

## ROLE OF INSTITUTIONAL FRAMEWORKS IN FACILITATING INDIAN INVESTMENT IN UZBEKISTAN

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### Abstract

The trade relations between Uzbekistan and India have grown stronger in recent years. The economic partnership has flourished, driven by countries' mutual interests in trade, investment, and regional connectivity. This study makes an attempt at understanding the role of Uzbekistan's institutional frameworks in facilitating the Indian investment in the country. The study also aims to analyze the factors that are shaping economic relationships between the countries. Factors like bilateral agreements, regulatory policies, and diplomatic initiatives are considered here. This article aims to highlight and challenges for the Indian investors in Uzbekistan by thoroughly analysing the historical context, current economic situations, ties between the countries, and institutional mechanisms. This study also aims at providing workable recommendations for strengthening institutional frameworks to improve investment flows in future. Drawing on secondary data collected from published researches, international commerce data, government reports, and academic literature, this article shall contribute to the improved understanding of how the institutional frameworks pertaining to foreign investments influence cross-border investment in emerging economy of Uzbekistan.

**Keyword:** institutional frameworks, international trade, India-Uzbekistan, Bilateral trade, Indian Investment

### Annotatsiya

So'nggi yillarda O'zbekiston va Hindiston o'rtasidagi savdo-iqtisodiy munosabatlar yanada mustahkamlanmoqda. Ikkala davlatning savdo, investitsiya va mintaqaviy integratsiyaga oid o'zaro manfaatlari ushbu hamkorlikning rivojlanishiga xizmat qilmoqda. Ushbu tadqiqotda Hindiston investitsiyalarining O'zbekistonga kirib kelishida mamlakatning institutsional mexanizmlarining o'rni tahlil qilinadi. Shu bilan birga, davlatlararo iqtisodiy aloqalarga ta'sir ko'rsatuvchi asosiy omillar – ikki tomonlama bitimlar, tartibga soluvchi siyosatlar va diplomatik tashabbuslar ko'rib

chiqiladi. Maqolada Hindistonlik investorlar uchun mavjud imkoniyatlar va muammolar tarixiy va joriy iqtisodiy holat, ikki davlat o'rtasidagi aloqalar va institutsional mexanizmlar asosida atroflicha yoritiladi. Kelgusida investitsiyalar hajmini oshirish uchun institutsional bazani mustahkamlashga qaratilgan amaliy tavsiyalar ham ilgari suriladi. Ilmiy maqola ikkilamchi manbalarga – ilmiy tadqiqotlar, xalqaro savdo ma'lumotlari, hukumat hisobotlari va akademik adabiyotlarga tayangan holda, rivojlanayotgan O'zbekiston iqtisodiyotiga xorijiy investitsiyalar jalb etilishida institutsional mexanizmlarning ta'sirini chuqurroq anglashga xizmat qiladi.

**Kalit so'zlar:** institutsional mexanizmlar, xalqaro savdo, Hindiston–O'zbekiston, ikki tomonlama savdo, hind investitsiyalari.

### **Аннотация**

Торгово-экономические отношения между Узбекистаном и Индией значительно укрепились в последние годы. Экономическое партнёрство развивается благодаря взаимным интересам обеих стран в области торговли, инвестиций и региональной связанности. Настоящее исследование направлено на изучение роли институциональных механизмов Узбекистана в содействии индийским инвестициям в стране. Также рассматриваются ключевые факторы, формирующие экономическое взаимодействие между двумя государствами, включая двусторонние соглашения, нормативно-правовые акты и дипломатические инициативы. В статье подчёркиваются как возможности, так и вызовы для индийских инвесторов в Узбекистане, с учётом исторического контекста, текущей экономической ситуации и существующих институциональных механизмов сотрудничества. Кроме того, даются практические рекомендации по укреплению институциональной базы с целью повышения инвестиционной активности в будущем. Основываясь на вторичных данных, полученных из научных публикаций, международной торговой статистики, государственных отчетов и академической литературы, исследование способствует углублённому пониманию влияния институциональных факторов на трансграничные инвестиции в развивающейся экономике Узбекистана.

**Ключевые слова:** институциональные механизмы, международная торговля, Индия–Узбекистан, двусторонняя торговля, индийские инвестиции.

### **INTRODUCTION**

The economic relationships between India and Uzbekistan have been existing for centuries now. The Silk Road played a crucial role in developing this relationship. Over the past decade, the economic ties between these two countries have grown stronger owing to the improved regional connectivity and countries' mutual interest in trade and investment. The Indian investors are increasingly becoming more interested in Uzbekistan because of multiple reasons like being rich in natural resources, the ongoing economic reforms that facilitate foreign investments in the country and most importantly the strategic location of the country in the CIS region. India has emerged as a reliable economic partner for Uzbekistan with its technological prowess, advanced pharmaceuticals, and its increasing demand for energy and varied raw materials. This

study attempts to explore the role of current institutional frameworks in Uzbekistan's in enabling Indian investors managing their investments by focusing on bilateral agreements between the two countries, current regulatory policies, and diplomatic initiatives in the field on trade relations. The study will also make an effort at understanding various challenges that Indian investors face or are likely to face and finally will offer actionable recommendations to improve the flow of investment.

### **History of Uzbekistan-India Relations**

The trade relations between Uzbekistan and India can be traced back to the times of ancient Silk Road, which facilitated not only the cultural exchanges between the two regions but also exchanges of precious metals, art, silk, and many more items of value. Even during Soviet times Uzbekistan was of prime importance in trade. In these modern times, the official diplomatic relations were formally established in 1992 upon the fall of Soviet Union and Uzbekistan becoming an independent nation. India was amongst the first to recognise the sovereign status of Uzbekistan. Ever since then, the two countries have consistently expended a great deal of effort towards strengthening their diplomatic ties through cultural exchanges, economic collaborations and continuous high-level diplomatic visits. (Ministry of External Affairs, India, 2023). The countries share a great deal of cultural heritage in variety of forms. AN effect of the shared culture can be clearly spotted in both countries. This whole history has been conducive to the development of economic collaboration between these two countries. The understanding of current market dynamics is more than important in fundamental understanding of the Uzbekistan-India economic relations. The shift from Soviet style economy to a market-oriented economy has been challenging for the foreign investors in Uzbekistan. Though the country has been dynamic in adapting to global demands and changes, challenging for Indian investors as well. The Government's continuous efforts towards addressing these challenges birthed institutional frameworks that eased the business for Indian investors, thus increasing the investments in the country. (World Bank, 2021).

### **Economic Ties Between Uzbekistan and India**

Jointly, Uzbekistan and India have witnessed a significant growth in through their economic partnership in recent years. Some key sectors like Information technology, agriculture and pharmaceuticals are the major contributors and key drivers to the expansion of this bilateral trade. The bilateral trade between these two nations reached USD 342 million in 2022 (Ministry of External Affairs, India, 2023) and 1.2 billion by end of 2024 (Un.org, 2025), reflecting a considerable increase from the previous years. Many Indian companies have made substantial investments in Uzbekistan, particularly in the fields of energy, infrastructure, and textiles. One notable example is the involvement of Indian firms in Uzbekistan's energy sector. Companies like ONGC Videsh have explored opportunities in oil and gas exploration. A cooperation agreement has been signed The JSC "Uzbekneftegaz" and Indian "ONGC Videsh Limited" (Kun.uz, 2025). In the renewable energy sector as well the firms have shown their interest in Uzbekistan's renewable energy projects (International Energy Agency, 2022). The pharmaceutical industry for a considerable time now, has been a

key area of collaboration. The Indian companies have been supplying affordable medicines and also have established their manufacturing units in Uzbekistan (UNCTAD, 2021). The economic ties are growing stronger with times and they are facilitated by the institutional frameworks. These frameworks are established not only to facilitate trade but also to attract the foreign investment into the country.

The institutional frameworks include bilateral agreements, joint working groups, and diplomatic initiatives. Together they create a favorable business environment for the foreign investors.

### **Institutional Frameworks Facilitating Indian Investment in Uzbekistan**

The cross-border investments are critical. They need a well-established Institutional. Though a trade between these two countries is centuries old, in modern days, to facilitate the investment and trade between Uzbekistan and India, several mechanisms have been established. A strategic partnership between the countries was established in the year 2011. These mechanisms exist in form of bilateral agreements, regulatory policies, and diplomatic initiatives.

**Bilateral Agreements:** Since gaining independence, Uzbekistan and India have signed numerous agreements in order to promote economic cooperation through trade and investments. The Bilateral Investment Treaty (BIT) was signed in 2019 has provided a legal framework for protecting the investments and resolving the economic disputes (Ministry of External Affairs, India, 2019). In addition to that a Double Taxation Avoidance Agreement (DTAA) was brought in force to ensure that the investors are not taxed twice on the same income. This was a major step in safeguarding the investors' interests and thus encouraging cross-border investment (UNCTAD, 2021). The signing of the BIT between both nations aims at promoting an economic cooperation and to create a more robust and resilient investment environment for investors from/in both countries BIT aims to increase and will also boost the confidence of investors. (VisionIAS, 2024). In nutshell BIT is a mutual agreement for offering a protection to investments by local companies as well as companies of one country in another country. India approved its new Model BIT Text in year 2015. Since then, this Model text of 2015 is used for negotiations and renegotiations of BITs and investment chapters of Foreign Trade Associations and/or Economic Partnership Agreements. BIT ensures that the foreign investors receive similar treatment as domestic investors. BIT also limits country's ability to dominate the foreign investments in its territory, thus all investors are protected. Under BIT the dispute settlement calls for exhausting the local remedies before calling for international arbitration.

**Regulatory Policies:** Post independence, to attract foreign investment, the Uzbekistan economy has undergone a significant number of economic reforms. To streamline the processes for foreign investors, the Ministry of Investments and Foreign Trade has established the Investment Promotion Agency. To promote investments, it offers varied incentives such as tax breaks and simplified licensing procedures (World Bank, 2021). These reforms have created a more investor-friendly environment, benefiting Indian businesses (ADB, 2022).

**Diplomatic Initiatives:** on 18 March 1992, a protocol on establishment of diplomatic relations between the two countries-India and Uzbekistan was signed in Tashkent. India has embassy in Tashkent and Uzbekistan has embassy in Delhi. High-level visits and diplomatic engagements between the countries have played a crucial role in strengthening their economic ties. The visit of Prime Minister of India-Narendra Modi to Uzbekistan in 2015 and the subsequent visit of Uzbek President Shavkat Mirziyoyev to India in 2018 have bolstered bilateral relations (Ministry of External Affairs, India, 2018). As a result, several agreements and memoranda of understanding (MoUs) during these visits to further facilitate Indian investment in Uzbekistan.

**Joint Working Groups:** Together in order to address sector-specific challenges and opportunities Uzbekistan and India have established joint working groups for trade, energy, and agriculture. Aiming at providing a platform for dialogue and collaboration, these platforms enable the involved stakeholders to identify and resolve the issues pertaining to the investments in a timely manner (uza.uz, 2023). The effect can be seen in the increase of number of joint ventures by 5 times. In the sectors of IT, healthcare, agriculture, and tourism Joint investment projects valued at more than USD 200 million are in process of being implemented. (Gateway House, 2018)

#### **Challenges Faced by Indian Investors in Uzbekistan**

The Uzbekistan economy is emerging at a fast pace. The government is constantly working towards strengthening institutional frameworks, despite this progress, Indian investors in Uzbekistan still face quite a few challenges. For instance, Indian tea in Uzbekistan's market could not do well as the prices are much higher than the available options.

**Foreign Exchange Volatility:** The foreign exchange volatility affects liquidity, valuation of the businesses. Until recently it has been the non-convertibility of local currency that affected the finance imports into Uzbekistan. The Government of Uzbekistan has adopted an approach which results in restrictions on business' access to foreign currency and on imports combined with the overvalued official exchange. The value of UZS is always fluctuating against the foreign exchanges. According to the Investment Policy Review conducted by UNCTAD, a natural resources sector investor said that development and operating costs in natural resources sector are 10-15% higher than in competing locations, even before account has considered the conversion of foreign currency at the official exchange rate to pay local costs of the business such as bills and wages . (Investment Policy Review of Uzbekistan, n.d.)

**Intellectual Property Rights (IPR) Protection:** Imitation businesses- a common practice of copying the well-known international brands by local entrepreneurs is instrumental in discouraging the foreign investment. That being said an insufficient IPR protection has remained a challenge for foreign businesses in Uzbekistan for long time. In 2018, the country's leadership government had taken some important steps to address longstanding issues pertaining to IP protection and enforcement of laws related to IPR. (75, 2023)

**The Banking Sector inefficiencies:** Global Ratings listed some weaknesses of the banking sector in Uzbekistan, some being: distorted competition in the banking sector is caused by the dominance of state banks, a quality of banking regulations and supervision, absence of strong corporate governance, low transparency standards, and a slow pace of privatization. Uzbekistan's economy is largely a cash-based one. A major reason for this is relatively low trust in the banking sector. Also, the informal sector is a large contributor to the overall economy of the country. In years 2020-2022, the government had announced privatization of the banking sector and efforts to be made to attract more investments from the private sector. The government's recent policies have resulted into a noteworthy transition from financial isolationism to a much greater transparency and integration into international financial markets. (75, 2023).

**Bureaucratic challenges:** Navigating Uzbekistan's bureaucratic landscape is challenging for the foreign investors. The project implementations are often delayed because of lengthy approval processes and lack of transparency (World Bank, 2021). The consistent efforts of the government and the recent reforms have been successfully addressed some of these issues, further efforts are needed to streamline administrative procedures even more (ADB, 2022).

**Inconsistencies in Regulatory Processes:** Indian investors have reported difficulties in understanding and complying with local regulations, which may be central to legal disputes (Ease of Doing Business Report, 2020). Although Uzbekistan has been making continuous significant strides in improving its regulatory environment, the enforcement of updated laws and regulations which is inconsistent is a concern for many investors. The regulatory landscape is complex for foreign investors. The commercial disputes resolutions through the local courts are time consuming.

**Cultural Differences:** Some challenges for Indian investors also come from the cultural differences. For foreign investors, understanding the local business practices and building relationships with Uzbek partners and customers require great deal of time and effort. Investors also face language barriers though it is becoming easier now as the country is becoming more adaptive to English. The differences in communication styles also complicate matters for the Indian investors. Direct and assertive communication styles are common in some Indian businesses, however may be perceived as aggressive in Uzbekistan, as in Uzbekistan an indirect communication and building trust are of a value for the foreign investors.

**Infrastructure Gaps:** While Uzbekistan has made a significant progress in developing its infrastructure, the international investors face challenges in areas like transportation and logistics as the development remains fragmented in the country. These infrastructural gaps do increase the cost of doing business for the foreign investors and also hamper the efficient movement of goods and services across places (ADB, 2022). However, the country's plan to develop the road infrastructure is on the brink of a gigantic expansion, with an estimated increase of 486% by 2030 (uz, 2023)

## CONCLUSION AND SUGGESTIONS

The role of institutional frameworks in facilitating foreign direct investment, in this case Indian investment in Uzbekistan plays a critical role. The bilateral agreements, regulatory policies, cultural ties, and diplomatic initiatives have created a strong foundation for economic collaboration for both the countries. While these initiatives have greatly enabled the Indian businesses in exploring opportunities in the fast-developing Uzbekistan market, some challenges however, such as infrastructural gaps, bureaucratic hurdles, regulatory inconsistencies, and cultural differences are apparent for them.

Uzbekistan and India can realize the full potential of their economic partnership through enhancement of the bilateral cooperation, streamlining regulatory processes, strengthening the banking system, and addressing infrastructure gaps. As both these countries continue to grow and evolve, strong and robust institutional mechanisms will facilitate the sustenance and expansion of investment flows.

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