Uzbekistan–Land of Tremendous Business Opportunities

Uzbekistan situated in the heart of Central Asia and Great Silk Road, stretches 1,425 kilometres from west to east and 930 kilometres from north to south, bordering Turkmenistan to the southwest, Kazakhstan to the north, Tajikistan and Kyrgyzstan to the south and east and shares a short border with Afghanistan to the south. Uzbekistan is a dry, double-landlocked country with well-developed transport, communication and logistics systems. Uzbekistan is very attractive consumer market of more than 31 mln. population and comprises nearly half the region’s total population.

Uzbekistan offers an attractive FDI’s legal framework, favourable tax regime, highly-skilled, well-educated and young work-force - country enjoys quite high literacy rate which, in part, is attributable to the free and universal education system --, efficient infrastructure, energy independence, and very competitive low-cost operating environment (average prices for electricity – 0.06 USD per kWt/h; coal – 42.5 USD per MT; gas – 0.06 USD per m3).

Uzbekistan ranked among top 5 fastest growing economies in the World (World Economic Forum), within top 5 in security and law enforcement (The World Justice Project), banking sector outlook remains stable (Moody’s Corporation, Standard & Poor’s, Fitch Ratings), ranking in Doing Business World Bank Report Uzbekistan improved from 141 in 2015 to 87 in 2016 (+54), Social Stability index of Uzbekistan is 0,29 vs. 0,31 of the Netherlands and 0,28 of Germany (GINI).

The Concept of Uzbek Transition Model to the social-oriented market

By Gulnara Salimova
President and Managing Director
Uzbek-Swiss Chamber of Commerce and Industry
E-mail: president@uzswisschamber.ch
economy consist of 5 basic principles: priority of economy over the politics; rule of law; the State is the main reformer; gradual approach to reforms; conducting strong social policy.

Despite global economic downturn, oil price decrease and fall of trade-turnovers in other CIS countries, Uzbekistan enjoys robust sustainable GDP growth - not less than 8% per year since the mid-2000s - thanks to favourable trade terms for its key export commodities like copper, gold, energy products, cotton, silk, uranium, ferrous and non-ferrous metals, textiles, food products, machinery and automobiles (CIA World Factbook), continuously rising amount of foreign investments, government’s macro-economic management and limited exposure to the international financial markets. Country continues its strong performance, registering 8.1% of GDP growth in 2015. Average annual growth rate of industrial output for the last 10 years compounded 9%, exceeding GDP growth rate.

Export volume for the period 1990-2014 has increased more than 30 times. Share of finished products in export increased from 30% to 76%. Over the past 10 years export of high value-added products sharply increased, including: automobiles – 12 times, yarn – 4.4 times, complex fertilizers – 11.3 times. Uzbekistan possesses unique raw material resources – oil and gas, ferrous and non-ferrous, pressure stones, over 1644 deposits and 100 types of mineral resources.

Inherited from USSR in 1991 industries were modernised with an attraction of the latest technologies and FDI’s - Ferrous and non-ferrous metallurgy, Fuel and Energy sector, Chemical, Machinery Construction, Light Industry, Food processing. During independence the new industries were developed, such as automobile with GM (USA), Isuzu (Japan) and MAN (Germany), agricultural machinery with CLAAS and LEMKEN (Germany), Case New Holland (USA), textile machinery with Rieter (Switzerland), textile industry, electro-technical industry in cooperation with Samsung, LG, Midea, Honeywell etc., petrochemicals, oil and gas machinery, railway machinery, construction material industry, pharmaceuticals, furniture production. Over 5000 enterprises with participation of foreign capital from 90 countries were successfully established.

The implementation of consistent and gradual reforms in different sectors of the economy, and investment
guarantees provided by law, solid tax and customs duties incentives, special free economic and industrial zones have been recognised as the foundation for the economic achievements currently being seen in Uzbekistan. A business-friendly political and legal environment has been regarded as an important factor in a business and investment climate that supports macroeconomic stability and economic growth in Uzbekistan. The adoption of state development programmes such the State Investment Programme and Localisation Programme, as well as industry development programmes have been confirmed as one of the unique features of the government's strong intention to create a more favourable investment climate in Uzbekistan. The Foreign Investment Law has provided an open and liberal FDI framework, including guarantees of national treatment, non-expropriation, the free repatriation of funds and freedom of monetary transactions and stability in legal relations, access to open-source information, observance of intellectual property rights and access to international arbitration. It also provides protection against adverse changes in investment, tax and customs law for the first 10 years after investment.

The business environment has been further enhanced by recent government efforts to create a “one-stop-shop” registration process, a simpler and less burdensome new tax code, to implement modern corporate governance practices and promote public-private sector dialogue. Coupled with Uzbekistan leadership cooperating efforts with the International Accounting Standards Board to implement International Financial Reporting Standards (IFRS) and International Standards of Auditing (ISA) provide an appropriate platform to build accountable, responsible, fair and transparent corporate governance. Improvements to corporate governance principles, whether they be in the private or public sectors, have also been in the centre of recent reforms in Uzbekistan. In 2015, in line with a Presidential Decree, the Government of Uzbekistan launched a programme to privatise state companies operating in the oil and gas, chemical, machinery, building materials, electrical engineering, textile and food industries, as well as finance, insurance and other sectors of economy.

Reducing the level of state share in the economy to strategically and economically reasonable levels, ultimately increasing share of the private sector, the government sells shares and assets in 1247 state enterprises, including 512 enterprises - at “zero cost” and sale of the state share in 68 large-scale enterprises - only to the strategic foreign investors. Targeting by 2019 a full modernisation, structural changes and diversification of the main industries, the state leadership launched 900 projects with total investments of 41 bln. USD, including in: petrochemical industry – 54 projects; power sector – 35 projects; chemical industry – 25 projects; machinery – 77 projects; building materials industry – 11 projects; light industry – 79 projects; food industry – 304 projects; pharmaceuticals – 22 projects. Development and modernisation of over 2700 km of public automobile roads; development of 960 km of railways, and electrification of 885 km of railroads; construction and reconstruction of 8600 km of water supply and 576 km of sewerage networks; modernization of 25300 km of power grids; development of telecommunications infrastructure by 1.7 times extension of fibre-optic network and expansion of mobile communication coverage from 80% to 95.3%.

The expected by the government results of their Structural Reforms and Strategic Programs being implemented in 2015-2020 are as follows: GDP growth rate - 8% per annum; Industrial growth rate - 9% per annum; Industry's share in GDP – increase from 24% to 28%; Share of high technology production in Industry – increase from 70 % to 76%; Production of new goods - over 100 types and 1000 varieties; Export growth - by 1.5 times up to 25 bln. USD; PPP based GDP per capita - Over 10.000 USD.