

THE IMPORTANCE OF COMMERCIAL LAW IN REGULATING MODERN BUSINESS TRANSACTIONS: THE CASE OF UZBEKISTAN

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ABSTRACT

In today's global economy, commercial law plays a crucial role in regulating business transactions and ensuring the smooth functioning of trade. This article examines the importance of commercial law in modern business, highlighting its function in providing a legal framework that promotes fairness, safeguards market participants' rights, and facilitates economic growth. The paper explores key areas of commercial law, including contract law, the sale of goods, secured transactions, and international trade. It discusses how commercial law minimizes disputes, promotes ethical conduct, and enhances market predictability, thus fostering an environment conducive to fair competition and innovation. Furthermore, the article emphasizes the significance of international legal instruments, such as the United Nations Convention on Contracts for the International Sale of Goods (CISG), in supporting cross-border transactions. Ultimately, this article underscores the essential role of commercial law in maintaining economic stability and fostering global business integration.

Keywords: *Commercial Law, Business Transactions, Uzbekistan, Legal Reform, Investment Climate, International Trade*

INTRODUCTION

In an increasingly interconnected and complex global economy, the role of commercial law in regulating business transactions has become more critical than ever. Commercial law provides the essential legal framework that governs commercial activities, ensures transactional certainty, promotes fairness, and protects the rights of all market participants. Without such a framework, the potential for disputes, fraud, and market inefficiencies would increase substantially, undermining economic growth and stability. Uzbekistan, a nation undergoing significant economic transformation, has recognized the pivotal role of commercial law in fostering a conducive business environment. Recent reforms aim to modernize the legal landscape, attract foreign investment, and integrate the country more deeply into the global economy.

Defining Commercial Law

Commercial law encompasses a vast range of legal rules and regulations that govern trade, commerce, sales, and the structure of business enterprises. It covers key

areas such as contract law, the sale of goods, secured transactions, leasing, agency, and negotiable instruments. By providing legal recognition to business transactions and relationships, commercial law establishes predictability and reliability, thereby facilitating economic activity at both national and international levels.

Safeguarding the Rights of Market Participants

A principal function of commercial law is the protection of the rights and interests of parties engaged in commerce. Legal instruments such as contracts ensure that mutual obligations are formalized and enforceable. In the absence of such regulation, businesses would be reluctant to enter into agreements, given the inherent risks associated with non-performance. Remedies available under commercial law, including damages, specific performance, and contract rescission, serve to deter breaches and provide recourse for aggrieved parties, thereby fostering trust and cooperation in the marketplace. In Uzbekistan, recent legislative changes have further strengthened the protection of entrepreneurs' rights. A presidential decree effective from January 1, 2025, cancels fines for individuals engaging in business without registering as individual entrepreneurs and introduces a risk-based inspection system to reduce unnecessary regulatory burdens.

Promoting Fair Competition and Ethical Conduct

Commercial law plays an indispensable role in promoting fair competition by prohibiting anti-competitive practices such as collusion, monopolization, and deceptive marketing. Regulatory frameworks governing competition law, advertising standards, and consumer protection ensure that businesses compete on merit rather than through unfair practices. By fostering an environment of transparency and fairness, commercial law enhances market efficiency, incentivizes innovation, and protects consumer interests. Uzbekistan has taken significant steps to modernize its competition laws. The new Law No. 3PY-850, effective from October 2023, introduces concepts such as 'superior bargaining power' and mandates antimonopoly compliance for certain entities.

Minimizing Disputes and Enhancing Predictability

The existence of a coherent and comprehensive body of commercial law significantly reduces the frequency and severity of disputes. Clearly articulated legal standards and principles allow businesses to anticipate the legal consequences of their actions, thereby minimizing misunderstandings and conflicts. Furthermore, commercial law provides mechanisms such as litigation, arbitration, and mediation for the effective resolution of disputes. In Uzbekistan, reforms have been introduced to streamline tax audits and reduce the statute of limitations for tax obligations from five to three years, effective January 1, 2024.

Facilitating International Trade

In the context of globalization, commercial law transcends national boundaries to support international trade. Instruments such as the United Nations Convention on Contracts for the International Sale of Goods (CISG) harmonize key aspects of contract law across jurisdictions, reducing legal uncertainty and facilitating cross-border transactions. Uzbekistan's commitment to integrating into the global economy is evident through its efforts to align national legislation with World Trade Organization (WTO) standards.

Uzbekistan's Legal Reforms and Investment Climate

Uzbekistan has embarked on a series of legal reforms to enhance its investment climate:

1. One-Stop-Shop for Investors

This initiative simplifies the process of doing business in Uzbekistan by consolidating all necessary permits, licenses, and registrations in a single platform. It reduces bureaucratic hurdles, making it easier for both local and foreign investors to navigate the regulatory environment and save time and costs in setting up businesses.

2. Tax Incentives

Uzbekistan has significantly reduced corporate tax to 15% (from higher previous rates), which is an attractive incentive for businesses, particularly foreign investors looking to maximize profitability. The reduced VAT rate of 12% also makes the cost of goods and services more competitive in the region. Additionally, the personal income tax rate of 12% could encourage skilled professionals to move to Uzbekistan, which can further boost the economy.

3. Capital Market Reforms

These reforms are geared towards creating a more efficient and transparent capital market. They aim to increase the accessibility of capital for both businesses and individuals. Strengthening the legal and regulatory framework for securities, enhancing investor protection, and improving transparency will likely lead to increased domestic and international investments in Uzbekistan's financial markets.

4. Foreign Direct Investment (FDI)

The substantial increase in FDI, with over \$11.9 billion in 2024—a 50% increase from the previous year—indicates a positive reception from global investors. This surge highlights the effectiveness of the legal reforms in making the country a more attractive destination for foreign capital. The legal framework and improved infrastructure are key factors contributing to this growth.

Implications for the Economy:

- **Economic Growth:** These reforms, particularly the tax incentives and FDI growth, are likely to spur broader economic development, increase job opportunities, and improve the quality of infrastructure and services.

- **Diversification of the Economy:** The capital market reforms will help in diversifying Uzbekistan's economy by encouraging investments in various sectors beyond just natural resources.

- **Global Integration:** Uzbekistan is positioning itself as a more competitive player on the global stage by improving its legal and business environment, which is crucial for attracting global players.

Overall, these reforms appear to be a significant step forward in modernizing Uzbekistan's economy and making it more attractive for both foreign and domestic investors.

Recommendations for Investors

1. Stay Informed

Investors should keep abreast of ongoing legal and economic reforms in Uzbekistan. Laws related to commercial transactions, competition, taxation, and foreign investment are evolving. Regular monitoring ensures that businesses remain compliant and can anticipate new opportunities or obligations. Staying informed also provides an edge in adjusting to any changes that might affect investments or operations.

2. Engage Local Expertise

Hiring local legal counsel or partnering with domestic firms familiar with Uzbekistan's commercial landscape can help navigate complex regulatory frameworks. This also ensures smooth compliance with local customs, language, and administrative procedures. Local experts can offer valuable insights into local business practices, potential risks, and how to build trust with Uzbek businesses and authorities.

3. Leverage Incentives

Uzbekistan offers a variety of tax breaks and investment incentives, particularly in free economic zones and strategic sectors such as renewable energy, IT, and manufacturing. Investors should explore these opportunities to enhance profitability and reduce operational costs. Understanding the scope of these incentives can be crucial for maximizing returns and minimizing tax liabilities in the early stages of business.

4. Participate in Reforms

Uzbekistan's government often collaborates with foreign investors when shaping new regulations and policies. Investors should consider joining advisory councils or trade chambers to influence policy, gain early insights into legal changes, and contribute to a transparent investment climate. Engaging in reform discussions can help establish strong relationships with policymakers and give investors the opportunity to be part of the ongoing transformation of the business environment.

CONCLUSION

Commercial law constitutes a cornerstone of the modern business environment, underpinning the orderly conduct of trade and commerce. By safeguarding rights, promoting ethical competition, minimizing disputes, and facilitating international transactions, commercial law contributes to economic stability and growth. Uzbekistan's recent legal reforms demonstrate a commitment to creating a favorable business climate, offering opportunities for investors willing to engage with the evolving landscape.

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