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Master of Science Thesis

Investing in Central Asia

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Abstract

This paper work aims to identify the challenges and opportunities to increase Foreign Direct Investment (FDI) in Central Asian countries and to identify possible ways to improve the investment climate of the Central Asian region. It focuses on the selected CA countries, the five CIS members, which, by virtue of their strategic position, are developing open trade in an effort to attract foreign investment, which is essential for achieving sustainable economic growth. Another justification for choosing the CA countries is the political aspect, since these countries were the pioneers among the post-socialist states that made the choice in favor of independence, and if you start with an emphasis on economic transformation, you can get an idea of the achievements of these countries in attracting foreign direct investment. The purpose of the analysis is to assess the investment attractiveness of the Central Asian countries.

Keywords: Central Asia; foreign direct investments; FDI determinants; investment attraction

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List of Acronyms

ADB	Asian Development Bank
CA	Central Asia
WBG	The World Bank Group
CIS	Commonwealth of Independent States
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
BCG	Boston Consulting Group
ICT	Information and communication Technology
VAT	Value Added Tax
GM group	General Motors group

1. Introduction

Investment is one of the most important factors that develops the internal economic position of any state. In recent years, the countries of Central Asia have begun to attract many potential investors who are ready to make investments in various areas of the economies of the states of the region. In particular, recent positive changes in the top leadership of Uzbekistan make this country very attractive for capital investments. In fact, the investment potential of this Central Asian country is great and amounts to approximately USD 65 billion, of which about USD 20 billion is in non-serious industries. The same can be said about Kyrgyzstan and Kazakhstan.

Against the backdrop of a global decline in foreign direct investment in the world, Central Asia is showing steady growth and may become a new, so-called frontier for international capital. For this, it is critically important to develop cooperation within the region and to unite efforts to achieve the common goals of its member countries. The priority areas for attracting investment are agriculture, animal husbandry and tourism.

According to the findings of the new BCG report “Investing in Central Asia: One Region, Many Opportunities,” the overall potential of Central Asia in attracting foreign direct investment reaches $ 170 billion, of which only about $ 40-70 billion in non-resource sectors.

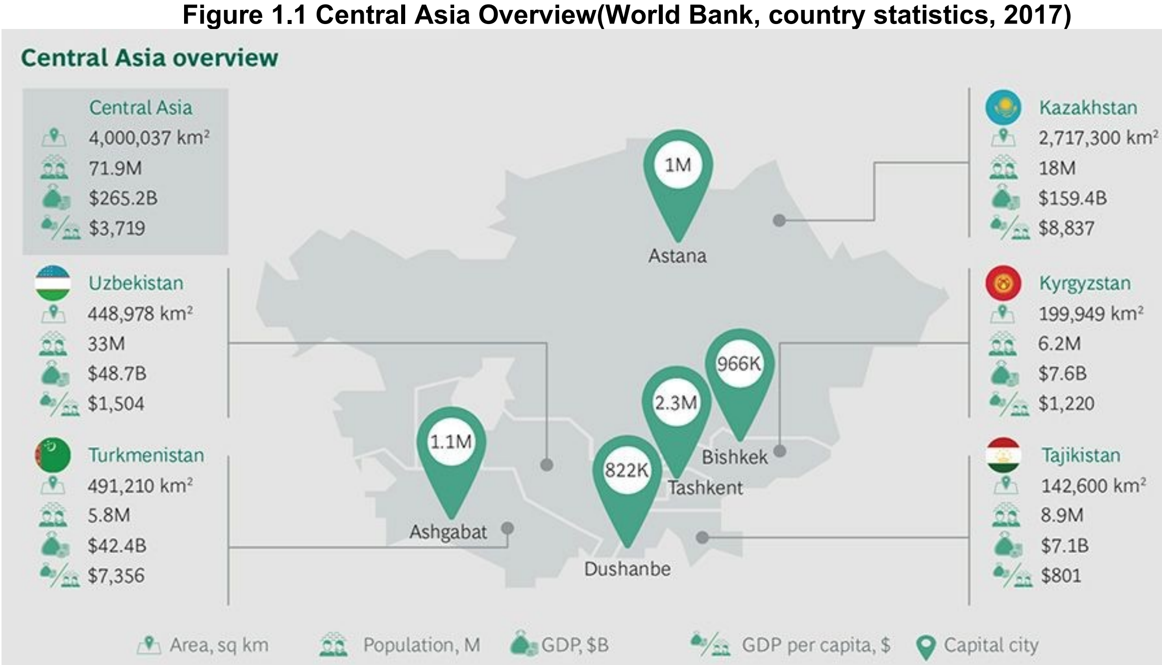
“Today, the countries of Central Asia have opportunities to change the trajectory of development,” said Rza Nuriyev, who is a partner and managing director of BCG in the Central Asian and Caspian regions.

“Improved government institutions, significant economic growth and the liberalizing influence of the younger generation have together created a stronger foundation for cooperation among Central Asian countries, especially in priority areas such as cross-border transport infrastructure, energy, ICT, as well as reforms to support market trade, diversification and investment-based integration. To fully realize the potential of the region, it is necessary to develop coordination between countries, and the success of this process largely depends on two key states - Kazakhstan and Uzbekistan. A strong partnership between them can be the first step towards developing cooperation in the region as a whole,"the expert emphasizes.

As for Uzbekistan, since the mid-2000s, this country has been demonstrating stable GDP growth, and in the period from 2004-2016, the economic growth rate of Uzbekistan was approximately 7-9% per year. The information portal Uzdaily notes.

Uzbekistan is undergoing numerous reforms to simplify the regulatory framework, customs and tax systems and make them more transparent. One of the most significant reforms of the new era is the liberalization of the exchange rate regime.

Figure 1.1 Central Asia Overview(World Bank, country statistics, 2017)



Thanks to it, it is much easier for foreign investors to consider Uzbekistan as a destination for investment. After the change of power, Uzbekistan can become a locomotive of economic development in the Central Asian region. This country has always had enormous economic potential. Over the years, many significant players in the world economy wanted to invest in the economy of Uzbekistan. And after Shavkat Mirziyoyev came to power, the investment situation began to change for the better, "says economist Valery Khavanov.

According to Uzdaily, in recent years, Uzbekistan has made a sharp jump up in the Doing Business investment rating - from 166th place in 2012 to 76th place based on the results of the Doing Business study in 2019.

Growth is expected to accelerate further in the near term due to the positive influence of neighboring China and India. "China here, first of all, is seen as the most active player based on the ambitious project" One Belt, One Road ". If China succeeds in carrying out such an undertaking in the near future, then the Central Asian region will become almost the main target for Western and Eastern investors, "Khavanov said.

It should be noted that the population of Central Asia is about 70 million inhabitants, which is 1% of the world population. The growing domestic market is estimated by BCG at USD 150 billion in turnover. "It should be noted that the Central Asian region has the main capital - human. A fairly accessible and cheap labor force attracts active actors in the world economy. This important factor has almost the main motivational aspect for investment attractiveness, "says economist Khavanov.

According to Uzdaily, the structures of the economies of all five countries of the region are similar, as they are based on several common advantages - rich natural resources, low labor costs and agro-industrial potential, macroeconomic stability and growing population, and the presence of young, well-educated personnel. The scale of reforms in different countries since independence in 1991 varied significantly.

2. Theories of Foreign Direct Investment

2.1 FDI: a typology

Foreign direct investment (FDI) is a form of international capital movement that reflects the long-term interest and control by a resident of one country over a resident enterprise located in another country. Many states of the world are interested in actively attracting FDI into their economies in order to modernize existing or create new enterprises, maintain a balance of payments, and increase the competitiveness of the economy. Of course, foreign investors are also guided by certain motives, directing direct investments into the economy of a particular country. In its most general form, it can be noted that there are two main motives for FDI - access to foreign markets and access to foreign resources. Corresponding investments are usually called market oriented (horizontal) and resource oriented (vertical). These types of FDI were identified and investigated in their works by J. Marcusen [1] and E. Helpman [2].

2.1.1 Market-oriented FDI

In the case of market-oriented FDI, we are talking about investments due to the fact that it is more profitable for an investor to work in a foreign market by setting up his own enterprise there than to serve this market by exporting his goods and services. Thus, by their nature, FDI data are import-substituting. The reason for such investments may be high customs duties (D. Te Velde calls these investments tariff skipping [7, p. 13]), the remoteness of the target market and the associated significant transport costs for servicing it, following for suppliers, buyers and competitors operating in this market, the need for better adaptation to the preferences of consumers in a particular country.

2.1.2 Resource-oriented FDI

In the case of resource-oriented FDI, we are talking about investments conditioned by the benefits of ownership and use by the investor in the production process of certain foreign resources, in particular, due to their cost (these investments E.G. Lim [8, p. 11] calls cost-minimizing) or simply the ability to gain access to them. By their very nature, such FDI is export-oriented, since it is assumed that the products produced by the investor using these resources will be supplied abroad, primarily to the country where the investing firm operates. Efficiency-oriented FDI allocated by J. Dunning can also be classified as resource-oriented investments [3, p. 72], which imply the rationalization of the company's activities by directing its assets to the most profitable from the point of view of the use of production factors of the country.

2.2 FDI in Central Asia

The Central Asian republics with varying degrees of success introduced domestic policies to reform, facilitate and attract much-needed external investment in various sectors. By 2018, FDI from new fields in Central Asia had reached $ 113 billion since 2008 (Kazakhstan - 70%, Uzbekistan - 16%, Turkmenistan - 8%, Kyrgyz Republic and

Tajikistan - together less than 6%) (Abdimomunova et al., 2018, p. 34). The economic and social benefits of foreign direct investment are enormous and often lead to technological progress, human capital formation, and increased international trade. FDI also contributes to improving environmental and social conditions by increasing the availability of tax revenues and responsible corporate policies. The business climate in the region is not very favorable for investors due to a number of "hard" and "soft" infrastructural factors: high transport costs due to monopolies and lack of competition in the transport and logistics sectors, long distances, long delays in transportation, border crossings due to poor management of customs and border control, corruption, an imperfect legal framework and limited access to the global market. Reforms were gradually introduced to create a more favorable climate for investors. In 2010, a customs union was established between Kazakhstan, Russia, and Belarus to reduce barriers and improve the efficiency of cross-border trade (Asian Development Bank Institute [ADBI], 2014). In January 2015, Russia, Armenia, Belarus, and Kazakhstan created the Eurasian Economic Union. Kyrgyzstan joined eight months later. More recently, this economic partnership of about 183 million people signed an agreement with China that further links the region economically with China's Belt and Road Initiative and with larger trade markets (Remyga, 2018; Dragneva, 2018, p. 5).

Table-1: Ease of doing business in CA countries

Table 1: Ease of doing business			
Country	**Rank**	**EODB score**	**# of Reforms**
Kazakhstan	25	78	3
Uzbekistan	69	69.90	4
Kyrgyz Republic	80	67.80	3
Tajikistan	106	57.11	3
Turkmenistan	--	--	--
**rank is position relative to other countries (out of 190).*			
**score is perceived level of public sector corruption (0 – highly corrupt, 100 –very clean).*			
*Source: World Bank Doing Business Report 2020(*Doing Business database*)*			

Regulatory reforms and a legal framework conducive to the development of a market economy are needed to attract additional investment to the region. A shift to value-added manufacturing and services can provide a more balanced income base and reduce dependence on a small number of industries for investment and growth. Significant investments in agriculture, agro-processing and food production will be required to complement current production and exports in Central Asia, mainly in raw materials and supplies. The exceptions are wheat in Kazakhstan, cotton and vegetables in Uzbekistan. Kazakhstan has been a leader in the pursuit of economic evolution from a low-income country to a high / middle-income country. Following social and economic reforms, Kazakhstan attracted $ 4.7 billion in foreign direct investment in 2017 and ranked 25th in the World Bank's Doing Business Report 2020 and first in the Protection of Minority Investors Index (Index Economic Freedom, 2019; World Bank Group [WBG], 2019). The government must now maintain proper oversight of bureaucracy, shackled by bureaucracy, and maintain a business environment to support the inflow of foreign direct investment that will support a modern infrastructure environment (Williams, 2018). Uzbekistan has benefited greatly from foreign investment, receiving 70 loans worth $ 7.4 billion since joining the Asian Development Bank (ADB) in 1995 (Asian Development Bank [ADB], 2019). These loans have fueled sustainable economic growth in the country and the region, with ADB continuing to explore direct investment opportunities through public-private partnerships and private sector projects (Asian Development Bank [ADB], 2019). If Central Asian governments address the bottlenecks slowing investment, the region is well-positioned for further foreign direct investment and growth, nestled between major economies such as China, Russia and India and an important transport and commodity component of the BRI. With proper implementation of investment-friendly policies and improved legal and regulatory frameworks, the region can attract investment for much-needed projects that bring technology, infrastructure, growth and economic diversification.

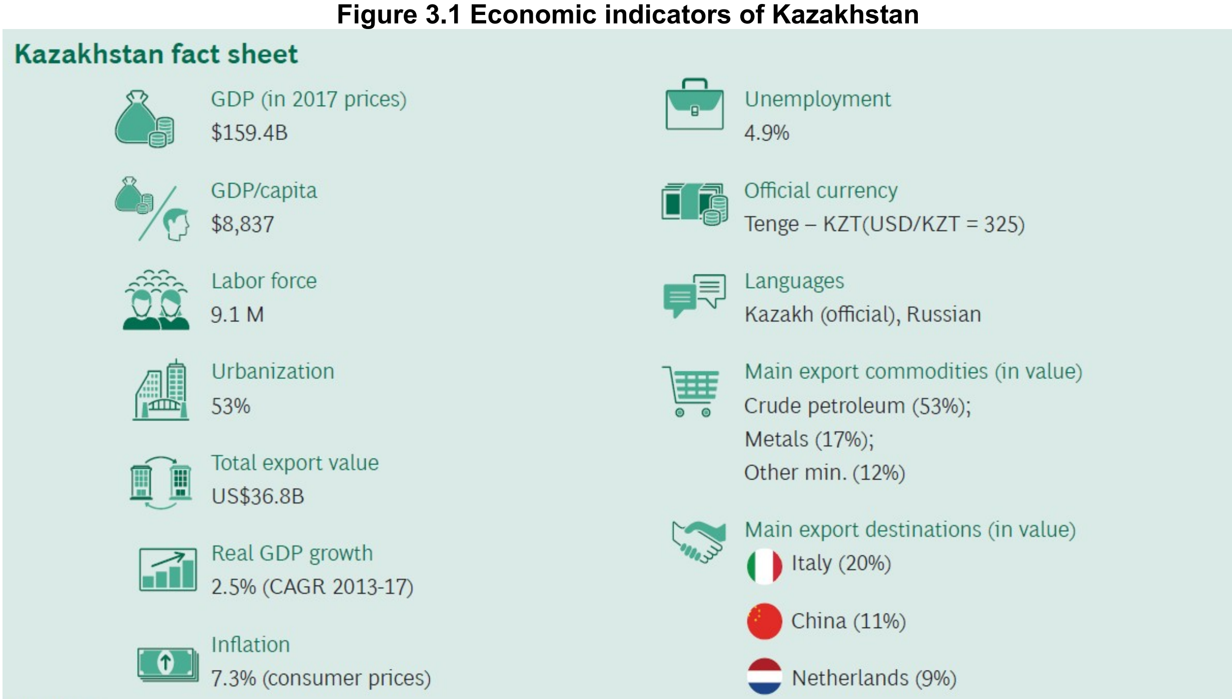
3. Infrastructure in Central Asia

3.1 Country profiles

3.1.1 Kazakhstan - top performer of the region

Kazakhstan stands out from other countries in many ways Central Asia. With a gross domestic product per capita of it has by far the highest economic power for US $ 13,500. It almost reaches the level of Russia and stands on the threshold of a country with high income according to the World Bank definition. Since the turn of the millennium, Kazakhstan's economy has grown by an average of 7.8 percent annually, more than twice as much as fast as the global economy. With 17 million inhabitants, Kazakhstan is a medium-sized country when measured by its land area But it is a global player: In this category, it ranks 9th worldwide. The country is the largest country in Central Asia.

Figure 3.1 Economic indicators of Kazakhstan



So, it is hardly surprising that Kazakhstan plays an important role in raw material deposits worldwide. Almost the entire periodic table can be found there in recoverable quantities. The country's most important raw material is crude oil. Kazakhstan has modernized and expanded its oil industry with the help of foreign investors since independence. The oil production is steadily to last nearly 1.8 million barrels per day has been increased. This puts Kazakhstan on a par with Norway and Angola. With the development of the Kashagan oil field In the Caspian Sea, a further expansion of oil production is already in sight. The country's known reserves are sufficient current production volume calculated for almost 50 years. Oil is by far the most important export good with a share of good 75 percent of Kazakh exports. It is also exported to countries in the European Union. So delivered Kazakhstan in 2012 almost 6 percent of all German oil imports. But oil is by no means the only raw material that Kazakhstan has

promotes. The country has large hard coal reserves and is one of the ten largest producing countries. In purely mathematical terms, the known coal reserves will last for almost 300 years. Kazakhstan is also the most important supplier of uranium with a world market share of around one third. The uranium production has also increased continuously. In addition, a whole range of metals such as iron, copper, chromium, aluminum, cadmium, zinc, titanium, manganese and silver are mined. For many metals, Kazakhstan is one of the ten largest producers in the world. The country also has considerable potential for rare earths. Kazakhstan is the country in Central

Asia with the strongest trade ties with Europe. Germany is already the third most important foreign trade partner behind China and Russia. 8.1 percent of all Kazakh exports went to Germany in 2013. France and Italy are also important buyers of Kazakh raw materials. In 2013, Germany also achieved the Kazakh imports third place with a share of 6.3 percent. Kazakhstan's state finances are in good shape. Thanks to the income from the export of raw materials, surpluses have been generated for years, which are collected in an oil fund. This last comprised 77 billion US dollars, which corresponds to 35 percent of the gross domestic product. The national debt is only 13 percent of the gross domestic product, so the state is not in net debt. On the other hand, the corporate sector is relatively heavily indebted abroad, also because of the considerable investments in recent years. Together with the high dependency on raw material prices, this represents a certain weak point in the country. Kazakhstan is the only country in Central Asia to have an investment grade rating from the three major rating agencies. Together with Russia and Belarus, Kazakhstan established a customs union that came into force in 2010. Another integration step has now been agreed: the Eurasian Economic Union is due to start in early 2015. Above all, it offers Kazakhstan access to the large Russian market. In view of the economic level that has already been achieved, Kazakhstan is striving to develop sectors outside of the mining industry more strongly. Correspondingly, the framework conditions for companies - as measured by the World Bank's Ease of Doing Business Index - have improved in recent years. In 2013, Kazakhstan reached 50th place among 189 countries. It is 42 places ahead of Russia and well ahead of most other Central Asian countries.

3.1.2 Uzbekistan: the gold piece of Central Asia

With more than 33 million people, Uzbekistan is the most populous and densely populated country in Central Asia. At 447,000 square kilometers, the country's area is around a quarter larger than Germany. The economy of Uzbekistan has grown vigorously since the turn of the millennium by an average of 7.2 percent per year and thus twice as fast as the global economy. However, the quality and availability of data are economical in terms of quality Development of the country below average in an international comparison, which makes a comparison with other countries difficult. Uzbekistan has significant raw material deposits. The Muruntau gold mine is the largest open-cast gold mine on earth. Uzbekistan mines and belongs to about 75 tons of gold annually thus one of the ten largest producing countries. Gold is also the country's most important export. In addition, others will Metals like copper, silver and uranium are mined. Uzbekistan is also one of the ten largest producing countries for uranium and has them Production has increased continuously in recent years.

Figure 3.2 Economic indicators of Uzbekistan

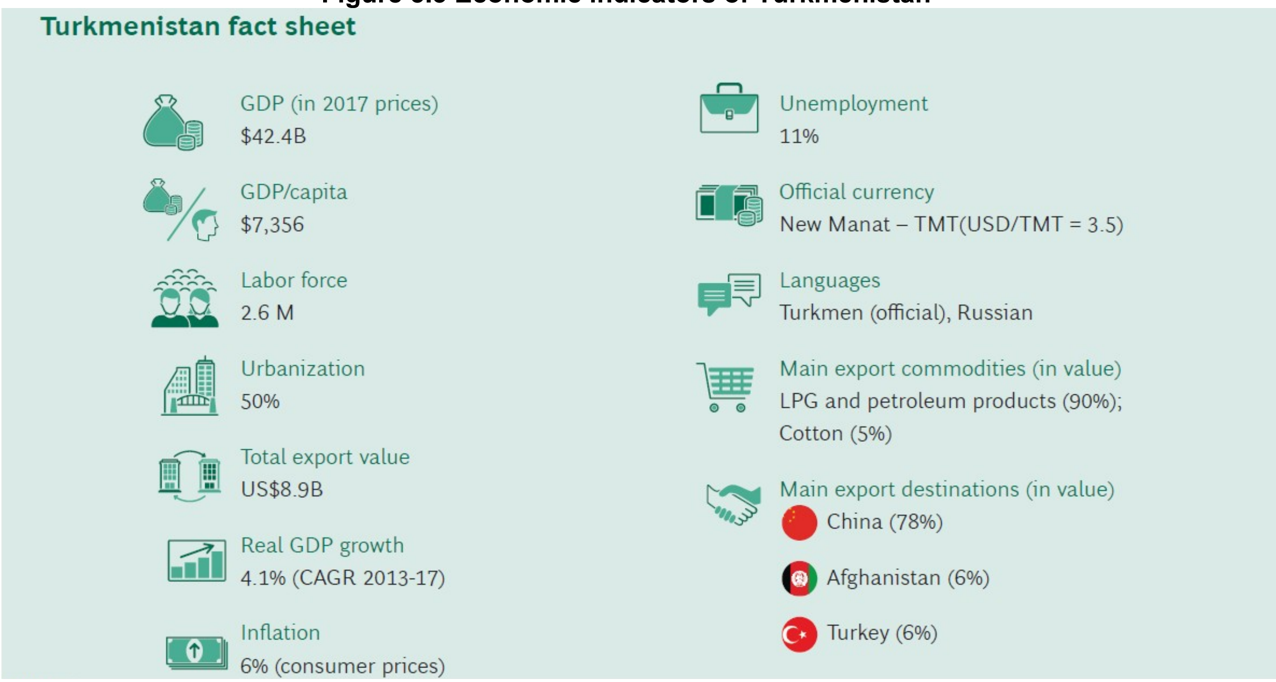
In addition, the country has energetic raw materials such as natural gas, oil and Coal. However, the production of natural gas and crude oil has stagnated or decreased for several years. The known reserves are sufficient, according to BP still for about 25 years. China and Uzbekistan have recently entered into a number of partnerships to develop new oil and gas wells decided.

There has been a pipeline connection to China via Kazakhstan since 2012. This gives the country an alternative gas export route to the traditional export route via Russia to the west. It is planned to significantly increase gas exports to China in this way over the next few years. In the top 10 for cotton In addition to mining, agricultural production also plays an important role. Uzbekistan is one of the ten largest cotton producers in the world. After gold, cotton is the country's second most important export good. A wide range of fruits and vegetables are also grown. The rivers originating from the mountainous regions in Tajikistan and Kyrgyzstan are used for irrigation. Due to the relatively low gross domestic product per capita of 1,900 US dollars, many Uzbeks work as guest workers in Russia. The guest worker remittances from there amounted to 6.6 billion US dollars in 2013, which corresponds to about 12 percent of the gross domestic product. Uzbekistan has a diversified manufacturing industry. Besides Kazakhstan, it is the only country in Central Asia with one Automobile production. The automotive sector is even one of the most important branches of industry with a share of around 20 percent of industrial production. There has been a cooperation with the South Korean manufacturer Daewoo, which is now part of the GM group, since the early 1990s. After cars were initially only assembled from imported kits, the proportion of locally manufactured parts has gradually increased and overall production has also increased. Last year around 250,000 cars were produced in the country. In Uzbekistan the joint has Venture a market share of over 90 percent in passenger cars. About a third of the production is exported. The main buyers are Russia and Kazakhstan. In the year 2009 The German commercial vehicle manufacturer MAN also founded a joint venture for the assembly of trucks in Uzbekistan. Since the Start of production, the capacity was gradually increased to 6,000 vehicles per year. The most important foreign trade partners are China, Russia, Kazakhstan and Turkey. Foreign trade with Germany consists predominantly of German exports to Uzbekistan. Germany finished in 2013 ranks sixth for Uzbek imports with a share of 4.3 percent, making it by far the most important trading partner in the European Union. Uzbekistan has enormous potential for Cultural tourism that is far from being exhausted. The cities on the historic Silk Road such as Bukhara and Samarkand are among the oldest cities in the world. They house a variety of historically significant architectural monuments and art treasures.

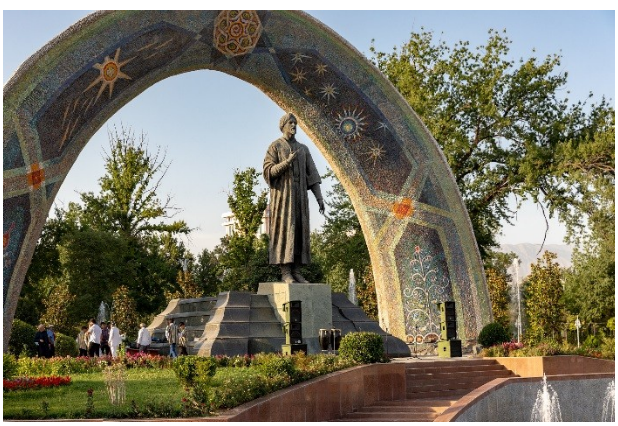
3.1.3 Turkmenistan: One country steps on the gas

With an area of 488,000 square kilometers is Turkmenistan around a third larger than Germany. Over 80 percent of the lands consist of deserts and semi-deserts. The country has over 5 million inhabitants. Other statistical information is difficult to obtain and the information options, e.g. about the Internet, very limited. According to official data, the economy has grown by an average of almost 13 percent a year since the turn of the millennium. With around 7,000 US dollars per capita gross domestic product, the country is on par with China and around half that of Russia. Also, if these numbers are likely to exaggerate the economic development somewhat, the economy shows a positive growth trend. The natural gas sector is the basis of economic development. The country has the fourth largest natural gas reserves in the world, almost 10 percent of the global natural gas reserves are on Turkmen territory. The country has by no means exhausted its enormous potential in this area.

Figure 3.3 Economic indicators of Turkmenistan



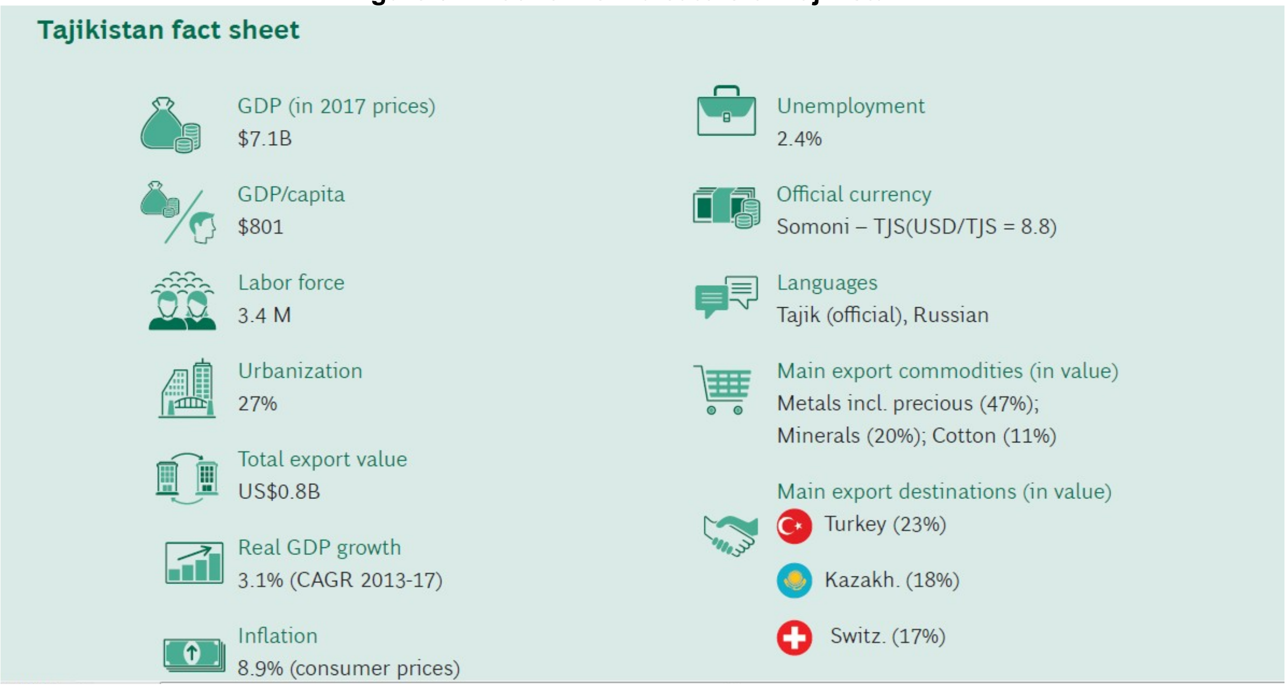
In terms of natural gas production, Turkmenistan only reached 13th place in the world in 2013. The known reserves would be with this in purely mathematical terms, the production level will last for almost 300 years. So, there are enough reserves for a significant increase in Gas extraction. With Chinese help, the production capacities will be expanded considerably over the next few years. Until a few years ago, the only high-volume export route for Turkmen was there Natural gas from the pipelines built during the Soviet era via Russia to Europe. Ukraine was the main customer for Turkmen Natural gas. During the global economic crisis in 2009 there was a long interruption of this crucial export route and with it to a sharp decline in gas exports. Since then, the country's relations with Russia have cooled significantly. With the support of China, three new natural gas pipelines have been built to China via Uzbekistan and Kazakhstan in the past few years. Most of the natural gas in Turkmenistan is now exported in this way and no longer via Russia. Turkmenistan strives to further increase and diversify its export opportunities. There are already smaller pipelines to neighboring Iran. A fourth pipeline to China via Tajikistan and Kyrgyzstan is also planned. A pipeline via Afghanistan and Pakistan to India is also being considered. The most visible signs of the economic upswing are the numerous state construction projects in the country. The sight of the capital Ashgabat has changed completely in recent years. Determine high-rise buildings and large-scale public buildings and monuments meanwhile the image of the city. The most important sector in terms of the number of employees is agriculture. Due to the low amount of rainfall, the agricultural areas have to be completely artificially irrigated. The country depends on the inflow of water from the mountains of Tajikistan. Cotton and wheat for personal use are the most important products. In recent years there have been new capacity created for processing cotton. China, Turkey and Russia are the country's main trading partners, with more than two-thirds of all Turkmen exports going to China in 2013. German-Turkmen trade is dominated by German exports to Turkmenistan. Germany supplies 6.1 percent of all Turkmen imports - especially medical technology, chemical products and vehicles - and is thus in fifth place among the supplier countries.



3.1.4 Tajikistan: Water source of the region

After the sharp slump in the 1990s as a result of the liquidation the Soviet Union and the civil war that followed is the economy since 2000 twice as strong as again with an average of 7.8 percent the world economy grew. In addition to the stabilization of the domestic political situation, the positive economic development in Russia made a significant contribution to this. The most important link to the Russian economy are the numerous Tajik guest workers. In 2013, remittances from guest workers amounted to around 4 billion US dollars (equivalent to almost 50 percent of the gross domestic product).

Figure 3.4 Economic indicators of Tajikistan



The demographically induced labor shortage in Russia and the large difference in incomes between the two countries suggest that Tajik guest workers will continue to transfer large sums of money to their families in the event of a weaker development of the Russian economy. With a gross domestic product of around 1,000 US dollars per capita, Tajikistan has the lowest economic power in the region after Afghanistan.

The country's main export goods are energy in the form of smelted aluminum and electricity as well as cotton. This benefits the land of its abundant water resources, which is also for the

Neighboring countries have existential importance. The one from hydropower A large part of the electricity generated is consumed by far the largest industrial company in the country, an aluminum smelter. However, hydropower supplies plenty of electricity, especially in spring and summer, while production in winter falls short of demand. In addition to the further development of hydropower, several projects for the exploration and development of natural gas deposits have recently been advanced. If the deposits turn out to be commercially viable, Tajikistan could not only use them to meet its own needs, but also become a gas exporter. This would give the economy as a whole a strong growth impetus. In any case, the country should benefit from the planned gas pipeline from Turkmenistan to China via Tajik territory in the form of transit fees. Foreign trade with Germany has so far only been a small volume; the most important partner countries are China, Turkey, Russia and Kazakhstan.

3.1.5 Kyrgyzstan: attractive for tourists, economically still pent-up

The economic and political development in Kyrgyzstan took place in more volatile in recent years than in other Central Asian countries. The economic and political development in Kyrgyzstan took place in more volatile in recent years than in other Central Asian countries. The country went through revolutionary upheavals in 2005 and 2010. Since 2000, however, the economy has grown faster than the global economy by 4.3 percent. By far the country's most important export is gold, which is mined in one of the largest mines in the world. The country also has significant water resources for the entire region. These are used to generate electricity.

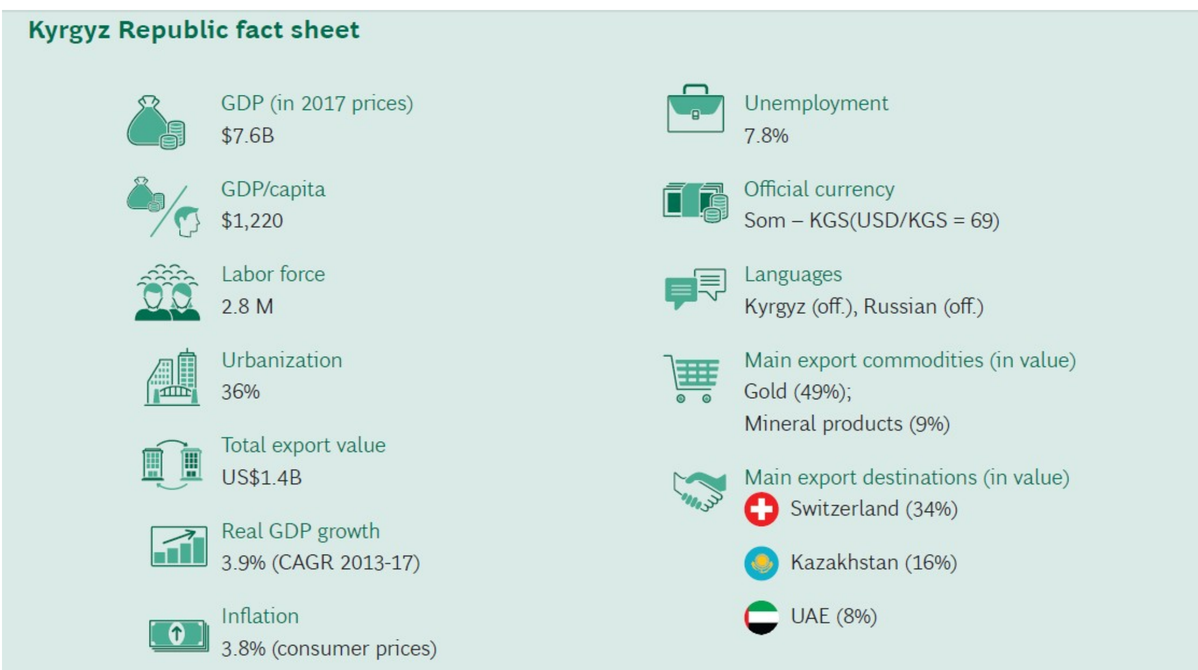


Figure 3.5

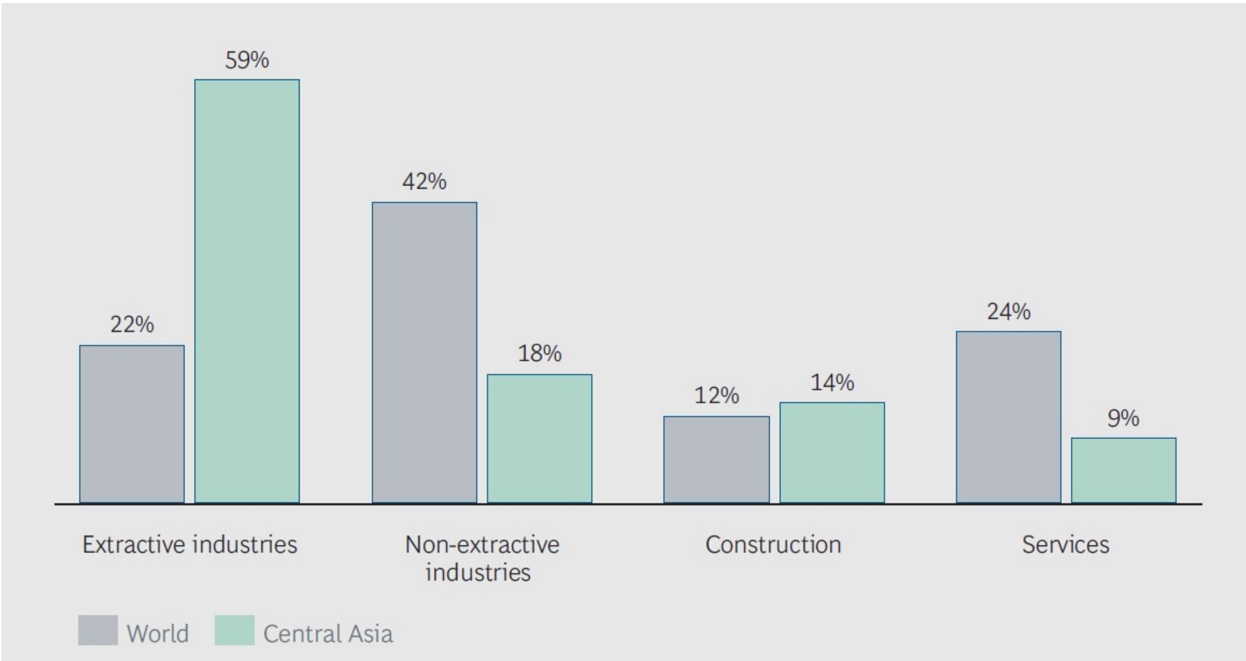
Economic indicators of Kyrgyz Republic

Another important economic factor is the remittances from guest workers from Russia, which in 2013 amounted to over USD 2 billion (one third of the gross domestic product). The situation is comparable to Tajikistan: guest worker remittances from Russia will continue to play an important role in the future. With a gross domestic product of 1,300 US dollars per capita, Kyrgyzstan is one of the economically weakest countries in the region. Compared to most other Central Asian countries, it has moved more towards opening up and deregulating the economy and democratizing society. Tourism and trade benefit from the visa exemption for many foreign nationals, relatively low tariffs and the free convertibility of the local currency. Kyrgyzstan wins the Ease of Doing Business Ranking of the World Bank globally in 68th place and thus achieved behind Kazakhstan ranks second in the region. China, Russia, Kazakhstan and Uzbekistan are the most important foreign trade partners. Trade with Germany includes so far only a small volume. With the Russian-led Eurasian Economic Union and the economic cooperation emanating from China along the historic Silk Road, there are currently two important initiatives that could lead to greater economic integration of the Central Asian states in the medium term. As a small inland country, Kyrgyzstan would benefit particularly strongly from this. Positive impulses could also come from the planned construction of a gas pipeline between Turkmenistan and China via Kyrgyzstan, which would bring transit income for the country. Analysts at the Boston Consulting Group (BCG) believe that this region has the potential to attract foreign direct investment of up to $ 170 billion over the next 10 years, of which $ 40-70 billion in non-resource industries. According to BCG experts, the main advantages of the region are macroeconomic stability, huge reserves of natural resources, a large domestic market, and a cheap and large labor force. Despite this, existing direct investment is mainly concentrated in the extractive and primary industries.

4. Investment attractiveness

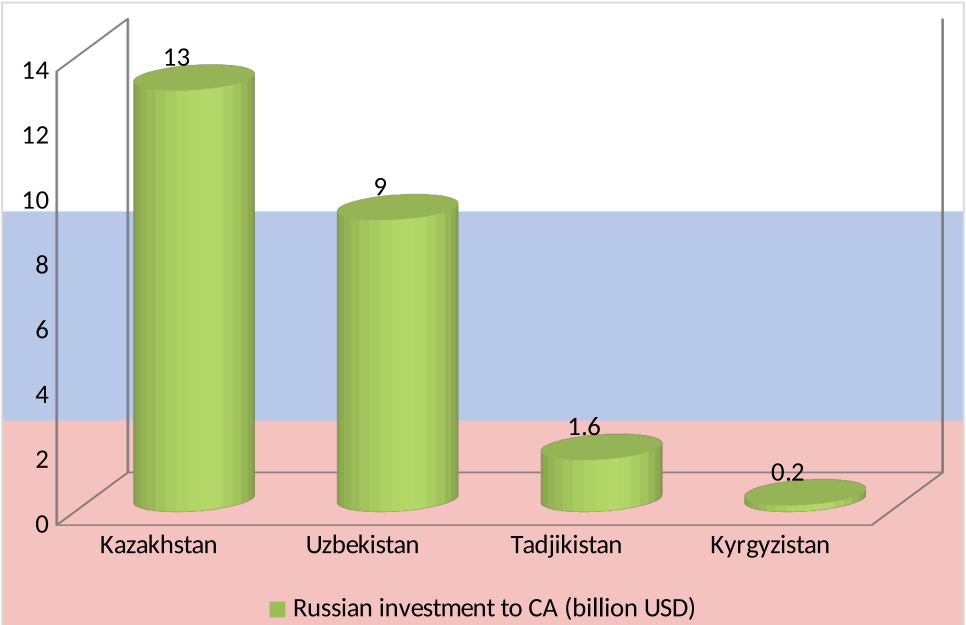
Analysts at the Boston Consulting Group (BCG) believe that this region has the potential to attract foreign direct investment of up to $ 170 billion over the next 10 years, of which $ 40-70 billion in non-resource industries. According to BCG experts, the main advantages of the region are macroeconomic stability, huge reserves of natural resources, a large domestic market, and a cheap and large labor force. Despite this, existing direct investment is mainly concentrated in the extractive and primary industries. The structures of the economies of the Central Asian countries are very similar to each other. They are dominated by extractive and raw materials industries, which are based on natural resources. In addition, the economies of the countries of the region have several common advantages, such as low labor costs and agro-industrial potential. All five Central Asian states seek to attract more investment through the implementation of various reforms. However, the scope and depth of these reforms differs significantly from country to country. Greenfield FDI inflow to Central Asia has reached $113 billion since 2008 and accounted for almost 1.5% of global FDI. Kazakhstan is the regional leader and has attracted 70% of all greenfield FDI inflows to Central Asia, followed by Uzbekistan with 16% and Turkmenistan with 8%, while the Kyrgyz Republic and Tajikistan combined received less than 6% of all regional FDI. Even though investor destinations and motivation are based on the competitive advantages of individual economies, patterns can be identified in FDI flows to Central Asia. So far, Central Asia has mainly attracted investors in industries related to natural resources. The largest portion of investments (~59%) has gone to extracting natural resources, while oil and gas, and metals and minerals, only represent 22% of FDI inflow worldwide.

Figure 4.1. Structure of greendfield . FDI in CA and the world



Production plants in these sectors in the region are mostly export-oriented. Investors still see Central Asia as rich in natural wealth. According to experts, the extractive sectors have not reached their full potential yet due to the large reserves available and the potential efficiency gains that can be achieved in these industries. However, fluctuations and drops in commodity prices, strong regional will to diversify economies, and measures taken by governments to improve the business climate create opportunities in other promising sectors.

Figure 4.2 Investment of Russia to CA



As expected, Russia and China are among the leading investors in the Central Asian countries, the main "engines" of the Eurasian integration processes. Thus, accumulated Russian investments in Kazakhstan amount to almost $ 13 billion, in Uzbekistan - $ 9 billion, in Tajikistan - $ 1.6 billion, in Kyrgyzstan - $ 0.2 billion. More than 6 thousand companies with Russian capital operate in the Kazakh market. in Uzbek - more than 1 thousand, in Tajikistan - 310. As for China, the list of joint Kazakh-Chinese projects in the field of industrialization and investment includes 55 projects totaling $ 26.7 billion.
In Tajikistan, the Celestial Empire is the No. 1 investor with investments of $ 1.1 billion.
The total amount of Chinese investments in Uzbekistan since the establishment of diplomatic relations amounted to $ 7.8 billion.

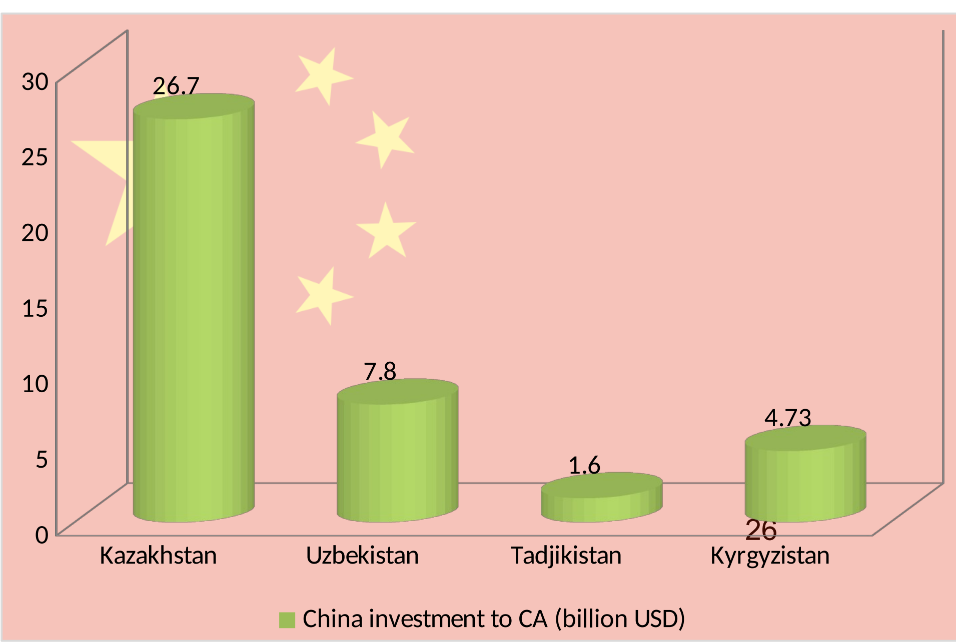


Figure 4.3 Investment of China to CA

The prospects are no less significant. Russia has recently been actively entering the markets of Uzbekistan and Kyrgyzstan. During the visit of the President of the Russian Federation V. Putin to Tashkent in October 2019, the Program of Economic Cooperation for 2019-2024 was signed, as well as 785 agreements and memorandums for $ 27.1 billion, of which investment reaches $ 25.3 billion. creation of about 80 joint ventures with the Russian Federation, two dozen trading houses and the same number of logistics centers in the Republic of Uzbekistan.

Figure 4.4. Hydroelectric power plant

In March 2006, agreements were signed with Kyrgyzstan and Gazprom on investments in the oil and gas industry. Russian “Ruselprom” signed a memorandum of cooperation worth $ 1.5 billion for the implementation of hydro projects and the construction of hydroelectric power plants. And Rosgeologia will be engaged in research of deposits in the Kyrgyz Republic. Research costs are $ 1.2 billion. With Kazakhstan, where more than 100 joint projects are currently being implemented, in April 2019 a program of joint actions in the field of Kazakh-Russian industrial cooperation was signed. The Russian investments directed to partners from Central Asia are designed primarily to develop the production and infrastructure potential of the region.

The most ambitious project of investment cooperation with Uzbekistan is the construction of a nuclear power plant. In October 2019, the presidents of the two countries launched the project, which should be launched in 2028. According to the head of Uzatom Zh. Mirzamakhmudov, the nuclear power plant will create 2.4 gigawatts of additional capacity and will create 8 thousand jobs during the construction phase and 2 thousand - during the operation of the station. And every dollar invested in the construction of a nuclear power plant will return to the economy by an average of 5-6 times.

The project for the construction of the Akhangarancement plant, which will become the largest in terms of equipment productivity in Central Asia, is also being successfully implemented. Investments of "Eurocement group" in the creation of the cluster amount to $ 200 million, of which more than 100 have already been invested. The Russian company "Ecoculture" plans to build an agricultural complex in the Republic of Uzbekistan for the cultivation, storage, processing and packaging of agricultural products, and "IMZ Avtokran" is a joint venture for assembly of modern types of truck cranes. In the field of space exploration, it is planned to create a radio telescope on the Suffa plateau.

There is also cooperation in the energy sector. Uzbekistan offered Tatneft, which operates at the Pritashkent investment block, to take part in the operation of the Fergana oil refinery. At the moment, a joint project of Uzbekneftegaz and the Russian company LUKOIL is being carried out to create the Kandym gas processing complex. LUKOIL is developing the Kandym-Khauzak-Shady-Kungrad oil and gas fields. For these projects alone, the total amount of accumulated investments has reached $ 8 billion.

4.1 Transport connectivity

Being practically in the center of Eurasia, Central Asia undoubtedly has a high transit potential in modern trade cargo flows. But at the same time, it is not used to the full by the states of the region, and there are a number of significant reasons for this, which significantly limit the possibilities of its implementation. This becomes especially noticeable in the context of the analysis of the most important customs checkpoints, which are naturally located on the most important trade and economic routes of the countries of Central Asia, and connected with large transport hubs. Since in our region the bulk of economic cargo is delivered to the region and transported across its territory by land transport - road and rail, as the most economically and logistically justified. The reasons, to a noticeable extent affecting the carrying capacity of the most important trade arteries, are both natural-geographical, and economic and political. Therefore, below we will try not only to study the current state of the main customs checkpoints in Central Asian countries and assess their impact on the transit potential, but also to analyze how to overcome their negative impact (as well as contribute to its growth at the regional and interregional levels).

Of course, it is worth dwelling on the fact that a significant part of the customs checkpoints through which foreign trade of the Central Asian states with neighboring regions is carried out operates in rather difficult geographic conditions. So, the most important of them, connecting the countries of our region with the PRC, lie in the highlands - this concerns the Khorgos region and the Torugart pass, as well as the Pamir Highway, which connects the Celestial Empire through the Alai Valley of Kyrgyzstan with Tajikistan. In addition, a number of transport corridors linking Central Asia with Iran and Russia (Eastern Europe as a whole) pass through arid desert and semi-desert areas with underdeveloped infrastructure.

All this leaves a significant imprint on the possibilities of cargo transportation, as it complicates them both from an economic point of view and from a logistic point of view. In the latter case, they become less intense in the corresponding seasons of the year (in mountainous regions - in winter, in dry regions - in summer). Also, some obstacle to the development of trade, including transit, corridors are large rivers - the Amu Darya, which separates Uzbekistan and Tajikistan from neighboring Afghanistan, ties trade between them to large bridges with high traffic capacity.

Another factor affecting the throughput of the customs points of Central Asia with the countries of neighboring regions is the specificity of the region's transport infrastructure. The fact is that for a long time it was closed (aimed, first of all, at the development of economic relations within the USSR), and only after gaining independence it gradually begins to reorient itself towards the development of trade contacts (including transit cargo transportation) with neighboring states, in especially with China.

But the continued weak development of the railway network and the intensive use of the road network in mountainous and difficult climatic conditions lead to a rapid deterioration of the roadbed of highways. All this as a whole does not allow using the carrying capacity of the most important trade corridors in Central Asia and gradually increasing it. Although, however, in the last few years, some positive steps have been taken in this direction - the Khorgos-Almaty railway was opened (2012), the roads connecting Kazakhstan, Kyrgyzstan and Tajikistan with the PRC were partially revived. Completed the construction of a railway line linking Kazakhstan and Turkmenistan with Iran along the Caspian Sea (2014). However, the development of the transport system, especially the railroad, lags far behind the real needs of the economy. In particular, there are very few roads of the first category, which invariably affects the speed of transport.

In addition, ferry routes were established linking Central Asia with Azerbaijan. Of particular importance in this regard is the Kazakh port city of Aktau, which is gradually turning into a large transport and logistics hub, through which, since 2015, the flow of Chinese commodity products has gone to the Caucasus and further.

However, in this regard, it should be noted that road freight transport is less profitable than rail. Therefore, the weak development of the railway network not only limits the possibilities of transit trade in Central Asia, but also does not allow the creation of large transshipment points for goods flows, especially from East Asia to Western Europe.

Another set of factors that strongly affect the carrying capacity of the most important trans-regional transport routes in Central Asia continues to be a political issue. The fact that the states of the region are currently in fact divided into two groups according to the EAEU membership splits the region according to the economic principle and creates some difficulties in the customs and logistics direction of cargo flows. Kazakhstan has found itself in a somewhat advantageous position, which, possessing a large territory and a relatively developed railway network, can, with the help of its membership in this international organization, almost unhindered transit freight flows up to the western borders of Belarus. This also makes it possible to partially use the transit potential of

Kazakhstan and neighboring Kyrgyzstan, the railway network of which has been tied to the neighboring state since the Soviet period. Therefore, by combining road and rail routes, it is also able to use the possibilities of transit cargo flows through the EAEU.

Despite the fact that, within the framework of the EAEU, customs barriers have been noticeably leveled by now (although they have not actually been completely overcome so far), nevertheless, with the economic interaction of the member states of this organization with neighboring states - with the PRC, for example, the customs services are weak synchronized. This creates some difficulties in the operation of customs checkpoints on the external borders of the region with China.

Turkmenistan found itself in a similar situation after the commissioning of a railway line from Kazakhstan to Iran along the Caspian Sea. For quite a long time, being in a state of "non-alignment" with international agreements, since 2014, he had to do significant work to resolve the customs conflicts with both Kazakhstan and Iran, but they have not been completely overcome either.

Uzbekistan and Tajikistan are experiencing a number of difficulties in cross-border trade, which (not being members of the EAEU) had to resort to a number of agreements with this organization and receive a number of economic preferences. They also tried a similar strategy in relation to neighboring Afghanistan.

So, taking into account all the factors noted that affect the development of trade and economic corridors passing through the territory of modern Central Asia, it is easy to see that the most important customs checkpoints along the perimeter of Central Asia function under their direct influence. This gives rise to the possibilities of using the transit potential by the countries of the region, as well as the conditions for a gradual increase in the volume of international cargo flows within its framework.

The largest customs checkpoints (along the perimeter of the external regional borders) in Central Asia differ markedly both in terms of their capacity and working conditions. But before that, it will not be superfluous to list them and give a brief description.

In Kazakhstan, the most significant points on the border with the PRC are considered: on the sections Altynkol - Khorgos and Dostyk - Alashankou, which also have a sufficiently developed and modern railway and logistics structure. Railway and road checkpoints on the Kazakh-Russian border (Aksai, Zhaisan, Alimbet, Taskala, etc.), confined to road and rail transport hubs, are of no less importance in transit trade. As mentioned above, the port of Aktau is becoming increasingly important in transit trade. In Kyrgyzstan, a large role is played by road customs checkpoints on the border with China: Torugart in the Naryn region and Sary-Tash - Irkeshtam in the Alai valley. In Uzbekistan, the largest transport and logistics hub in transit trade is Termez bordering Afghanistan, to which, in addition to highways, there is a railway. In a somewhat more complex relationship is neighboring Tajikistan, which, despite a common border with China, has infrastructural exits only to the neighboring regions of Afghanistan, with which it is connected by several road bridges from the western part of the country (checkpoints Nizhniy Pyanj and Kokul) and GBAO (Tem, Ruzvay, etc.). Although at present, work is underway to lay a highway through the Kulma pass, which will connect the country directly with the PRC. Turkmenistan has a railway and road customs-access route on the border with Iran - Etrek - Gorgan. The country is also connected with the latter by several highways with the Gaudan and Serakhs customs checkpoints, which, unlike the main railway, do not have sufficient throughput and logistics capabilities. In addition, Turkmenistan is increasingly using the port of Turkmenbashi on the Caspian Sea for foreign trade and transit of goods.

The main part of customs checkpoints on the external borders of the Central Asian region is quite actively used by the PRC for transporting various industrial products to European countries within the framework of its One Belt - One Road initiative, and especially as its most important component - the Silk Road Economic Belt ... So, for example, it is through the customs points Altynkol - Khorgos and Dostyk - Alashankou that the trans-Eurasian railway Chongqing (PRC) - Duisburg (Germany) passes, along which goods have been actively supplied since 2013. Moreover, they reach their destination in just 15 days. It is also used within the SREB and an alternative route through Kazakhstan: goods are delivered first to the port of Aktau and then by sea through the Caspian Sea are sent to the Azerbaijani port of Alyat further to Western Europe. At the same time, cargo from China reaches the port of Alat in just six days. The Chinese side is also actively used to transport its cargo flows to Central Asia by the most important highways - in particular, through Torugart and the Alai Valley in Kyrgyzstan. But unlike the railway network, the bulk of marketable products are consumed within the region itself - only a very small part of it is exported outside its borders.

The railway and partly the road network of Kazakhstan is quite intensively used for the supply of mainly Russian and, to a lesser extent, Belarusian goods, from where they are further supplied to other countries of the region, including Kyrgyzstan (as a member of the EAEU). At the same time, it is through the railway network under the conditions of a favorable customs regime that Kazakhstani products, mainly in the industrial sector, are exported to Russia and the countries of Western Europe. Moreover, thanks to a relatively developed railway network, the flow of goods from Kazakhstan reaches European countries within a week.

Thanks to the implementation of the project on the construction of the Caspian railway, which connected Kazakhstan through Turkmenistan with Iran, the exchange of goods between these countries is gradually increasing. At the same time, since 2016, supplies of Chinese products have also been increasing along this highway, since with its help, the PRC gets access to the Middle East and its largest ports on the Indian Ocean through Central Asia. Thus, the delivery time of goods from Kazakhstan to these ports takes only up to 6 days, and the time of transportation of goods from China to the Iranian port of Chabekhar is only 14 days.

Economic relations with Afghanistan are also of some importance in the context of trade and transit corridors for Central Asia. Thus, a significant part of goods from our region goes through the Uzbek Termez, which has sufficient infrastructure. For example, a significant part of food products from Kazakhstan is delivered through this customs checkpoint.

So, the main part of the transit potential and related customs checkpoints with the corresponding logistics infrastructure is currently used by the PRC. Although a significant part within the EAEU countries is operated independently - mainly for the supply of Russian products to the region and, on a more modest scale, local - to Russia and partly to Belarus (further to European countries) However, it should be noted that a significant role in this is played by partial conjugation of the EAEU and One Belt - One Road projects. This makes it possible to actively use the transport and rail infrastructure, especially for the direction of trans-Eurasian trade flows not only in the western, but also in the eastern and northern directions. Stable transit flows through Central Asia are also being established in the southern direction, so here Chinese products are also complemented by Iranian and gradually Central Asian ones. The latter also goes to neighboring Afghanistan.

In case of further successful establishment of trade and economic cooperation between the Central Asian states and India, we can expect an increase in the flow of industrial and other products from this country through Iran to our region.

As can be seen from the above analysis, not all Central Asian states can actively use their transit potential due to their geographic location. In this case, we are talking about Uzbekistan, which is currently actively supporting the project for the construction of a railway line, which could connect it with the PRC through the territory of Kyrgyzstan. This would make it possible to implement an alternative transit corridor in the region, which would pass along its southern part and further through Turkmenistan, and would bring trade flows from China to the Middle and Middle East. This, in turn, can become the basis not only for expanding the capacity of transit corridors throughout Central Asia, but also an important condition for the creation and further development of modern infrastructure associated with this transit highway.

There is also a certain difficulty in this direction for Tajikistan, which, due to the difficult high-mountainous conditions of the Pamirs, does not have a direct access to the transport system of the PRC, because it is one of its most important external trade and economic partners. This forces him to use the transport highway through the Alai Valley, which allows him to go to the Pamir Highway or through the Karamyk Pass to deliver goods to Dushanbe and other cities of this republic. But given that Tajikistan is not a member of the EAEU (unlike Kyrgyzstan, with which relations are periodically complicated due to incidents at the border), such a situation complicates the development of trade relations with the PRC.

However, the development of the modern transport system in Central Asia is still far behind the real demands of trade and the economy as a whole, which to a significant extent slows down its further intensification. This also invariably affects the throughput capacity of the most important customs points on the external borders of the region, which in most cases do not fully or almost completely lack modern infrastructure that would make it possible to intensify transit flows through them.

This is manifested in the fact that, due to insufficient infrastructure capacities (when loading or unloading transit trade products), noticeable delays occur at checkpoints and customs points, which causes their downtime, and in some cases even leads to the loss of goods, as a result of which significant economic losses.

Another problem on the way to increasing the throughput capacity of transport corridors in Central Asia is the difference in the procedures for inspection and clearance of goods. And if in the EAEU countries they are relatively harmonized and strengthened, in other cases they can take considerable time. In some cases, they can be artificially complicated as a result of uneasy political relations between countries. This also leads to long delays in goods at the border and, accordingly, brings significant losses, especially when it comes to perishable products.

For these reasons, in order to increase the throughput of customs and checkpoints of the Central Asian states, through which international and transit trade takes place, it is necessary not only to further develop the transport (railway network and related logistics infrastructure), but also to simplify customs control through diplomatic ways to unify customs systems at the interregional level.

4.2 Natural Resources and raw materials

The countries of Central Asia have a huge mineral and raw material potential. Kazakhstan and Turkmenistan are distinguished by oil reserves, Turkmenistan, Uzbekistan and Kazakhstan are distinguished by gas reserves, Kazakhstan is rich in coal, and Uzbekistan is rich in brown coal. Oil and gas resources are concentrated in the Caspian lowland, in the deserts of Karakum and Kyzylkum, on the Ustyurt plateau and in intermontane depressions, the largest reserves of coal are located in the Karaganda and Ekibastuz basins within the Kazakh Uplands. Kazakhstan is rich in ferrous metal ores - iron, manganese and chromium. Large deposits of non-ferrous, including precious and rare metals are found in all countries of the region, except for Turkmenistan. Thus, Uzbekistan is particularly distinguished by reserves of gold, uranium, cadmium, copper, molybdenum, Kazakhstan - uranium, tungsten, molybdenum, lead, zinc, Kyrgyzstan - gold, mercury, antimony, Tajikistan - reserves of silver and uranium. Turkmenistan, Uzbekistan and Kazakhstan have large reserves of mineral salts.

4.3 Political Risk and Corruption

The theme of the fourth industrial revolution, which is popular among the political elites of the Central Asian countries, sounds beautiful, but it looks unrealizable in the conditions when the Central Asian states are rapidly losing their human capital. It is alarming that many ambitious, creative and capable young people see no prospects in their countries and leave in different directions, trying to find application of their “competitiveness” in other political and economic systems. Thus, a serious challenge for all Central Asian countries in terms of implementing economic reforms will be the lack of qualified specialists.

On the Constitution, almost all CA countries are unitary states, which also presupposes the presence of a “unitary economy,” where economic opportunities and successes are distributed evenly throughout the country. But in these states, they are concentrated only in a few "economic growth points" that are more reminiscent of "economic separatism".

A preventive measure against "economic separatism" is the equal development of all regions of the country by increasing their competitiveness. This requires a more efficient implementation in the regions of the industrial and innovative development program, one of the results of which should be the emergence of new jobs, as well as modern infrastructure. Otherwise, this may fuel the discontent of residents of other regions that the center, using the resources of this region, returns less than it takes. Here it is also necessary to take into account the role of regional elites, which, under certain conditions, may not be satisfied with the degree of their influence on the decision-making process on the ground, which turns them into a kind of destabilizing factor. In addition, economic separatism gives rise to another problem in the form of unregulated internal migration from rural regions to cities, which provokes destructive urbanization.

The urban population is growing in almost all CA countries. This means that cities, rather than rural areas, will be places of socialization for many young people in the region. Many people often flee to cities from despair and lack of prospects in rural areas. And the whole problem is that this process is not connected with the state policy of equal distribution of labor resources, but is still the result of spontaneous migration processes within states. As a result, the risks of marginalization of a significant part of the urban population are growing, which creates favorable conditions for the spread of various types of radical ideas.

Now we see the desire of many people in the countries of Central Asia, primarily young people, to choose a religious self-identification, and not a civil or ethnic one.

The level of terrorist risks in different Central Asian countries is different. Although the social base for recruiting radicals in all these countries is practically the same. The growth of radicalization of the population is facilitated by a high level of poverty, unemployment, a significant percentage of young people in the total population, an ideological vacuum, corruption and a low level of religious education.

Geographically, the countries of Central Asia are closed in a geopolitical triangle: Russia, China, the Muslim world. This is our geographic destiny, which has its own opportunities, risks and challenges. Most of the Central Asian countries are trying to rely on remote partnership with various geopolitical players, primarily focusing on attracting investment.

At the same time, any destabilization of the financial and economic situation in Russia or China also creates certain risks for most economies of Central Asia. For example, the worsening economic situation in Russia automatically affects the earnings of numerous labor migrants from Uzbekistan, Kyrgyzstan and Tajikistan.

As for Kazakhstan, unlike other countries in the region, the republic's vulnerability is that it is most of all included in the global economy.

In 2009 in Istanbul, at the World Water Forum, it was announced that by 2025, two-thirds of the world's population will experience a water shortage. At the same time, according to some forecasts, the consequences of the shortage of water in the world will be much worse than the consequences of any of the economic crises. Here we can cite as an example the report of the European Union, which indicates the possibility of conflicts in Central Asia due to the lack of water and food. According to experts, Central Asia loses about $ 1.7 billion annually, or 3% of its GDP, as a result of ineffective water management, which reduces crop yields.

In the area of formation of the Syr Darya and Amu Darya flows, intensive melting of glaciers is already continuing. For 50 years, the volume of glaciers has decreased by 40%, which threatens to reduce the flow of the main waterways. Already now, according to the Ministry of Agriculture of the Republic of Kazakhstan, the volume of water in river flows is decreasing in the republic.

According to official estimates, Kazakhstan will lose its glaciers by 2050. According to experts, by 2050, due to global warming, the average temperature in Kazakhstan will increase by 3 degrees. As a result, the area of deserts may move 300-400 km to the north, which will threaten the country's food security, in particular, the production of grain and meat.

In March 2019, another conflict occurred on the border of Tajikistan and Kyrgyzstan after the clash of residents of border villages. As a result, several people were killed and more than 40 were injured. This is not the first conflict in this region. The main reason for all disputes is the uncertainty of the state border line. A rather strange situation arose when, for example, most of the countries of Central Asia, having entered the Shanghai Cooperation Organization, were able to resolve their border problems with China, and the borders within the region were turned into a permanent source of tension. One of the reasons is the presence of several enclaves in the region.

4.4 The impact of the global COVID-19

The impact of the global COVID-19 pandemic on the economies of Central Asian countries is very significant. The volume of foreign direct investment (FDI) in the world in the first half of 2020 decreased by 49% compared to the same period in 2019 due to the restrictive measures on coronavirus. Trade suffered greatly; health systems are under increased pressure; consumption and investment levels are falling sharply. The crisis is affecting key factors of regional growth, including remittances from labor migrants, the export of oil and minerals, and the service sector. The relatively low degree of diversification of production and exports, along with the vastness of the informal sector of the economy in a number of countries, only exacerbate the difficulties faced by national governments in trying to counter the crisis by putting pressure on government budgets. The governments of the countries of the region are taking serious measures to provide liquidity to households and businesses; most of them are beginning to loosen quarantine restrictions. A number of countries have taken short-term measures in health, finance and economics, especially to support small businesses, and have received emergency assistance from international partners. Gradual lifting of quarantine started in some countries will require careful adherence to health measures and the use of, where possible, testing, and tracking and control strategies and the provision of further economic support during the resumption of activities and restoration of enterprises. In addition, it becomes possible to reflect on long-overdue structural reforms related to the business environment and competition, which will be critical for recovery and long-term sustainability.

Economic impact: Kazakhstan

The COVID-19 crisis hit Kazakhstan both through the consumption channel as a result of nationwide and global isolation, and on the revenue side due to a sharp drop in oil prices. Overall, it is estimated that GDP contracted 3% in January-August 2020, investment fell 5.2%, and inflation rose due to both supply disruptions and currency depreciation. Unemployment rose 0.2% to 5% in July, according to official statistics, and is expected to rise to over 6% by the end of 2020. If a moderate recovery in growth is expected in 2021, Kazakhstan's economy will remain vulnerable to further deterioration. sanitary conditions that can seriously affect business and employment (World Bank, 2020; OECD, 2020).

According to official statistics, the support programs have employed more than 750,000 people to date, and the direct income is about 4.6 million. As of September, banks provided concessional loans to small and medium-sized enterprises in the amount of 160 billion KZT (386 million US dollars), while more than 1.6 million people and 11,000 SMEs received deferred loans (about 360 billion KZT or 870 USD million). More than 270,000 companies and individual entrepreneurs have benefited from tax incentives (World Bank, 2020 [48]). The DAMU Foundation alone supported over 7,000 entrepreneurial projects totaling 566 billion KZT ($ 1.3 billion) during the COVID-19 crisis.

Economic impact: *Uzbekistan*

For the first time in more than two decades, growth fell to near zero in early 2020, as investment fell 12.8% in the first half and poverty rose. Unemployment jumped from 9.4% to 15% between the first two quarters of 2020. However, the growth in gold production and prices, as well as the resilience of the agricultural sector, softened the decline in the industrial and services sectors. Meanwhile, new isolation measures since summer have slowed employment and business recovery, dampening the prospects for a rapid recovery in 2021 (World Bank, 2020 [3]; OECD, 2020 [19]). In early September, the government revised its 2020 growth forecast down from 5.5% to 2.2%, although the IMF and World Bank remain more bearish, forecasting 0.7% and 0.6% growth, respectively.

The government reacted quickly and commensurately with the economic shock. Anti-crisis fund in the amount of 10 trn. UZS.(950 million Euros or 1.5% of GDP) was created to cover urgent social needs and support business and employment. A total of about 2.5% of GDP has been spent since February, representing a cumulative 17% increase in social transfers and 10% in the minimum wage (OECD, 2020 [19]). Following an early deconfinement in May and confronting a resurgence of the pandemic, Uzbekistan has since reintroduced quarantine measures and sanitary restrictions. Additional support measures were developed in the summer, mainly expanding on the original package and unconditional income support for households. According to official data for July, sectors of the economy were provided with 2.3 trn. UZS of tax breaks, and by the end of August, $ 6.1 billion had been spent, mainly to support the income of enterprises and the population through the Anti-Crisis Fund. In early September, the government adopted an ambitious post-crisis program for 2020–2021, which focuses on restoring investment and economic activity and creating conditions for further economic reforms. The plan will be implemented in two phases, focusing on stabilization and recovery by the end of 2020, and then move on to structural reforms in 2021 (Government of Uzbekistan, 2020 [52]).

Economic impact: *Kyrgyzstan*

COVID-19 had an immediate and severe impact on the economy, with GDP falling 5.9% year-on-year in January-July, the sharpest decline in Central Asia during that period (World Bank, 2020). Despite the easing of restrictions, economic activity remains subdued: activity in the workplace is 30% lower than at the beginning of the year, and activity in retail trade is 20% lower. A lower trade deficit masks a worsening picture of Kyrgyzstan's external position. Except for a small increase in gold exports, trade has declined significantly: foreign trade fell 22% in the first half, while exports to China fell 33%. The tourism sector in Kyrgyzstan has practically disappeared amid the pandemic (a decline of 90%). At the same time, imports fell more than 50% in the first seven months compared to the same period in 2019 and amounted to only $ 825 million. Domestic revenue and customs duties fell sharply due to reduced trade and lower commodity prices, lower domestic consumption, and the impact of travel restrictions imposed to curb the spread of the virus. By mid-May, the Treasury Department projected a 20 percent annual revenue deficit, with increases in health and social assistance spending pushing the budget deficit to 7.4 percent of GDP in the first half of 2020, up from 0.3 percent. Although the fall in remittances was not as large as originally anticipated, inflows fell 13% year on year, which will negatively impact household finances and increase the risk of poverty for many.

Economic impact: Tajikistan

The global health crisis has had a significant impact on a number of key economic factors in Tajikistan: real GDP growth is projected to fall to 1.6% in 2020, down from just under 7% in 2019. The most significant economic impacts have come from trade disruptions, declining remittances from migrants and the associated decline in domestic consumption, and declining commodity prices for many of the country's main exports. One of the immediate consequences of the slowdown in growth is the possible reversal of much of the progress in reducing national poverty, which fell to 26.3% of the population in 2019. The World Food Program estimated that in 2020 about 47% of Tajiks lived on less than US $ 1.33 a day, with a third of the population suffering from malnutrition. The pandemic's devastating impact on supply chains and businesses has led to significant increases in food prices, creating dire straits for many households in a country that is already the region's poorest country on a per capita basis.

Economic impact: Turkmenistan

The government has not reported COVID-19 cases in the country. However, the high degree of trade dependence, coupled with Turkmenistan's small private sector, combined with a narrow domestic tax base, means that the economy is extremely vulnerable to a deteriorating external environment. The sharp drop in demand and the value of the country's main export product, natural gas, has had a major impact: real GDP growth is expected to fall to 1.8% in 2020, down from 6.3% in 2019, according to official figures. A large government presence in the economy, which can lead to misallocation of increasingly scarce resources, may pose a particular risk to the private sector's contribution to recovery, growth and employment (EBRD, 2019 [50]). Since natural gas accounts for more than 90% of exports and China accounts for 80% of trade, any drop in demand from China will have immediate and serious consequences for public finances, undermining the government's ability to make necessary long-term market adjustments as well as making export-oriented investments. Initial data from China show that natural gas imports from Turkmenistan fell 27% in the first eight months of 2020, signifying a significant reduction in government trade revenues. While China's apparent recovery is clearly good news for Turkmenistan, it is the road to recovery. will continue to be difficult and subject to serious downside risks.

4.5 Conclusion

In this work, I have tried to analyze the importance of Central Asian countries for foreign investors and the role of foreign direct investment in the development of Central Asian countries. In recent years, the Central Asian states have achieved sufficient growth in all aspects. The barriers to foreign direct investment in Central Asian countries lie in the areas of business climate and openness, political stability, and reliable infrastructure.

Kazakhstan is still the leading country in Central Asia, but if Uzbekistan continues its current course, it may become the most developed country in Central Asia in the near future.

In conclusion, Central Asian governments wishing to attract more foreign direct investment should focus on their institutions. First and foremost, they must ensure effective compliance with tax laws, labor markets, and greater trade openness in terms of transparency, flexibility, and other mechanisms that will improve trade openness. Policymakers should also be aware of the increasing and sustaining upward trajectory of GDP. This will make the respective countries more attractive for foreign direct investment.

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