



ANALYSIS INVESTMENT OPPORTUNITIES OF UZBEKISTAN IN TOURISM SPHERE

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Abstract. *The paper aims to give some insights into the investment environment and the analyses of factors influencing. The study is motivated by the high failure rate of foreign investments in Uzbekistan. The findings of the study will benefit both local investors who are interested in learning about contemporary methods of investment valuation and foreign investors who are interested in assessing investment opportunities in Uzbekistan. The complexities of evolution of investment opportunities in emerging markets have been studied before. The problems associated with transparency, foreign exchange volatility and liquidity, contagion, governance, political risks (Note 1), and corruption have differing impacts on pricing and valuation across countries and regions. Uzbekistan is a newly-independent Central Asian country, where the same approaches of valuation methods are employed as in Russia, the Ukraine, and other European parts of the former Soviet Union. The provided analysis of investment climate in Uzbekistan suggests that the currency convertibility, lack of transparency and predictability, overregulated financial sector, limiting ownership and restrictions in “strategic” sectors are the greatest obstacles for many potential foreign investors. Also, inadequacies in investment policy and underdevelopment of stock exchange resulted 60% of all foreign investments went to energy sector. Despite the fact that the government has a complex of laws, aimed at attracting greater foreign investment into the country based on the regulation of investment activity, foreign investors still experience substantial difficulties due to variances in enforcement and interpretation of these laws. This article offers a comprehensive overview of challenges of attracting foreign investment into Uzbekistan.*

Keywords: *Uzbekistan, investments, business, index, economy, investment climate, investors*

I. INTRODUCTION

Investment climate and the role of foreign direct investments in transition economy have been investigated by many researchers (Williams and David, 1997; Bandelj, 2002). The problems of transparency, governance, political risks and corruption as well as their impact on investments are characterized differently across countries and regions (Bruner, 2002). According to Uzinfoinvest, the Government agency, Uzbekistan as a young country entering to global market offers more investment incentives and opportunities.

Uzbekistan is a resource-rich, most populated country, strategically located in the heart of Central Asia. The nominal Gross Domestic Product per capita in Uzbekistan was last recorded at 50 billion US dollars with 250 billion purchasing power parity.

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;

In accordance with the Decree of the President of the Republic of Uzbekistan “On measures to further improve the mechanisms for attracting foreign direct investment in the economy of the republic” dated April 29, 2019 № PD-4300 foreign investors are offered state shares in 29 large enterprises, including 4 financial institutions, 2 from energy sector, 6 oil and gas, 3 chemical and other industries. In addition, the shares of Uzpromstroybank, Asia Alliance Bank and Jizzakh Plastic are put up for an initial public offering (IPO), the shares of Quartz, Alokabank and the Uzbek Republican Commodity and Raw Materials Exchange for a secondary public offer of shares (SPO.)

It is significant that the decision of the Head of State decided to introduce a visa-free regime for the entry of tourists from 86 countries of the world. In this regard, Uzbekistan is becoming the most open country for tourists among the CIS countries. For comparison, in 2017, citizens of only nine countries had a similar opportunity. In case, the number of countries with visa-free entry has been increased from 9 in 2017 to 86 in 2020 (an increase of 9.5 times);

The above measures have allowed a sharp increase in the flow of foreign citizens from 1.9 million to 5.4 million people, and by 2022-2023, it is forecasted to receive 10 million foreign citizens. It is worth noting that, according to the Gallup rating “Global Law and Order” and “Individual Report on Travel Safety”, Uzbekistan is on the 5th place in the list of the safest countries in the world for personal safety, law enforcement and travel, along with Switzerland and other developed countries

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

The Republic of Uzbekistan conducts an open, mutually beneficial and constructive foreign policy based on the national interests of the country. Current foreign policy of Uzbekistan is formed taking into account the dynamic changes in the world and the region as well as large-scale reforms within the country.

Main turnover partners are China, Korea, Turkey, Germany and CIS countries. Main export structure consists of gold, tourism energy and textile products. While machinery and chemical products are base sectors to import.

One of the greatest advantages for attracting international capital is the fact that we have significant reserves of mineral resources, more than 2,000 deposits. Annually production of gold counted as 90 tons.

One of the key benefits of opening business is low cost of energy. In compare to neighbor countries Uzbekistan has one of the lowest price for gas and electricity. Obviously, 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). We are in second place among the CIS.

Moreover, The republic has developed infrastructure, namely the total length of roads exceeds 184 thousand km, electric networks 237 thousand km, railways 4.7 thousand km, gas pipelines 13.7 thousand km, 11 international airports, the construction of the “dry port of Navoi ” is under cThe 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. Uzbekistan has been involved in CIS Free trade zone with 275 total market access consideration.

Over the past 2 years, 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 15% The tax burden on business entities is gradually reduced. It has been established that tax and customs are provided exclusively by laws and acts of the President of the Republic of Uzbekistan as a whole for industries, fields of activity, territories;

Presidential Decree № PD-4300 provides for the provision of investment residency in the Republic of Uzbekistan “Uzbekistan my second home”. ”

It is planned to introduce a procedure for providing residence permits to foreign investors, subject to investment in the Republic of Uzbekistan. In case of acquisition of real estate in:

- Tashkent region and Tashkent city – at least \$ 400,000;
- Samarkand, Bukhara, Namangan, Andijan, Ferghana and Khorezm regions – at least \$ 200,000;
- The Republic of Karakalpakstan and other areas of the republic – not less than \$ 100,000.

In the case of other types of investments (for example, in shares, replenishment of the authorized capital or acquisition of shares in enterprises), the amount of investments made must be at least \$ 400,000.

To actively attract foreign capital, there are currently tax and customs incentives, 21 free economic zones (7 pharmaceutical, 12 industrial, 1 agricultural and 1 tourism), a business ombudsman institution has been introduced, the Tashkent International Arbitration Center has been established, and a draft unified law on investments has been developed and investment activity”, which aims to combine the noToday, a solid foundation had been laid for increasing FDI in the economy of the republic. In particular,

- Received sovereign credit ratings Standard & POOR’S, Fitch Ratings;
- Uzbekistan has risen from the 6th to the 5th group in terms of the OECD country credit risk classification

Policies Towards Foreign Direct Investment

The Government of Uzbekistan (“the government” or “the GOU”) has declared attracting foreign direct investments (FDI) one of its core policy priorities, acknowledging that greater private sector involvement is critical for economic growth and addressing social challenges caused by relatively high unemployment and poverty rates. In 2019, the GOU launched a policy to improve the business environment through simplification of registration procedures for new businesses, combatting corruption, and increasing transparency. To attract more foreign investors, the government simplified entry visa procedures and extended residence permits for foreigners. The new Tax Code, which became effective on January 1, 2020, lowered corporate and individual income taxes by almost 50% and considerably simplified taxation procedures for private entrepreneurs. President Mirziyoyev challenged all regional governments to improve the attractiveness of their territories to foreign investors and provide FDI progress reports on a quarterly basis. He also created a Supreme Economic Council, envisioned as a platform for coordination of further economic reforms with international businesses, expert communities, and development banks.

The government has yet to address several fundamental problems plaguing businesses and investors, such as the domination of state-owned monopolies in key sectors of Uzbekistan’s economy, the lack of transparency in public procurements, its poor track record on enforcing public-private contracts, an underdeveloped and overregulated banking sector, poor protection of private property rights, and insufficient enforcement of intellectual property rights. Uzbekistan’s 2020 Ease of Doing Business (DB) rank rose from 76th to 69th place and its DB Score indicator improved by 2.1 points to 69.9 (100 is the standard of excellence). By law, foreign investors are welcome in all sectors of Uzbekistan’s economy and the government cannot discriminate against foreign investors based on nationality, place of residence, or

country of origin. However, government control of key sectors, including energy, telecommunications, transportation, and mining has discriminatory effects on foreign investors.

The government has demonstrated a continued desire to control capital flows in major industries, encouraging investments in a preapproved list of import-substituting and export-oriented projects, while investments in import-consuming projects can generally expect very little support.

Limits on Foreign Control and Right to Private Ownership and Establishment

By law Uzbekistan guarantees the right of foreign and domestic private entities to establish and own business enterprises, and to engage in most forms of remunerative activity. However, due to the prevalence in state-owned monopolies in several sectors, in reality the right to establish business enterprises has been limited in some sectors. The GOU has started the process of reconsidering the role of large state-owned monopolies, especially in the transportation, banking, energy, and cotton sectors. In 2017, President Mirziyoyev ended the monopoly of state-owned enterprise Uzpaxtasanoat to buy and sell raw cotton. 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. In 2020, the GOU committed to eliminate the monopoly of state-owned carrier Uzbekistan Air in the air cargo, airport service, and domestic air transportation market. The state still reserves the exclusive 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 2019) lists state assets that cannot be sold off or otherwise privatized, including land with mineral and water resources, the air basin (atmospheric resources in the airspace over Uzbekistan), flora and fauna, cultural heritage sites and assets, state budget funds, foreign capital and gold reserves, state trust funds, the Central Bank, enterprises that facilitate monetary circulation, military and security-related assets and enterprises, firearm and 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.

Foreign ownership and control for airlines, railways, power generation, long-distance telecommunication networks, and other sectors deemed related to national security requires special GOU permission, but so far foreigners have not been welcomed in these sectors. By law, foreign nationals cannot

obtain a license or tax permit for individual entrepreneurship in Uzbekistan. In practice, therefore, they cannot be self-employed, and must be employed by a legally recognized entity.

According to the law, local companies with at least 15 percent foreign ownership can qualify as having foreign capital. The minimum fixed charter funding requirement for such companies is 400 million soum (\$42,000 as of March 2020). Some restrictions apply: foreign investment in media enterprises is limited to 30 percent; in finance, foreign investors may operate only as joint venture partners with Uzbekistani firms, and banks with foreign participation face minimum fixed charter funding requirements (100 billion soum for commercial and private banks, and ranging from 7.5 to 30 billion soum for insurance companies – equivalent to \$10.5 million and \$0.8-\$3.1 million respectively), while the required size of charter funds for Uzbekistani firms is set on a case-by-case basis.

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, transparent screening mechanism, and some elements of Uzbekistan's legal framework are expressly 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 trading, and tourism. There are no legislative restrictions that specifically disadvantage U.S. investors.

Outward Investment

In general, the GOU does not promote or incentivize outward investments. There is no official institution or agency that promotes outward investment from Uzbekistan. Some state-owned enterprises invest in development of their marketing networks abroad as part of efforts to boost export sales. Private companies that operate primarily in the retail, construction, and textile sectors use outward investments for market outreach, to access foreign financial resources, for trade facilitation, and, in some cases, for expatriation of capital. The most popular destinations for outward investments are Russia, China, Kazakhstan, Singapore, UAE, and Germany. There are no formal restrictions on outward investments. However, financial transactions with some foreign jurisdictions (such as Afghanistan, Iran, Syria, Libya, and Yemen) and offshore tax havens can be subject to additional screening by the authorities.

I should admit fact that Uzbekistan sold 1 billion Eurobonds in 1st entry into international debt market. Finally yet importantly, there are more than 50 international companies with FDI in Uzbekistan. There are 3 laws and about 100 by-laws regarding investments.

New Silk Road connectivity, tax incentives and comprehensive structural and regulatory reform make Uzbekistan an attractive Central Asian powerhouse. Over the last few years, Uzbekistan has made significant strides to attract more international business and investment, overhauling virtually every facet of doing business in the country in an attempt to facilitate and increase foreign direct investment (FDI). The nation's strategic location as the main land corridor with developed infrastructure helps in booming market with high growth. There is no doubt that ongoing reforms will help to provide great opportunity to each of investors.

Summarizing all the above mentioned it is possible to come to the following conclusion: despite the existing problems, dramatic changes have occurred in Uzbekistan. The Uzbek leadership has confirmed its innovative and effective internal and foreign policy, which is important not only for Uzbekistan, but also for its foreign partners interested in a stable and prosperous Central Asia. Today the priority direction of the social and economic development of Uzbekistan like of any state of the world is aimed at the formation of an attractive investment environment. Therefore, for Uzbekistan consideration of the challenges of attracting foreign investment into uzbek tourism give great importance in achieving sustainable development, increasing incomes and improving the living conditions of the Uzbek people.

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