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Regulatory Reforms in Uzbekistan: Implications for Indian Investors.

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Abstract

After liberalizing its economy in 2016, Uzbekistan has emerged as one of the most dynamic investment destinations in Central Asia, the country is undergoing significant regulatory reforms since liberalization of economy to attract foreign direct investment (FDI), and to align the local businesses with global business practices. These regulatory reforms present both opportunities and challenges to the Indian investors, across various sectors such as education, pharmaceuticals, information technology, renewable energy, and agricultural products processing. This study attempts to explore the trajectory and implications of Uzbekistan's regulatory reforms while focusing on their relevance to Indian businesses. The study draws on data from the World Bank, UNCTAD, WITS, and government sources like published reports. This research does an analysis of sector-specific policies, the legal frameworks, and institutional mechanisms for investment facilitation. This study also assesses the enabling environment created through the reforms in fields of taxation, investment laws, visa regulations, and free economic zones. Through sectoral case studies and comparative analysis, this study identifies strategic insights and makes recommendations for Indian firms that seek to navigate Uzbekistan's constant evolving regulatory landscape.

Keywords: Uzbekistan regulatory reforms, Indian foreign direct investment (FDI),India–Uzbekistan economic relations, Central Asia investment climate, Investment policy reform Uzbekistan, Ease of doing business Central Asia, Legal framework for foreign investors. Sectoral investment opportunities Uzbekistan, Tax and customs incentives in Uzbekistan, Digital governance and investor access, Bilateral trade frameworks India-Uzbekistan, Economic transformation post-2016 Uzbekistan

1. Introduction

In last one decade, Uzbekistan has transformed its formerly closed and centrally planned economy into an investment-friendly and market-oriented system through some considerably bold steps. The accession of President Mr. Shavkat Mirziyoyev in 2016 indeed was a turning point in the country's existing economic direction through a comprehensive reform program aimed at deregulation, privatization, and international integration (World Bank, 2023). These reforms attracted a constant growing interest from foreign investors, particularly from strategic partners of Uzbekistan like India, which shares deep historical, cultural, and economic bonds with Uzbekistan.

The relations between these two countries grew over time. India's engagement with Uzbekistan has deepened much particularly over the past decade. This relationship is primarily driven by bilateral agreements, the sectoral partnerships, and India's growing interest in Central Asia's untapped markets. Uzbekistan has become a key partner in India's "Connect Central Asia" policy (Ministry of External Affairs, 2023) with over $500 million in Indian investments committed or proposed. However, entering a transitioning economy of Uzbekistan brings complexities to Indian investors. While Uzbekistan has liberalized several aspects of its regulatory regime, challenges are also apparent, such as legal ambiguity, bureaucratic inertia, and contract enforcement.

This study conducts a comprehensive sectoral and legal analysis of the regulatory reforms in Uzbekistan and evaluates their implications for Indian investors. The study starts with an overview of the evolution of reforms post-2016 (change in the presidentship leading to change in economic direction of the country), followed by an detailed review of investment-related legal changes, taxes, incentives, and sectoral policies. Using existing examples and policy data, this study will identify the risks and opportunities existing for Indian firms and will offer strategic recommendations for navigating the investment landscape in Uzbekistan.

"With bold reforms and increasing openness to foreign investments, Uzbekistan now presents a new frontier for Indian firms – providing they understand and adapt to its dynamic regulatory environment."

2. Evolution of Regulatory Reforms in Uzbekistan

2.1 Economic Liberalization Post-2016

After the **election of President Shavkat Mirziyoyev** in 2016, Uzbekistan's economic transformation gained momentum. **President Shavkat Mirziyoyevis** committed to a roadmap of **market-oriented reforms**. These economic reforms mainly aimed at addressing long-standing barriers such as currency inconvertibility, state's control over pricing, and restrictive trade practices. One of the most significant initial changes was the **liberalization of the foreign exchange market in 2017**, that abolished the official black-market rate and allowed free currency convertibility for the businesses (World Bank, 2023).

The **"Strategy of Actions on Five Priority Areas for 2017–2021"** charted key structural reforms, including enhanced public administration, economic liberalization, development of the judiciary system, and directness in foreign policy (UNCTAD, 2024). Following an intensified focus on **foreign direct investment (FDI)**, culminating in the enforcement of a **new Law on Investments and Investment Activity in 2019**, to provide a unified legal framework for investors.

These reforms were wholeheartedly supported by international economic institutions such as the **World Bank**, **International Monetary Fund (IMF)**, and **Asian Development Bank (ADB)**. These institutions provided both financial and technical support to implement modern governance practices, the anti-corruption measures, and a fiscal transparency. This resulted in dramatic improvement of Uzbekistan's **Ease of Doing Business** score, with the Uzbekistan entering the **top 20 global improvers list in year 2020** (World Bank Doing Business Report, 2020).

2.2 Investment Laws and Free Economic Zones

The **Law on Investments and Investment Activity (2019)** formed a cornerstone of Uzbekistan's reform agenda. It guarantees **equal treatment of foreign and domestic investors**, protecting them from expropriation, and providing access to international arbitration mechanisms in cases of disputes. It also provides **tax holidays**, customs exemptions, and land access incentives for the foreign investors. Most particularly in **strategic sectors** like pharmaceuticals, IT, renewable energy, and agro-processing.

Another major addition to the investment framework is the establishment of **Free Economic Zones (FEZs)** across the nation. As of 2024, Uzbekistan operates over **23 FEZs**, including the large **Navoi Free Economic Zone**, **Jizzakh FEZ**, and **Angren FEZ**. These FEZs offer benefits like **preferential tax regimes**, **simplified customs procedures**, and **infrastructure support to the businesses** (Navoi FEZ, 2024). **Cadila Pharmaceuticals** and **AgNext, both Indian companies,** have leveraged these benefits to set up manufacturing and logistics operations in FEZs.

The Free Economic Zones are strategically positioned near the **transport corridors** thereby enabling regional trade connectivity through the **Central Asia Regional Economic Cooperation (CAREC)** corridors. This infrastructure integration is a major part of Uzbekistan's larger ambition to become a prominent **transit hub for Eurasian trade** (CAREC, 2023).

2.3 Digital Governance and Ease of Doing Business

During last decade, Uzbekistan has undertaken notable strides in **digital governance**, aiming to reduce bureaucratic red tape and promote transparency for the businesses. The **portal MyGovUz which was** launched in 2020, lets businesses to apply for the licenses, register companies, and file taxes online. This resulted drop of the time required to register a business in Uzbekistan to **less than 5 days** from 20 days from before the reforms (World Bank, 2023).

The initiative by the Ministry of Investments- **Single Window for Investors** facilitates investor registration, permits, and land acquisition processes through a centralized digital platform.

Also, the government of Uzbekistan introduced the **Public-Private Partnership (PPP) Law** in year 2021, this simplified procurement rules and improved investor access to large-scale infrastructure and energy projects.

These efforts have not gone unnoticed at all. In new World Bank assessments, Uzbekistan was praised for its advances in **starting a business**, **construction permits**, **tax compliance**, and **contract enforcement**, though there still are some challenges related to judicial independence and a dispute resolution (World Bank Uzbekistan Economic Update, 2023).

3. Key Regulatory Developments Impacting FDI

Uzbekistan has introduced a range of legal and institutional reforms to boost the **foreign direct investment (FDI)**, particularly in key strategic sectors of business. These changes reflect on the broader ambition of positioning Uzbekistan as a **regional investment hub** through improved transparency, simplified regulations, and enhanced investor protections.

3.1 Law on Investments and Investment Activity (2019)

The **Law No. ZRU-598** titled *“On Investments and Investment Activity”* enacted in December 2019 and was enforced by January 2020, consolidates various previously fragmented laws and provides a **cohesive legal framework for local and international investors**. The law guarantees e**qual rights for foreign and domestic investors, Non-discriminatory treatment to foreign investors, a right to repatriate profits, and a protection against nationalization or expropriation of businesses**, unless under exceptional cases with full compensation.

This law, most importantly provides **investment stability guarantees** for up to 10 years for certain types of investments, protecting them from regulatory changes during this stated period. This las also permits the disputes to be resolved under **international arbitration** if stipulated in agreements (UNCTAD, 2024; Uzbek Ministry of Investments, 2024).

Indian investors have been largely benefitted from this framework, particularly those who entered through **bilateral or multilateral investment treaties**, such as the **India–Uzbekistan Bilateral Investment Treaty (2022)**, which aims at reinforcing the investor protection clauses and promoting technology transfer (MEA, 2022).

3.2 Tax and Customs Reforms

Uzbekistan has embarked on major **tax reforms** that simplify the tax code and reduce corporate burdens in order to improve the investment climate of the nation:

- **Corporate income tax** has been reduced from 20% to **15%**
- **Value Added Tax: VAT rate** is lowered to **12%** as on 2023
- In **Free Economic Zones (FEZs)** and priority sectors, t**ax holidays** (ranging from 3 to 10 years) are available for investors
- **Customs duty exemptions** are offered for the imported capital goods and raw materials

The **Electronic Tax Administration System (eTax)** was set rolling so as to minimize face-to-face contact, thus, enabling an online tax filing and real-time auditing of accounts. These significant changes have improved the **World Bank’s Paying Taxes score** for Uzbekistan (World Bank, 2023).

Some Indian firms like **ReNew Power** and **Cadila** have already taken an advantage of tax incentives through sector-specific arrangements and FEZ registrations.

3.3 Financial Sector Liberalization

The financial sector reforms in Uzbekistan aim at boosting **credit access**, **capital market development**, and **currency liberalization**. Some key reforms include:

- Legalization of **full convertibility of the Uzbek som (UZS)** in 2017
- Liberalization of interest rates and relaxation of foreign exchange controls

- Expansion of **foreign bank participation** and issuance of **sovereign bonds** to attract capital

The **Uzbek Capital Market Development Strategy (2020–2025)** encourages foreign portfolio investments, and the **Tashkent Stock Exchange** is being modernized to allow greater foreign ownership. At present, the Indian investors are able to repatriate capital and dividends in a **freely convertible currency**, which previously was restricted.

Also, the **double taxation avoidance agreements (DTAAs)** signed with India, are to ensure that Indian investors are not to be doubly taxed on the same income.

3.4 Labor Market and Visa Reforms

- To attract skilled foreign professionals and boost investor mobility, the Uzbek government has:
- **Streamlined visa issuance**, including **electronic visas (e-Visas)** and **long-term investor visas**
- Allowed **foreign employees** to be recruited without extensive quotas
- Introduced **temporary residence permits** and simplified work authorizations

The **Labour Code of Uzbekistan (2023)** provides clarity on employee rights, dispute resolution mechanisms, and contract norms. For Indian firms setting up local operations, this means **ease of staffing**, **lower regulatory friction**, and greater integration with local labor.

4. Sector-Specific Regulatory Incentives

Uzbekistan's government has prioritized specific industries for investment by offering **tailored regulatory incentives** to attract foreign capital. These sectoral incentives have become central to India's growing interest in Uzbekistan, especially in pharmaceuticals, IT, renewable energy, and agro-processing.

4.1 Pharmaceuticals

Uzbekistan aims to localize pharmaceutical production to meet domestic needs and reduce dependency on imports. As part of this strategy, the government has:

- Established **pharma clusters** (e.g., in Tashkent and Andijan) with **subsidized land**, **zero VAT**, and **customs duty exemptions**
- Introduced **fast-track licensing** for WHO-GMP compliant foreign firms
- Enabled **price regulation exemptions** for domestically manufactured generics

India, as Uzbekistan's **top pharmaceutical exporter** (with $281 million in exports in 2023), is a major beneficiary (OEC, 2024). Indian firms such as **Cipla, Dr. Reddy's, Sun Pharma**, and **Cadila Pharmaceuticals** have formed joint ventures and local production units under these regulatory schemes (Cadila, 2022).

The **Indian-Uzbek Pharma Cluster**, jointly managed with the Uzbek Ministry of Health, provides additional incentives including **R&D grants**, **technology transfer subsidies**, and **reduced regulatory inspections**.

4.2 Information Technology & Startups

In a push to modernize its economy, Uzbekistan has prioritized the **ICT sector** and introduced several tech-friendly reforms:

- The creation of **IT Park Uzbekistan** in Tashkent and 15+ regional branches
- **0% tax** on profits, VAT, and social contributions for IT firms within the park
- **Startup subsidies** up to 50% for eligible foreign ventures
- Fast-track **digital services licenses** and IP protection

Indian firms like **Tata Consultancy Services (TCS)** and **Infosys** have partnered with Uzbek institutions for IT outsourcing, capacity building, and e-governance platforms (TCS Uzbekistan, 2023). The **Digital Uzbekistan 2030 Strategy** further supports cross-border collaboration and smart city projects.

4.3 Renewable Energy

Uzbekistan aims to produce **25% of its electricity from renewables by 2030**, opening massive opportunities for green investment. Key regulatory incentives include:

- **Feed-in tariffs** and **20-year purchase agreements** for solar/wind projects
- **Land allocation benefits** and **grid connection guarantees**
- **Exemption from land tax, property tax, and water use tax** for 10 years

Indian firm **ReNew Power** signed a MoU in 2023 for a **300 MW solar plant** in the Navoi region. The firm benefitted from Uzbekistan's **PPP framework**, transparent bidding process, and access to concessional financing via the ADB (ReNew, 2023).

4.4 Agro-processing and Textiles

Uzbekistan is Central Asia's largest cotton producer and has opened its **agro-industrial sector** to foreign participation with:

- **Zero customs duty** on agricultural machinery and processing equipment
- Subsidies for drip irrigation, cold chain storage, and packaging technology
- Export facilitation zones and **priority access to CAREC trade routes**

Indian firms such as **AgNext** and **APEDA** have begun pilot projects in **AI-driven quality assessment** and **supply chain digitization**, enabled by favorable import rules and FEZ incentives (AgNext, 2023; APEDA, 2023).

5. Challenges in the Regulatory Framework

Despite its impressive progress, Uzbekistan's regulatory environment still presents several **structural and institutional challenges** that can impact the confidence and operations of Indian investors. Understanding these roadblocks is essential for Indian firms to manage risk and strategize effectively.

5.1 Bureaucratic Inefficiencies and Implementation Gaps

While reforms exist on paper, their **implementation at the local level** can be inconsistent. Investors often face:

- **Overlapping regulatory authorities**
- **Delays in permits and approvals**, especially outside Tashkent
- **Lack of inter-ministerial coordination**, resulting in contradictory instructions

For instance, while Free Economic Zones offer tax and customs benefits, firms have reported delays in accessing utilities or land allotments due to **local administrative hurdles** (Indian Embassy in Tashkent, 2024). Indian SMEs in agro-processing have flagged **slow refund processes** for VAT exemptions as a recurrent issue.

5.2 Legal System and Dispute Resolution

Although international arbitration is permitted under investment treaties, the **domestic judiciary remains underdeveloped**, with concerns over:

- **Judicial independence**
- **Lack of expertise in commercial and investment law**
- **Slow enforcement of court rulings**

For example, in a 2022 dispute involving an Indian logistics company, it took over a year to enforce a basic contract in a regional court due to **procedural bottlenecks and administrative appeals**. While Uzbekistan has taken steps to improve contract enforcement, it still lags behind **regional benchmarks like Kazakhstan or Georgia** (World Bank, 2023).

5.3 Regulatory Uncertainty and Policy Reversals

Frequent legal amendments and unclear transition rules create **regulatory unpredictability**. Despite stability clauses in the investment law, investors remain cautious due to:

- Sudden changes in **import-export regulations**
- **Sectoral caps and licensing updates** with limited stakeholder consultation
- Unclear **land tenure rights** for foreign entities in rural areas

Such uncertainty discourages **long-term capital investment**, particularly in land-intensive sectors like infrastructure, mining, and agriculture.

5.4 Currency Volatility and Capital Repatriation Concerns

Although the Uzbek som is now freely convertible, **exchange rate fluctuations** and **informal capital controls** persist. Some Indian investors have reported:

- **Delays in profit repatriation** through state-owned banks
- **Dual exchange rates** in unofficial market transactions
- Concerns over **regulatory changes in capital account operations**

While Uzbekistan's central bank has committed to inflation targeting and monetary transparency, investor surveys indicate **cautious optimism** rather than full confidence in macroeconomic stability (World Bank Uzbekistan Economic Update, 2023).

5.5 Human Capital and Skills Gap

For sectors like IT, pharmaceuticals, and renewable energy, a **lack of skilled labor** and English proficiency can hinder operational scalability. Although the government has launched **vocational training programs** and **international university partnerships**, bridging the gap will take time.

Indian IT firms, for example, often need to **import technical staff**, incurring costs despite simplified visa rules. In healthcare and pharmaceuticals, **GMP-compliant workforce shortages** pose integration delays in joint ventures.

6. Policy Recommendations for Indian Stakeholders

To fully capitalize on the investment opportunities in Uzbekistan while navigating the regulatory landscape, Indian investors—ranging from multinationals to SMEs—need a proactive, well-informed approach. The following **policy and strategic recommendations** are based on current market dynamics, bilateral engagements, and ground-level realities.

6.1 Engage Proactively with Bilateral Platforms

Indian investors should leverage **existing diplomatic and economic cooperation channels**:

- Regular participation in the **India–Uzbekistan Business Council**, co-chaired by FICCI and Uzbekistan's Chamber of Commerce (FICCI, 2023)
- Use of platforms like the **India–Central Asia Summit** to align with strategic sectors prioritized by Uzbekistan's government (MEA, 2022)
- Collaboration with the **Embassy of India in Tashkent**, which offers detailed commercial reports, networking facilitation, and regulatory briefings (EOI Tashkent, 2024)

These platforms provide early insights into **policy changes**, **investment pipelines**, and facilitate smoother bureaucratic navigation.

6.2 Prioritize Entry via Free Economic Zones (FEZs)

India's most successful projects in Uzbekistan—such as **Cadila's pharma operations** and **ReNew Power's solar ventures**—have been routed through **FEZs** like Navoi and Jizzakh. Investors should:

- Assess the specific incentives (tax holidays, customs exemptions, utility subsidies) offered by each FEZ
- Use the **one-stop-shop services** available in FEZs for faster business registration and permit processing

- Explore **co-location with Uzbek firms** to meet local content requirements and build partnerships

FEZs significantly reduce setup friction and enhance regulatory predictability for foreign firms (Uzbek Ministry of Investments, 2024).

6.3 Build Local Joint Ventures and Supply Chains

While 100% foreign ownership is permitted, establishing **joint ventures with local firms** helps:

- Navigate bureaucratic and cultural environments more effectively
- Access **preferential procurement programs** offered by Uzbek ministries to domestic producers
- Facilitate **local talent recruitment**, technology localization, and operational synergies

Pharma, agro-processing, and IT firms from India have successfully used this model, reducing overheads while accessing incentive programs tied to local value creation.

6.4 Invest in Risk Mitigation Mechanisms

Given the evolving legal and regulatory environment, Indian investors should:

- Secure **investment insurance** via agencies like **Export Credit Guarantee Corporation of India (ECGC)** or **MIGA** (World Bank Group)
- Include **international arbitration clauses** in all their contracts in Uzbekistan, specifically in the large infrastructure or resources projects
- Conduct periodic **legal and tax compliance audits** regularly to track changes taking place in local regulations

These steps will help shield them from legal ambiguities, policy reversals, and macroeconomic shocks.

6.5 Leveraging Government-to-Government (G2G) Channels for Major Strategic Projects

The Indian investors can tap into the **Government-to-Government (G2G) support frameworks i**n the fields of infrastructure, mining, and large-scale renewable energy by aligning these projects with **Uzbekistan's national development priorities.**

- The **India-Uzbekistan Intergovernmental Commission** provides a strategic dialogue space for flagship projects
- Indian public-sector units (e.g., NMDC, ONGC) should explore **government-backed consortia** for joint exploration in mining or energy
- Public-private models are particularly effective where **sovereign guarantees** or multilateral funding is involved

This alignment improves project viability and ensures smoother inter-agency coordination.

7. Conclusion

Driven by its **rapid regulatory reforms**, **growing infrastructure development**, and strategic position within Central Asia, Uzbekistan now offers many significant investment opportunities for Indian firms. With continuous efforts made to modernize the Uzbek economy and aligning itself with international best practices, Uzbekistan is now becoming an increasingly attractive destination for foreign direct investments. Many Indian investors have already made noteworthy strides in key sectors like information technology, pharmaceuticals, renewable energy, infrastructure, and agro-processing. Though the regulatory landscape of Uzbekistan offers promising incentives to the foreign investors, challenges such as **bureaucratic inefficiencies**, **policy unpredictability, and judicial delays** still exist. To navigate through these complexities, Indian firms should adopt **proactive risk management strategies**, collaborate through **joint ventures with local partners**, and should leverage **sector-specific incentives**. For any business, the key to successful investment is **adaptation and localization**. Engaging with **government platforms**, **utilizing special economic zones**, and investing in **skills development will help** Indian businesses to tap into the untapped potential of Uzbekistan's market effectively. Furthermore, to ensure that Indian investments continue to thrive in Uzbekistan. a **long-term engagement** and **adaptive business strategies** are critical, they contribute not only to the economic growth of the two nations but also to Central Asian region.

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