

# Main Trends of Doing Business in Uzbekistan



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**Abstract**— *This article analyzes the possibilities and challenges of doing business in Uzbekistan through statistical indicators. While trends in business in Uzbekistan have been explored through the share of entrepreneurship in GDP, industry, employment, exports and imports, the World Bank's "Doing Business" rankings are also relevant.*

*The Doing Business rating analyzes business conditions in the country through a number of indicators, such as business registration, construction permits, loans, tax and taxation, international trade, investor protection. This system of indicators not only provides conditions for entrepreneurship, but also determines the country's attractiveness for foreign investors.*

*The main purpose of the research is to develop recommendations on how to address the challenges posed by the World Bank's Doing Business rating affecting the investment attractiveness of Uzbekistan.*

**Keywords:** *foreign investment, "Doing Business" rating, international trade index, export, import, transport infrastructure, construction permits, tax, tax reports.*

## I. INTRODUCTION

The financial activity of foreign investors in a particular country depends on legal and political conditions created for the development of entrepreneurship, not its level of the economic and social development, whether it is developed or developing.

The same is reflected in the "Doing Business" rating, which is analyzed by the World Bank.

According to this rating, conditions created for entrepreneurship development in the country are analyzed and published using indicators such as business registration, business permits, construction permits, accessing to electricity, registration of private property, loans, investor rights, tax and taxation, international trade, contract enforcement and insolvency. Countries with high performance in these indicators will not only have sufficient

conditions for business development, but also will be attractive for their investment attractiveness and reliability for foreign economic activity.

Even though Uzbekistan is in the top 100 of these rankings, there are slowing positions. We can include construction permits, international trade, tax and taxation in these underdeveloped positions. In particular, unsatisfactory rates of international trade impede not only the development of exports in the country, but also the development of free economic zones.

Below, we will analyze to improve the investment attractiveness of free economic zones in the country by improving the international trade position in the "Doing Business" rating.

## II. RESEARCH METHODOLOGY

Scientific research methods such as induction, deduction, scientific abstraction, analysis and synthesis, as well as economic and mathematical methods were widely used in the study of the subject. Research methods have played an important role in extending the research and analysis of the topic, making scientific conclusions and making suggestions.

## III. DETERMINATION OF THE SUBJECT

Although the dynamics and trends of entrepreneurship development in different countries of the world economy, the conditions for doing business have been researched by many scholars in different directions and ways, the topic is still relevant. If there are a market economy and a mixed economy in countries of the world economy, business, the mechanism of state support for entrepreneurship and its international development continue improving. Business environment and development dynamics in different countries are different, so scholars' conclusions and suggestions on the development of entrepreneurship are also different. In particular, if we look at the following, we can see the evidence.

According to the Kjell Gronhaug and Olav Kvetastein's article named "Distributional involvement in international strategic business units" (1, Gronhaug & Kvetastein), the main feature of any business firm is that its customers are able to buy their products at a lower cost, at least costly, for their marketability, survival and prosperity. Also, saturation of the domestic markets and strong competition from foreign manufacturers can influence the firm's future choices and strategies for choosing how to grow and prosper in business. Many marketing and strategy books tell us that firms can benefit from their capabilities and develop new product offers.

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This expansion strategy alone is unacceptable, as the time required to develop new product offerings takes too long to guarantee permanent survival and success, and also this strategy can be very costly or very risky to the firm. Such considerations may direct the firm's attention to new market opportunities beyond the domestic market. Similarly, even with success and growth in the domestic market, the firm may be aware of new and exciting business opportunities overseas that can affect resource allocation and market activity. Stimulating foreign market entry could be an increase in pressure on the domestic market to move internationally to business, as well as undisclosed opportunities to generate excess profits.

Linyue Lee's article "The impact of intra-industry trade on business cycle synchronization in East Asia" (2, Li) analyzes the differences between the trade indicators empirically. The research shows that united business cycles are influenced by in-network trading channels, rather than total sales. As trade integration between the Asian countries increased, it was expected that the business cycles between these countries would be expanded through trade. High cross-sectoral trade leads to less business synchronization, which can also increase the synchronization of business cycles within the network. In addition, I have found that synchronization of growing business cycles is of extreme importance as one of the most favorable foreign exchange market criteria.

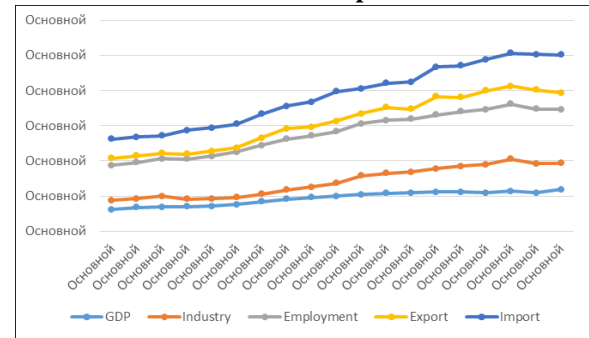
Hong, Chi & Kim, So Yong's article "Regional business cycle synchronization in emerging and developing countries: Regional or global integration? Trade or financial integration?" (3, Gong&Kim) describes the impact of regional and global integration and commerce on financial integration and financial integration in three emerging and developing countries (East Asia, Latin America, Central and Eastern Europe). The main empirical results are as follows: (1) strong and similar general relationships, especially financial, have a significant positive impact on regional business cycle synchronization; (2) after global communications management, regional trade integration has a positive effect on regional business cycle synchronization, while regional financial integration has a negative impact; and (3) while the direction of impact of each type of integration is similar across regions, the importance of each of them in explaining the synchronization of regional business cycles is different. In particular, global financial relations play a key role in East Asia and Latin America, but it should be highlighted the regional trade integration is most important in Central and Eastern Europe.

## IV. ANALYSIS AND RESULTS

Conducting business in Uzbekistan is analyzed using economic indicators such as the share of non-state property in the general form of ownership, the share of entrepreneurship in GDP and the share of entrepreneurship in foreign trade. It is also analyzed by using state-sponsored indicators, such as business registration, low tax and tax reports, bank lending to businesses.

Picture 1.

The share of small and private business



\*Prepared by the author on the basis of data provided by the Statistical Committee of the Republic of Uzbekistan

In particular, if we analyze the share of entrepreneurship in GDP, industry, employment, exports and imports in 2000-2018, the share of entrepreneurship in GDP almost double (31.0% in 2000 and 59.4% in 2018), including exports. You can see that the share of the business also doubled in import. The share of entrepreneurship in exports in 2000 and 2018 was 10.2 and 24.1 percent, respectively, and its share in imports was 27.4 and 53.6 percent, respectively. As already mentioned, these indicators do not reflect the main trends in doing business in the country. Condition of doing business in Uzbekistan is also reflected in the World Bank's "Doing Business" rating.

According to the World Bank's Doing Business rating, Uzbekistan is ranked in terms of enforcement of contracts (41th), Business Registration (12th), Loans (60th), Credit Insolvency (91st), the real estate registration (71st place) and minority investor protection (64th place) among the top 100 countries. Our country ranked 82nd in business performance in 2016, 87th in 2017 and 74th in 189 countries in 2018. We can see that it went up 13 points in the overall rating. But there was a three-point decline in international trade. Linking this to the above, we can also see that the share of small business and private entrepreneurship in the export of goods and services changed in a straight proportion, and the share of imports of goods and services reversed.

Table 1 Indicators of Doing Business in Uzbekistan the ranks of "Doing Business" between 2016 and 2019

Directions	DB 2016 Rating Indicator	DB 2017 Rating Indicator	DB 2018 Rating Indicator	DB 2019 Rating Indicators
Registration of the company	23	25	11	12
Getting Permission for Construction	147	147	135	134
Electrical connection	78	83	27	35
Registration of private property	81	75	73	71
Getting Credit	42	44	55	60

Investor Rights Protection	78	70	62	64
Taxation and	139	138	78	64
International Trade	166	165	168	165
Enforcement of Contracts	37	38	39	41
Allowance to the inability for payment	72	77	87	91

\*Doing business <https://russian.doingbusiness.org/ru/rankings>

As you can see in the table, in 2019 our country was ranked 12th in terms of business registration. In particular, there are 3 procedures required to register a business in Uzbekistan and it takes no more than 4 business days to register. Charter capital is not required for business registration. Comparing these figures with other Central Asian countries, we see the advantages of doing business in Uzbekistan.

Indicators in Uzbekistan on “construction permits” are unsatisfactory, and in 2019 it held 134 positions. Although this figure has improved over the 2016-2018 period, the number of procedures is 17 (16 in Europe and Central Asia) and it requires 246 days for permission, these necessitate government reforms in this area.

Looking at foreign experience, the tendency to hire private sector engineers or specialized construction firms in the public service sector, starting in high-income countries such as Australia, the UK and Japan, has accelerated in low- and middle-income countries. Modern construction systems are increasingly turning to private engineers or firms that are certified or approved to perform the facility control function. In general, the role of the private sector can range from a very limited scope to a much wider scope that fully controls the design and construction of the private sector. According to the World Bank's “Doing Business 2018 report”, 93 out of 190 countries use some form of outsourced private services to manage construction. 66.1% and 56.9% of the upper and middle income countries use third-party services to regulate construction, while only 37.7% of low- and middle-income countries use third-party services. In contrast, only 25 percent of low-income countries use private third-party services to regulate construction. According to the participants, the involvement of the private sector in the area of construction

regulation and its connection with it will contribute to improving the quality of construction and adherence to the building rules.

First, the transfer of some of the regulatory functions from the state to the private sector must be done in the public benefits.

Second, cooperation between the public and the private sector in the field of regulation of construction, as a key safeguard, will be successful if the government sets out strong requirements for the expertise and experience of private entities and develop regulations for effective oversight mechanisms and benefits.

“Taxation” is also one of the indicators that improved in 2019 compared to 2016-2018. In this regard, Uzbekistan is ranked 64th in 2019. In particular, the annual number of tax reports was 10, and the preparation and submission of tax reports took 181 hours per year. The main reason for these positive changes is the reduction of taxes by the government. From January 1, 2019, business entities pay the following taxes:

- Single tax payment. The activity is approved in accordance with the Presidential Decree at the beginning of the reporting year, depending on the type, direction and type of business entity (5, Kun.uz);
- Customs payments;
- Taxes and special payments for subsoil users;
- Tax on water resources use - use of water resources for entrepreneurial activity;
- Excise tax - when producing excisable goods;
- Single social payment;
- The state duty;
- Fee for receipt and (or) temporary import of vehicles. (6, UzA.uz)

The mentioned taxes and fees may vary depending on the area of activity and the legal form of the business entity.

One of the downsides in the “Doing Business” rating for 2016-2019 is the “International Trade Index”. In 2017 Uzbekistan ranked 165th in the International Trade Index, in 2018 – 168th, in 2019 – 165th. As we have seen, export time in Uzbekistan is 112 hours under border and customs control and 28 hours in Europe and Central Asia. Export time: 174 hours for registration of documents in Uzbekistan and 27.9 hours in Europe and Central Asia. This means that the main problem is the wasting so much time. Border and customs control have also been affected by the longevity of goods and products. The fact that goods and products are kept under Customs control so long and it also affects their quality.

**Table 2**  
**Time and its cost in International Trade**

Indicator	Uzbekistan (2017)	Uzbekistan (2018)	Uzbekistan 2019	Europe and Central Asia (2017)	Europe and Central Asia (2018)	Europe and Central Asia 2019
Time for export: border and customs control (hours)	112	112	112	28	28	22,1
Export Price Borders and Customs Control (USD)	278	278	278	195	191,4	157,5
Exporting time: paperwork (hours)	174	174	96	27	27,9	24,3



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Export price: document preparation (hours)	292	292	292	111	113,8	97,9
Time to import: border and customs control (hours)	111	111	111	26	25,9	21,1
Import Price Border and Customs Control (US dollars)	278	278	278	202	185,1	162,3
Time to import: paperwork (hours)	174	174	174	26	27,3	24,7
Import Price: Documentation (hours)	292	292	292	91	94,7	93,9

\*Doing business <https://russian.doingbusiness.org/ru/rankings>

In addition, one of the problems that attract attention from foreign economic activity is the large number of documents and procedures required for export.

Documents required for export	Documents required for import
Export declaration	Customs declaration
Export Agreement	Trademark
Certificate of Conformity	Commercial billing
Package list	Serial / code numbers
CMR	Certificate of Conformity
Trademark	CMR Invoice
Export license for cotton	Expert Decision Defining
Fumigation certificate	Product Code
Phytosanitary certificate	

As you can see, the number of documents required for export in our country was 9. In the leading countries of the "Doing Business" rating this indicator is no more than 6. Fumigation certificate and Phytosanitary certificate are attached to the quality certificate.

Existing export documents and import restrictions have an impact not only on the development of foreign economic activity, but also on the development of innovative activities in the country.

The process of filing import documents takes 174 hours, and the procedure in Europe is 25-30 hours on average, which is one of the challenges facing our country.

Although Uzbekistan has a relatively simplified regime of import time and requirements, the 10-70% import tariff rates also allow non-tariff restrictions to be maintained.

The high costs of exports and imports can be explained by the high costs of transport infrastructure in the country. Part of the problem is that the low access of the country to the waterway is partly due to the fact that the highways do not meet the international standards, the high costs of railways and the inadequacy of international airports are the other side of the problem.

Uzbekistan is a historic Silk Road that combines Asia, the Middle East and Europe, which is well located in terms of transit flows. Currently, a number of countries in Central Asia see themselves as transit countries, but they need to cooperate and integrate with each other. This means that corridors must be carefully selected. In addition, these countries should pay attention not only to international corridors, but also to local transport links, such as links between individual cities, businesses and countries in the region.

Uzbekistan has a good railway system, but there is always the opportunity to improve it. Labor productivity can be improved to a level similar to or above Kazakhstan. In addition, in order to increase efficiency, Uzbekistan must

consider outsourcing certain types of activities in the future and open the railroad market on a regular basis.

The country cannot change its geographical location, but the government can do so by implementing effective transport policies that reduce transportation costs and speed up transportation.

Today, accessing to the world market for an Uzbek producer is four times more expensive than in Germany.

The automobile and rail networks are recovering after years of insufficient funding. Insufficient funding has led to high costs for users due to the slow pace and additional costs of repairing vehicles.

Uzbekistan has built world-class highways, such as the highway between Tashkent and Samarkand, but the quality of some of the major highways is below international standards, leading to a slower pace of transportation and more rapid damage to vehicles.

Establishing a Road Construction and Maintenance Fund and increasing efficiency in all areas is something that Central Asian countries can do and bring economic benefits to the region. (7, Kauppila)

On the other hand, the development of exports in the country creates the need for a modern market infrastructure. We have to find new consumer markets to export our products to the global market, and in this case we have to rely on the support of the government and international organizations, we need to create a database of online search markets in the country.

Today we need a constructive approach that brings together manufacturers and exporters in all areas.

One of these projects was also implemented in Kazakhstan, where entrepreneurs from Kazakhstan have the opportunity to find markets online quickly and at no cost, through a project called "Flagma".

There are no such projects in Uzbekistan, and, of course, they do not use such tools. They may have to do marketing research at the additional cost of finding new markets or have to sell their products on a public procurement basis at an undisclosed price.

## V. CONCLUSION

While the development of entrepreneurship in Uzbekistan has shown positive trends, the business infrastructure in the country remains a major challenge.

Including:

- Requiring a long time for the process and procedure of building permits;
- High international trade process, time and cost;
- Insufficient government incentives for exporters;



- One of the main problems is that the country's foreign economic policy is still focused on the promotion of import-substituting goods.

In order to address the aforementioned issues, we propose:

- It is advisable to use private outsourcing services by private businesses in this area to speed up the construction permits process. In particular, it is also advised to use private outsourcing services for engineering, land surveying and drawing tasks;
- We recommend the creation of a single "Exbus" electronic database with information on foreign markets to simplify the process of exporters' search for new markets and partners. Creation of such a base allows exporters to find new markets quickly and cheaply;

The country needs to improve road quality in order to improve its export and import logistics. In particular, the roads in the transit area should be privatized. Although privatized roads are tolls, it will not only improve the quality of the road, but also expand its export and import opportunities, but will also increase the transit potential of the country.

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