



Assessment of the Current State of Investment Attractiveness of Uzbekistan

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Abstract

This article provides insights into Uzbekistan's investment environment for investors and policymakers, focusing on both the investment potential and the overall investment climate of the country. It examines key economic sectors, government policies, and ongoing reforms aimed at improving transparency and attracting foreign investment.

Keywords: Investment attractiveness; Infrastructure; Liberalization of the economy; Economic growth; Foreign direct investment (FDI)

1. Introduction

As a prerequisite for economic growth, investments are primarily focused on implementing priority projects in the social and material production domains. Bringing in foreign investment is crucial for introducing improved management techniques, expanding the nation's economic potential, introducing new technology, and boosting its competitiveness in the global market.

The economy of Uzbekistan has developed and is becoming more integrated into the global economy thanks to the investments, technology, equipment, and other assets that have drawn foreign direct capital. Deeply processed natural resources produced by a business with foreign investment have an impact on the growth of other sectors in addition to the economic unit itself, creating the basis for macroeconomic growth [2].

During the plenary session of the third Tashkent International Investment Forum, the President of the Republic of Uzbekistan Shavkat Mirziyoyev noted: "...We have defined the liberalization of the economy, the creation of a favorable investment climate, and the comprehensive expansion of opportunities for entrepreneurs as our main goals" [10].

Moreover, the goal 26 of the Decree of the President of the Republic of Uzbekistan "On the development strategy of the New Uzbekistan for 2022 — 2026: says: "Further improvement and increase the attractiveness of the investment climate in the country, taking measures to attract investments in the amount of 120 billion US dollars over the next five years, including 70 billion US dollars of foreign investments" [4].

It is clear that Uzbekistan's market, which boasts abundant natural and human resources, significant intellectual potential, and a rapidly growing economy, is an attractive destination for foreign investors.

2. Methodology

The methodological basis of the study is a systemic and analytical approach, allowing to present scientific research of socio-economic phenomena and processes in their development, interrelation and interdependence, legislative and regulatory acts of the Republic of Uzbekistan on the development of investment attractiveness. In the course of writing this article, methods of systemic, logical, comparative and economic-mathematical analysis were used.

3. Literature analysis

Both local and foreign scientists do in-depth research on issues pertaining to, government control of investment attractiveness, financing and evaluation of investment efficiency, patterns of investment calculations, and characteristics of investment financing. Recent Russian scholars like A. Neshitoy, V.V. Bocharov, and M.I. Knysh view the ideas of

investments and investment activity as a crucial area of contemporary economics. The issues of investment development, financing, and efficiency assessment, as well as investment calculation patterns and financing characteristics, are the focus of these scientists' research.

In particular recent local scholars like Otaboev A.M., Juliana J. and Nasriddinov F. investigated the multifaceted factors that affect a country's investment attractiveness [7]. By examining the interplay of macroeconomic stability, government policies, infrastructure, legal frameworks, and geopolitical considerations, their paper delves into the complex factors that contribute to a country's attractiveness for both domestic and foreign investment.

Navruzov I.A. considered the importance of investment attractiveness and the role of foreign direct investment in the growth of the country's economy [8]. According to his research, if a country wants to increase the volume of foreign investment, it is necessary to increase the investment potential of enterprises, regional conditions and conditions to a more acceptable and higher level than others (competitors), as well as to stimulate domestic (national) investment.

Having studied a number of foreign scientists' books, including those of William F. Sharp, Gordoh J. Alexander, Jeffrey B. Bailey. In the framework of their stable development, these scientists focused their research on the philosophy and practice of investment funds in industrialized nations. Research in this field was primarily restricted to issues with the financial market, the securities market, and studies of collective investment institutions because investment funds were first established in the Republic of Uzbekistan in 1996. A.M. Abdukadirov, S.P. Abdullaev, H.M. Akramov, S.A. Arifzhanova, E.D. Alimardonov, N.G. Karimov, I.L. Butikov, T.A. Yadgarov, and others have contributed to this field of study. The stock market and luring portfolio investments were the primary topics of these publications.

4. Results Analysis

The investment climate refers to the political, social, and economic environment within a country, which, from the perspective of potential investors (both public and private), is favorable and attracts capital investment aimed at maximizing its effective use. This is contingent upon the state offering guarantees for the preservation of capital and the unrestricted repatriation of profits. Structurally, a country's investment climate is defined by its investment potential and associated investment risks.

A country's investment potential is determined by a range of macroeconomic indicators, the availability and distribution of production factors, and the level of infrastructure development. Through investment analysis, this potential can be assessed in advance.

In recent years, Uzbekistan has implemented significant reforms aimed at improving the welfare of its population. Key reforms include enhancing the openness of the national economy and establishing the foundations for its integration into the global market. As a large and rapidly growing economy in Central Asia, Uzbekistan offers numerous attractive opportunities for international investors.

Investment potential of Uzbekistan

• Population growth

With 40% of Uzbekistan's population under the age of 19 and an additional 30% under the age of 14, the country is characterized by a youthful and dynamic demographic. Currently, nearly 6.5 million students are enrolled in high schools, benefiting from an increasingly advanced STEM education. Moreover, about a million students are receiving further education at one of Uzbekistan's 209 higher educational institutions, preparing the next generation for a pivotal role in the global economy. From science and mathematics to arts, literature, and music, Uzbekistan is rich in a heritage of significant achievements, and the nation is committed to contributing to the 21st century as it has in past eras.

Uzbekistan is the largest country in Central Asia, with a young, rapidly growing, enterprising, and hardworking population. With a population of over 37 million people and an average age of approximately 25 years, the country boasts a workforce of more than 20 million qualified and affordable laborers. This labor force continues to grow by over 500,000 people each year. Nearly half of the population resides in rural areas, representing a valuable resource for further industrialization and modernization as the country transitions to a market economy.

Uzbekistan has a large and skilled labor force, constituting half of Central Asia's population. More than half of the population is under the age of 30, and the country's educational system is continuously evolving and improving. This creates a favorable environment for business and investment, while simultaneously meeting the growing demand for a highly qualified workforce.

• Large reserves of minerals

Uzbekistan is endowed with abundant natural resources, offering significant potential for both domestic development and international export. In an effort to attract investment in the development of its mineral deposits, the country has implemented policies such as eliminating land taxes, reducing tax rates for over ten categories of strategic minerals,

providing access to geological data, and exempting imported geological exploration equipment from customs duties. These measures are aimed at stimulating growth in Uzbekistan's infrastructure and industrial sectors.

The country is rich in mineral deposits and reserves of oil and natural gas. Uzbekistan holds the world's fourth-largest gold reserves and ranks as the seventh-largest gold producer globally. Its Muruntau mine, operated by the Navoi Mining and Metallurgical Company (NMMC), is one of the largest gold mines in operation today.

Additionally, Uzbekistan boasts some of the largest uranium reserves globally, as well as abundant deposits of strategically important metals, including copper, zinc, lead, tungsten, and molybdenum. Beyond its mineral wealth, Uzbekistan also has substantial potential in renewable energy, with vast wind and solar resources poised to drive the energy transition both regionally and globally.

• Favorable geographical location

Uzbekistan, historically a key crossroads along the legendary Silk Road, has long served as a bridge between the economies of Asia and Europe. Its strategic location continues to grant the country a unique role in connecting East and West, influencing its cultural, linguistic, and economic development.

Spanning 447,400 square kilometers, Uzbekistan is centrally located in Central Asia, with its population primarily concentrated in the eastern Fergana Valley and other urban centers in the south. The capital, Tashkent, with a population of 2.6 million, is experiencing steady growth.

The country's geographic position makes it **strategically important for trade and communication between Europe and Asia**, as it lies at the intersection of several major transportation corridors. Uzbekistan benefits from unrestricted trade with the CIS nations, home to over 300 million people, and has direct access to the markets of Central Asia, with a combined population of more than 72 million.

To further enhance its transportation and logistics infrastructure, Uzbekistan is supporting the development of key railway projects, including the Mazar-i-Sharif-Kabul-Peshawar and China-Kyrgyzstan-Uzbekistan railways. These initiatives open up new opportunities for growth in trade, transportation, and logistics, reinforcing Uzbekistan's role as a critical regional hub.

• Stable political situation

In 2022, Uzbekistan approved the New Uzbekistan Development Strategy for the next five years, with key priorities focused on liberalizing international trade, enhancing investor protection, and expanding industries to attract private investment. The country is making steady progress in its political and economic development. For international investors, stability and predictability are essential factors, and Uzbekistan is actively fostering these conditions. The nation emphasizes interconnection, pursues a policy of peace, and strengthens friendly relations with neighboring countries in the region.

• Economic growth

Uzbekistan's economy is experiencing rapid growth, with a GDP increase of 6% in 2023, reflecting a broader trend of sustained economic expansion. This impressive growth is often attributed to the country's youthful population, with an average age of just 29. Additionally, Uzbekistan boasts a literacy rate of 99% and 83% of the population has access to the internet, contributing to a dynamic and connected workforce [10].

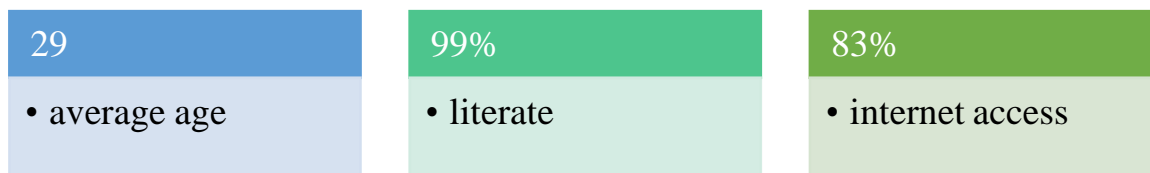


Figure 1. Features of Uzbekistan's population.

During the plenary session of the third Tashkent International Investment Forum, the President of the Republic of Uzbekistan Shavkat Mirziyoyev noted: "... In recent years, our economy has almost doubled. According to the results of last year, growth was 6 percent. The inflation rate has dropped to 9 percent. Trade turnover indicators are steadily growing..." [11].



Figure 2. Developments in foreign trade of Uzbekistan.

The government’s privatization program is a major catalyst for growth, alongside plans to reduce the regulatory burden on businesses by 30% by the end of the decade.

In 2023, Uzbekistan saw a 25% increase in foreign trade, while new sectors of the economy are thriving as global investment flows into the country [10]. Notable developments include pioneering renewable energy projects in wind and solar, high-value tech and IT ventures in Tashkent’s rapidly expanding IT Park, and a growing consumer sector catering to the digital-savvy young population. Market liberalization is driving significant positive change, reshaping Uzbekistan for a prosperous future.

• Economic and administrative reforms

Uzbekistan is actively attracting foreign investors through a series of economic reforms. Key measures, such as simplifying the business registration process and improving tax laws, have been crucial in making the country more investment-friendly. Over 200 licenses and permit processes have been eliminated, further enhancing the ease of doing business and making Uzbekistan a more attractive destination for investment compared to other countries in the region.

As part of its 2030 strategy, Uzbekistan aims to achieve upper middle-income nation status by the end of the decade. This will be accomplished through an ambitious reform program designed to liberalize the economy, attract foreign investment, significantly enhance technological capabilities and strategic infrastructure, and reduce regulatory burdens on businesses.

Additionally, Uzbekistan offers compelling incentives to foreign direct investors (FDI), with businesses operating in the country’s Free Economic Zones (FEZ) enjoying tax exemptions of up to 10 years. FDI enterprises also benefit from exemptions on property, water usage, and land taxes for up to seven years, yielding clear, positive results.

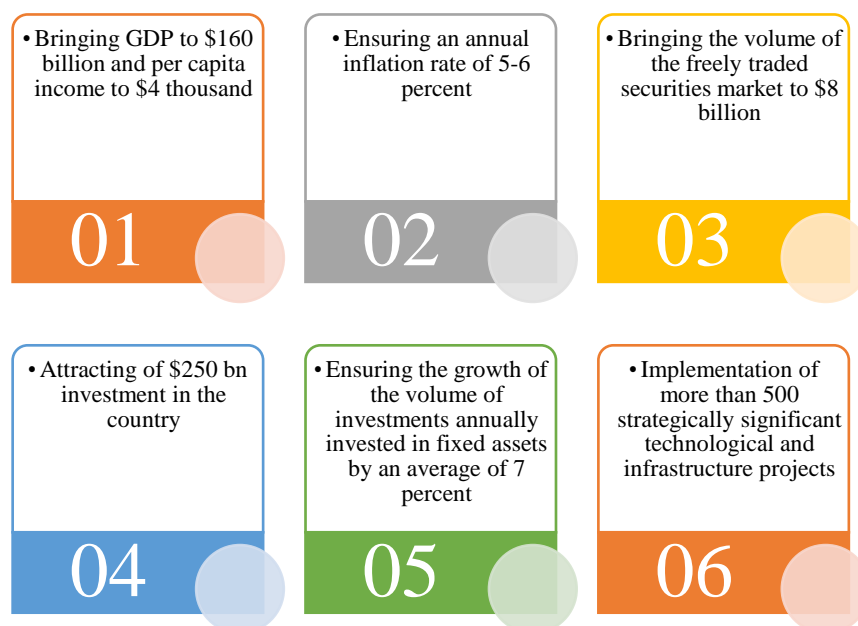


Figure 3. 2030 Strategy Highlights

Favorable investment climate

• Liberalization of the economy and foreign trade

In recent years, Uzbekistan has implemented extensive reforms aimed at improving the well-being of its citizens. Key initiatives include fostering the openness of the national economy and creating the conditions necessary for its integration into the global economy.

• New opportunities for tourism

Uzbekistan is rapidly expanding its tourism sector by providing tax incentives and support for investors. The country is home to a rich historical legacy and cultural heritage, as well as unique natural attractions.

RANK		COUNTRY	SCORE
1	●	Uzbekistan	0.072
2	●	United Arab Emirates	0.073
3	●	Saudi Arabia	0.093
4	●	Norway	0.098
5	●	Estonia	0.100
6	●	Singapore	0.101
7	●	Iceland	0.109
8	●	Sweden	0.111
9	●	China	0.113
10	●	Denmark	0.116

Figure 4. Safety Perceptions Index 2023 Foundation “Understanding the impact of risk around the world”

The “Safety Perceptions Index” focuses on five factors: food and water, violent crime, adverse weather conditions, mental health and safety in labor institutions. These factors serve as an important basis for the formation of an image, which will become the basis for the safety rating of countries (Figure 4).

Uzbekistan's leading position in this ranking lays the foundation for the seamless arrival and departure of foreign tourists to the country [12].

• Increased opportunities for obtaining loans

The Government of Uzbekistan is actively accelerating and broadening the privatization process in key sectors of the economy to enhance the role of private sector participants. Additionally, Uzbek legislation now allows for the redemption of unplaced state assets at zero redemption value, with investors committing to specific investment obligations.

Foreign investors in Uzbekistan are granted a broad range of rights and protections under national law. They have the freedom to independently determine the volume, type, and direction of their investments, and can enter into agreements with legal entities and individuals for the implementation of these investments. Investors are entitled to own, use, and dispose of their investments and their results, with the ability to transfer these rights to other entities in accordance with Uzbek legislation [9]. Furthermore, foreign investors can independently decide on the patenting of inventions, utility models, and industrial designs arising from their activities in Uzbekistan.

Foreign investors also have the right to freely manage their income, including the unhindered repatriation of profits, and may raise funds through loans and borrowings. They can purchase foreign currency on the domestic market using national currency and acquire land rights under specific legal conditions. Additionally, investors can use their property as collateral for obligations, including obtaining borrowed funds. In cases of requisitioning, they are entitled to fair compensation for their investments and assets. Moreover, investors can seek compensation for losses caused by illegal actions or decisions made by state or local authorities. Notably, there are no restrictions on foreign investments in terms of specific industries or regions.

In 2017, the Resolution of the Board of the Central Bank of Uzbekistan updated the Instruction on Bank Accounts, in line with the Cabinet of Ministers' Resolution No. 66. This reform aims to enhance the registration and record-keeping process for business entities. The amendments give wholesale enterprises the flexibility to choose any bank for both primary and secondary accounts [6]. Resident legal entities are no longer required to submit copies of state registration certificates or constituent documents when opening accounts, as this information is now accessible to banks via an automated system. For opening deposit accounts in national currency, residents (including legal entities, individual entrepreneurs, and dekhkan farms) must provide specific documents such as an application form, copies of relevant certificates, notarized signature cards, and identification documents. The requirement for a seal on the application has been made optional.

These changes simplify the account-opening process for businesses in Uzbekistan, reducing paperwork and aligning with the country's broader efforts to improve its business climate.

• **Tax reforms**

Tax residency for individuals in Uzbekistan is determined by the length of their stay in the country. Individuals who either reside permanently or spend 183 days or more within a 12-month period during a financial year are considered residents. Non-residents are taxed only on income derived from Uzbek sources [5].

For legal entities, tax residency is determined by the place of registration or the location of their head office. Companies registered in Uzbekistan and foreign entities with their head office located in the country are regarded as residents. Non-resident legal entities are taxed solely on income earned from Uzbek sources. It is important to note that the taxation of foreign individuals and legal entities may be subject to adjustments based on reciprocity agreements with other countries.

Foreign investments and assets in Uzbekistan are protected under the Law "On Guarantees and Measures for Protecting the Rights of Foreign Investors," which ensures protection against nationalization [13].

• **Improvement of transport infrastructure**

Uzbekistan is making substantial investments in enhancing its infrastructure, including the construction of new roads, railway lines, airports, and other facilities. These developments create new opportunities for the growth of logistics, transportation, and commercial services within the country [3]. As a result, fresh prospects are emerging for investors in the infrastructure and construction sectors.

• **Creation of business centers**

Uzbekistan is advancing its IT sector by attracting start-ups and innovative companies. The agricultural sector also presents promising investment opportunities, particularly in processing and exporting, thanks to its significant potential within the agro-industrial complex. In response to global climate change, Uzbekistan is prioritizing the development of renewable, or "green," energy sources.

With smartphone penetration expected to reach 77% by 2025 and over 27 million internet users, Uzbekistan is becoming a digitally literate society, with a young population driving the tech businesses of the future [1].

A key driver of the country's growing tech leadership is the IT Park in Tashkent, a specialized digital business ecosystem that has seen remarkable growth in recent years. The number of businesses within the park increased from 411 in 2020 to 1,552 in 2023. Attracting a skilled workforce and offering a full exemption from corporate tax, IT Park companies exported \$344 million in IT products and services in 2023.

Parallel to the IT sector's growth is a thriving fintech ecosystem, with startups taking advantage of Uzbekistan's rapidly developing digital payments and online retail markets. A standout example is Uzum, an e-commerce company that, with a market value exceeding \$1 billion, has become Uzbekistan's first "unicorn."

5. Conclusion

Uzbekistan's investment environment has undergone significant transformation, driven by comprehensive reforms and a clear commitment to improving economic transparency and fostering a more attractive climate for foreign investors. The government's efforts to streamline regulatory frameworks, enhance infrastructure, and incentivize key sectors such as energy, agriculture, and manufacturing have created new opportunities for both local and international investors. While challenges remain, particularly in areas such as legal enforcement and political stability, the country's ongoing policy adjustments and focus on improving the ease of doing business position it as an increasingly promising destination for investment. As Uzbekistan continues to evolve and integrate with the global economy, it holds strong potential for sustained economic growth, making it a strategic choice for investors looking to capitalize on its growing market and dynamic reforms.

Uzbekistan offers a wide range of opportunities for international investors across various sectors of its economy. The country's attractive business environment, tax incentives, and ongoing infrastructure improvements make it a highly desirable destination for investment. Additionally, Uzbekistan's rich cultural and natural heritage provides exceptional prospects for those seeking profitable and sustainable investments.

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