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UZBEKISTAN: Annual Economic Report
(Period June 2019 to June 2020)

Executive Summary

In general, the Uzbek economy remained stable in 2019, though it continued to suffer from high inflation, negative foreign trade balance, increasing foreign debt and lack of FDIs. Increasing demographic pressure and high unemployment rate continued to be a major challenge for the Government. Some sectors, including energy and agriculture, remained high on the agenda of the Government, and have seen interest from foreign investors.

Uzbekistan's GDP growth rate was at 5.6% in 2019, against the forecasted 5.4%, which is higher than in 2018 (5.4%). However, in monetary terms it only amounted to $57.9 billion against $50.4 billion in 2018. Uzbekistan's GDP per capita amounted to $1’741 (against $1’533 in 2018), but remained well below the global average. In 2019, the number of Uzbek citizens increased by 650’300 people (or 2%). The resident population was 33.9 million as of 1 January 2020.

The inflation and refinancing rates remained high in Uzbekistan. The prices of goods and services in the consumer market increased by 15.2%, against the 17.9% increase in 2018. Due to this, the Central Bank of Uzbekistan maintained a relatively high refinancing rate at 15%. The Bank has also maintained its core inflation forecast for 2020 at 12-13.5%.

The British magazine *The Economist* named Uzbekistan as the country of the year, while other candidates were New Zealand, Northern Macedonia and Sudan. According to the publication, Uzbekistan still has a long way to go, but no other country has improved as much as Uzbekistan in 2019. Moreover, Uzbekistan improved its standing in the Economic Freedom Index (by the *Heritage Foundation* and *The Wall Street Journal*) rising from 140th in 2019 to 114th place this year and showing the highest growth in the ranking among the CIS countries. Uzbekistan showed the highest growth in the composite index indicators like freedom of investment, financial freedom and property rights.

The impact of the COVID-19 pandemic on the Uzbek economy is significant. The Uzbek economy was partly stopped for weeks; at the time of the finalization of this report, a vast majority of the economy is in the process of reopening. However, many enterprises will meet serious difficulties; the burgeoning private sector, in particular in the field of services (tourism, hospitality, etc.), is severely hit. The chronic underemployment, aggravated by the return of more than 200’000 labor migrants, has hit record highs reaching more than 2 million people (against 1.35 million in the end of 2019). Further shocks are expected in relation to the sluggishness of Uzbekistan’s traditional export markets, e.g. for energy, textile, fresh produce, etc. (China, Russia, Kazakhstan, South Korea, and Turkey).

The Government, in cooperation with its multilateral partners, developed an emergency COVID response plan; it is multisector and relatively well financed ($1 billion from the State budget, $3.5 billion in soft loans). It is susceptible to substantially soften the worse of the COVID impact if it is implemented soundly.

1. Economic problems and challenges

The economic challenges faced by the Government of Uzbekistan (GoU) – with the exception of those related to COVID did not change significantly during the reporting period. The 2017-2021 Action Strategy for Development of Uzbekistan, proposed by President Mirziyoyev and adopted in February 2017, remained the GoU's major guideline and reforms agenda. In early 2019, with the assistance from international development partners (led by the World Bank), the implementation strategies were revised and a new Reform Roadmap was adopted. This resulted in further economic and social transformations, including important policy and legislation changes in the public finances and banking sectors, phasing out state controls in cotton and textile industries, and advancing of the privatization of state assets.

In 2019, the GoU launched a large-scale reform of the major state-owned enterprises in the energy and mining sectors. The blueprints for the complete restructuring and economic optimization of such giant state companies as Navoi Mining and Metallurgical Combine and Uzbekneftegaz, together contributing almost half of the Uzbek GDP, have finally been developed and approved by the Government.

While improving the overall business environment and attracting more foreign direct investments (FDI) stayed a priority, wellbeing and social protection system increasingly gained importance in the GoU's reforms agenda after the President recognized – for the first time ever in the national history – that a substantial part of the population were living in poverty. According to preliminary estimates, 12 to 15% or 4 to 5 million people in Uzbekistan live with a daily income that hardly exceeds a dollar.

In particular, the Ministry of Economy and Industry was transformed into the Ministry of Economic Development and Poverty Reduction led by the Deputy Prime Minister Djamshid Kuchkarov, who, besides economic and financial policy, development of industries, is now also in charge of improving the wellbeing of the population. The Ministry will examine all government decisions, programmes and strategies in terms of their impact on poverty. It is also responsible for developing and overseeing the implementation of the 'Strategy of socio-economic and industrial development until 2030' and the 'Poverty Reduction Program', as well as for introducing 'a minimum consumer basket' and 'a minimum living wage' in all regions as of 2021.

However, a number of systemic problems that are the legacy of the previous regime continue to jeopardize the reformist aspirations of President Mirziyoyev. The lack of qualified cadres continue to represent the most acute problem requiring a long needed public administration reform. Frequent changes in the structure of the government and the reshuffling of a small number of rare young professionals in the Cabinet indicate President Mirziyoyev's readiness to adjust to the reform and open the way to young professionals. Addressing the Parliament in early January, he suggested creating a system for assessing the managers in the executive branch of the Government, including the Prime Minister and Government members, on the principles of effectiveness in line with international ratings and indices.

A systemic corruption is another vicious legacy of the previous kleptocratic system that continued to challenge and jeopardize the ongoing reforms. According to the Corruption Perception Index 2019 (by Transparency International), Uzbekistan has slightly improved its ranking from the 158th to the 153rd position, though it continued to be listed among the most corrupted countries. Reports describe Uzbekistan as an oligarch-authoritarian state where public resources are misused to the benefit of those in or close to the ruling elite. While there is limited information regarding the extent and forms of corruption in the country, available evidence suggests that corruption is widespread and affects the daily lives of all citizens. Corruption allows the elite to illegally appropriate the country`s natural resources and triggers human rights violations. The government's response to widespread and systemic corruption has been weak, with extensive emphasis given to anti-corruption training. Transparency International's report notes that more legal and institutional reform are needed to ensure a meaningful separation of powers and an adequate public accountability of the government bodies.

In April 2020, Uzbekistan established a new state body to fight corruption. The Anti-corruption Agency was given the status of an independent law enforcement agency, which should coordinate the national anticorruption policy and conduct its own investigations. Its powers should extend to members of parliament, the presidential administration, the government and other

public officials. The agency should be responsible for overseeing the process of public procurement, budget spending, and the introduction of a declaration system.

Intensive integration into the global economy in the last two years made Uzbekistan susceptible to the ups and downs of international financial markets. The emerging global economic crisis caused by ongoing global trade disputes, declining oil prices and the spreading pandemic resulted in the Uzbek national currency's (soum) sharpest devaluation against major foreign currencies in the reporting period. Since the liberalization of monetary policy in Uzbekistan in 2017, the Uzbek soum depreciated more than 22%. The position of the main regulators, the Central Bank and the Ministry of Finance, was exceptionally balanced and demonstrated the GoU's commitment to further pursue its liberal policy. While explaining reasons of the volatility of the national currency, both agencies have spoken against any interventions that could lead to even greater economic and image losses for the country. The Central Bank announced that it is abandoning the practice of regulating the currency rate corridor, leaving this to the discretion of the market itself.

In 2019, amendments were made to the rules for commercial banks easing the repatriation of profit by the foreign companies. Money of non-residents who carry out activities in Uzbekistan through a constant institution can be freely transferred to accounts beyond the country. According to the Chairman of Central Bank, as of August 2019 foreign investors have already transferred abroad about $700 million of their profit made in Uzbekistan. As part of measures to further liberalize the foreign currency market, commercial banks as of 20 August started selling foreign currency in cash through foreign currency exchange offices. Up to then foreign currencies had been available only in electronic form.

Since January 1, 2020, the Central Bank of Uzbekistan began a phased transition to inflation targeting. The benchmark for reducing inflation by 2021 will be 10%, by 2023 - 5%. The main reason for accelerating the transition to inflation targeting is the urgency of curbing the current two-digit inflation rate (17.9% in 2018 and 15.2% in 2019) linked to the ongoing reforms, including the liberalization of regulated prices and tax reforms. According to some experts, the inflation targeting regime shows good results in countries with a stable economy that do not undergo significant structural and institutional changes. In the case of Uzbekistan, however, along with the methods of monetary regulation, other methods of macroeconomic impact should be used. Such methods include: increasing demand for money, increasing saving of citizens, the development of the financial market and the financial instruments used, the development of a balanced fiscal policy, etc.

Starting January 3, 2020, Uzbekistan introduced a new Tax Code that has long been publicly discussed since 2018. According to it, tax benefits are now provided only as prescribed in the Tax Code. Separate tax benefits may be granted only in the form of a reduction in the tax rate, but not more than 50% and not more than for three years. Excessive taxes will be refunded by the GoU with interest.

The rate and mechanism of the value added tax (VAT), introduced in early 2019, was actively disputed by economists and businesses as being too excessive and complicated. Many experts and prominent entrepreneurs have been urging to reduce it to 12%. In September 2019, the GoU decided to reduce VAT from 20% to 15%, but at the same time raised the basic corporate income tax rate to 15%. According to local experts, hasty steps in approving the new version of the Tax Code did not yield in good results. Some experts believe that the new tax code does not help businesses get out of the shadows, as it still remain burdensome.

The global coronavirus crisis that eventually hit Uzbekistan in March 2020 has further exacerbated the economic conditions and created new challenges forcing the GoU to adapt and respond. In particular, the weak health and welfare systems have been under serious strain and demanded significant resources to respond adequately to the COVID19 outbreak and its economic and social repercussions. To cover the increasing deficit in national budget and need in financial resources, the GoU has decided to increase the volume of its external borrowing, mainly from the IFIs, for more than $3 billion, which would complement a billion-dollar Anti-Crisis Fund created by the Government.

Despite the stringent isolation measures introduced to curb the spread of the virus that partly stopped Uzbek economy, the continuous operation of more than 2,000 state-owned enterprises

in the industrial and agricultural sectors was ensured to keep the economy running. Timely measures taken by the Government to contain the virus have yielded positive results. Despite the pessimistic forecasts, the authorities managed to contain the disease and keep the infections and death counts low. Nevertheless, the long-term impact of the pandemic on the Uzbek economy is probably to be very significant.

Unemployment is expected to reach an unprecedented level amid the return of hundreds of thousands of labor migrants from Russia and Kazakhstan. According to the Uzbek Agency for External Labor Migration, more than 2.5 million Uzbeks are labor migrants, or more than 7% of the country's population. Out of them 2.1 million are in Russia. Remittances from labor migrants amounted to $5.1 billion in 2019, or around 10% of the country's GDP.

Reports of experts analyzing the possible effects of the pandemic for labor migration focus mainly on the short-term perspective and use the 2008 and 2014 crises scenarios to forecast labor migration flows. However, the unfolding economic crisis in Russia has salient features: the economic conditions have deteriorated significantly and have been overthrown by the pandemic, a sharp drop in oil prices, international sanctions and the closure of borders with the suspension of economic activity.

Another important factor is the social anxiety of the Russian population that accumulated over recent years and was aggravated by the negative socio-economic consequences (the closure of SMEs, the skyrocketing unemployment, increasing mortgage debts, the health system failure caused by the pandemic and other), which the Russian Government has not been able to mitigate effectively and timely. This suggest Russian authorities will focus on relieving the internal socio-economic and political tension. As a result, the issues of migration management will be relegated to the background, and the departure of labor migrants to their homeland will be more significant in scale than during previous crises.

According to official data, about 200 thousand migrant workers returned to the country by the end of April 2020, and more than 55 thousand migrants planned to return home the following weeks. Media regularly report about groups of hundreds of Uzbek and Kyrgyz migrants continuously arriving in Russian airports and on the border crossings with Kazakhstan in desperate attempts to get back to their country.

In this regard, the attention of the GoU is increasingly shifting from efforts to ensure economic growth to more urgent efforts to create as many jobs as possible to overcome the growing stress on the labor market, although the possibilities for supporting returnees are very limited. As a large proportion of immigrants are from small towns and rural areas, who can feed on personal households, the distribution of land in rural areas and reducing the tax burden have been considered as an option by the GoU. Additionally, in late May it announced that self-employed citizens would be exempted from income tax, which includes around 60 trades (barbers, bakers, shoemakers, translators, etc).

Meanwhile, many of the migrant workers who are still in Russia, Kazakhstan, etc., are out of their job and cannot continue sending remittances. The losses for the Uzbek economy (cut in remittances, repatriation, and hyper unemployment) from the closure of the Russian market for more than two million labor migrants only may reach $10 billion. According to the Russian Central Bank the remittances by labor migrants from Central Asian countries had already decreased by more the 30% in March 2020, before the Russian Government begun to introduce strict isolation measures.

2. International and Regional Economic Agreements

Since the declaration of independence in 1991, Uzbekistan joined a number of international organizations at regional and superregional level. Among others, it has been active in the Commonwealth of Independent States (CIS), the Economic Cooperation Organization (ECO), the Shanghai Cooperation Organization (SCO), and the Asia Cooperation Dialogue (ACD). Uzbekistan is also a member of business-related international organizations within and outside the United Nations system (ILO, UNCTAD, WIPO, ITU, ICAO, IAEA, FAO, and UNIDO). However, due to the isolationistic policy of the late President Islam Karimov, the participation of Uzbekistan in most of these organizations has been low profile.

Uzbekistan has long been using lending capacities of such international financial institutions (IFIs) as the International Monetary Fund (IMF), the World Bank (WB), the Asian Development Bank (ADB) and the Islamic Development Bank (IDB). Its borrowings from IFIs has significantly increased during the last three years. In 2018, the European Bank for Reconstruction and Development (EBRD) also re-launched its multi-million lending and investment programs to support infrastructure projects and businesses in Uzbekistan.

2.1 Country's policy and priorities

With the advent of the new government in 2016, Uzbekistan began to open up to the world and pursue an active foreign policy aimed at integrating into the global economic system. It intensified its cooperation with a number of regional and global economic organizations to expand access to the world market and attract foreign investments.

In particular, to improve its human rights record and the access of its cotton and textile producers to the wealthy Western consumer markets, Uzbekistan intensified cooperation with the ILO. Thanks to the partnership with ILO and associated development partners, including Swiss Government, Uzbekistan made significant progress and completely eradicated child labor. The systematic recruitment of students, teachers, doctors and nurses also completely stopped. However, the recruitment of staff from state institutions, agencies and enterprises still occurs at the local level. Due to this, the Cotton Campaign refused to lift its global boycott of Uzbek cotton following the appeal of the Minister of Labor of Uzbekistan in April 2020. Textile production alone employs more than 200 thousand workers in Uzbekistan, whose wages support the livelihoods of more than a million people.

Uzbekistan continued negotiations towards its accession to the WTO, for the membership of which it applied in 1994. The WTO membership was identified as a priority in the country's Development Strategy for 2017-2021. In the reporting period, the GoU has intensified its efforts to speed up the process. In early July 2019, Uzbekistan's chief negotiator for the accession reported to the WTO Accessions Division on the state of preparation of the documentation necessary for the resumption of the Working Party. He informed that the national Inter-Agency Commission and the eight thematic technical working groups had been established and were meeting on a regular basis to advance the preparation of the documentation.

On July 25, 2019, Uzbekistan formally submitted to the WTO Secretariat a Memorandum on the Foreign Trade Regime (MFTR), which is an updated version of the 1998 memorandum. This is the first document submitted by the Government of Uzbekistan since the Working Party last met in October 2005. Moreover, official Tashkent in its negotiations with partners was seeking 'developing economy' status, which entails privileges in negotiations with WTO member state.

Uzbekistan's membership in the regional economic associations is also among the country's development priorities. In May 2020, the country's Parliament approved by a simple majority of votes (with 32 against) the government's decision to join the Eurasian Economic Union (EEU) as an observer. To date, there is no consensus among the political establishment and experts in Uzbekistan on the membership in the EEU, as opposed to the membership in the WTO. Despite the existing contradictions and problems within the Union, caused mainly by the disparities among national economies of member states, the founding members Russia and Kazakhstan remain Uzbekistan's major foreign export and labor markets.

Uzbekistan has also been an active partner of the Belt and Road Initiative (BRI), which can be considered as a Chinese project competing with the Russian EEU for economic influence in Central Asia. China recognizes the importance of Uzbekistan as a key player in the region, which could help China's long-term and multi-faceted strategy in the framework of the BRI. China bets on Uzbekistan as a main partner in moving forward the BRI concept in the region, with a capacity to possibly advance the peace process in Afghanistan.

In the event the parties to the conflict in Afghanistan reach a peace settlement, China and Uzbekistan would be in the first row of beneficiaries. Uzbekistan would get new export markets in Afghanistan and Pakistan, as well as an access to Pakistan's seaports, and thus to the global markets. China, in addition to also gaining Afghanistan as a new market, would also get an access to vast and untouched natural resources essential to its giant economy. Moreover, China could

use Uzbekistan's mediation to address possible cross-cultural challenges in Afghanistan and ease its access to a rather conservative Muslim society.

Expanding economic cooperation with the European Union (EU) is another Uzbekistan's priority. The sides continue active negotiations on a new draft agreement on enhanced partnership and cooperation. It should be completed by the end of 2020 and will replace the agreement on partnership and cooperation of 1999.

In 2020, Uzbekistan chairs CIS. Its chairmanship focuses on the joint projects aimed at promoting digital technologies in industries and agriculture, as well as in the financial sector and expanding access to electronic services.

2.2. Outlook for Switzerland (potential for discrimination)

Switzerland has concluded a number of economic agreements with Uzbekistan, including a bilateral trade and economic agreement (in force since 22 July 1994), an investment protection agreement (in force since 5 November 1993), a double taxation agreement (DTA), in force since 15 August 2003, revised on 1 July 2014), a cooperation agreement on technical and financial cooperation and humanitarian aid (in force since 15 May 2003), an aviation agreement (in force since 11 April 1997) and Road Traffic Agreements (in force since 15 August 2002).

Uzbekistan is a member of the Swiss constituency in the World Bank, the IMF, the EBRD and the GEF. Before the reporting period, in April 2019 Switzerland and Uzbekistan signed an MoU on the cooperation between finance ministries.

Based on its regional cooperation strategy with Central Asia, Switzerland supports bilateral and multilateral projects in Uzbekistan. SDC and SECO are particularly involved via projects in water resource management, vocational education and trade facilitation.

3. Foreign Trade

3.1. Development and general prospects

The foreign trade turnover of Uzbekistan has reached $42.2 billion in 2019, which is an $8.7 billion (26.2%) increase over the previous year. This includes $17.9 billion export (28% growth compared to 2018) and $24.3 billion import (25% growth compared to 2018), which resulted in $6.4 billion (55% growth compared to 2018) negative balance.

The GoU has been making significant efforts to achieve a positive trade balance, including such measures as investing in export oriented production, higher import tariffs and zero export tariffs, as well as subsidies for exporters. For instance, since May 2019, the GoU has been offering to exporters a compensation of up to 50% of their costs of transportation by rail. Starting from February 2020 this also applies to transportation by road and air.

The ranking of Uzbekistan's major trade partners remained unchanged in 2019 and included China ($7.6 billion or 18.1%), Russia ($6.6 billion or 15.7%), Kazakhstan ($3.3 billion or 8%), South Korea ($2.7 billion or 6.5%), Turkey ($2.5 billion or 6%) Germany ($980 million or 2.3%), Kyrgyzstan ($829 million or 2%), Afghanistan ($618 million or 1.5%) and the USA ($596 million or 1.4%). A positive foreign trade balance was achieved with Kyrgyzstan, Afghanistan, Tajikistan, Iran and France.

With the onset of the COVID19 pandemic in early 2020, Uzbekistan's trade turnover with its main trading partners began to decline steadily. For instance, for the first time since 2016 China has ceased to be Uzbekistan's main trading partner. Trade with China began to decline as early as January 2020, but at that time, the country kept first place thanks to imports. However, at the end of March the leadership passed to Russia.

Uzbekistan's total foreign trade in the first quarter of 2020 was $8.14 billion, a decrease by $924 million compared to the same period of the last year. Imports declined by $0.5 billion, exports by $0.4 billion. The main trading partner was Russia with a share of 16.9% ($1.37 billion of which $455.6 million exports, $920.9 million imports). China is second with a 16.8% share ($1.36 billion:

$400.8 million exports and $963.5 million imports). In third place Kazakhstan with a share of 8.3% ($675.4 million: $188.2 million exports and $487 million imports).

3.1.1 Trade in goods

Major shares in the export belong to gold (28.5%▲[1]), services (19.9%▼), energy carriers (14.1%▼), textile products (9.1%▼), food and agriculture products (8.5%▲), non-ferrous metals (5.3%▼), chemical products (4.9%▼) and ferrous metals (2%▼). The import consisted mainly of mechanical equipment (23.1%▲), transport and spare parts (10.8%▲), services (10%▼), ferrous metals (9.1%▼), electric equipment (5.5%▼), food products (5.2%▼), energy carriers (3.8%▼), pharmaceutical products (3.8%▼), wood products (3.7%▲), chemical products (3.5%▲) and plastic products (3.3%▲).

Uzbekistan continues to increase gold exports, which grew almost three-fold during the last three years and amounted to $4.92 billion in 2019. The gold exports in recent years were $823.9 million in 2015, $738.2 million in 2016, $1.6 billion in 2017, and $2.91 billion in 2018. It also continued to lead the export structure of Uzbekistan in January-March 2020 with a share amounting to 29.8% (around $1 billion). In the same period last year it was to 32.5%, in 2018 – 37.4%. The WB and ADB analysts noted in their forecasts that expensive gold can help Uzbekistan smooth out external shocks, including the depreciation of oil.

The pandemic has not affected the volume of gold mining in Uzbekistan, as the gold mining industry continue to operate as usual. Currently, annual gold production in Uzbekistan is about 100 tons. Last year the Government has approved a state investment program aimed at increasing annual production to 474 tons by 2024. Since March 2019, Uzbekistan has legalized prospecting gold mining by private individuals and companies.

The ongoing global oil crisis caused by the delayed OPEC+ deal followed by a dramatic collapse of quotes has impacted Uzbekistan's commodity trade through its main trading partners. Because of the virus and cheap oil, prices and demand for natural gas – a major source of revenue to the country's budget – are currently declining. Since the beginning of the pandemic, China has reduced the volume of purchased natural gas and other commodities from Uzbekistan. The same trend is being observed with all major trade partners of Uzbekistan. As a result, Uzbekistan's GDP growth in the 1st quarter of 2020 was 4.1% (0.9% lower than in the previous period), while exports decreased by 11% and imports by 10%.

3.1.2 Trade in services

In 2019, the volume of export of services amounted to $3.56 billion, or 19.9% of the total export. The structure of exported services was as follows: transport services (49.6%▼), tourism (39.7%▲), IT and communications (4.6%▼), construction services (1.4%▲), financial services (0.8%▼).

At the same time imports of services amounted to $2.4 billion, or 10% of the total import. The main share in the import of services: tourism (68.2%▼), transport services (17.4%▼), IT and communications (3%▲), construction services (1.1%▲), financial services (0.8%▼), and others (7.1%▲).

Developing the transport systems and diversifying the transit capacities remained high on the GoU's agenda. According to the World Bank ranking, which includes 163 countries, Uzbekistan is on 99th position in terms of logistics, and 120th on ease of international transport. During a special meeting of the Government in late January 2020, President Mirziyoyev noted transport and transit potential of Uzbekistan was not fully utilized and could be increased from currently 7 million tons to 16 million tons; it could even be increased to 23 million tons by 2030 if regional projects were successfully implemented.

[1] Color arrows indicate year-over-year trend (▲Rise, ▼Fall)

Tourism has continued to demonstrate a steady growth in 2019, before suffering a dramatic drop due to the complete lockdown caused by the pandemic in the beginning of 2020. According to the State Committee for Tourism Development some 6.7 million foreign tourist visitedUzbekistan in 2019 (compared to 5.3 million in 2018) having increased by 26.5%. Almost 82% of the tourists arrived in Uzbekistan to visit their relatives and friends, 15.5% came for leisure, while 2.7% visited the country to seek medical treatment, go shopping, attend business meetings, or to study. Around 51% of the visitors were aged 31 to 55, 20% of them were aged 55 and older, 19.5% aged 19 to 30, and 9% between 0 and 18. Although GoU has resumed internal flights and permitted hotels to gradually start operations, as well as announced resumption of international flights starting from July 2020, it remain unclear as to when Uzbekistan will catch up with its pre-pandemic statistics in tourism.

3.2. Bilateral trade

According to official data, the total volume of bilateral trade turnover in 2019 was $2.88 billion (exports $2.72 billion, imports $163 million), which is 6.7% of the total foreign trade turnover of Uzbekistan. Out of this, the export of gold to Switzerland amounted to $2.7 billion, which is around 55% of total gold export in 2019. In light of GoU's plans to increase gold production, the export to Switzerland may substantially increase in the next four years.

According to data of the Swiss Federal Customs Administration, the trade turnover in 2019 between two countries was around CHF $2.7 billion, which includes gold, resulting in 0.7% share in the Swiss total foreign trade turnover. The import of raw gold into Switzerland for further processing accounts for 99.9% of total imports from Uzbekistan. The rest of the imports consist almost exclusively of agricultural products and pulps for the chemical and pharmaceutical industries and paper pulp.

The composition of Swiss exports in Uzbekistan remains unchanged. It includes machines and tools (textiles, packaging, measuring technology, building material industry machines, construction machinery, machines in the pharmaceutical industry, etc.), pharmaceutical products, chemical production (fertilizers, dyes, basic elements for the processing and conveying industry), agricultural products (in particular seeds), optical and medical apparatus, watchmaker goods, stationery (securities, bills, passports, among others).

In early 2020, the GoU revealed plans to stop exports of raw cotton starting 2020 and of natural gas by 2025, to ensure their full internal processing and use. This could create favorable conditions for the Swiss textile machinery and other associated equipment producers to boost their exports to Uzbekistan.

4. Direct investment

4.1. Development and general prospects

According to official figures, in 2019 the foreign direct investment (FDI) in Uzbekistan grew 2.5 times and amounted to $5.1 billion, including $4.2 billion in fixed capital (property, equipment, and other fixed assets). It is noteworthy that the growth rate of FDI has been sustained despite the global consequences of the pandemic. In the first quarter of 2020, FDI amounted to $410 million, against $288 million in same period of 2019. The total number of investing countries in the economy of Uzbekistan exceeded 50, with major FDI (34%) coming from China, Russia, South Korea, Germany and Turkey.

The same official data suggests the structure of the FDI in 2019 remained mainly unchanged since the past period. Overseas investments were made mainly in the processing industry (33.3%▲), energy (power and gas) supply industry (19.3%▼), mining and extracting industries (17.5%▼), agriculture (7.3%▲), logistics (3.4%▼), construction (2.3%▲), IT and communications (2%▲), health (1.9%▲) water supply and sewage (1.4%▼) and others (11.6%▲).

4.2. Bilateral investments

Despite the GoUs efforts to improve the business environment and create favorable conditions for foreign investments, the Uzbek market remains challenging for most investors. Excessive state regulation of the private sector, outdated legislation, systemic corruption, as well as lack of an effective and independent judiciary remain major obstacles for cautious western investors, including Swiss businesses. Many Swiss companies have been limiting their operations to trade and distribution of their imported goods and services in Uzbekistan.

As of today, Rieter Maschinenfabrik AG (Winterthur) remains the only large Swiss company, which has been investing in its own production facilities in Uzbekistan since 2012. It operates a factory for the production of textile machinery for the treatment of cotton fibers in Tashkent and participates both in a joint textile factory with UzTex Tashkent and in a precision mechanics plant Metal Processing.

In July 2019, another Swiss company, Nestlé, sold its production facilities in Uzbekistan (milk, dairy, baby food, and drinking water) to the French Lactalis, and now only deals with trade and distribution of its imported products.

Stadler Rail has been considering plans to organize the production of passenger cars in Uzbekistan. Uzbekistan Railways is interested in Stadler's modern technologies, as well as in the supply of components and main traction systems for electric locomotives, including the use of modern Swiss metro and electric trains in Uzbekistan.

Earlier in 2019, Sika and Omya decided to invest in production capacities in Uzbekistan. While Omya seems to be still in the process of preparation of its market entry strategy, Sika has already been looking for a location for its production facility.

Schindler and ABB have been successful in relation with some large construction projects and may continue to reinforce their presence in Uzbekistan.

An investment protection agreement exists (see above), but it is not always strictly respected by the Uzbek side.

5. Trade, economic and tourism promotion

5.1. Instruments of foreign trade promotion

Due to the lack of interest of the Swiss companies for the Uzbek market, there was no standard mechanisms to support mutual foreign trade until recently. In late 2019, the Swiss SERV in collaboration with the German and Austrian Export Credit Agencies (ECAs) held a workshop on export financing. The event raised a huge interest and was extremely well received by both local importers and European exporters. As a result, the three ECAs agreed to organize such workshops on a regular basis.

There is a possibility to apply for an export risk guarantee or a credit guarantee from the federal government (for longer-term financing). According to the revised OECD country risk assessment, published in early February 2019, Uzbekistan has improved its position from category 6 (high risk) to category 5 (higher than medium risk), which has an impact on the corresponding fees.

As of January 1, 2018, SECO placed Uzbekistan in the list of priority countries for the SECO Startup Fund (SSF). The Embassy presented this information in the local press and other relevant occasions.

Joint activities of the Embassy with the Joint Chambers of Commerce (JCC) CIS/Georgia and the SGE give Swiss companies the opportunity to inquire about the current developments in the Uzbek market. Given its longstanding presence in Uzbekistan, Rieter Group advocated the setting up an Uzbekistan Chapter at JCC. Rieter and JCC believe that an Uzbekistan Chapter is the most effective way to channel more Swiss investments to Uzbekistan and strengthen the Swiss business presence in the Uzbek market. The inauguration of the chapter took place in May 2019 with an event "Switzerland-Uzbekistan Business Roundtable", featuring a high-level representative from Uzbekistan. Rieter now heads the Uzbekistan Chapter and drives its priorities and program of activities in collaboration with JCC.

Other Swiss chambers have also demonstrated a growing interest for Uzbekistan. There is also a potential interest by companies with Swiss participation to set up an Uzbek-Swiss Chamber of Commerce in Uzbekistan, if the number of such companies in Uzbekistan was to increase.

Opportunities for discussing bilateral economic issues (including corporate matters) are provided by the meetings of the Switzerland-Uzbekistan Joint Economic Commission. The eighth session was held in May 2019 in Tashkent, in combination with a Business-to-Business event.

5.2. Interest in Switzerland

Tourism, education and other services: There is an Uzbek interest for Switzerland as a tourist destination in selected areas such as medical tourism, but also for its specialized education in tourism and hospitality management. SwissTourism, through its partner Turkish Airlines, promotes Switzerland as a destination for the Uzbek tourists by organizing PR events.

The Embassy has been facilitating contacts between the management of World Tourism Forum Lucern (WTFL) and the State Committee for Tourism Development of Uzbekistan. In early 2019, the management of the WTFL offered Uzbekistan to become the Guest of Honour during the Forum 2020. Although the negotiations continued throughout 2019 and beginning of 2020, no agreement was reached so far. Given the changing realities in the tourism domain, the WTFL might need to reconsider its approach and offer some innovative solutions to its customers.

The Swiss financial center is a household name in Uzbekistan and some Uzbek companies have set up their mailbox companies in Switzerland to declare their own investments or company shares in Uzbekistan as "foreign investments" and thus to protect their own capital or property from the arbitrariness of the state and lastly to save on taxes. There is a risk that some of these constructs serve to steer assets stolen under the Karimov’s regime back into Uzbekistan.

Furthermore, the Uzbek state financial and banking institutions as well as the insurance companies have a very high interest in cooperation with the Swiss state and private institutions.

Economic structure

Structure of GDP by sectors (%)	**2013**	**2019**
Industry	51.0	36.4
Agriculture	26.0	28.1
Services	23.0	35.5

Employment by sectors (%)	**2013**	**2019**
Industry	22.7	22.5
Agriculture	27.2	26.8
Service	50.1	50.7

Source: State Statistics committee of the Republic of Uzbekistan

X = year of the period under review in the annual economic report (e.g.: 2008)
X-5 = situation 5 years previously (e.g.: 2003)
(If the year under review is not available, take the last year for which data is available)

Main economic data

	2018[1]	2019[2]	2020[3]
GDP (USD bn) *	**50.4**	**57.9**	**58.9**
GDP per capita (USD) *	**1.662**	**1.724**	**n/a**
Growth rate (% of GDP) *	**5.4**	**5.5**	**1.8**
Inflation rate (%) *	**17.9**	**15.2**	**12.6**
Unemployment rate (%) **	**9.3**	**9.4**	**n/a**
Fiscal balance (% of GDP) *	**- 1.4**	**- 7.8**	**n/a**
Current account balance (% of GDP) *	**- 3.5**	**- 3.2**	**n/a**
Total external debt (% of GDP) *	**34.3**	**42.0**	**n/a**
Debt-service ratio (% of exports) *	**n/a**	**n/a**	**n/a**
Reserves (months of imports) *	**n/a**	**n/a**	**n/a**

* Source: IMF, Article IV Consultation (or host country statistics) [indicate the date of the Art. IV Consultation report]

** Ministry of Employment and Labor Relations

[1] Year preceding that under review in the annual report

[2] Year under review in the annual report

[3] Forecast for the year following that under review in the annual report

Trade partners: Year 2019

Host country view

Rank	Country	***Exports*** *from the host country (USD million)*	***Share (%)***	***Change (%)***	Rank	Country	***Imports*** *from the host country (USD million)*	***Share (%)***	***Change (%)***
1	China	2519.00	24.36	-12.39	1	China	5101.90	25.37	43.39
2	Russia	2492.50	24.10	17.72	2	Russia	4134.40	20.56	16.84
3	Kazakhstan	1429.70	13.82	5.73	3	South Korea	2661.80	13.24	29.81
4	Turkey	1203.60	11.64	27.39	4	Kazakhstan	1938.00	9.64	23.64
5	Kyrgyzstan	679.00	6.57	151.76	5	Turkey	1321.60	6.57	18.76
6	Afghanistan	615.10	5.95	2.09	6	Germany	926.20	4.61	27.75
7	Tajikistan	344.20	3.33	44.93	7	USA	567.10	2.82	49.95
8	Iran	219.60	2.12	27.01	8	Lithuania	443.90	2.21	59.33
9	France	205.70	1.99	4.79	9	Turkmenistan	396.80	1.97	63.09
10	Turkmenistan	145.10	1.40	143.87	10	Japan	385.80	1.92	-43.98
11	Ukraine	113.60	1.10	13.49	11	Italy	375.70	1.87	35.44
12	South Korea	93.60	0.91	-13.89	12	India	330.50	1.64	26.43
13	Germany	53.90	0.52	0.37	13	Latvia	325.30	1.62	-17.10
14	Latvia	48.90	0.47	5.62	14	Belarus	283.20	1.41	-24.92
15	Belarus	47.60	0.46	15.25	15	Ukraine	264.30	1.31	-19.20
16	USA	29.10	0.28	-20.92	16	Iran	204.60	1.02	52.80
17	Japan	27.80	0.27	47.87	17	Tajikistan	152.80	0.76	-0.13
18	Italy	26.60	0.26	-5.34	18	Kyrgyzstan	150.00	0.75	12.70
19	India	25.00	0.24	-0.40	19	France	140.00	0.70	20.17
20	Lithuania	22.60	0.22	79.37	20	Afghanistan	2.90	0.01	38.10

Source(s): State Committee on Statistics: https://stat.uz/uploads/docs/tashqi_savdo_dekabr_ru.pdf

Bilateral trade

PROVISIONAL RESULTS

Federal Customs Administration FCA, External Trade Statistics, 3003 Berne

TN103: Swiss foreign trade by Country and Goods 16.01.2020

Period: January to December 2019

Country: 195 Uzbekistan

* = Rate of change / proportions unpredictable

** = Conversion Rate > 999,9 %

Total 2: Results include gold in bars and other precious metals, coins, precious and semi-precious stones, as well as works of art and antiques.

Total 2		Import in Million CHF				Export in Million CHF				Balance in Million CHF	
		2018	2019	+/- %	Share	2018	2019	+/- %	Share	2018	2019
Total		2'425.59	2'593.12	6.9	100	114.80	111.12	-3.2	100	2'310.79	-2'482
01 - 24	Agricultural products	0.24	0.45	82.2	0.0	1.50	4.24	182.1	3.8	1.26	3.8
27	Fuels			*	*	0.11	0.09	-12.3	0.1	0.11	0.09
28 - 29	Basic chemical products	0.00	0.06	**	0.0	0.02	0.03	24.0	0.0	0.02	-0.03
30	Pharmaceutical products	0.00	0.00	440.7	0.0	44.02	38.52	-12.5	34.7	44.02	38.52
31 - 32	Fertilizers, Dyes, Pigments	0.06		-100	*	5.65	2.74	-51.6	2.5	5.58	2.74
33 - 34	Beauty products, Detergents		0.01	*	0.0	0.67	0.51	-23.1	0.5	0.67	0.50
35 - 38	Starch, Various chemical products	0.00	0.00	24.9	0.0	1.28	0.91	-28.9	0.8	1.28	0.91
39 - 40	Plastics, rubber	0.08	0.00	-99	0.0	0.35	0.49	41.7	0.4	0.27	0.49
41 - 43	Skins, Leather, Leather goods	0.00	0.00	41.0	0.0	0.07	0.11	48.7	0.1	0.07	0.11
44 - 46	Wood, Cork, Wickerwork			*	*	0.04	0.04	-3.2	0.0	0.04	0.04
47 - 49	Paper and paper goods	1.55	1.47	-5.2	0.1	1.67	0.60	-64.3	0.5	0.12	-0.87
50 - 63	Textiles and clothing	0.10	0.22	114.1	0.0	0.39	0.45	14.8	0.4	0.29	0.23
64 - 67	Shoes, Umbrellas, etc.	0.00	0.00	-78.6	0.0	0.18	0.12	-32.8	0.1	0.18	0.12
68 - 70	Goods of stone, ceramics, glass	0.00	0.00	-62.3	0.0	0.66	0.23	-65.0	0.2	0.66	0.23
71	Precious stones, precious metals, imitation jewelery	2'423.4	2590.58	6.9	99.9	0.09	0.17	82.2	0.2	-2'423.3	-2590.41
72 - 83	Base metals and goods thereof	0.00	0.02	**	0.0	1.11	0.46	-58.8	0.4	1.11	0.44
84	Machines (not electric)	0.12	0.26	117.3	0.0	39.91	42.01	5.3	37.8	39.79	41.75
85	Machines (electric)	0.00	0.02	**	0.0	3.07	5.72	86.4	5.1	3.07	5.69
86 - 89	Vehicles, planes, etc.		0.00	*	0.0	1.07	2.47	130.7	2.2	1.07	2.47
90	Opt. / Medicine instruments	0.02	0.00	-96.2	0.0	8.35	6.00	-28.1	5.4	8.33	6.00
91	Clocks and watches	0.00	0.03	**	0.0	4.46	5.15	15.4	4.6	4.46	5.12
92	Musical instruments		0.00	*	0.0			*	*		0.00
93	Weapons and ammunition			*	*	0.01	0.01	-15.3	0.0	0.01	0.01
94	Furniture, bedding etc.	0.00		-100	*	0.11	0.03	-72.1	0.0	0.11	0.03
95 - 96	Toys, sports equipment, etc.		0.00	*	0.0	0.00	0.02	543.2	0.0	0.00	0.01

Source: Swiss Customs Administration
https://www.chatworld.eda.admin.ch/FTS/2019/tarifnummer/land_kapiteln/tn3uz.htm