP\(2019\)13&doclanguage=en](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ENV/EPOC/EAP(2019)13&doclanguage=en)

3. International Monetary Fund, Republic of Uzbekistan : 2019 Article IV Consultation-Press Release and Staff Report, May 2019, <https://www.imf.org/en/Publications/CR/Issues/2019/05/09/Republic-of-Uzbekistan-2019-Article-IV-Consultation-Press-Release-and-Staff-Report-46884>

4. Decree of the President of the Republic of Uzbekistan, On the Strategy for the Further Development of the Republic of Uzbekistan, February 2017, No. 6, Article 70, mfa.uz, <https://mfa.uz/ru/press/news/2017/02/10244/>



5. World Bank, Doing Business 2020, October 2019, <https://www.doingbusiness.org/en/reports/global-reports/doing-business-2020>

6. Central Bank of the Republic of Uzbekistan, International reserves of the Republic of Uzbekistan (as of April 1st 2020), <https://cbu.uz/en/statistics/intlreserves/214381/>

7. ILO News, Forced and child labour in Uzbek cotton fields continues to fall, ILO, February 2020, https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_735883/lang-en/index.htm

8. Law of the Republic of Uzbekistan, About Investment Activities, No.ZRU-598, December 2019, Lex.UZ, <https://lex.uz/ru/docs/4664144>

9. World Bank, Worldwide Governance Indicators, July 2010 – last updated November 2019, <https://datacatalog.worldbank.org/dataset/worldwide-governance-indicators>

10. Transparency International, CPI 2019 Global Highlights, January 2020, <https://www.transparency.org/cpi2019?/news/feature/cpi-2019>

11. OECD, Anti-Corruption Reforms in Uzbekistan – Istanbul Anti-Corruption Action Plan Fourth Round of Monitoring, 2019, https://www.oecd.org/corruption/acn/OECD-ACN-Uzbekistan-4th-Round_Monitoring-Report-2019-ENG.pdf

12. Fitch Ratings, Fitch Affirms Uzbekistan at ‘BB-‘; Outlook Stable, April 2020, <https://www.fitchratings.com/research/sovereigns/fitch-affirms-uzbekistan-at-bb-outlook-stable-10-04-2020>