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FOREIGN INVESTED ENTERPRISES IN THE REPUBLIC OF UZBEKISTAN: MANAGEMENT TOOLS, MAIN FORMS, EVOLUTION AND TRENDS

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Abstract

Since the launch of first economic reforms, attracting foreign investment has always been the focus of the government of the Republic of Uzbekistan. The article covers the evolution of foreign invested enterprises in 2015-2024. Particular attention is paid to the development of the joint venture (JV) and the wholly owned enterprise (WOFE) forms as a condition and a result of increased investment attractiveness of the country.

Keywords: foreign direct investment, foreign invested enterprises, joint ventures, knolly-foreign owned enterprises, management, business climate.

Introduction

At the end of 2023, the government of Uzbekistan adopted a large-scale reform strategy, "Uzbekistan-2030," which outlines key development priorities as well as mechanisms for addressing issues. One of the main goals of the above-mentioned Strategy is to join the ranks of countries with above-average income through sustainable economic growth. Achieving this objective is not possible without effective management of internal capital sources and attracting foreign investments, primarily foreign direct investments (FDI). In this regard, the strategy provides for the development of $250 billion in investments in the country, including attracting $110 billion in foreign investments and $30 billion in investments within public-private partnerships [1].

An essential condition for ensuring sustainable economic growth in the medium and long term is creating the foundation to curb the growth of external debt and steadily improve conditions for increasing private and foreign direct investments. In this context, foreign invested enterprises (FIE) are gaining particular relevance and require in-depth study by local experts.

As demonstrated by the experience in regulating foreign investment processes, enterprises with foreign investment have great potential for achieving this important task. Today, about 15,000 enterprises operate in Uzbekistan, created with the involvement of foreign capital from more than 100 countries. It is advisable to study the accumulated practical experience and identify the main trends in their development.

As experts note, the development of joint entrepreneurship is driven by the challenges of independently entering foreign markets and the need for partners to combine efforts in the face of globalization, increased international competition, and rising economic uncertainty due to rapid technological shifts, high costs, and the risks associated with research and development [2].

In global practice, foreign invested enterprises are typically classified, as German professor A. Sell (Germany) states, into foreign enterprises (WOFE - 100% foreign capital) and joint ventures (JV - 1-99%), which can be created on a majority basis (more than 50% foreign capital) or minority basis (less than 50%), [3].

KSK GROUP experts name among the significant reasons for organizing a joint venture:
• difficulties faced by an enterprise seeking to penetrate the markets of other countries;
• lack of information about the situation and business customs in another state;
• the desire of partners to act in concerted efforts in a situation of increased unpredictability of economic trends [4].

In modern global practice, the concept of a "joint venture" is interpreted rather broadly; therefore, additional distinctions have been introduced: equity joint ventures and contractual joint ventures.

According to experts, an individual entrepreneur LLC is an enterprise fully financed by foreign investment, where the share of a foreign participant is 100%, which allows investors to have full control over the business and management, minimizing the risk of dependent participation.

2. Materials and Methods

The aim and objectives of the study were to research both the equity joint ventures (JVs) and foreign enterprises (WOFEs), examining their interdependence. We also focused on the evolution of the above-mentioned forms, and the factors influencing investors’ choices of one form over the other. As the world experience shows, a foreign investor enters the unfamiliar markets carefully, starting with minority shares. On the practice of the joint entrepreneurship in Uzbekistan we set the task to identify the patterns of this process, its stages, to study the trends in the evolution of the foreign investment enterprises (FIE) forms under conditions of Uzbekistan. Using the approaches of the foreign experts, and namely Prof. Dr. A. Sell (Germany), [3,11] the task was to conduct a comparative analysis of their definitions and development in the countries of Central Asia, to identify common patterns and differences as well as giving an assessment and the necessary suggestions and recommendations.

The theoretical and methodological foundations of the study are based on national statistics [9,13,15,16], conclusions and proposals of foreign [10,17,18,19] domestic researchers (6,8,12) in the attracting foreign direct investment, and investment policy. The methodological basis for the systematic and expanded FDI attraction is the National Strategy “Uzbekistan-2030” [1], concept for the development of the national economy for the period up to 2030, and government decisions on providing and expanding foreign economic activities, materials, and expert reports. During the course of the study, various methods were used: observation and collection of facts, modeling, the method of scientific abstractions, and system analysis, set out in the works of domestic and foreign scientists.

3. Results.

3.1. Evolution of JV and WOFE Forms. Retrospective analysis shows that foreign entrepreneurial capital entered Uzbekistan primarily through foreign invested enterprises (FIEs). Starting in the 1990s, the term "enterprise with foreign investment" (EFI) became widely used in the economic and business lexicon of the republic, proving understandable and convenient for communication with experts from other countries. By 2001, this term was found in foreign materials when referring to Uzbekistan [5].

In the early stages of reform, however, foreign participation in EFIs was typically low in both share and amount. As noted by M. Razzakova, in the second half of the 1990s, the foreign partner's share of 15% in the charter fund was present in nearly 50% of joint ventures, and about 50% of foreign investors entered the Uzbek market with contributions of $10,000 [6].

In our view, this is because the market in the Republic of Uzbekistan was practically new for foreign investors. Legislation, regulatory processes, and market conditions were in the early stages of development, and local partners, language, and traditions were unfamiliar. Foreign partners were inclined to start with small shares and contributions, gradually adapting to the unfamiliar market and increasing their shares and investments as it developed. However, this led the government to make mandatory increases in the contributions of foreign partners in joint ventures, setting a minimum charter fund of $150,000 and a minimum foreign partner share of 30%.

Between 1998 and 2019, the term "enterprise with foreign investment" underwent a certain evolution, and according to current legislation, today it refers to "Enterprises with foreign investment in the Republic of Uzbekistan—enterprises in which foreign investments make up at least fifteen percent of shares (stakes, units) or the charter fund (charter capital)" [7].

3.2. Management tools and investment attractiveness of the state

The national investment policy of Uzbekistan defines unique directions for attracting foreign investment, a system for stimulating them and establishes legal norms for investment activity, first of all, the creation of a favorable environment for attracting foreign capital.

In order to increase the attractiveness of the investment climate, on August 1, 2018, the President signed the Decree "On measures to radically improve the investment climate in the Republic of Uzbekistan." According to the document, foreign citizens and stateless persons investing in Uzbekistan received the right to a multiple-entry visa for three years with the possibility of unlimited extension of validity without the need to leave the country.

The minimum required amount of foreign investment in the FIE's authorized capital has also been reduced from 30 to 15 percent.

The Law "On Investments and Investment Activities" reflects measures to reduce the tax burden for investors and simplify the tax system, as well as reforms of tax policy and tariff management aimed at supporting a healthy competitive environment, which are being carried out at high speed in Uzbekistan.

Transformation programs cover all spheres of the state and society including the rule of law, developing competition, and fighting corruption. In particular, in 2017, free conversion of the national currency, the Soum, was introduced, and all restrictions on the repatriation of profits by foreign investors were lifted.

To ensure a policy of openness, the possibility of visa-free entry into Uzbekistan was created for citizens of more than 90 foreign countries. Citizens of dozens of other countries are given the opportunity to obtain a visa using a simplified procedure. According to these indicators, Uzbekistan ranks as the most open country in the region.

The fight against corruption has become one of the priority areas of state policy in our country. A special agency has been created to strengthen the fight against corruption.Tax benefits have become an attractive factor for investors. In Uzbekistan, the value added tax rate has been reduced to 12 percent. Dividends from shares of foreign investors are exempt from income tax for three years. No new or tougher penalties are introduced into tax and customs laws.

The executive system has also been reformed. Over 500 government functions regulating business were abolished, 70 of them were transferred to the private sector on the basis of public-private partnerships and outsourcing. As of today, 132 licenses and permits have been cancelled, and a notification procedure has been introduced for 33 species. Uzbekistan is on the way to a radical improvement in the investment environment [8].

As part of the ongoing reforms, a unified system of working with investors has been introduced. The Ministry of Investment, Industry and Trade has established a "one-stop shop" system that helps investors at all stages - from project initiation to its launch. To quickly resolve the investors problems, their proposals and recommendations, and to organize a direct dialogue with the head of state, the Council of Foreign Investors under the President was created.

The created economic opportunities and guarantees lead to positive results. So, almost one hundred thousand enterprises were created in 2023 alone. The volume of attracted foreign investment reached $10 billion, which is three times more than in 2017.

3.3. Initial Results of Transformations

The ongoing efforts in Uzbekistan to liberalize the economy, enhance competition, and protect business interests have significantly improved the country's investment appeal for foreign investors. According to national statistics, the number of enterprises with foreign investments in Uzbekistan increased from 4,804 in 2016 to 14,901 in 2024, demonstrating a more than threefold increase [9].

Based on this trend, it would be advisable to conduct a qualitative analysis of the development dynamics of "joint ventures (JVs)" and "foreign invested enterprises (WOFEs)," exploring their relationship and interdependencies as the main forms of enterprises with foreign investments.

As is known, the nature of JVs is linked, on the one hand, to the initial caution of foreign partners entering unfamiliar markets, typically in developing countries. On the other hand, markets in countries with transitional economies are indeed characterized by certain uncertainties and inconveniences. Therefore, JVs emerge as an objective necessity, driven by both the preference of foreign investors and the regulatory requirements of certain host countries (e.g., China, Vietnam).

In Uzbekistan, JVs have historically been the primary, and then the dominant, form of joint business since the 1990s, a trend observed in most countries transitioning to market economies. As noted by M. Razzakova, in 2001, out of 1,795 enterprises with foreign capital, only 83 were fully foreign-owned (4.6%), while the rest were JVs (95.4%). Even in 2015, 2,600 out of 4,429 EFIs in Uzbekistan operated as joint ventures, retaining their majority status (58,7%).

In light of the above, it is more promising for the system of state regulation to focus not on defining "enterprises with foreign investments" but on analyzing the investment-innovation components of foreign partners, their contributions, and the dynamics and prospects thereof. A retrospective analysis of trends in U.S. corporate subsidiaries entering the Andean Group countries of Latin America in the latter half of the 20th century (Table 1) reveals a preference for acquiring majority shares or establishing fully wholly owned foreign enterprises (100%).

Table 1. Ownership Structure of U.S. Corporate Subsidiaries Entering the Andean Group Market in Latin America, 1950-.

Доля в %	1951-1966	1968-1969	1970-1072	1973-1975
95-100	301 (56,4)	85 (63,0)	45 (56,2)	46 (61,3)
51-94	74 (13,9)	21 (15,6)	15 (18,8)	12 (16,0)
50	39 (7,3)	11 (8,1)	7 (8,8)	3 (4,0)
5-49	68 (12,7)	16 (11,9)	13 (16,3)	14 (18,7)
Нет данных	52 (9,7)	2 (1,5)	0	0
Всего	534	135	80	75

Source: [10,11].

Based on an analysis of global trends in the development of joint venture forms, the author concludes that as the economic and technological level of the host country advances forms such as establishing majority-owned subsidiaries or wholly owned foreign enterprises will increasingly be in demand [12]. In the case of Uzbekistan, we find confirmation that the large-scale structural reforms initiated by the Republic's president in 2016, the implementation of comprehensive development programs, and the tangible improvement of the investment climate have not only improved the country's standing in international rankings but also provided strong incentives to attract foreign investors. The growing confidence of foreign partners is evidenced by the trend, starting in 2016, toward an active alignment in the number of joint ventures compared to wholly owned foreign enterprises. From 2020 onwards, the number of wholly owned foreign enterprises in the country has surpassed the number of joint ventures, with a ratio of 29,49 % to 71,51%, respectively (Table 2).

Table 2. Foreign Invested Enterprises in the Republic of Uzbekistan (EFCP), at the Beginning of the Year.

	2000	**2010**	**2020**	**2021**	**2022**	**2023**	**2024**
Number of foreign invested enterprises, including:	1785	4057	10382	11781	13289	15801	14901
wholly owned foreign enterprises (WOFE)	386	1513	5276	6109	7301	9382	10657
Percentage	21,6	37,2	50,81	51,85	54.94	59,37	71,51
Joint ventures (JV)	1399	2544	5106	5672	5988	6419	4244
Percentage	78,4	59,2	49,19	48,15	45,06	41,63	29,49

Source: [13,14].

Foreign invested enterprises are actively involved in attracting foreign capital to the republic, so the volume of disbursed foreign investments and loans in fixed capital increased from 9,665.9 billion US dollars in 2019 to 16,007.7 billion US dollars at the end of 2023 (Table 3).

Table 3. Development of foreign investment, including loans, foreign direct investment, gross domestic product (GDP) in the Republic of Uzbekistan, 2019-2023, million US dollars.

Years	Gross domestic product (GDP) ($ Mln.)	Foreign direct investments (FDI)	Disbursed foreign investments, including credits*
2019	60 268,2	4316,6	9665,9
2020	60 215,6	2951,7	8926,1
2021	69 597,2	2819,1	9554,3
2022	81 132,9	3596,9	10303,3
2023	90 871,1	7183,3	16007,7

* calculated on the basis of the weighted average exchange rate of the sum to the US dollar. Source: [15].

3.4. Analysis of Joint Venture Functioning: The analysis has shown foreign investment enterprises act as a mechanism for positive changes in the national economy, bringing, along with capital, advanced foreign technologies and management methods, and making significant contributions to export development and job creation. For example, 42% of acting foreign invested enterprises are concentrated in the industrial and construction sectors [16].

4. Discussions

In our study, we had opportunity to study many foreign and domestic experts in the field of foreign direct investment and foreign invested enterprises, including their establishment forms. So, Kalandarov A, noting that the basis for success is a favorable business climate, emphasizes the important role of management in relation to foreign invested enterprises. Thus, the republic has reduced the minimum required amount of foreign investment in the authorized capital of FIE-s from 30 to 15 percent [8]. In addition, the requirement for the participation of a foreign legal entity as a participant in a company with foreign investment was canceled.

Hlavich V. argues that joint ventures (JVs) are a special form of ownership that involves the creation of a common company by participants from two countries. Relationships are built on the basis of unified management of property and other assets. In his opinion, the creation of joint ventures in world practice is a common process for the business environment. In his opinion, each country practices different types of joint ventures based on market needs. For example, in Germany and France these are companies associated with the automotive industry, and in the USA – with the mining industry [17].

According to Marshall Hargrave, a joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources to accomplish a specific task. This task can be a new project or another business activity. Each participant in a joint venture is responsible for the profits, losses and costs associated therewith. However, the joint venture is a separate entity, separate from the participants' other business interests [18].

Gabi Bellairs-Lombard, studying investment processes in Southeast Asia, noticed another FIE form, and noted, that a Wholly Foreign-Owned Enterprise, or WFOE, is a limited liability company fully owned by one or more foreign investors. And unlike other types of companies in Hong Kong, a WFOE enables foreign investors to have complete control and ownership of their business operations. This level of control allows foreign investors to implement their own strategies and make important decisions without needing a local partner while setting up an offshore company [19].

5.Conclusion

The achieved results, on one hand, align well with global trends and the expectations of host countries. They demonstrate the increased stability in the republic, improved business conditions, and strengthened security and guarantees. As a result, foreign-invested enterprises, where the foreign partner is the owner, gain greater (full) autonomy in management and investment matters.

To manage this process effectively, it is essential to develop a separate statistical database on foreign-invested enterprises and to unify (harmonize) the concept in the Republic of Uzbekistan. This would facilitate work for domestic and foreign specialists and simplify the monitoring of the development of each foreign-invested enterprise across industries and regions.

Considering the above, we believe it is necessary to prioritize the use of the term "foreign investment enterprise " (FIE), which was legally adopted in December 2019. This will serve as a general term encompassing "joint ventures" (JVs) and "wholly owned foreign enterprises" (WOFEs). It reflects current trends in Uzbekistan and aligns with international practices for regulating foreign capital. For example, in China, the FIE includes joint ventures (JVs), joint-stock enterprises (JSEs), foreign enterprises (FEs), and enterprises with limited foreign participation (ELFP).

The proportion of joint venture forms has shifted towards wholly owned foreign enterprises. In the post-COVID period, joint venture development trends have resumed in Uzbekistan. In our estimation, given the ongoing economic liberalization and improved investment climate, the trend toward the predominant growth of foreign enterprises (FEs) over joint ventures (JVs) will continue. Joint ventures, therefore, will likely remain in a minority form, either in strategic industries protected by the republic's laws or at the initial stage of establishing a business with a foreign investor.

This will require improvements in the management of investment processes within the republic. It is also necessary to enhance the analysis of foreign capital movements in Uzbekistan using new approaches and scientific research methods, which will allow for monitoring:

-foreign entry into the market and the dynamics of changes in the shares (contributions) of foreign participants;

-the evolution of foreign-invested enterprise forms: from minority JVs to majority ones, and from majority JVs to wholly owned foreign enterprises (WOFE), which, according to other countries' experience, are usually more production- and technology-focused;

-the impact of increasing foreign capital concentration on specific industries and the economy as a whole, including risk assessments for national security;
-the role of foreign capital in the structural transformation, modernization, and technological advancement of the national economy, as well as the motives and intentions of foreign investors;
-the state of the investment climate and the effectiveness of measures to improve the country's investment appeal;
-furthering Uzbekistan's integration into the global economy and unifying the regulations governing foreign capital.

In this regard, it is necessary, taking into account global experience, to develop regulatory norms and principles governing foreign investment processes, primarily for strategically important sectors of the economy and areas of public life, such as food security, energy, gold mining, media, culture, and others.

Considering the importance of employment issues for the republic, which have been exacerbated by the corona virus crisis, social protection and guarantees for the creation (or preservation) of jobs at foreign investment enterprises should be among the key mechanisms and priorities of regulation.

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