



THE CURRENT SITUATION OF THE FOREIGN DIRECT INVESTMENTS IN THE ECONOMY OF UZBEKISTAN

The foreign direct investments (FDI) have become a key source of growth in many transitional economies. Therefore, attracting the FDI into the national economy has become one of the objectives of the investment policy of Uzbekistan. Legal framework and regulation of attracting foreign investments in the Republic of Uzbekistan is based on the acts such as the Law on Foreign Investments, the Law on Investment Activity and the Law on Guarantees and Measures of Protection of the Rights of Foreign Investors" dated 1998. In order to create more favorable conditions for carrying out business activities, as well as to reduce, to simplify and to improve the investment procedures, the President of the Republic of Uzbekistan, Islam Karimov, issued a number of decrees. Namely, the "Decrees on additional measures of stimulation of private foreign direct investments attraction" were signed in 2005 and in 2012, and the "Decree on measures on further radical improvement of business environment and providing more freedom to entrepreneurship" was inked in 2013.

It should be noted that in the early 2000s inflow of FDI into the economy of Uzbekistan was low, and, for example, their accumulated volume in 2004 did not exceed \$1 billion. After the implementation of the reforms on the investment policy, the annual volume of foreign investment in Uzbekistan increased from \$0.7 billion in 2000 to more than \$3 billion in 2014. The share of FDI in foreign investments has increased from 14.4% in 2000 to more than 74% in 2014, amounting to about \$2.3 billion. Therefore, the volume of the inflow of FDI has increased by 4.3 times over the past 10 years.

The total amount of attracted investments in the economy of Uzbekistan was about \$14.6 billion (23.3% of the gross investment in fixed capital) with the share of foreign investments over 21.2% in 2014. According to the State Committee of the Republic of Uzbekistan on Statistics, in the first 6 month of 2015 the volume of foreign investments increased by 11% and reached \$1.5 billion or 21.3% of total invest-

ments. Moreover, again in the first 6 month of 2015 the volume of FDI increased by 10.9% reaching \$1.2 billion.

However, despite significant progress in attracting foreign investments Uzbekistan is still significantly behind the rest of the Commonwealth of Independent States (CIS) members regarding the FDI per capita. For instance, in 2014 in Uzbekistan the FDI per capita was \$26, while in Turkmenistan the FDI per capita was \$596, in Kazakhstan and in Azerbaijan the FDI per capita was \$579 and \$466 respectively.

Aforementioned figures reflect that the foreign and local investors are still concerned over the interference of the government in investments, and bureaucratic obstacles, which cause significant time and resource losses. Corruption also remains one of the main obstacles. Transparency International's 2014 Corruption Perception Index ranked Uzbekistan 166 out of 175 countries. In order to deal with these problems, in January 2014 the President Islam Karimov signed several legal amendments providing foreign investors some options of hiring foreign labor and of obtaining multiple entry visas for their international employees, as well as of improving state guarantees for infrastructure contracts and for investment protection.

Moreover, in January 2015 the President instructed the government to reduce the share of state in the number of sectors through implementation of a New Privatization Program. According to the Program, it is planned to liquidate and to privatize about 660 state-owned non-performing enterprises, to privatize state-owned shares in 360 enterprises and to sell nearly 400 state property assets in return for investors' commitments. Based on these improvements, the World Bank raised its Ease of Doing Business Index ranking for Uzbekistan from 149 in 2014 to 141 in 2015.

In 2014 the largest parts of the foreign investments were directed among the following sectors: oil and gas (52.6%), power generation (10.4%), telecommunication and IT-technology (5.6%),

construction and construction materials (4.7%), road construction (3.6%), drinking water supply and sewage (3.0%), textile (2.6%), agriculture and water management (1.9%) and others. In these circumstances, it becomes clear that the Uzbek authorities seek to focus on foreign investments that support country's import substitution and the export-oriented industrial policy.

After the decline of the FDI in 2012, Uzbekistan introduced new investment incentives in its attempt to restore confidence of the foreign businesses. For instance, enterprises with foreign investments operating in specified industries are granted tax holidays for a period of three years if the FDI exceeds \$300,000; of five years if it exceeds \$3 million; and of seven years if it exceeds \$10 million.

Moreover, the Uzbek government grants a ten-year immunity to changes in tax legislation to new foreign investors if they invest at least \$5 million and provides opportunity to buy state-owned, low-liquidity facilities at zero redemption cost if they make specific investment commitments. Furthermore, foreign investors can receive exemptions from customs duties for some specific amounts of goods and services during the first two years after registration of the enterprise.

Finally, foreign investors carrying out exploration work in the oil and gas sector have a seven-year tax holiday from income taxes from the starting date of extraction. In certain cases, the government could provide foreign companies engaged in exploration and production of oil and gas additional privileges and preferences based on direct negotiations between the competent authority and the strategic investor.

In conclusion, it should be noted that despite the fact that the current tax administration and the new legislation on protecting minority investors have improved, there is still a number of issues to be dealt with to make the system of taxation less complicated and ambiguous.

Politics, Foreign Affairs and Security

- During the meeting of Council of the Eurasian Economic Commission (EEC) held in Moscow, the Council members considered 40 documents aimed at deepening the economic integration of member countries of the Eurasian Economic Union (EAEU). A draft decision on chairmanship of Kazakhstan in the Supreme Eurasian Economic Council, Eurasian Intergovernmental Council and the EEC in 2016 was also approved.
- According to the Central Election Commission of Armenia, the turnout of the referendum on a proposal to switch from a presidential to a parliamentary form of government was 50.51%. According to the preliminary results, over 63.35% of voters supported the constitutional reform.
- During the first BRICS Media Summit held in Beijing, the representatives of mass media of the BRICS member states touched upon such issues as countering terrorism, crisis phenomena in the economy, policies of double standards and other serious challenges of today.
- During the 6th Plenary Session of the of the Parliamentary Assembly of Turkic-speaking Countries held in Astana, parliamentary delegations from Kazakhstan, Kyrgyzstan, Azerbaijan and Turkey discussed cooperation in the sphere of information and media and the prospective of the establishment of the International Turkic News Channel.
- During the meeting held between the EU leaders and the Prime Minister of Turkey, Ahmet Davutoğlu, in Brussels, the parties adopted a joint political declaration agreeing to hold regular EU-Turkey Summits, to pursue acceleration of talks on Turkey's EU membership and visa liberalization, and to start implementation of the Action Plan on solving the Syrian refugees' crisis.

Economy, Finance and Energy

- According to the Chinese state-owned company CNPC, as of early November 2015, the accumulated volume of exported gas from Turkmenistan to China reached 121 billion cubic meters, including 82 billion cubic meters produced by state concern Turkmengas and 39 billion cubic meters produced in Bagtiyarlyk contract area.
- The national company of Kazakhstan KazTransGas an-

nounced that the third branch of the Kazakhstan – China gas pipeline was commissioned. The Kazakhstan – China pipeline is a part of the Turkmenistan - Uzbekistan – Kazakhstan – China cross-border gas pipeline of 7,500 km. The C part of the pipeline with the length of 1,303 km runs through South Kazakhstan, Zhambyl, and Almaty regions.

- The Russian oil company Lukoil increased investments in exploration and production of gas in Uzbekistan by 38.3% in January – September 2015 compared to the same period in 2014, namely from \$549 million to \$759 million. In the third quarter of 2015 investments of the Russian company in Uzbekistan amounted to \$263 million against \$248 million during the third quarter of 2014.
- The Kazakh state-owned company KazMunaiGas approved the company's 2016 budget and 2016-2020 business plan. It is planned that the oil production will reach 5,612 thousand tons from OzenMunaiGas (OMG) and 2,822 thousand tons from EmbaMunaiGas (EMG) in 2016. KazMunaiGas expects that by 2020 the annual volume of oil production at OMG and EMG will be 4% higher than in 2015.
- According to the President of Ukraine, Petro Poroshenko, the trade turnover between Russia and Ukraine has decreased four-fold over the last 2 years. The trade turnover between Ukraine and Russia decreased to \$456 million plunging by 69.4% in January – October 2015 compared with the same period of 2014.
- The Uzbek national energy company Uzbekenergo announced its plans to launch a \$131 million project to modernize the largest hydropower plant in Uzbekistan, namely, Farkhad HPP, and to increase plant's capacity from 114 MW to 127 MW in 2015-2017.
- According to the Ministry of Finance of Kazakhstan, as of December 2015, the state debt of the country amounted to 7.684,5 trillion tenge (\$25.1 billion) increasing by 37% from the beginning of 2015.
- According to the statistics data of the Central Bank of Azerbaijan (CBA), the foreign exchange reserves owned by the CBA decreased by \$589 million or by 8.62% totaling to \$6.246 billion in November 2015 compared to October 2015.
- According to the Statistics Committee of the Ministry of National

Economy of Kazakhstan, the inflation rate reached 3.7% as measured by consumer price index in November 2015 compared to October 2015. Food prices increased by 3.3% over the past month, nonfood goods by 6.5%, paid services by 1.4%.

- Senate of the Oliy Majlis of Uzbekistan approved the state budget for 2016 with a deficit of about 2.2 trillion soums. The revenue and expenditure of the state budget for 2016 will amount to 40.5 trillion soums (18.4% of GDP) and 42.7 trillion soums (19.4% of GDP) respectively.
- The National Bank of Tajikistan stated that in order to control the rate of national currency from devaluation all currency exchange points in the country would be closed. Tajikistan's authorities have already shut down over 800 private currency exchange points and announced the closedown of 1,400 more. In the past week the Tajik somoni dropped in value from 7 to 7.6 somoni per \$1.

Society and Culture

- The heads of Russia, Turkey, Kazakhstan, Georgia and other Eurasian states expressed condolences to the Azerbaijani counterpart, Ilham Aliyev, over human losses in a fire accident at the Guneshli field caused by the windstorm, which damaged a gas line. Some 32 people have been rescued, while 30 people are considered missing.
- The parliament of Tajikistan adopted amendments to national legislation governing electronic - communications to make way for the re-registration of over 7 million mobile-phone cards. The decision was made in order to boost security and to decrease the ability of Afghanistan-based militants to use phones registered in Tajikistan.
- According to the Spokesman of the Emergencies Committee of Tajikistan, so far there is no information on any casualties or damage from the 7.2 magnitude earthquake. The epicenter of the quake was 111 km southwest of Karakul, a sparsely populated mountainous area, at the depth of 28 km.
- According to the Deputy Minister of Communications and High Technologies of Azerbaijan, Elmir Velizade, French Arianespace company will launch the Azerbaijani second telecommunication satellite Azerspace-2 / Intelsat 38 into orbit.