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Legal Obstacles and Risk Prevention for Chinese Direct Investment in Uzbekistan

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Abstract: As the Belt and Road Initiative deepens, Uzbekistan has emerged as China's most significant investment destination in Central Asia. By 2025, total Chinese investment and financing in Uzbekistan exceeded USD 15.5 billion, accounting for approximately 36% of the country's total foreign capital inflows. However, the rapid expansion of investment scale has been accompanied by hidden legal risks that are often underestimated. This article systematically examines the recent evolution of Uzbekistan's foreign investment legal framework, with particular emphasis on the institutional innovations introduced by the 2025 edition of the Law "On Investments and Investment Activities" and their implications for Chinese investors. It identifies four primary legal obstacles: sectoral access restrictions, land tenure complexities, labour compliance requirements, and dispute resolution uncertainties. The analysis reveals that while Uzbekistan has achieved remarkable convergence with international standards at the legislative level, persistent challenges—including legal fragmentation, policy implementation gaps, and the embedded localisation obligations inherent in the "Salini criteria"—constitute the principal sources of risk in practice. The article proposes a four-stage risk prevention strategy—rule identification, structural optimisation, compliance integration, and risk reserving—to enable Chinese investors to harness market opportunities while maintaining effective legal risk control.

Keywords: Uzbekistan Investment Law; Chinese Outbound Investment; Legal Obstacles; Risk Prevention; Belt and Road Initiative

1. Introduction

Uzbekistan stands as one of the most attractive investment destinations in Central Asia. Since President Shavkat Mirziyoyev launched a comprehensive reform programme in 2016, the country has achieved notable progress in improving its business environment and modernising its legal system. On 23 January 2025, the Senate of the Oliy Majlis unanimously approved a new edition of the Law "On Investments and Investment Activities" (hereinafter "the 2025 Investment Law"), marking a new phase in the country's investment legal regime.

China has become Uzbekistan's largest trading partner and source of foreign investment. By the end of 2024, cumulative Chinese investment and financing exceeded USD 15 billion, spanning sectors such as oil and gas, chemicals, textiles, electric power, automobile manufacturing, industrial parks, and international engineering contracting. Yet the growing scale of investment does not automatically diminish legal exposure. Uzbekistan remains in a transitional period, and issues such as legal instability, unpredictable administrative enforcement, and limited judicial independence continue to pose real challenges.

Existing scholarship has largely concentrated on introducing Uzbekistan's investment legislation or providing macro-level policy analysis. Few studies have approached the subject from the practical perspective of Chinese investors, systematically identifying specific legal obstacles and formulating targeted risk prevention measures. This article aims to fill that gap by interpreting the 2025 Investment Law, drawing on OECD assessments and international arbitration cases, and constructing a risk identification framework and prevention roadmap for Chinese entities investing in Uzbekistan.

2. Evolution of Uzbekistan's Foreign Investment Legal Framework

2.1 Structural Consolidation

Uzbekistan has developed a multi-tiered legal system governing foreign investment. At its core are the Investment Law and the Civil Code, complemented by the Tax Code, Labour Code, Land Code, Law on Special Economic Zones, and a host of presidential decrees and cabinet resolutions. Prior to 2020, foreign investment was regulated separately by the Law on Foreign Investments, the Law on Investment Activities, and the Law on Guarantees and Measures for the Protection of Foreign Investors' Rights—creating overlapping provisions and occasional conflicts. The 2019 Investment Law consolidated these disparate statutes, and the 2025 edition further refines and expands the framework.

2.2 Key Innovations of the 2025 Investment Law

The 2025 revision introduces several substantive changes that directly affect foreign investors.

First, it codifies the Salini criteria for defining qualifying investments. Under Article 4, an investment must exhibit three characteristics: risk-taking, a long-term commitment, and a demonstrable contribution to the host economy. This provision explicitly aims to discourage short-term speculative capital while encouraging value-creating, long-term projects. For Chinese investors, this means that purely financial or portfolio investments may not enjoy the full range of protections, whereas industrial and infrastructure projects with significant local economic impact will be favoured.

Second, the law enshrines the principle of responsible business conduct, reflecting growing international attention to environmental, social, and governance (ESG) factors.

Investors are required to comply with sustainability standards, and violations may result in administrative sanctions or even revocation of investment incentives.

Third, the law reaffirms and strengthens national treatment guarantees, aligning with Uzbekistan's ongoing WTO accession commitments. However, national treatment is not absolute; sector-specific limitations persist, particularly in strategic minerals, energy, railways, media, and banking.

Fourth, the legal stability clause—already present in the 2019 law—has been retained and clarified. This clause allows investors to secure protection against adverse future legislative changes for a specified period, though it does not apply to legislation concerning national security, defence, public health, or environmental protection. While this provision offers a valuable hedge against legal volatility, its practical effectiveness remains untested, as no investor has yet invoked it in a formal dispute.

2.3 Remaining Gaps and Inconsistencies

Despite these advances, Uzbekistan's investment legal framework remains fragmented. Numerous sectoral regulations, presidential decrees, and ministerial orders are not always harmonised with the core Investment Law. The absence of a systematic negative list—unlike China's clear "special administrative measures"—means that investors often must navigate multiple instruments to determine permissible activities. The OECD's 2025 assessment highlighted this opacity as a source of uncertainty, recommending the adoption of a unified negative-list approach as part of WTO accession preparations.

3. Major Legal Obstacles for Chinese Investors

3.1 Market Access and Sectoral Restrictions

While Uzbekistan does not impose a general negative list, specific sectors are subject to caps or prohibitions. In energy and strategic minerals, foreign equity is generally capped at 50%. Railways, media, and banking are also heavily restricted. The 2025 Investment Law does not override these sectoral rules; instead, it refers to them indirectly. Consequently, Chinese investors must conduct thorough due diligence to identify applicable restrictions, which are scattered across multiple legal instruments. This contrasts sharply with China's negative list, which provides a single authoritative source for all restrictions.、

Moreover, the "investment definition" under the Salini criteria may inadvertently create an additional access barrier. Projects that do not meet the risk-taking or long-term commitment thresholds—such as certain joint ventures with short-term profit expectations—may be denied the protections and incentives otherwise available.

3.2 Land Acquisition and Property Rights

Land tenure is one of the most challenging legal issues for foreign investors in Uzbekistan. Under the Land Code, agricultural land is state-owned and cannot be privately owned; it can only be leased. For non-agricultural land, foreign investors may obtain long-term leases (up to 49 years) but face complex procedures and uncertain renewal terms. Moreover, land use rights are often tied to specific investment contracts, and any deviation from the approved project plan may result in termination of the lease. Chinese infrastructure projects, which frequently require large land parcels, have encountered delays and cost overruns due to land clearance and title verification difficulties.

3.3 Labour and Employment Compliance

Uzbek labour law imposes strict requirements on foreign employees. Work permits and quotas are administered by the Ministry of Employment and Labour Relations, and the annual quota for foreign labour is subject to political considerations. In practice, obtaining permits can be time-consuming and unpredictable. Furthermore, the Labour Code mandates that foreign investors give preference to local employees and comply with local wage and social security standards. Non-compliance can lead to fines, deportation, or even suspension of investment activities.

3.4 Dispute Resolution and Enforcement

Uzbekistan is a contracting state to the ICSID Convention and has accepted investor-state arbitration. The 2025 Investment Law explicitly confirms the right of foreign investors to submit disputes to international arbitration. However, enforcement of arbitral awards within Uzbekistan remains a concern. While the country has enacted the Law on International Commercial Arbitration, domestic courts have occasionally been reluctant to enforce awards that challenge state interests. The ICSID case Metal-Tech Ltd. v. Uzbekistan (ARB/10/3) illustrates the difficulties: although the investor obtained a favourable award, the enforcement process was protracted. More recently, Humans Mobile Ltd. v. Uzbekistan (ARB/25/24) has highlighted ongoing issues with state immunity and execution of awards.

In addition, the domestic judicial system is still developing. Commercial court judges may lack specialised knowledge of complex cross-border investment disputes, and court proceedings can be slow. For Chinese investors, this means that while international arbitration is theoretically available, the practical effectiveness of dispute resolution depends heavily on the political climate and the government’s willingness to comply with adverse rulings.

4. Risk Prevention Strategies for Chinese Investors

Given the identified obstacles, a proactive and structured approach to legal risk management is essential. This section proposes a four-stage strategy:

4.1 Stage One: Rule Identification

Before committing capital, Chinese investors should conduct comprehensive legal due diligence covering all relevant statutes, decrees, and regulatory interpretations. Particular attention should be paid to:

· Sectoral restrictions and equity caps;

· The scope and conditions of the legal stability clause;

· Land lease terms and renewal conditions;

· Labour quota availability and permit procedures;

· The status of any applicable bilateral investment treaty (particularly the 2011 China-Uzbekistan BIT, which provides ICSID access and pre-establishment MFN treatment).

This stage should involve both local legal counsel and international experts to ensure that all applicable rules are accurately mapped.

4.2 Stage Two: Structural Optimisation

Based on the rule identification, investors should structure their investment vehicle to maximise legal protections and incentives. Options include:

· Establishing a joint venture with a local partner to navigate sectoral restrictions and facilitate land acquisition;

· Applying for legal stability clauses at the time of signing the investment contract;

· Locating projects in special economic zones, which offer streamlined procedures and additional tax benefits;

· Structuring the investment through a third-country holding company to access broader treaty protections (if consistent with the China-Uzbekistan BIT's MFN clause).

4.3 Stage Three: Compliance Integration

Ongoing compliance with local labour, tax, environmental, and reporting obligations is critical to avoid administrative penalties. Investors should:

· Designate a local compliance officer responsible for monitoring regulatory changes;

· Implement robust ESG systems to meet the responsible business conduct requirements;

· Maintain transparent records of all financial transactions and local contributions to demonstrate compliance with the Salini criteria;

· Regularly renew work permits and quotas, anticipating potential delays.

4.4 Stage Four: Risk Reservings

Despite diligent prevention, disputes may arise. Investors should:

· Include robust arbitration clauses in all contracts, specifying ICSID or other neutral forums;

· Set aside contingency funds to cover potential legal costs and compensation;

· Maintain open communication with Uzbek government authorities to address issues before they escalate;

· Document all investment-related decisions and approvals to strengthen their position in any future arbitration.

5. Conclusion

Uzbekistan's legal reforms, culminating in the 2025 Investment Law, have significantly improved the country's investment climate. The codification of the Salini criteria, the reaffirmation of national treatment, and the retention of legal stability clauses all signal a strong commitment to attracting high-quality foreign capital. For Chinese investors, Uzbekistan offers substantial opportunities, particularly in infrastructure, energy, and manufacturing.

However, the legal landscape remains fraught with practical obstacles. Fragmented sectoral regulations, land tenure complexities, labour compliance burdens, and enforcement uncertainties require careful navigation. A one-size-fits-all approach is inadequate; instead, investors must adopt a tailored, stage-based risk prevention strategy that integrates legal due diligence, structural optimisation, continuous compliance, and contingency planning.

Looking forward, as Uzbekistan progresses toward WTO accession and deeper integration with the Belt and Road Initiative, further legal convergence with international standards is likely. The trajectory points toward greater transparency and predictability, which will benefit both Chinese investors and the host economy. Yet, until that convergence is fully realised, a proactive and risk-aware approach remains indispensable.

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