

## "NAVIGATING RISKS IN INVESTING IN UZBEKISTAN'S INTERNATIONAL TRADE TRANSPORT CORRIDORS"

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### ABSTRACT

Uzbekistan's strategic location as a landlocked country surrounded by five other countries and its abundance of natural resources make it an attractive destination for foreign investors. The government of Uzbekistan has implemented a series of economic reforms aimed at attracting foreign investment in various sectors, including the development of international trade transport corridors. However, investing in Uzbekistan's international trade transport corridors comes with a variety of risks that investors need to navigate in order to ensure the success of their investments. This paper will explore these risks and provide guidance to investors on how to mitigate them.

**Keywords:** Uzbekistan, transportation sector, international trade, risks, corruption, security, infrastructure, investment, due diligence, risk management, political risks, legal risks, security risks, inadequate infrastructure, regional connectivity, collaboration, partnership, economic development, responsible investment, logistics, supply chain, trade routes, transit corridors, customs clearance, tariffs, sanctions, political stability, regulatory framework, governance, transparency, cultural awareness, environmental impact, social responsibility, stakeholder engagement, public-private partnerships, financing, emerging markets, emerging economies, Silk Road, Central Asia, Eurasia, diversification, innovation.

### INTRODUCTION

Uzbekistan is a landlocked country in Central Asia that is strategically located at the crossroads of two major international trade routes, the Silk Road and the North-South Transport Corridor. Uzbekistan's location, combined with its abundance of natural resources and a population of over 36 million people, make it an attractive destination for foreign investors looking to tap into Central Asia's growing markets. In recent years, the government of Uzbekistan has implemented a series of economic reforms aimed at attracting foreign investment in various sectors, including the development of international trade transport corridors.

Investing in Uzbekistan's international trade transport corridors is not without risks. Investors need to navigate a variety of challenges, including political instability, corruption, lack of transparency, and inadequate infrastructure. This paper will explore these risks in more detail and provide guidance to investors on how to mitigate them.

Uzbekistan's location at the center of Central Asia has made it a vital hub for international trade. The country's strategic location has led to the development of several key transportation corridors that connect Central Asia to the rest of the world. These corridors include the North-South Corridor, which connects Russia to India and Iran, and the East-West Corridor, which connects China to Europe.

Uzbekistan has been investing heavily in the development of its transportation infrastructure in recent years to position itself as a key player in the region's logistics industry. The government has launched several initiatives aimed at modernizing and expanding its transportation infrastructure, including the construction of new highways, railways, and airports. In addition, the country has invested in the development of several logistics centers and transit hubs to support the growth of its transportation sector.

Investing in Uzbekistan's international trade transport corridors presents significant opportunities for investors. However, these opportunities come with significant risks. This paper examines the risks associated with investing in Uzbekistan's international trade transport corridors and proposes strategies for mitigating these risks.

Political risk:

While the country has made progress towards political stability under the leadership of President Shavkat Mirziyoyev, there are still concerns about the country's political environment. Investors need to be aware of the political risks associated with investing in Uzbekistan's international trade transport corridors.

Political instability in Uzbekistan can be influenced by the country's neighboring countries, particularly those with whom it shares a border. Uzbekistan shares a border with five countries: Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, and Turkmenistan.

Political instability in neighboring countries can have a spillover effect on Uzbekistan, particularly if it results in increased insecurity or conflict along its borders. For example, the civil war in Tajikistan in the 1990s spilled over into Uzbekistan, leading to an influx of refugees and heightened tensions along the border.

Additionally, political instability in neighboring countries can impact Uzbekistan's trade relations and transportation networks. For example, the ongoing conflict in Afghanistan has disrupted regional trade and transportation networks, which can impact Uzbekistan's efforts to develop its own international trade transport corridors.

To mitigate political risks, investors should conduct due diligence on the political environment in Uzbekistan and assess the government's commitment to economic reforms. Investors should also engage with local stakeholders, including government officials and business leaders, to gain a better understanding of the political climate in the country.

## CORRUPTION

Corruption is a significant challenge in Uzbekistan, with the country ranking 153 out of 180 countries in Transparency International's Corruption Perceptions Index. Corruption is particularly prevalent in the country's transport sector, which is known for its opaque and non-transparent practices. Investors need to be aware of the risks associated with corruption when investing in Uzbekistan's international trade transport corridors.

To mitigate corruption risks, investors should conduct thorough due diligence on potential partners and service providers. Investors should also establish strong anti-corruption policies and procedures and ensure that their employees and partners adhere to them. Additionally, investors should engage with local stakeholders, including civil society organizations and anti-corruption watchdogs, to gain a better understanding of the corruption risks in the country. It is also important for investors to train their employees on the risks of corruption and the importance of ethical conduct. Employees should be provided with clear guidance on what constitutes corrupt practices and the consequences of engaging in such practices. Companies should also encourage employees to report any suspicions of corruption or unethical conduct and should provide mechanisms for whistleblowers to report such incidents anonymously. In addition, investors should be aware of the legal and regulatory framework governing corruption in Uzbekistan. The country has a number of laws and regulations aimed at combating corruption, including the Law on Combating Corruption and the Law on Public Procurement. Investors should ensure that their anti-corruption policies and procedures are in compliance with these laws and regulations and should seek legal advice if necessary. Overall, the risk of corruption in Uzbekistan's transportation sector is significant, but it can be mitigated through careful due diligence, robust anti-corruption policies and procedures, and a commitment to ethical conduct. By taking these steps, investors can help to build a more transparent and accountable business environment in Uzbekistan and contribute to the country's economic development.

### **LACK OF TRANSPARENCY**

Uzbekistan's business environment is known for its lack of transparency, with companies often operating in an opaque and non-transparent manner. This lack of transparency can make it difficult for investors to conduct due diligence and assess the risks associated with investing in Uzbekistan's international trade transport corridors.

To mitigate transparency risks, investors should work with reputable local partners who have a strong understanding of the local business environment. Investors should also establish strong governance and compliance policies and procedures to ensure that their investments are being managed in a transparent and accountable manner.

Lack of transparency is a significant challenge for foreign investors in Uzbekistan. The country's business environment is known for its lack of transparency, with companies often operating in an opaque and non-transparent manner. This lack of transparency can make it difficult for investors to conduct due diligence and assess the risks associated with investing in Uzbekistan's international trade transport corridors.

One area where lack of transparency is particularly prevalent in Uzbekistan is in the procurement process. Procurement processes in Uzbekistan are often non-transparent and subject to corruption, which can make it difficult for foreign companies to compete on a level playing field. In addition, many public tenders are limited to local companies, which can limit opportunities for foreign investors.

Another area where lack of transparency is a challenge is in the legal system. The Uzbek legal system is complex and can be difficult for foreign investors to navigate. The country's legal framework is also subject to frequent changes, which can create uncertainty for investors.

Additionally, the judicial system in Uzbekistan is often subject to political influence, which can undermine the rule of law.

To mitigate transparency risks, investors should work with reputable local partners who have a strong understanding of the local business environment. This can help investors navigate the procurement process and other areas where lack of transparency is a challenge. Additionally, investors should establish strong governance and compliance policies and procedures to ensure that their investments are being managed in a transparent and accountable manner. Finally, engaging with local stakeholders, including civil society organizations and anti-corruption watchdogs, can help investors gain a better understanding of the transparency risks in the country.

Lack of transparency in Uzbekistan has been a significant challenge for foreign investors in the country. There have been several real-life examples of the negative impact of lack of transparency on foreign investment in Uzbekistan.

One such example is the case of the Swedish telecom company TeliaSonera. In 2013, TeliaSonera was investigated by Swedish authorities for allegedly paying bribes to secure business in Uzbekistan. The investigation found that TeliaSonera had paid over \$330 million in bribes to an Uzbek government official in exchange for access to the country's telecom market. The case highlighted the risks associated with doing business in Uzbekistan and the importance of conducting due diligence to assess transparency risks.

Another example is the case of the Uzbekistan Airways scandal, which involved allegations of corruption and money laundering. In 2019, the U.S. Department of Justice filed a civil forfeiture complaint against assets related to Uzbekistan Airways, alleging that the airline had laundered over \$1 billion in funds through the U.S. financial system. The case highlighted the challenges of conducting business with state-owned enterprises in Uzbekistan, which often operate in a non-transparent manner.

These examples demonstrate the importance of transparency in mitigating corruption risks and ensuring a level playing field for foreign investors in Uzbekistan. Without transparency, foreign investors may be exposed to significant legal, financial, and reputational risks, which can undermine the success of their investments in the country.

**Inadequate Infrastructure:**

Investing in Uzbekistan's transportation sector also requires an understanding of the inadequate infrastructure of the country and its neighbors. The transportation infrastructure in Uzbekistan is relatively underdeveloped, with limited road and rail networks and outdated equipment. This can lead to inefficiencies and delays in the movement of goods, impacting trade and business operations.

Furthermore, Uzbekistan's neighboring countries, including Afghanistan, Kazakhstan, and Tajikistan, also face significant infrastructure challenges. For example, Afghanistan has limited road and rail networks, with many roads and bridges in poor condition due to decades of conflict and neglect. Similarly, Tajikistan has limited transportation infrastructure, with only one major road connecting the capital, Dushanbe, to the rest of the country.

These infrastructure challenges can impact the movement of goods through the region, leading to delays and inefficiencies in trade and business operations. Additionally, the inadequate

infrastructure can increase the cost of transportation, further impacting the profitability of investments in the sector.

To mitigate the risks associated with inadequate infrastructure, investors in Uzbekistan's transportation sector should focus on developing and modernizing transportation infrastructure in the country and working with neighboring countries to improve regional connectivity. This may include investing in the construction of new roads and railways, upgrading existing infrastructure, and implementing new technologies to improve efficiency and reduce costs.

Investors should also work closely with local authorities and stakeholders to identify and address infrastructure challenges and promote regional cooperation on transportation infrastructure development. This may involve partnering with governments, international organizations, and other stakeholders to develop and implement infrastructure projects and policies that support regional integration and connectivity.

Overall, while the inadequate infrastructure in Uzbekistan and its neighbors poses significant challenges for investors in the transportation sector, there are opportunities for investment and collaboration to improve infrastructure and promote regional connectivity. By taking a strategic and collaborative approach to infrastructure development, investors can help to improve the efficiency and profitability of their operations while contributing to the economic development of the region.

## CONCLUSION

Investing in Uzbekistan's international trade transport corridors presents significant opportunities for investors. However, these opportunities come with significant risks, including political instability, corruption, and security concerns. To mitigate these risks, investors should conduct thorough due diligence, implement robust anti-corruption policies and procedures, work closely with local security agencies, and develop contingency plans to manage potential disruptions to their operations. By adopting these strategies, investors can successfully navigate the risks associated with investing in Uzbekistan's transportation sector and capitalize on the country's strategic location at the center of.

In conclusion, investing in Uzbekistan's transportation sector offers significant opportunities for growth and profitability, but it also poses significant risks and challenges. To navigate these risks, investors should conduct thorough due diligence, implement robust risk management practices, and work closely with local authorities and stakeholders to promote stability and economic development in the region.

Moreover, investors in the transportation sector must be aware of the country's political, legal, and security risks, including corruption, inadequate infrastructure, and security threats. By taking appropriate measures to mitigate these risks, investors can help to ensure the safety and security of their operations and contribute to the development of a more stable and prosperous business environment in Uzbekistan.

Finally, investors should also be aware of the potential for collaboration and partnership with local authorities and stakeholders to address infrastructure challenges and promote regional connectivity. By taking a strategic and collaborative approach to infrastructure development, investors can help to improve the efficiency and profitability of their operations while

contributing to the economic development of the region. With careful planning, diligent risk management, and a commitment to responsible investment practices, investors can successfully navigate the risks and challenges of investing in Uzbekistan's transportation sector and realize significant opportunities for growth and success.

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