

PROMOTION OF KOREAN FDI INTO UZBEKISTAN

By

KHODJAEV, Nezamkhon Fayzullaevich

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

MASTER OF PUBLIC POLICY IN PUBLIC MANAGEMENT

2012

PROMOTION OF KOREAN FDI INTO UZBEKISTAN

By

KHODJAEV, Nezamkhon Fayzullaevich

THESIS

Submitted to
KDI School of Public Policy and Management
in partial fulfillment of the requirements
for the degree of

MASTER OF PUBLIC POLICY IN PUBLIC MANAGEMENT

2012

Professor Lee Seung Joo

PROMOTION OF KOREAN FDI INTO UZBEKISTAN

By

KHODJAEV, Nezamkhon Fayzullaevich

THESIS

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

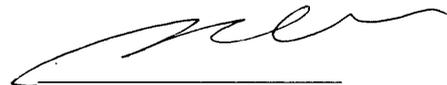
MASTER OF PUBLIC POLICY IN PUBLIC MANAGEMENT

Committee in charge

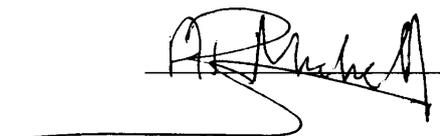
Professor Lee Seung Joo, Supervisor



Professor Tae Hee CHOI



Professor Michell ANTHONY



Approval as of December, 2012

ABSTRACT

PROMOTION OF KOREAN FDI INTO UZBEKISTAN

By

Nezamkhon Khodjaev

The Republic of Korea is one of the biggest investors and economic partners of the Republic of Uzbekistan. The aggregate amount of Korean FDI accepted by Uzbekistan has exceeded \$5 billion. The Republic of Korea and The Republic of Uzbekistan have historically been strategic partners. The Republic of Korea is at top place among trade partners of Uzbekistan in Asian-Pacific region. However, Korean investments in Uzbekistan are mostly represented in energy and heavy industrial sectors. In Uzbekistan there might be gained large economical benefits from diversified non-energy sectors such as textile, tourism and food industry. These sectors are analyzed in the research to encourage Korean business to invest in diversified economical sectors of Uzbekistan.

TABLE OF CONTENTS

List of tables..... ii

List of Figures..... ii

I. Introduction..... 1

II. Overview of Uzbek-Korean relations..... 3

 1) General information..... 3

 2) Bilateral trade..... 4

 3) Existing barriers..... 5

 4) Assessment of Korean FDI in Uzbekistan..... 6

 5) Case study of success stories..... 11

III Analysis of FDI Potential in Uzbekistan..... 16

 1) Overview Uzbekistan’s economy and appraisal of existing potential 16

 2) Review of textile industry..... 24

 3) Food industry 28

 4) Tourism..... 29

 5) Service sector..... 31

 6) Navoi FIEZ..... 33

 7) Special industrial zone "Angren" in Tashkent region..... 35

IV Conclusion 37

References..... 41

LIST OF TABLES

<i>Table 1</i>	<i>Bilateral trade turnover trend</i>	5
<i>Table 2</i>	<i>Macroeconomic indicators</i>	17
<i>Table 3</i>	<i>Official foreign exchange rates in Uzbekistan</i>	18
<i>Table 4</i>	<i>Demographics</i>	27

LIST OF FIGURES

<i>Figure 1</i>	<i>FDI in the economy of Uzbekistan by countries</i>	8
<i>Figure 2</i>	<i>Share of industrial production in GDP of Uzbekistan</i>	19
<i>Figure 3</i>	<i>Share of small business and private enterprise in GDP of Uzbekistan</i>	20
<i>Figure 4</i>	<i>Inflation rate in Uzbekistan</i>	21
<i>Figure 5</i>	<i>Share of investors in textile industry of Uzbekistan in 2009</i>	25
<i>Figure 6</i>	<i>Map of Special industrial zone "Angren" in Tashkent region</i>	36

I. INTRODUCTION

The Republic of Korea is one of the biggest investors and economic partners of the Republic of Uzbekistan. The aggregate amount of Korean FDI accepted by Uzbekistan has exceeded \$5 billion of which more than \$2 billion were appropriated.¹ Korean companies are involved in different sectors of Uzbek economy; the two states implement large projects in oil and gas, mining, car building, logistics, textile and chemical industries and construction.²

Korean investments in Uzbekistan are mostly represented in energy and heavy industrial sectors. Uzbekistan should adopt strategic policy programs and measures to attract Korean FDI into diversified sectors of economy, in order to avoid dependence on natural resources and so called “oil curse”. Therefore, the aim of this study is to provide answers to the following two major research questions so far:

1. How to attract Korean FDI in diversified sectors of Uzbekistan?
2. What are the benefits for Korean companies and investors to increase FDI and invest in different sectors of Uzbek economy?

The study includes basis and rationales of investing in diversified sectors and increasing the volume of investments in Uzbekistan, taking into account the geographical and human resources benefits of Uzbekistan and existing hi-techs and capital resource of Korea. Several methodological approaches such as existing secondary data and case study analysis were used to come up with main research questions.

Due to the lack of literature related bilateral relations of the Republic of Korea and

¹ Ministry of Foreign Economic Relations, Investments and Trade of Uzbekistan.

² The press-service of The President of The Republic of Uzbekistan. Accessed November 2010
<http://www.press-service.uz>

the Republic of Uzbekistan this study includes only a few references to existing literature. Instead, as it mentioned in the previous paragraph the study will broadly refer to the various online articles and will use the data/statistics of both official and unofficial sources.

II. OVERVIEW OF UZBEK-KOREAN RELATIONS

1) General information

The beginning of Uzbek-Korean relations is dated to the 7th century. The mural with clear image of two Goguryeo dynasty men wearing jougwan (a hat decorated with a bird's feather) having an audience with the king was discovered in Samarkand, Uzbekistan, when local authorities decided to build a road in the middle of the Afrasiab tepe (a mound marking an ancient site).³

Though, full-fledged bilateral relations began much later, when the Republic of Uzbekistan became an independent state from USSR in 1991. In January 1992 the two countries officially established diplomatic relations by signing a respective protocol. Since the establishment of official diplomatic relations, the Republic of Korea and the Republic of Uzbekistan have been cooperating in various and complex aspects. In particular, since 1994, Uzbek-Korean and Korean-Uzbek Intergovernmental Committees on Economic cooperation and Trade have been acting and six meetings of joint committees have been held so far. Over the 21 years of diplomatic relations the two sides have laid a solid legal basis for bilateral cooperation which encompasses more than 200 documents that streamline collaboration in different fields today.⁴

Uzbekistan and Korea are divided by a long distance. Despite this, these countries are bonded with strong friendship ties. In 2006, Tashkent and Seoul signed a Joint Declaration on Strategic Partnership. The two states regularly hold high-level meetings, which reflect the

³ Korea JoonAng Daily, "Mural reveals ancient connection to Uzbekistan", November 27, 2009, <http://joongangdaily.joins.com/article/view.asp?aid=2913113>

⁴ President Karimov's visit further strengthens ties. Accessed September 2012. http://www.koreatimes.co.kr/www/news/nation/2012/09/113_120386.html

intensive development of bilateral relations. Additionally, The Inter-parliamentary exchange is also developing and improving. In 1995 a Parliamentary Association of Friendship “Korea-Uzbekistan” was created at The National Assembly of The Republic of Korea. In 2005, Cooperation Group with Korea was established at the Legislative Chamber of Oliy Majlis of Uzbekistan.

The humanitarian and cultural cooperation between the two countries has also been expanding. In 1992, The Korean Education Center was opened in Tashkent. Uzbek State World Languages University in Tashkent and Samarkand State Foreign Languages Institute have centers of Korean language and culture, while Tashkent IT University has an IT Center created with support of South Korea. The Uzbekistan-Korea Professional Training Center was another achievement in the educational cooperation. Annually, 360 young people are taught there in the fields like PC assembly, agricultural machinery repairs, car service and others. Uzbekistan-South Korea friendship society created in 1999 makes a large contribution to the development of cultural ties. It regularly organizes festivals, exhibitions, concerts and other events. South Korean musicians regularly participate in the Sharq Taronalari musical festival in Samarkand.⁵ During the visit of Uzbekistan’s President Mr. Islam Karimov to Seoul, in February 2010, the two countries agreed on creation of a Seoul Park in Tashkent city.

2) Bilateral trade

The Republic of Korea is at top place among trade partners of Uzbekistan in Asian-Pacific region. The share of Korea in aggregate foreign trade of Uzbekistan is more than 5%.⁶ The two countries have been enjoying the Most Favored Nation Treatment since 1992.

⁵ The press-service of The President of The Republic of Uzbekistan. <http://www.press-service.uz>

⁶ The State Statistical Committee of Uzbekistan

Table 1 Bilateral trade turnover trend

(Unit: USD million)

	2003	2004	2005	2006	2007	2008	2009
Trade turnover	289,9	408,7	564,5	613,0	583,9	1056,6	1228,4
Export	55,1	56,8	51,5	44,8	69,8	91,5	102,6
Import	234,8	351,9	513,0	568,1	514,1	965,1	1125,8
Balance	-179,7	-295,1	-461,5	-523,3	-444,3	-873,6	-1023,2

Source: Ministry of Foreign Economic Relations, Investments and Trade of the Republic of Uzbekistan

As Table 1 depicts, the trade turnover between the two countries has dynamically increased and has accounted for more than 1.2 billion US dollars in 2009. In 2011, the trade turnover between the two countries exceeded USD 1.5 billion.⁷ The exports to Korea mainly consists of cotton and textile products, logistics and tourism. The main imported items from Korea to Uzbekistan are mostly transport facilities, machinery and equipment, plastic items, ferrous metal, services in the fields of logistics, consulting and IT.

3) Existing barriers

Presently, there are no clear suggestions about the barriers between the two countries, nor any kind of research dedicated to study this issue. And yet, some cultural issues might create difficulties in terms of language, religion and traditions. However, there is no clear evidence about these assumptions.

Another barrier might be related to the distance. Since Uzbekistan is double landlocked country it does not have any access to the sea. The air distance is quite long consists 4889 km. This factor hinders two countries to develop mutual trade.

⁷ Uzbek-South Korean Business Forum Held, UzA, Nodira Manzurova, 6 July 2012

4) Assessment of Korean FDI in Uzbekistan

The aggregate amount of Korean FDI accepted by Uzbekistan has exceeded \$5 billion from which more than \$2 billion were appropriated. The two countries have been involving in various investment projects. They mostly are implemented in a high, governmental level.

Today South Korea is one of the largest investment partners of Uzbekistan and the economic and investment cooperation have been steadily developing between the two countries. Nowadays more than 400 enterprises with participation of Korean investment and more than ninety companies with their representative offices are working in Uzbekistan.⁸ They mostly operate in energy sector, in the spheres of engineering, commerce, chemical, light industry, metal processing.⁹

In 2007, the two countries agreed to create line of long-term preferential credits by EDCF Fund with the amount of \$60 million for the period up to 2011. The amount of the credit line was increased up to \$200 million according to the agreement signed during the visit of the President of Uzbekistan to Korea on February 2010. Within the framework of EDCF credits it is provided to implement the several socially important projects in the field of education, health, municipal infrastructure as well as to create national geographical informational system. Besides that, during the visit of Korean President Lee Myung Bak to Uzbekistan in 2009, the Memorandum of Understanding on opening \$200 million credit line was signed with Korean Eximbank. The aim of the credit is to finance the projects implemented by the foreign investors, including Korean companies in the territory of the Free Industrial Economic Zone in Navoi Region. It should be noted that by the visit of Korean

⁸ Ministry of Finance of Uzbekistan and the Republic of Korea have signed MoU. www.uza.uz

⁹ Uzbek-South Korean Business Forum Held, UzA, Nodira Manzurova, 6 July 2012

President a number of important bilateral documents were signed that gave great impetus to deepening cooperation in trade-economic, investment and energy sectors.

One of them is a project of constructing on the basis of the Surgil gas deposit an Ustyurt Gas-Chemical Complex on manufacturing polyethylene and polypropylene that would facilitate to creation of a large number of cooperation plants. The estimated cost of this project is \$2.6 billion with annual production over \$1.6 billion. Today the parties have already started the construction stage.¹⁰ Once the complex is brought into operation, it is anticipated to produce 400 thousand tons of polyethylene and 100 thousand tons of polypropylene a year. It is going to be the largest complex of its sort in the Commonwealth of Independent States, thus making Karakalpakistan a major industrial center of the country. At the same time, the commissioning of the complex will facilitate the establishment of new related industrial enterprises in other regions of Uzbekistan and creation of plenty new jobs.¹¹

Further it could be also mentioned about the official visit of Korean delegation including the Minister of Strategy and finance Bak Je Vann from August 31 - September 2, 2012 where the both sides discussed the perspectives of the development of finance-economic and investment cooperation between two countries and signed another MoU between Ministry of Finance of Uzbekistan and Ministry of strategy and finance of Korea. According to MoU the main parameters of program of cooperation with EDCF of Korea which are to be planned for the realization in 2012-2015 are at the expense of granting preferential long-term credits in the total amount of 595 mln. US dollars.¹²

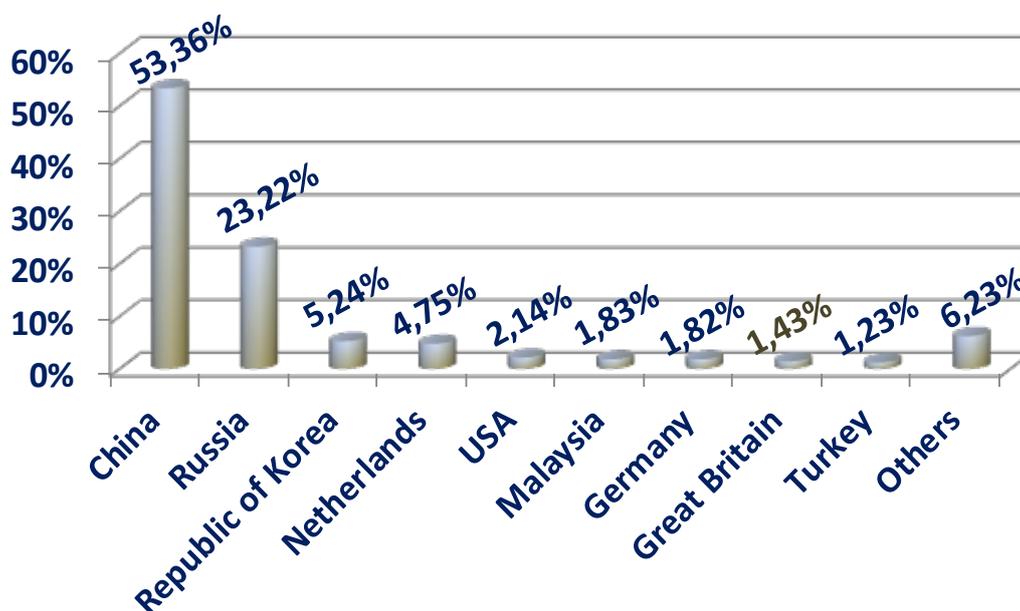
¹⁰ President Karimov's visit further strengthens ties. Accessed September 2012.
http://www.koreatimes.co.kr/www/news/nation/2012/09/113_120386.html

¹¹ Ustyurt gas chemical complex boosts cooperation between uzbekistan and south korea.
http://www.press-service.uz/en/news/show/main/ustyurtskiye_gazohimicheskiye_kompleks_-/hightext/korea/

¹² Ministry of Finance of Uzbekistan and the Republic of Korea have signed Memorandum. www.uza.uz.

Figure 1

FDI in the economy of Uzbekistan by countries¹³



As it was mentioned in the introduction part, Korean investments mostly flow into oil and gas and heavy industry sector. Attainment of relations based on strategic partnership has opened the road to Korean capital into strategic sectors of Uzbek economy and has become the basis for achievement of important agreements related to the beginning of joint development of mineral and raw resources of Uzbekistan. Since 2006, the cooperation with Korea National Oil Corporation and Daewoo International under the agreement of several joint projects has been developing. The agreement also includes 7 perspective investment blocks of Uzbekistan.

Presently, Uzbekneftegaz the national holding company and KOGAS continue to cooperate in exploration on Uzunkui-Tuarkir investment block in Ustyurt region. According

¹³ Chamber of commerce and industry of Uzbekistan.

to the agreement signed in 2008 on the exploration of Uzunkui-Tuarkir block, the operation in the block is provided two and a half years and the volume of investments accounted \$38 million.

Another project has started by establishing in 2008, Daewoo Energy Central LLC with authorized capital of \$150 thousand. The company began to operate within the project of exploration of Koskuduk and Ashibulak investment blocks. The lifetime of the project is 5 years.

Korean FDI is involved also in the sector of mineral resources of Uzbekistan. In this sense, Korean companies became first among Uzbekistan's foreign partners who were admitted to mineral resources industry. In 2008, Goskomgeology, the Uzbek authority that regulates geology and mineral resources issues and Korea Resources Corporation (KORES) have signed Memorandum of Understanding on cooperation in joint exploration of tungsten fields in Tim-Kaltasay area.

Two Korean companies Shindong Enercom and Neoplant are involved in implementing of the projects on quartz exploration and production of an industrial and polysilicon. In order to realize the projects on quartz exploration two companies UzShingong Silicon JV with authorized capital of \$2,43 million and UzKor Silicon authorized capital of \$10,4 million were established. Within this projects, on the deposits of quartz jointly established companies plan to create the facilities to product industrial silicon and its poly-mono-crystals including photoelectric modules. Finally, at the Uzbek-Korean business forum held in 2009 the Ministry of Foreign Economic Relations, Investment and Trade of Uzbekistan and Daewoo International Corporation signed a memorandum on cooperation on supply of uranium concentrate, cotton-fiber, cathode copper and molybdenum.¹⁴

¹⁴ Foreign Relations Ministry, Daewoo International sign memorandum. Accessed November 2010

<http://www.uzdaily.com/articles-id-5655.htm>

Uzbekistan and Korea have closely been cooperating in the field of consumer electronics and home appliances. In 2009 production of refrigerators under the brand of LG was set in operation in Samarkand as a joint project of Uzbekistan's Sino company and Korea's LG Electronics. In addition, in 2010, Kumho Electric and KDC Enertech reached the agreement on production of energy saving lamps and luminaries.

Korean Eximbank has issued \$35,9 million loan to UzDaewoo Auto to create new family of Matiz car model and \$12,75 million to technical re-equipment of silk-winding factories. A joint venture GM Uzbekistan was established on the basis of positive experience and a long term perspective of mutual beneficial cooperation with GM DAT. The share of a Korean company in the venture comprises 25% and is supposed to increase up to 40% in perspective. Enterprises of Uzavtosanoat an Uzbek public stockholding company cooperate with 20 Korean companies within the framework of the agreements on technological equipment, components and services, also on implementation of the joint projects. 10 companies have been founded as a framework of an Uzbek state localization program for the purpose of manufacturing of components for Uzbek motor industry. One of the priority issues of further development is considered to be a project on production of a power-unit like engine and transmission.

Korean companies are actively taking part in development of a textile industry of Uzbekistan. To this end, Daewoo International develops its production capacity at three enterprises like Daewoo Textile, Daewoo Ferghana Textile and Daewoo Bukhara Textile. The Heintex became the owner of textile factory in Namangan city and Shindong Enercom has newly set in operation textile production in Surkhandarya region. Korean TMC company has begun to cooperate in creation of an enterprise towards producing of hosiery in Kokand city.

Uzbekistan is in a full process of developing its FIEZ. Korean companies are active in investing in Free Industrial Economic Zone of Navoi (NFIEZ) Region. Presently, in the

territory of NFIEZ 19 projects worth about \$200 million are being implemented by the foreign investors including Koreans. The full-fledged production of 16 projects started in the third quarter of 2010.

Beginning of functioning of transcontinental intermodal hub on the base of the airport of the Navoi city, in immediate proximity to the Free Industrial Economic Zone which has been being managed by the world leader in the cargo transportations Korean Air since the 1st of January 2009 is considered to be its most important success element. Nowadays “Korean Air” is an active participant in the development of the transcontinental intermodal hub in the Navoi international airport as it has weekly 24 flights to the major economic and financial centers of Asia and Europe carried out.

The next chapter of the study will more properly review the topic related to free economic zone of Uzbekistan.

5) Case study of success stories

The number of companies with Korean capital at the beginning of 2010 totaled 400 including 82 comprising 100% share of Korean capital. The activities of these enterprises are mainly concentrated in the areas of trade, light industry, chemical industry, engineering industry. As it was mentioned above the Ministry of Foreign relations, investments and trade of the Republic of Uzbekistan has accredited more than 90 representatives of Korean companies, the scope of which includes an export-import operations, the provision of transportation services, textile manufacturing, and servicing of electronics, etc

Followings are some case studies of Korean and other foreign companies, multinationals invested in Uzbekistan and operating successfully.

UzDaewoo Motors

One of the striking examples of reciprocal cooperation and beneficial investment is a creation Uzbek-Korean Joint venture UzDaewooAuto. The company was established in 1992 in the early years of Uzbekistan's independency between the Uzbek state owned UzAvtosanoat and the South Korean GM Daewoo. On June 1994, the company started to build the car producing factory in Asaka city, and in 1994, it was launched successfully. During the first years of operation the factory had produced such model lines of cars as Damas, Tico and Nexia under the Daewoo label. In the new millennium the company began to progress and expand its model lines. In 2001, it announced about release of 250th thousand of car and presented new model called Daewoo Matiz. Later in 2003 and 2004 the factory began to produce Daewoo Lacetti and renewed Matiz cars respectively.

Daewoo International Corporation/Daewoo Textile Company

Another successful story is related to the company with the same name, but different profile, Daewoo International Corporation. The CEO of the company Lee Tae Yong was the key person who spearheaded business in Uzbekistan and make the company a major player in Uzbekistan's economy. The Daewoo International has made \$70 million in trading profits through third-party trade since 2002. Uzbekistan enlisted the company to help unprofitable textile enterprises and was granted to open and manage certain textile companies. The Daewoo international founded Daewoo Textiles in 1997. The textile company produces cotton yarn, cotton fabric and double yarn and operates three textile companies in Uzbekistan. The amount of its exports to foreign countries including Korea and Japan exceeded \$32 million. Uzbek government owned company of light industry sector Uzbekeyengilsanoat and Daewoo International recently have signed a protocol on reorganization at least six textile enterprises in Uzbekistan.

JV MAN Auto-Uzbekistan

JV MAN Auto-Uzbekistan was established 9th of August 2009 according to the Decree of the Cabinet of Ministers of Republic of Uzbekistan jointly with German company MAN Truck and Bus AG. The production of the MAN trucks was launched in December 2009 and in the same month was produced the first truck. From the beginning of the production activity 500 units of the commercial vehicles were produced: 71,2% of tractors and 28,8% of tippers. Along with the heavy trucks production, on the facilities of TTZ plant production of semitrailers was also developed (201 units of container-carriers and 40 units of car-carriers). Stock of orders for 2011 includes 800 units of MAN trucks.

The production line of MAN trucks is located in Samarkand. The main activity of the JV MAN Auto-Uzbekistan is the production of heavy trucks for Central Asia markets. On the first stage, for the needs of Oil, Automobile and Mining industries has been planned the launch of the tractors, trailers and tippers models on the TGA and CLA base, which are mostly demanded. From august 2010 the production of TGS 19.390 model was launched. The capacity of the plant is about 2000 units of commercial vehicles per year.¹⁵

General Motors Uzbekistan

Closed Joint - Stock Company «General Motors Uzbekistan» founded in March, 2008 jointly with General Motors Company on production passenger car models as Matiz, Damas, Nexia, Lacetti, Epica, Captiva, Spark, Malibu and Cobalt.

History of the Company

- *March, 2008 - Establishment of GM Uzbekistan Joint Venture.*
- *June 2008 - Production start-up of Nexia 2.*

¹⁵ Investment Promotion Agency of Uzbekistan <http://www.uzinfoinvest.uz>

- *November, 2008 - Start-up of Lacetti serial production.*
- *November, 2008 - Production of the 1,000,000th automobile.*
- *August 2010 – Start – up of Spark series production*

Company's Quality Certificates:

CSC «General Motors Uzbekistan» was awarded with international certificates of quality, inc.:

November, 2001 - received the Accreditation Certificate for the right to conduct calibration and repair operations.

- *June, 2004 - received the International Quality Summit New York prize for quality, leadership advanced technologies and innovations.*
- *July, 2004 - received the Testing Laboratory Accreditation Certificate.*
- *September 2010 - received an international certificate of ISO 9001:2008.*

There are over 140 dealers of GM Uzbekistan in 94 cities of the CIS. The car market of the Russian Federation is the largest export market for GM Uzbekistan. The availability of a wide distribution network in Russia which embraces main financial and industrial centres helps to ensure a high level of car sales. This network has sufficient experience of market activities that allows the Company's cars to hold leading positions in the car sales ratings. CSC "GM Uzbekistan" regularly works on expansion of markets for its products. Countries of Middle East, North Africa and South America are considered as prospective markets for GM Uzbekistan automobiles.

Today there are over 60 dealers in the Republic of Uzbekistan.

Also much attention is paid to the advanced training of employees. Training of the staff is conducted at three basic levels (on-the-job, at the Company's Training Centre and practical in-service training).

Motor-CarConstructionCollege has been set up in Asaka and the branch of TurinPolytechnicUniversity opened in Tashkent for training of skilled personnel for the automobile industry of Uzbekistan.

Also it should be noted that information systems are introduced in company in order to monitor production, quality and purchase (order) management, reception export orders and other activities, such as GMS, GSIP, GPS and others.¹⁶

UzKDB Bank

“UzKDB Bank” Closed Joint-Stock Company started operating since May 1997. Nowadays UzKDB Bank is one of the leading banks in Uzbekistan offering a wide range of banking services. The shareholders of the Bank are well-known financial institutions such as Korea Development Bank (KDB), European Bank for Reconstruction and Development (EBRD), from local banks - National Bank for Foreign Economic Activity of Uzbekistan (NBU) and Open Joint-Stock Commercial Bank “Turon”.

UzKDB Bank actively cooperates with sound foreign banks such as JP Morgan Chase Bank, Commerzbank AG, Korea Exchange Bank, HypoVereinsbank, VTB bank etc.¹⁷

As the bank is growing, now have two mini-banks and in the nearest future the bank intends to significantly expand its activity geographically too through opening new branches in Samarkand, Navoi (Free Industrial Economic Zone) and Ferghana regions.¹⁸

¹⁶ Investment Promotion Agency of Uzbekistan <http://www.uzinfoinvest.uz>

¹⁷ Uzbek-Korean Development bank. www.kdb.uz

¹⁸ Investment Promotion Agency of Uzbekistan <http://www.uzinfoinvest.uz>

III. ANALYSIS OF FDI POTENTIAL IN UZBEKISTAN.

1) Overview Uzbekistan's economy and appraisal of existing potential

Uzbekistan is a double landlocked state with an economy mainly dependent on agricultural production, comprising almost 60 percent of economy in agriculture sector. Uzbekistan is a rich with natural resources such as copper, gold, oil, natural gas and uranium. Most of the industrial production is agriculture-oriented, including the production of cotton harvesters and other agricultural machinery, ginning and textile equipment, chemical fertilizers and pesticides.

During the Soviet period, Uzbekistan was predominantly an agrarian society, with cotton being the main agricultural product. But after 1991, Uzbekistan started transitioning from a plan-based economy to a market-based system. During the transition period, priority was given to privatization, modernization of production processes, industrialization, development of the private sector and institutional development. Throughout this period, Uzbekistan could show the remarkable economic performance. If the average growth rate of the GDP was 3 to 4 percent from 2000 to 2003, in 2007 it was more than 9 percent. Given the stability of population growth over this period, GDP per capita also increased significantly.

After becoming the independent the Republic of Uzbekistan began to maintain the policy of gradual and steady development by reforming and modernizing the economy. Uzbekistan took concrete and peculiar steps of denationalization through the huge government programs of privatization stimulating the business. The collapse of USSR did not affect the Uzbek economy as much as other republics included in USSR and was among who could attain the immediate growth afterwards.

From the first years of Independence, Uzbekistan selected own course of development, the Uzbek Model of transition to socially oriented market economy based on 5 key principles developed by the President of Uzbekistan H.E. Islam Karimov, as follows: the priority of economics over politics; the state is the main reformer; the rule of law in all areas of life of the society; strong social policy; step-by-step transition to market relations.

Table 2 Macroeconomic indicators of Uzbekistan

MACROECONOMIC INDICATORS¹⁹								
Indicators	2004	2005	2006	2007	2008	2009	2010	2011
GDP, UZS billion	12189,5	15210,4	20759,3	28186,2	36839,4	48097,0	61831,2	77750,6
GDP, per capita, '000 UZS	466,9	576,2	777,5	1040,1	1336,9	1732,1	2208,2	2630,3
Real GDP growth rate, %	7,7	7,0	7,3	9,5	9,0	8,1	8,5	8,3
Share of industrial output in GDP (in %)	17,5	21,1	21,8	24,6	25,7	23,6	23,9	24,1
Share of agricultural output in GDP (in %)	26,4	26,3	25,1	21,6	20,9	18,2	17,8	17,6
Share of service in GDP (in %)	37,2	37,2	42,5	43,0	45,3	47,2	49,0	50,5
Investments to fixed capital as % of GDP	23,5	22,0	21,6	22,6	23,0	26,0	25,0	26,7
Exports, USD million	4853,0	5408,8	6389,8	8991,5	11572,9	11771,3	13044,5	15027,2
Imports, USD million	3816,0	4091,3	4395,9	5235,6	7504,1	9438,3	8799,7	10509,9
Share of small business in GDP, %	35,6	38,2	42,1	45,7	48,2	50,1	52,5	54,0
Inflation (Consumer Price Index), %	3,7	7,8	6,8	6,8	7,8	7,4	7,4	7,6
Central Bank refinancing rate, %	18,8	16,0	14,0	14,0	14,0	14,0	12,0	12,0
Minimum monthly wage, UZS	6530,0	9400,0	12420,0	18630,0	28040,0	37680,0	49735,0	62920,0

¹⁹ UNDP. *Cost of doing business in Uzbekistan. Tashkent 2012*

By implementing own economic policy Uzbekistan has achieved and ensured:

-macroeconomic stability, equilibrium of domestic and foreign sectors of economy, growth of currency reserves;

- framework for maintaining steady high rates of annual economic growth by 8% at average, predominantly, thanks to internal factors;

-reduction of aggregate tax burden almost 3 times, while the State is providing additional packages of concessions and preferences to exporting enterprises, small businesses and entities, making investments and introducing new productions;

-creation of sustainable banking and finance systems with strict observance of Basel principles of banking supervision. In particular, the degree of sufficiency of banking capital is more than 23%, which is almost 3 times higher of international standards;

-development of new high tech industries through intensive investment policy, technological modernization of industrial facilities and production infrastructures.

Table 3 Official foreign exchange rates

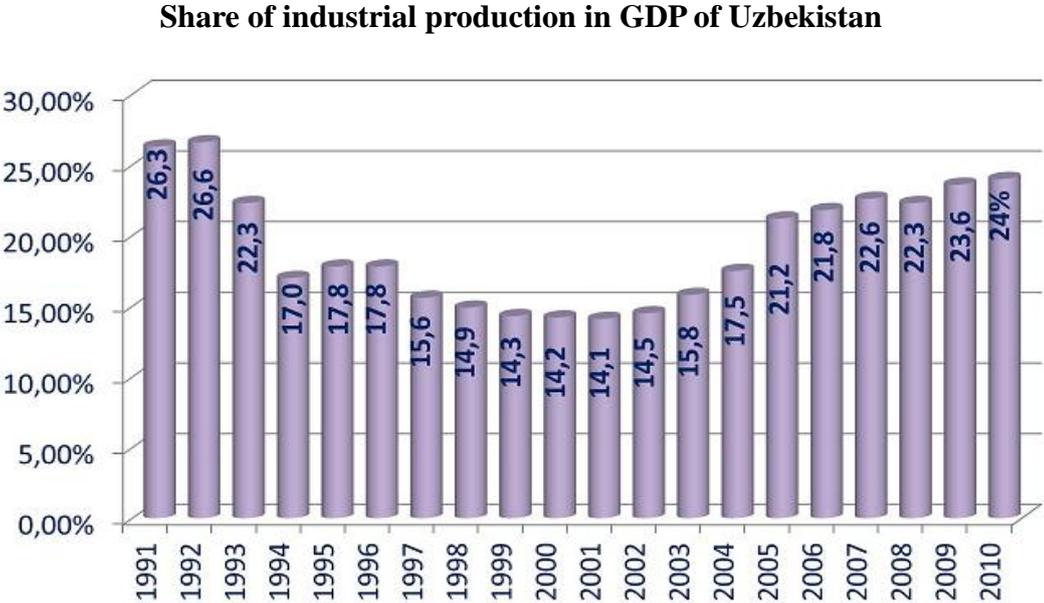
Official foreign exchange rates (as of December of the respective year) ²⁰								
	2004	2005	2006	2007	2008	2009	2010	2011
UZS/USD	1058,0	1180,0	1240,0	1290,0	1393,0	1511,4	1640,0	1795,0
UZS/EUR	1431,9	1395,9	1625,9	1856,8	2050,4	2213,8	2165,1	2342,0
UZS/RUB	38,0	41,0	47,2	52,3	48,6	51,4	5363,0	57,4
UZS/SFR	926,2	897,2	1015,6	1118,2	1294,4	1459,7	1707,1	1917,7

²⁰ *Cost of doing business in Uzbekistan. Tashkent 2012*

Economy of Uzbekistan, thanks to successful implementation of this model appeared to be resistant to negative consequences of global economic and financial crisis. The issued strategy of struggle against crisis and neutralization of its consequences allowed the country among few states of the world to ensure for the past period steady growth rates of economic development. Growth rate of GDP in 2010 comprised 8.5%, which is according IFIs one of the highest indicators in the world.²¹

It should be noted that it can be observed significant changes in Uzbekistan’s economy, the share of industrial production, and small business and private enterprise in GDP of the country comprised totally 24% and 52.5% in 2010, while this indicator ten years ago, in 2000 was equal to 14.2% and about 31% accordingly.²²

Figure 2

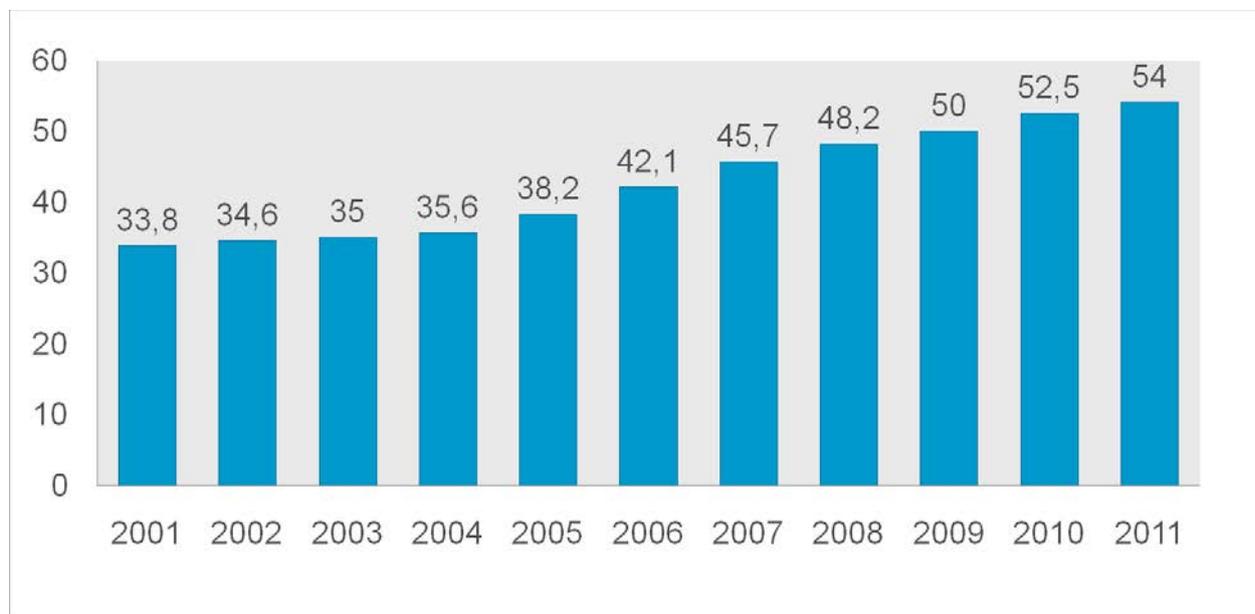


²¹ www.uzinfoinvest.uz

²² Ibid

Figure 3

Share of small business in GDP of Uzbekistan²³



Besides the above mentioned, the government of Uzbekistan has also introduced wide-ranging agricultural reforms, including farm privatization, trade liberalization, and development of agricultural support services and processing capacities. If the agricultural sector made up more than 40 percent of GDP during the Soviet period then since independence, this percentage has decreased 20 percent of GDP at the end of 2007.

Under steady high growth rates of the economy and growth of real incomes of population, the inflation in 2010 comprised 7.3% vs 7.4% in 2009.

²³ Chamber of commerce and industry of Uzbekistan

Figure 4



Despite the achieved progress since independence, there remains significant room for further improvement in the agricultural sector and agro-processing industry. The processing capacities throughout Uzbekistan are underutilized, and the country continues to depend on the export of cotton fibre for currency inflow, although nowadays the export pattern is changing slowly to include export other resources.

In the new millennium the economy of Uzbekistan began to grow rapidly from 4% to more than 5% while the prices were stabilized. Uzbekistan is located at the heart of Central Asian region and has unique location and regional advantages that may support the long term growth of an economy and increase the welfare of a population. The process depends on stable improvements in the legal and regulatory frameworks for investment and business entities promotion. The factors of a location might be low cost and educated labor force, abundant of natural recourses and geographical location. In Uzbekistan, recently more than 40 laws and regulations on privatization, entrepreneurship and investment promotion have been adopted.

²⁴ Investment Promotion Agency of Uzbekistan <http://www.uzinfoinvest.uz>

Reforms come after mentioned regulations, market liberalization and the privatization positively affected the economic growth and investment climate, especially FDI. During the years of Independence, Uzbekistan formed favorable investment environment, broad system of legal guarantees and privileges for foreign investors, developed integral system of measures on encouragement of activity of the enterprises with the foreign investments. Around 631 state enterprises were sold in 2007.²⁵ The state enterprises that are most in need for modernization were sold at zero cost in return for the obligation of agreed investment by buyers. If the amount of FDI in 2006 accounted about \$895.7 million, then this amount in 2011 accounted about \$10.8 billion with an increase of 11.4 percent as compared with 2010.²⁶ Followings are the factors attracting FDI:

- *Large internal market of over 29 million people*
- *Huge investment incentives*
- *Adequate infrastructure*
- *Undervalued assets*
- *Low cost of energy/utilities*
- *Bilateral investment treaties with 49 states providing for reciprocal promotion and protection of investments*
- *Free trade zone with 11 CIS member-states forming a regional market of over 277 million people and MFN trade arrangements with 44 countries*

²⁵ UNDP. *investment Opportunities In Uzbekistan*. Tashkent: UNDP, 2009. Print.

²⁶ Chamber of commerce and industry of Uzbekistan

The backbone of normative regulation in attracting foreign investment to Uzbekistan could be the laws on “Foreign Investment”, “Investment Activity”, “Guarantees and Protection Measures of Foreign Investor Rights” and other acts adopted in the form of presidential decrees and government resolutions. Besides, by the President it was signed the document “On Additional Measures to Stimulate Foreign Direct Investment” into a decree on April 10, 2012, which directed on creation of a maximum favorable environment for foreign investors who are willing to make direct investment into the development of hi-tech production, to shore up foreign investment for implementation of projects to modernize and technically renovate the production capacities, to get rid of bureaucratic barriers and obstacles in working with foreign investors, to rule out illegal interference by government and controlling units into the activities of enterprises with foreign investment.²⁷

Moreover the recent Decree of President of Uzbekistan N1731 (26 March, 2012) creates favorable working conditions for investors especially for exporters. According to the Decree manufactures who export the produced goods (works, services) for the foreign currency, except raw materials, independently of the origin of production, are granted with:

-50 % reduction in the income (profit) tax – if the company exports not less than 30 % of total amount of sales of produced goods (works, services);

-30 % reduction in the income (profit) tax – if the company exports from 15 % up to 30 % of total amount of sales of produced goods (works, services); Hereafter, the study will include opportunities and benefits in chosen sectors.

²⁷ Uzbekistan Amplifies Investment Potential, UZA, Mehribon Mametova, 30 August 2012

2) Review of textile industry

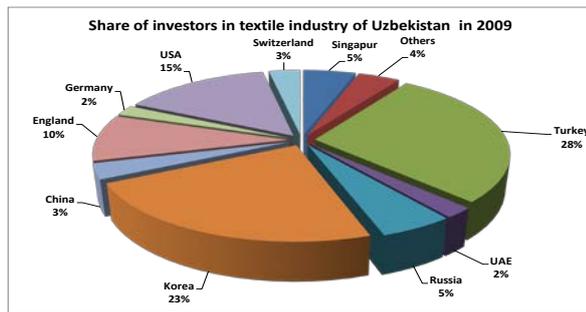
Being the largest cotton producer in the Central Asia Uzbekistan is the fifth largest producer of cotton in the world (approximately 3.5 million tons of raw cotton and 1.2 million tons of cotton fibre produced annually, or roughly 5 percent of the world's total production). It is the second largest cotton exporter (around 0.7 – 0.8 million tons of cotton fibre exported annually, or roughly 11 percent of world cotton exports).²⁸ This important crop directly accounts for almost 20 percent of rural employment, a figure that rises more during harvest time.

Today the textile Industry in Uzbekistan is one of the most prospective branches of the national economy, which plays an important role in providing a significant share of public employment, improving their welfare, assisting in the development of SME in the region. It contributes to an increase in industrial production, increase in export capacity, and the harmonious development of the regions. Moreover, for the last several years the cotton-textile sector of Uzbekistan has become a target for intensive reforms, initiated by the Government and involving both state and private sectors, as well as foreign partners. The reforms focus mainly on the ginning and textile sectors of Uzbekistan.

Currently the government prioritizes the issues of determining sustainable development strategy, extensive support to enterprises for encouraging foreign investments, creating of new production facilities, technical modernization and upgrade of existing capacities, increase of personnel qualification and promotion of local products in domestic and international markets.

²⁸ “Uzbekengilsanoat” *SJSC*

Figure 5



Source: "Uzbekengilsanoat" SJSC

Annually, the Republic produces more than 1 million tons of cotton fiber. Of this amount, only some 25 per cent is processed at its 5,200 textile factories. The greatest percentage of the industry's production capacity is concentrated in spinning, since the latter enjoys a far higher profitability compared with all the subsequent stages of the cotton fiber processing process. Approximately 40 per cent of cotton yarn made in Uzbekistan is processed into fabrics. About 3,000 garment factories operating nationwide produce 250 types of output.²⁹

As the experts have already noted that one million dollars (\$1 million) invested into the sector can create 45-50 work places, while the same volume of investment into a fuel and energy complex creates only 8-10 work places, and 12-15 in the machine building sector. The rapid development of the textile industry would support employment first of all in rural areas, where approximately 500,000 to 600,000 workers are released per year due to reforms in the agriculture sector. Employment generation through the development of the textile industry would both considerably increase budget revenues and foster social stability.

²⁹ Investment Potential of Uzbekistan's Textile Industry. September 10, 2007

Uzbekistan today has the resource base and a qualified, low-cost labor force for the production and export of ready-made textile products. At the moment, the majority of the domestic demand for knitwear and readymade garments is met through informal production by local entrepreneurs.

According to “Uzbekengilsanoat” SJSC working with this organization the followings create the comparative advantages for Uzbekistan in developing its textile industry and attract foreign investors:

Factor of competitiveness

- *Cotton fiber production – 1.0 + mln. tons*
- *Yarn production – 373 thousand tons*
- *21% price reduction of the cotton purchase*
- *Low energy cost of US\$ 0.04/kVt*
- *Low water cost*
- *Skilled labor resources at US\$ 200 month*
- *Domestic market of 29 mln/population*

Tax incentives

- *Producers of hosiery and garment are exempted from all taxes (except VAT)*
- *Textile exporters are exempted from property tax*
- *7 year tax holiday for foreign investors to textile industry*

Custom incentives

- *100 % exemption from custom payments on technological equipment*
- *100 % exemption from custom payments on raw materials not produced in Uzbekistan (synthetic fiber, fabric, etc.)*

Cotton price benefits

- *21% discount from world cotton price*
- *Only 15% cash payment on cotton purchase, 85% payable in 90 days*
- *Zero rating VAT (20%) on export*

The further development of a textile industry is one of the priority directions in Uzbekistan. The enterprises of Uzbekistan manufacture and export such items like cotton yarn, cotton cloth, knitted fabric, textile and apparel. The industry has stable source of raw materials, Uzbekistan annually produces over 1 million of cotton from which just 25% of it is processed. The basic volume of a manufacturing capacity is concentrated in spinning. Therefore, there is a good opportunity to invest in textile and clothing industry.

The State Modernization and Technical Re-equipment Program also applies to textile industry. The further development target is to lead the volume of processed cotton up to 50%, as well as production management of cotton cloth and final goods that requires \$700 million of investments. Besides Korean investors, the enterprises established jointly with investors from such countries like Germany, Italy, Turkey, USA, India, UK and Austria operate in this sector.

Table 4 Demographics

DEMOGRAPHICS³⁰					
Indicator	Unit	1999	2003	2007	2011
average annual number of permanent residents	1000,0	24311,6	25567,7	26868,0	29559,1*
Economically active population, total:	1000,0	8924,1	9621,2	11299,2	12541,5
-including women	% of total	44,2	44,0	47,2	46,8
-including men	% of total	55,8	56,0	52,8	53,2
Employment, in entire economy:	1000 workers	8885,0	9589,0	10735,0	11919,1
- non-government sector	1000 workers	6653,0	7621,0	8370,0	9714,1
- government sector	1000 workers	2232,0	2290,0	2365,0	2205,0
- companies with foreign investments	1000 workers	82,0	93,0	147,0	
average age of workforce	Years	34,6	35,4	36,1	36,9

**) as of January 1, 2012*

³⁰ UNDP. *investment Opportunities In Uzbekistan*. Tashkent: UNDP, 2009. Print.

3) Food industry

Food industry of Uzbekistan is based primarily on processing of local agricultural raw and is represented by enterprises of oilseed, confectionery, processing industries. Companies of the industry are united in the Association of oilseed and food industries of Uzbekistan, which unites together 87 companies, in particular 20 stock, 36 joint ventures, 28 private business enterprises, 3 unitary enterprises. The joint ventures with renowned companies such as Nestlé (Switzerland), Wimm-Bill-Dan - Food "(Russian Federation), British American Tobacco (UK), as well as the company established by companies from the UK China, Turkey, etc. successfully operate in the industry. Great prospects exist in the organization of production of spices, flavorings, baby food, cereal, cheese, confectionery and meat products. The investment potential of the industry is about \$ 200 million.

Agricultural sphere, including fruit and vegetable sector is developing thanks to ongoing structural reforms, population growth and revitalization of the farms, the implementation mechanisms of preferential credit, timely financial support, as well as more efficient use of logistical resources.

Uzbekistan has a significant agricultural resource potential and has the ability to produce over 10 million tons of produce a year. Today, Uzbekistan annually produces more than 1.7 million tons of horticultural products and wine, about 5 million ton of melons and potatoes. Fruit and vegetable produced in the country, has great taste. Uzbekistan has been famous in foreign markets for its grapes and apples, peaches and pears, cherries and plums, quince, melon and watermelon. Subtropical plants such as figs, pomegranates, persimmons, are also grown in Uzbekistan.

The potential of fruit and vegetable industry of the country is much higher than current levels. In this regard, the organization of deep processing of fruits and vegetables grown, with production competitive in foreign markets of goods, such as juices, jams, fresh-frozen, freeze-dried fruits and other is necessary.

4) Tourism

Tourism industry plays a vital role for many countries as it ensures the foreign exchange inflow, creation of jobs, improve infrastructure and strengthen business partnership with foreign countries. Uzbekistan is a Central Asian states located in one of the branches of the Silk Road linking East with West. It is believed that Uzbekistan has the biggest potential for tourism among the countries of Central Asia. The country ranks 9th in the world in terms of resorts and historical sites for tourism. Moreover the country possesses advantageous geopolitical position, rich cultural and natural heritage.

According to “Uzbektourism” SJSC Uzbekistan has big opportunities on the quantity and variety of tourism resources when compared with other countries:

Firstly, the central location in the Central Asian region, comfortable linking position in terms of transport-geography areal, with the developed railway, automobile and air transport communications;

Secondly, unique geographical and natural sights, and there are 37 caves in the territory of the country.

Bioclimatic conditions allow to actively go in for recreational and sport tourism, especially in the winter time.

There are specially protected natural territories in Uzbekistan (state nature reserves, national parks, nature monuments, dendrology and botanic gardens).

Thirdly, the country possesses recreational hydro-mineral resources, suitable for treatment and prevention of diseases, as well as for recreation of the population.

Such historic city landmark, as Khiva, Bukhara, Samarkand and Karshi, Kokand are worldwide known. By themselves, these cities are of great interest, but not limited to their identity. The popularity of ethnic cuisine favors the establishment of a network of restaurants under one brand in the cities of Great Silk Road. Entertainment complexes and places of public resort of international standard also contribute to contact visitors alike with the local culture, as tourists show great interest in the daily life of the host country.

Margilan city is interesting as a manufacturer of silk fabrics and garments: a factory for silk production clearly presents all the stages of production of silk fabrics from old technologies. There are beautiful resort areas, such as an enclave Shakhimardan (Ferghana Valley), Zamin (Djizzak Region). Enclave Shakhimardan deserves special attention because it is an environmentally clean area in the mountains on the territory of Kyrgyzstan. Under certain investments in infrastructure enclave Shakhimardan can be turned into a beautiful resort area.

In addition, there is a salt mine in the Surkhandarya region. Salt mine have healing properties and are also useful for people suffering from respiratory diseases. Investment requires an unfinished resort at the foot of the mine. Mine itself is a majestic creature of nature, and can also be very interesting for tourists.

Investments in the development of communications between the historical monuments will ensure their attendance, as because of the lack of quality roads tour operators often refuse to build route inaccessible places, even having historical value. In addition to

roads and infrastructure along them (public catering, health posts, maintenance of vehicles, etc.) requires special attention to tourist traffic. Current status of the bus fleet of the republic requires an update, because it does not meet the requirements of the modern tourist.

On the basis of interest in the history of the Central Asian region it is expedient to develop an animated tourism, creating a "presence effect" and not limited only by the presence of monuments. In this context, it is relevant to create of the ethnographic center, where tourists can get acquainted with the culture and customs of the country. For example, a wedding or any national holiday would be a fresh addition to the stories.

Investments in tourism infrastructure development would attract tourists, which would trigger the expansion of the hotel base of the republic due to new construction of small private hotels and the renovation of existing room stock, as well as in services (cafes, bars, clubs). For example, in a suburb of Samarkand and Tashkent there is an opportunity to create golf clubs and bowling centers for leisure travelers in that cities themselves.

Existing recreation resources enable to organize different kinds of tourist routes and to take tourists all year round.³¹

5) Service sector

The service sector is one of the priorities for economic development and increasing the investments that determined by Uzbek government.. From the first days of independence, the opportunities of this sector in the country are a potential source of increased employment and income. The purpose of achievement of advanced countries' results in service sector is a task that requires a serious, coherent approach, primarily from the state. Decree of the President Islam Karimov "On measures to accelerate the development of the service sector in

³¹ "Investment Opportunities of Uzbekistan." *Masterforex2* January 2010: n. pag. Web. 2 Dec 2010. <<http://forum.masterforex-v.org/index.php?showtopic=15543>>.

the Republic of Uzbekistan in 2006-2010” has become the next step in the realization of these aspirations.

The document has become an important stage in creating favorable conditions for the further expansion of entrepreneurship in the service sector, including through the elimination of bureaucratic barriers. In addition, the paper implies the exemption from tax on income for the entities operating in the service sector. Among the priorities in the program was clearly marked expansion of the scope, range and quality of services to rural residents, as well as new services, without which it is difficult to imagine a market economy - legal, consulting, banking, finance, insurance, leasing and appraisal.

The decisive factor of stimulating the formation and expansion of private enterprise are the issues of optimization and privileged lending. In 2011 alone, the banking system provided lending for the total of 2.5 billion dollars in equivalent to bolster and stimulate this sector, accounting for 26 percent of total loans.³²

Growing sector of services in Uzbekistan is gradually becoming an important economic activity with an impact on all aspects of society. The degree of satisfaction of population needs for services is one of the main indicators of the increasing level and quality of life in the republic.

In Uzbekistan, today, privately and corporately oriented modern market of services is dynamically developing thanks to the deliberate policy of the government. This is the market that grows in its both quality and quantity parameters at the expense of new types of services based on the application of advanced technologies meeting the increasing demand of people.

³² President Islam Karimov’s Keynote Speech at the International Conference on Small Business and Private Entrepreneurship in Tashkent, Uzbekistan. 14 September 2012

6) Navoi FIEZ

Navoi Free Industrial Economic Zone was established according to the Decree of the President of the Republic of Uzbekistan "On establishment of free industrial zone in Navoi region" on December 2, 2008.

The aim is to create favorable conditions to attract foreign investment, especially FDI's, for the organization of modern hi-tech industries, providing the output of products that meet world standards and in demand on world markets, as well as the development of an industrial building, industrial, transportation, transit and social infrastructure of Navoi region.

The term of operation of FIEZ is 30 years with the possibility of further extension. During this period, a special customs, currency and tax regimes, a simplified procedure for entry, stay and departure as well as obtaining permission for carrying out work non-resident citizens of Uzbekistan will be in force.

The large scale work on creation of appropriate legal and institutional conditions of FIEZ has been and is being carried out for the purpose of effective implementation of FIEZ concept. The legal basis for functioning of FIEZ is defined by the Regulations of the free industrial zone "Navoi", adopted in January 2009. According to the Regulations, the coordination and operational management of FIEZ will be carried out by the Administrative Council, created by representatives of public authorities and the Directorate of the zone.

The Government of the Republic of Uzbekistan has announced the unprecedented benefits and preferences for business entities being registered in FIEZ. Registered economic entities will be exempt from land tax, property tax, corporate tax, tax on profit from improvement and development of social infrastructure, single tax payment (for small businesses), depending on the volume of direct investments:

- *from 3 million euro to 10 million euro - for 7 years*
- *from 10 million to 30 million euro - for 10 years*
- *More than 30 million euro- for 15 years*

Also, the registered enterprises are exempted from customs payments (except for customs registration duties) on equipment, raw materials and components for production of exports for the whole period of their activity in FIEZ. For raw materials and components, imported for the production of goods sold in the domestic market of Uzbekistan, customs duties are levied by 50% of the customs rates (except for fees for customs clearance) with prolonging their payment terms up to 180 days.

Business entities registered in FIEZ will be provided land on lease terms. Companies in the zone will be able to implement within FIEZ settlements and payments in foreign currency, and make payments in hard currency for the supply of goods, works and services by the other business entities residents of Uzbekistan and use the convenient terms and conditions of payment for exported and imported goods³³

It is necessary to note that residents of FIEZ «Navoi» are exempted from land tax, property tax, profit tax of legal entities, social infrastructure development tax, unified tax payment for micro firms and small enterprises, compulsory contributions to the Republican Road Fund and off-budget Republican School Fund.³⁴

Today in the Navoi industrial zone, the state has invested about 100 million US dollars in equivalent to the construction of engineering networks, logistics and support systems, the

³³ "Investments into the Republic of Uzbekistan. " <http://www.sng.allbusiness.ru>. N.p., n.d. Web. 3 Dec 2010. <http://www.sng.allbusiness.ru/content/document_r_92D6F8D1-9B14-4C6B-9EF2-39A86DCD29F7.html>.

³⁴ The web-site of Navoi FIEZ. www.fiez.uz

strides that have facilitated the attraction of foreign investment to the creation of dozens of modern production facilities.³⁵

Consolidation of opportunities that provide the FIEZ and International logistic center at the Airport of Navoi, which is currently managed by the leading world cargo carrier - Korean Air, creates exceptional conditions for developing highly remunerative production and swift delivery of manufactured products to world markets through an effective system of multimodal transportation by air, trucks and railroads. In 2011 more than 50,000 tons of cargo was shipped through Navoi Airport. The cargo terminal of this multimodal center has the capacity to process daily about 300 tons of cargo and 100,000 tons annually.³⁶

7) Special industrial zone "Angren" in Tashkent region

The special industrial zone "Angren" (SIZ "Angren") was created in accordance with the decree of President of Uzbekistan from 13.04.2012 N4434.

The resident of special industrial zone "Angren" (SIZ "Angren") are exempted from the payment of: income tax, property tax for legal entities, the tax on improvement and development of social infrastructure, the single tax for small businesses, as well as mandatory contributions to the Republican Road Fund. Customs duties (except customs duties) on the equipment, components and materials not produced in the country, imported into the territory of SIZ "Angren" in the implementation of projects on the lists approved by the Cabinet of Ministers.

³⁵ President Islam Karimov's Keynote Speech at the International Conference on Small Business and Private Entrepreneurship in Tashkent, Uzbekistan. 14 September 2012

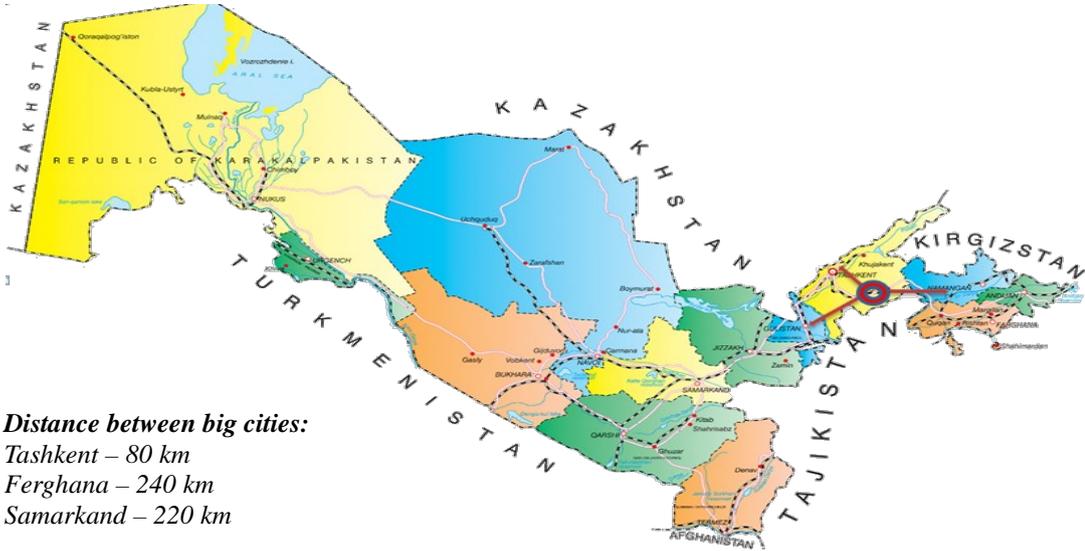
³⁶ http://www.koreatimes.co.kr/www/news/nation/2012/09/113_120386.html

The above exemptions are granted for a period of 3 to 7 years depending on the amount of investments made, including the equivalent of:

- from 300 thousand U.S. dollars to U.S. \$ 3 million - for a period of 3 years;
- more than U.S. \$ 3 million to 10 million U.S. dollars - a period of 5 years;
- more than 10 million U.S. dollars - for 7 years.

Figure 6

Map of Special industrial zone "Angren" in Tashkent region



For the Angren industrial zone created in 2012, a special program to build production infrastructure and communications for over 60 million US dollars is elaborated and already been being implemented.³⁷

37 President Islam Karimov’s Keynote Speech at the International Conference on Small Business and Private Entrepreneurship in Tashkent, Uzbekistan. 14 September 2012

IV. CONCLUSION

Today we are facing the world that has been going through fast globalization processes. World's well-known multinationals have already transferred their plants and operations into the third countries in the aim to seek lower cost of production and maximize their profits. In the competition to attract more foreign investments dynamically developing countries such as Vietnam, Thailand and India have adopted special economical policies that created favorable business climate and posed the problem to make appropriate changes for business attractiveness.

The Republic of Uzbekistan among those countries that focused on the development of its foreign economic relations. During the Soviet period, Uzbekistan was predominantly an agrarian society, with cotton being the main agricultural product. But after 1991, Uzbekistan started transitioning from a plan-based economy to a market-based system. During the transition period, priority was given to privatization, modernization of production processes, industrialization, development of the private sector and institutional development. Uzbekistan took concrete and peculiar steps of denationalization through the huge government programs of privatization stimulating the business.

Market liberalization and the privatization positively affected the economic growth and investment climate, especially FDI. During the years of Independence, Uzbekistan formed favorable investment environment, broad system of legal guarantees and privileges for foreign investors, developed integral system of measures on encouragement of activity of the enterprises with the foreign investments.

Korea became one of the strategic partners of Uzbekistan from the first days of its independence. As it is reviewed in this research, two countries are engaged in different projects. So far, Korea has invested \$5 billion into the economy of Uzbekistan is in the third place among foreign investors of Uzbekistan.

However Korean FDI in Uzbekistan mostly directed into so called energy sector like oil and gas as well as heavy industry. The Republic of Uzbekistan having 30 million people looks like more attractive in non-energy sectors such as textile industry, tourism infrastructure, agricultural and food industry.

The textile industry of Uzbekistan has a great potential for investors with the benefits created today. Annually Uzbekistan produces more than 1 million tons of cotton fiber. Uzbekistan today has the resource base and a qualified, low-cost labor force for the production and export of ready-made textile products.

The food industry of Uzbekistan has always been lucrative business which was invested by such multinationals like Nestle, British American Tobacco and other western companies. Uzbekistan has a significant agricultural resource potential and has the ability to produce over 10 million tons of produce a year. Today, Uzbekistan annually produces more than 1.7 million tons of horticultural products and wine, about 5 million ton of melons and potatoes. Fruit and vegetable produced in the country, has great taste. Uzbekistan has been famous in foreign markets for its grapes and apples, peaches and pears, cherries and plums, quince, melon and watermelon.

Talking about tourism Uzbekistan ranks 9th in the world in terms of resorts and historical sites for tourism. Moreover the country possesses advantageous geopolitical position, rich cultural and natural heritage. Historical sightseeing regions, unique

geographical and natural sights, Bioclimatic conditions allow to actively go in for recreational and sport tourism can be referred as attractive sector for FDI.

The Republic of Korea should take concrete measure on diversification of its investments flowing into Uzbekistan. Korea is developed country with advanced and innovative technologies in different sectors. Economical incentives and opportunities in diversified industries of Uzbekistan could bring tangible long-term benefits and chances to maximize their earnings for Korean companies with advanced technological facilities. For Korea this situation is important since countries like Japan, China and Russia can be competitors in terms of pre-empt such attractive market.

REFERENCES

REFERENCES

Foreign Relations Ministry, Daewoo International sign memorandum. Accessed November 2010

<http://www.uzdaily.com/articles-id-5655.htm>

"Investments into the Republic of Uzbekistan. Accessed November 2010.

http://www.sng.allbusiness.ru/content/document_r_92D6F8D1-9B14-4C6B-9EF2-39A86DCD29F7.html

"Investments into the Republic of Uzbekistan, 2 January 2010.

"Investment Opportunities of Uzbekistan." Materforex.

Korea JoonAng Daily, "Mural reveals ancient connection to Uzbekistan", Accessed November 2010,

<http://joongangdaily.joins.com>

Mehribon Mametova, 30 August 2012. Uzbekistan Amplifies Investment Potential. UzA.

Nodira Manzurova, 6 July 2012. Uzbek-South Korean Business Forum. UzA.

President Karimov's visit further strengthens ties. Accessed September 2012.

http://www.koreatimes.co.kr/www/news/nation/2012/09/113_120386.html

President Islam Karimov, 14 September 2012. «Keynote Speech at the International Conference on Small Business and Private Entrepreneurship in Tashkent» Tashkent, Uzbekistan.

Sources of Investment Promotion Agency of Uzbekistan.

<http://www.uzinfoinvest.uz>

Sources of Ministry for Foreign Economic Relations, Investments and Trade of Uzbekistan.

Sources of Chamber of commerce and industry of Uzbekistan

Sources of The State Statistical Committee of Uzbekistan

Sources of "Uzbekengilsanoat" SJSC

Sources of The press-service of The President of The Republic of Uzbekistan. Accessed November 2010. <http://www.press-service.uz>

Sources of Uzbek-Korean Development bank. www.kdb.uz

Sources of The web-site of Navoi FIEZ. www.fiez.uz

UNDP, Investment Opportunities In Uzbekistan. Tashkent: UNDP, 2009. Print.

UNDP, 2009. Investment Guide to Uzbekistan. Tashkent: UNDP, Print.

UNDP. 2009. Investment Opportunities In Uzbekistan.

UNDP, September 10, 2007. Investment Potential of Uzbekistan's Textile Industry. Tashkent: UNDP, Print.

Ustyurt gas chemical complex boosts cooperation between uzbekistan and south korea. Accessed November 2010.

http://www.pressservice.uz/en/news/show/main/ustyurtskiye_gazohimicheskiye_kompleks_-_hightext/korea/

Uzbekistan-South Korea: Toward New Horizons Of Cooperation. Accessed September 2012

http://www.press-service.uz/en/#en/news/show/main/novyye_gorizontyi_sotrudnichestva/