

ANALYSIS OF UZBEKISTAN'S FOREIGN ECONOMIC AFFAIRS: POLICY TRANSITION, TRADE PATTERNS, AND REGIONAL COOPERATION



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Abstract: *Uzbekistan's strategic economic transformation stems from a profound understanding of its domestic and international economic environment. Drawing on the latest data and policy developments, this article systematically analyzes the multidimensional landscape of Uzbekistan's foreign economic affairs, focusing on the evolving policy framework, trade and investment landscape, regional economic integration strategy, and the challenges and opportunities it faces. This aims to provide a comprehensive understanding of Uzbekistan's foreign economic relations.*

Keywords: *Uzbekistan, foreign economic affairs, policy, trade, regional cooperation*

1 Introduction

Uzbekistan, Central Asia's most populous and doubly landlocked country with enormous economic potential, has undergone a profound transformation in its foreign economic policy since its leadership change in 2016. Under the leadership of President Shavkat Mirziyov, this formerly inward-looking economy is integrating more openly into the global economic and trade system, attempting to reshape its position as a Central Asian economic hub through a series of institutional restructuring, market liberalization, and regional cooperation initiatives. This policy shift stems not only from the leadership's renewed understanding of the path of economic development but also represents an inevitable response to the challenges of globalization and the opportunities of regional integration. With the implementation of a series of new policies in 2025, Uzbekistan's foreign economic relations have taken on new dynamics and characteristics that warrant further exploration.

2 Policy and Institutional Framework

2.1 Strategic Transformation of Foreign Economic Policy

Uzbekistan's strategic transformation of its foreign economic policy began in 2017. Its core is the shift from a closed economy to an open one, and from a politically oriented foreign policy to an economically oriented one. This transformation follows a three-stage, progressive path: first, promoting domestic institutional reforms, restructuring the legal framework for foreign investment, and streamlining administrative procedures; second, restructuring the Ministry of Foreign Affairs, refocusing its work on promoting exports, attracting investment, and developing tourism; and finally, proactively addressing sensitive issues with neighboring countries, such as water resource management and border demarcation, to clear obstacles to deepening regional economic cooperation.

At the 72nd UN General Assembly, President Mirziyov explicitly declared that Central Asia was Uzbekistan's primary diplomatic priority, and that the country was committed to building "good neighborly relations, peace, stability, and strategic partnerships" with its neighbors. This statement marked a fundamental shift in Uzbekistan's foreign policy, moving from a conservative and closed-off approach to active regional engagement and multilateral cooperation. To further strengthen its economic diplomacy, Uzbekistan has implemented structural reforms within its Ministry of Foreign Affairs, assigning each embassy to specific domestic regions, economic sectors, and large enterprises, and establishing a dedicated department responsible for expanding foreign economic relations, promoting exports, and attracting investment.

2.2 New Policies and Institutional Adjustments in 2025

Entering 2025, Uzbekistan has implemented a series of new policy measures in various areas, including commerce, taxation and customs duties, government and state-owned enterprises, people's livelihoods, and transportation, to further adjust its foreign economic relations. These reforms reflect both the direction of economic liberalization and the balance between protecting domestic industries and optimizing fiscal revenue.

Reforms in the tax and customs area are particularly significant. Effective January 1, 2025, Uzbekistan will eliminate a number of value-added tax (VAT) preferences, including exemptions for urban public transportation, businesses run by individuals with disabilities, and newly constructed agricultural land. At the same time, new excise tax policies will be implemented on tobacco products, alcoholic beverages, and sugary drinks. These policies significantly increase excise taxes on tobacco products, while significantly reducing the excise tax on imported alcoholic beverages by 25%. These adjustments address fiscal revenue needs while also attempting to guide consumer behavior through differentiated tax rates. In terms of

trade facilitation, Uzbekistan has implemented several measures to streamline customs procedures. Starting January 9, 2025, customs will begin assigning conditional HS codes to goods, reducing inspection times from a maximum of 60 days to five working days. Furthermore, in accordance with the United Nations Paperless Trade Agreement, which came into effect on February 3, Uzbekistan will promote the use of electronic documents instead of paper documents to accelerate international trade processes. These measures significantly reduce the time and cost of import and export operations, facilitating the integration of small and medium-sized enterprises into the international supply chain.

Table 1: Major Foreign Economic Policy Adjustments of Uzbekistan in 2025

Areas	Policy Changes	Implementation Date	Expected Impacts
Tax policy	Removal of VAT concessions for urban public transportation	January 1, 2025	Increasing fiscal revenue may increase travel costs;
Tariff system	Removal of import taxes on medicines and medical supplies	January 1, 2025	reducing healthcare costs and improving accessibility;
Foreign investment	Significant reduction in fees for hiring foreign experts	January 1, 2025	attracting international talent and reducing business costs;
Trade facilitation	Implementing electronic customs clearance	February 3, 2025	shortening trade times and lowering transaction costs;
Industrial policy	Restrictions on solar panel imports	January 1, 2025	protecting local industries, which may impact renewable energy development.

Notably, Uzbekistan has introduced more attractive policies for foreign investment. Effective January 1, 2025, the confirmation fee for foreign expert appointments in educational institutions will be reduced from 30 times the base value (11.2 million soums) to 1 time (375,000 soums), a 30-fold reduction. Furthermore, foreign teachers employed by private educational institutions can obtain A2 entry visas, allowing them to work permanently in Uzbekistan. These

measures significantly reduce the cost of attracting international talent and enhance the country's human resource competitiveness.

3 Trade and Investment Landscape

3.1 Trends in Diversified Trade Structure

In recent years, Uzbekistan's foreign trade has continued to expand in scale and optimize its structure. In the first half of 2025, Uzbekistan's total foreign trade reached US\$37.02 billion, a 16.1% increase over the same period in 2024. Exports performed particularly well, increasing by 29.1% to US\$16.89 billion, while imports increased by 7.0% to US\$20.13 billion. This growth trend narrowed the trade deficit to -US\$3.25 billion, a significant improvement from -US\$5.74 billion in the same period in 2024, reflecting Uzbekistan's growing export capacity and the initial success of its import substitution policy.

From a trading partner perspective, Uzbekistan maintains trade relations with 194 countries worldwide, demonstrating a distinctly diversified market. In the first half of 2025, China and Russia remained Uzbekistan's primary trading partners, with China accounting for 17.7% (US\$6.557 billion) of total trade volume and Russia 16.3% (US\$6.028 billion). Other important trading partners included Kazakhstan (6.0%), Turkey (3.6%), and South Korea (2.3%). Notably, three of the top ten export destinations were Central Asian countries (Kazakhstan, Kyrgyzstan, and Tajikistan), demonstrating the closeness of regional economic ties.

Table 2: Uzbekistan's Major Trading Partners in the First Half of 2025 (Unit: US\$ billion)

Trading Partners	Total trade volume	Proportion	Major trade items
China	65.57	17.7%	machinery and equipment, industrial products;
Russia	60.28	16.3%	energy, agricultural products, labor remittances;
Kazakhstan	22.10	6.0%	agricultural products, industrial products;
Turkey	13.40	3.6%	textiles, construction services;
South Korea	8.37	2.3%	electronic products, auto parts

The optimization of Uzbekistan's export structure is a highlight of its external economic transformation. In the first half of 2025, merchandise exports accounted for 76.0% of total exports, of which non-monetary gold exports accounted for 38.4% of the total, valued at \$6.492 billion. This reflects the continued rise in international gold prices, but also highlights the risk of a homogenized export structure. Besides gold, industrial products accounted for 10.9%, food and live animals 7.2%, and chemical products 5.8%. Among specific commodity categories, fruit and vegetable exports performed particularly well, with a total volume of 1.0781 million tons and a value of \$847 million, a year-on-year increase of 40.5%. Textile exports, on the other hand, declined, totaling \$1.269 billion, a year-on-year decrease of 17.0%.

Services trade has become a new growth driver for Uzbekistan's external economy. In the first half of 2025, service exports increased by 29.0% to \$4.056 billion, accounting for 24.0% of total exports. Travel (tourism) accounted for 51.8% of service exports, transportation services accounted for 33.7%, and telecommunications, computer, and information services accounted for 8.0%. This structure reflects the rapid development of Uzbekistan's tourism industry and its role in driving economic growth, while also demonstrating that the potential of digital service exports has yet to be fully realized.

3.2 Foreign Investment Structure and Directions

Uzbekistan's ability to attract foreign investment has significantly improved in recent years. In the first quarter of 2025, Uzbekistan's fixed asset investment reached 120.4 trillion soums (approximately US\$9.34 billion), with foreign investment and loans accounting for approximately 71%, equivalent to US\$6.63 billion. China ranked first in terms of investment in Uzbekistan, accounting for 33% of total foreign investment in the same period, equivalent to US\$2.21 billion. Russia ranked second, accounting for 10%, or approximately US\$660 million; and Turkey ranked third, accounting for 5.2%, or approximately US\$340 million. This investment structure closely aligns with the structure of Uzbekistan's trading partners, confirming the path dependence of Uzbekistan's foreign economic relations.

In terms of investment sectors, foreign investment primarily flows into energy, infrastructure, and industrial and agricultural modernization. Chinese investment is concentrated in natural gas pipelines, chemicals, and transportation infrastructure projects; Russian investment primarily involves energy, automotive manufacturing, and retail; and Turkish investment is more focused on construction and services. Furthermore, countries like Saudi Arabia and South Korea are actively expanding

their investment in Uzbekistan, particularly in emerging sectors such as renewable energy and the digital economy.

Uzbekistan has implemented a number of measures to optimize its investment environment. In addition to reducing the cost of foreign experts, it is also enhancing its investment appeal by streamlining business registration procedures, protecting investor rights, and establishing special economic zones. These policies are already showing results. In the first quarter of 2025, Uzbekistan's actual utilization of foreign capital exceeded US\$8.7 billion, a year-on-year increase of 20%. Fixed asset investment is expected to exceed US\$18 billion in the first half of the year.

4 Regional Economic Integration

4.1 Shift toward Central Asian Regionalism

One of the most notable changes in Uzbekistan's foreign economic strategy is its active shift toward Central Asian regionalism. Since 2016, the Mirziyov government has elevated regional cooperation to a foreign policy priority, proactively repairing relations with Kazakhstan, Kyrgyzstan, Tajikistan, and Turkmenistan. The strategic rationale for this shift is that, as a doubly landlocked country, Uzbekistan is highly dependent on its neighbors for external transportation, trade, and energy security. Only through regional cooperation can it overcome geographical limitations and integrate into global value chains.

Uzbekistan's regional economic strategy follows a top-down approach, promoting inter-parliamentary cooperation and regular ministerial meetings at the government level. For example, Uzbekistan and Kazakhstan have established an inter-legislative cooperation committee and hold regular meetings between their foreign, trade, and transport ministers. These institutionalized approaches provide a platform for addressing institutional barriers to regional economic cooperation and create conditions for deepening practical cooperation.

Particularly noteworthy is Uzbekistan's proposal for a multi-tiered regional cooperation framework. Given that all 12 of Uzbekistan's regions and the Autonomous Republic of Karakalpakstan border five neighboring countries, President Mirziyov proposed establishing an "Association of Heads of Regions and Business of Central Asian Countries" to promote local economic cooperation. This initiative aims to leverage the initiative of local governments, develop targeted cooperation based on the resource endowments and industrial characteristics of each region, and form a regional cooperation network that combines top-down and bottom-up approaches.

4.2 Regional Economic Cooperation Mechanisms and Achievements

The achievements of Uzbekistan's participation in regional economic cooperation are reflected in trade and investment data. In recent years, intraregional trade in Central Asia has grown significantly. Uzbekistan's trade with Kazakhstan has increased nearly 2.5 times over the past six years, reaching \$4.6 billion, while trade with Kyrgyzstan has increased fivefold. At the same time, interregional investment has also seen a rapid rise, with investment between Central Asian countries increasing nearly sixfold and the number of joint ventures increasing eightfold.

In specific areas of cooperation, Uzbekistan and its Central Asian neighbors have made substantial progress in transport infrastructure, energy interconnection, and industrial collaboration:

- **Transport Connectivity:** Uzbekistan actively participates in the Central Asia Regional Economic Cooperation Initiative, promoting cross-border railway and highway projects to improve regional transportation and logistics networks. The new Railway Transport Law, which came into effect in 2025, allows carriers to independently set freight rates (except for regulated rates), increasing the marketization of cross-border transport.

- **Energy Cooperation:** Uzbekistan, Kazakhstan, and Kyrgyzstan have strengthened coordination in the areas of electricity supply and water resource management, resolving sensitive issues that have long plagued regional relations. In particular, the elimination of the consumption tax on imported natural gas and the reduction of the domestic consumption tax rate in 2025 have created favorable conditions for regional energy trade.

- **Industrial Complementarity:** Uzbekistan, Kazakhstan, and Kyrgyzstan have jointly implemented a series of industrial cooperation projects covering textiles, automotive manufacturing, geological exploration, chemicals, and agriculture. These projects, leveraging the respective countries' factor endowments, have established a preliminary division of labor within the regional value chain. In terms of institutional integration, Uzbekistan favors pragmatic functional cooperation over the development of supranational mechanisms. President Mirziyov has explicitly expressed support for "institutionalized cooperation without supranational institutions."

Adhering to this principle, Uzbekistan actively promotes trade facilitation, harmonization of customs procedures, and mutual recognition of standards, including establishing a unified e-commerce platform and streamlining customs administration and sanitary and quarantine controls. Furthermore, Uzbek Minister of Investment, Industry, and Trade, Raziz Kudratov, proposed the creation of a regional unified payment system during the Council of the US-Central Asia Trade

and Investment Framework Agreement. If implemented, this initiative would significantly boost regional business cooperation and trade development.

5 Conclusion

Since 2016, Uzbekistan's external economic transformation has demonstrated distinct characteristics of openness, regionalism, and multifunctionality. Through institutional restructuring, policy incentives, and regional cooperation, Uzbekistan is transforming from the geographical center of Central Asia to an economic hub, and its influence in the regional economic and trade landscape continues to grow. New policies implemented in 2025 further demonstrate Uzbekistan's unwavering commitment to economic liberalization, trade facilitation, and investment promotion.

Guided by the "New Uzbekistan" strategy, this Central Asian country is integrating into the global economic system with greater confidence and openness. Its external economic transformation not only impacts its own economic development but will also have a profound impact on the process of regional economic integration in Central Asia. With the implementation of various policies in 2025, Uzbekistan is expected to play an even more important role in the Central Asian economic circle, injecting new vitality into the development of the "Silk Road Economic Belt."

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