

1 Introduction

Addressing barriers to private-sector development has been a long-standing ambition of the government of Uzbekistan, with an extensive programme of reforms that began in 2017 redoubling efforts to foster the growth of a more competitive and productive population of private-sector firms. Uzbekistan needs a more dynamic and innovative private sector if it is to meet the challenges and seize the opportunities of the green and digital transitions, which create a new impetus for accelerating these reforms. A survey of the private sector in Uzbekistan provided an opportunity to gather new insights into firm-level perceptions of the ongoing reform process and to refocus the attention of policymakers on some of the most pressing issues.

1.1. Introduction

Uzbekistan is the second largest economy in Central Asia, and the government has ambitions to achieve upper-middle income status by 2030. The country is populous, double-land locked, possesses considerable natural resource wealth, and has an entrepreneurial if constrained private sector. Prior to the beginning of a wide-ranging and ambitious programme of reforms in 2017, the country's growth since independence in 1991 had been primarily driven by state-directed investment and industrialisation, with international trade and private sector development significantly limited. Since the reform process began, the government has made considerable efforts to diminish the role of the state in the economy and enable the private sector to play a more expansive role in economic development.

Uzbekistan emerged on a relatively strong footing following the COVID-19 crisis, and as of spring 2023 the impact of Russia's war in Ukraine has been muted. The economy grew by 5.3% in 2022, down from 7.4% the previous year (World Bank, 2022^[1]). The resilience of the country in face of serious recent economic shocks is testament to the prudent and agile policy response of the authorities, as well as the country's position to benefit from higher international prices for key exports such as gold. Nevertheless, the growth outlook is uncertain, with the continuation of Russia's war in Ukraine and the associated potential for further sanctions to affect Uzbekistan's trade, persistently high domestic inflation and tighter global financial conditions all contributing to a challenging short-to-medium term context.

The resilience of Uzbekistan's economy continues to be hampered by a relatively underdeveloped private sector. Understanding the issues that prevent the private sector from investing, hiring, and growing will be key to improving the resilience of the country in the years ahead. It will also be key to the success of Uzbekistan in navigating the twin transitions of digitalisation and decarbonisation. To this end, the report brings together recent OECD analysis on key business climate issues in the country in order to focus policy attention on the most pressing questions facing the business community in the country.

The content of the report is guided by a survey of international – primarily European – firms operating in Uzbekistan. The survey was an opportunity to gauge business sentiment among a small cohort of international firms of the type that the government is actively seeking to attract to the country. The concerns, observations and positive appraisals gathered through the survey largely dovetail with the OECD's own analysis on business climate issues in Uzbekistan.

1.1.1. The global economic context is undergoing significant transformation

The government must address domestic private sector issues in a global economic context that is undergoing significant transformation, which has implications for the direction, speed and rationale of reforms in Uzbekistan. The global push for more sustainable modes of economic production and organisation is changing the role that governments require the private sector to play in our economies. No longer does the rationale stop at job creation and productivity; firms must also become engines of the decarbonisation transition, investing in the technologies, knowledge and infrastructure needed to address climate challenges. The interconnectedness of global trade, and the gradual introduction of policies such as the EU Carbon Border Adjustment Mechanism, are also indicative of the connection between Uzbekistan's industrial sustainability and its future competitiveness.

The digital transformation of the global economy is changing the how, what, and where of production and business organisation. Digitalisation has major potential benefits for Uzbekistan, for example by creating opportunities for productivity growth and innovation within the public and private sectors, or by improving the efficiency of public services and transparency. Like the sustainability transition, digitalisation has major implications for inclusivity, since being able to benefit from digital technologies – whether at the level of the individual or the firm – depends on access to the knowledge, technology and skills needed to harness them.

1.1.2. Improving the business climate is key to Uzbekistan’s ability to tackle the twin transition

The ability of the private sector to harness the opportunities of the twin transition of digitalisation and environmental sustainability is markedly constrained by prevailing weaknesses in the business climate. That improving the business climate has been such a long-standing yet unfulfilled ambition of the Government of Uzbekistan is testament to the difficulty of the task. What constitutes a strong “business climate” is in reality a complex interconnection of numerous different policy areas, with differing responsibilities and rationales for policy intervention. One of the major challenges is therefore ensuring that those responsible for these various policy areas – competition, fiscal, investment, education, environment, labour – are pushing in the same direction. Weaknesses in one, such as competition, can undermine the most successful of efforts in others.

Enabling the private sector to contribute meaningfully to competitiveness, resilience and sustainability requires addressing the numerous barriers to doing business that persist in Uzbekistan. Equally, in the context of the twin transitions of sustainability and digitalisation, the private sector needs additional inputs and support from policymakers. The ongoing reform process to support private sector development and investment, under way since 2017, must therefore go in tandem with policies that support the ability of the private sector to contribute to a range of complex sustainability objectives.

The OECD has worked extensively on policy issues that concern ongoing reforms to support the domestic and international private sector in Uzbekistan, as well as on how global shocks have affected its economy and the broader Central Asian (OECD, 2022^[2]) (OECD, 2022^[3]) (OECD, 2021^[4]) (OECD, 2019^[5]). The OECD has also conducted extensive work on how these transitional processes are affecting the countries of Central Asia, for example through recent work on digital skills in Uzbekistan, or hotspot analysis of sustainable infrastructure needs for economic decarbonisation (OECD, 2023^[6]) (OECD, 2019^[7]).

1.1.3. Findings from the survey dovetail with OECD analysis on business climate issues in Uzbekistan

This report draws upon a private sector survey to shed insights on some of the key business climate issues in Uzbekistan. The survey was a small but focused, addressed to 52 firms active in Uzbekistan, the majority of which are entirely or partly owned by entities based in the European Union. The survey presented an opportunity to gather bottom-up, firm-level perceptions on policy issues relating to the business climate and private-sector development in Uzbekistan. The findings of the survey are largely congruent with previous OECD work on business climate issues in Uzbekistan and reinforce the need for reform progress in a number of areas:

- **Additional reforms to support trade facilitation and export promotion would help the development of the country’s internationally oriented private-sector.** The “market-seeking” aspect of foreign investors’ decisions to enter Uzbekistan underscores the importance of reforms that facilitate trade, both within the country and between Uzbekistan and its neighbours. Similarly, additional support for the country’s SMEs could help them identify and access new markets abroad.
- **Firms are positive about the direction of reform to support the business climate, but they require additional pro-competition reforms to benefit from the country’s process of liberalisation.** Respondents recognise major progress over the past five years in tackling certain issues that have long beset the local business climate, notably those relating to licensing and registration. At the same time, firms report that there remain significant challenges around key aspects of the business climate, particularly in areas surrounding competition policy and its implementation.

- **Respondents are optimistic about the opportunities that digitalisation presents in Uzbekistan, but private sector digitalisation is held back by insufficient infrastructure investment and skills development.** A large number of respondents report that they have adopted and are using digital technologies but note that opportunities in the digital economy are diminished due to the insufficient development of connectivity infrastructure, low investment in information communication technologies, and underdeveloped digital skills in the labour force.

A fourth thread emerges from the survey that, whilst not directly addressed in this report, gives important additional context to the other areas that are addressed. Responses to the survey suggest that firms in Uzbekistan are aware of the opportunities and challenges of the sustainability transition. A significant plurality report that they are actively adopting new technologies and operations to reduce their carbon footprints and support the government's stated climate change and sustainability ambitions. At the same time, a majority of firms report that policy support for the green transition remains insufficient, with the majority calling for greater investment in sustainable infrastructure, better environmental standards, and stronger financial incentives for the adoption of greener practices within firms.

Taken together, these insights provide important context for the OECD's ongoing work to support the improvement of the business climate in Uzbekistan and help to corroborate and validate the emphasis placed by the OECD on a number of priority areas for reform for the Uzbek authorities. This includes the importance of improving both the hard and soft infrastructure needed for trade within Uzbekistan and between it and its regional neighbours; the importance of tackling inveterately difficult issues around competition and regulatory enforcement; and the importance of investments in the infrastructure and skills necessary to enable firms to not just be objects of the digital and green transitions, but to be active agents in these structural changes and to benefit from them.

1.1.4. Overview of the report

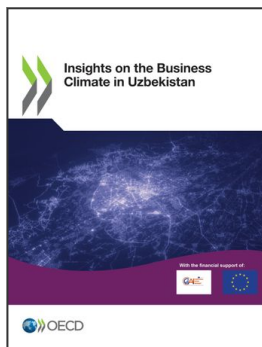
Chapter 2 introduces key aspects of the economic context, highlighting recent trends in policy and performance and discussing their implications for long-term growth. Chapter 3 then proceeds with an introduction to the survey and some high-level observations.

The remaining Chapters of the report are organised around one of the three key issues outlined above, drawing on both the survey findings and complementary OECD analysis on each of these issues. Chapter 4 proceeds with a short discussion on issues relating to trade facilitation and export promotion. Chapter 5 introduces a brief stocktaking of the ongoing regulatory and legal reform process, highlighting persistent issues relating to competition. Chapter 6 looks at the issue of digital infrastructure and skills for private sector competitiveness.

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