

Investors Shun Uzbekistan

Author: [Galima Bukharbaeva](#)

Foreign companies frustrated with the slow pace of reform in Uzbekistan are pulling out of the country

"I'm stopping all work and all projects - how can you work in a country where there's no law?" stormed Paul Jahn, who's set to join the growing ranks of foreign investors deciding to call it a day in Uzbekistan.

The president of Danish company Jahn International, which has imported food products from Europe since 1993, Jahn said the lack of legal protection has made it increasingly hard to run his business.

The ramshackle legal system together with the government's strict control of the economy and the non-convertibility of the national currency is putting off investors, according to Yoshio Kodzutaki, an economic advisor at the Japanese embassy in Uzbekistan.

"Uzbekistan continues to be a high risk country for foreign investment," he said.

Investors from Germany, the United States and Japan, he believes, are getting cold feet over setting up joint enterprises and direct investment.

Uzbekistan, whose economy is still state-owned and centrally planned, is lagging behind other Central Asian states on the foreign investment stakes. The country has attracted just 1.2 billion dollars of funds since independence in 1991.

Many economic analysts believe urgent steps need to be taken to liberalise the economy and to remove red tape hampering foreign companies operating in Uzbekistan.

Foreign investment began to plummet in 1996 following the government's decision to introduce strict currency conversion controls. According to the European Bank of Reconstruction and Development, foreign investment fell from \$167 million in 1997 to \$60 million in 1998. The downward trend continued through 1999.

A few major foreign companies are still operating in Uzbekistan - the South Korean car manufacturer Daewoo, for example, and the British and American Tobacco company, BAT. Others though are pulling out.

Jahn International has been in dispute for several years with an Uzbek bank, which the company claims illegally confiscated \$865,000 in November 1996.

Jahn's lawyer, Olga Yegoshina, claims the National Bank of External Economic Affairs of Uzbekistan illegally imposed a 30 per cent "commission" on a currency conversion transaction in November 1996. Previous transactions through the bank had involved a one per cent commission.

"For three years we've waited. We have made the maximum effort to resolve this question in a peaceful way, but all for nothing. The Danish Embassy in Uzbekistan recommended we go to court," said Jahn.

Despite three separate legal actions, however, Jahn International failed to get its money back - even though the bank could not produce a single document providing a basis for the 30 per cent deduction.

"As investors hear about the unfavourable investment climate in Uzbekistan, I'm sure there will be negative consequences," said Jahn. "Uzbekistan will soon find itself very alone."

The departure of Jahn International not only deprives Uzbekistan of profitable foreign investment. The company also undertook charitable work in the country, financing medical trips to Denmark for hundreds of sick Uzbek children.

Jahn reckons Uzbekistan has already lost hundreds of millions of dollars worth of investment from Scandinavia. A joint project between his company and the brewers Carlsberg to produce the famous beer in Uzbekistan has already been called off.

The unfavourable investment climate does not augur well for Tashkent's latest attempts to lure overseas capital. Foreign companies are being invited to bid for 49 per cent of the state-owned oil and gas concern, Uzbekneftegaz, and the development of five uranium deposits.

What's increasingly clear is that the short-sightedness of Uzbekistan's bureaucrats is threatening to scare off foreign investment - the one thing Uzbekistan President Islam Karimov sees as essential to the country's future economic prosperity.

Galima Bukharbaeva is a IWPR Project Editor in Tashkent.

Location: [Uzbekistan](#)

Focus: [Central Asia](#)

Source URL: <https://iwpr.net/global-voices/investors-shun-uzbekistan>