POLITECNICO DI TORINO

Faculty of Engineering
Master of Science: Engineering and Management

Master's thesis:

Opportunity and challenges for FDI in central Asia by governance structures

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Abstract.

The thesis is focused on the positive and negative aspects of foreign direct investment conditions in Central Asia and determines major government regulations or reforms and other factors that may affect an optimistic attitude or barrier that every company can face difficulties while investing in a certain location. Because, it is well-established that foreign direct investment is more effective in creating workplaces, innovation ideas and technology, improvement in many spheres. Hence, Central Asia countries can be the optimal destinations for foreign investors in case of profitable to both sides. To understand the chosen theme, the analysis started from the meaning of foreign direct investment, studying the region aspects that additionally used econometric method to determine main factors of the region and their importance for investors in previous years. And ends with the political environment, law and tax regulations, risks and barriers in each country which are informed from accurate databases and official governmental papers. As a consequence, each country faces unique difficulties and has specific competitive advantages for which it is accountable. Furthermore, there have common difficulties and they may be handled by realizing preferable reforms or via collaboration with each other.

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Chapter One - Introduction and Overview.

Introduction

In this thesis work, we discuss the advantages for investors of the inflow of investment into Central Asia, at the same time, the complexities that may arise during the said practice, and discuss the situation for the current Central Asian FDI in general. It needs to be defined, researched and found answers to questions that are the main factors for investors in this area. What differs area from other parts of land? Is it profitable to invest? What kind of barriers is it has? and so on.

For answering those questions, thesis work goes from giving an explanation to types of foreign direct investment and its effect on each side (host and source country). For the full filling the theoretical area, there describes the situation in each country such as best investment spheres and locations, support of investment and risk rate of realization.

On the other hand, FDI is becoming more important for developing countries that I can consider mentioned countries and those countries are often based on the assumption that greater inflows of FDI bring certain benefits to their economy. FDI has great social, cultural, economic and political effects for the host countries. As a result, the region needs FDI, and the thesis work demonstrates the area's attractiveness for inflow of investment.

What is Foreign Direct Investment?

First of all, conceived out of an interest in foreign direct investment, the following paragraphs discuss foreign investment overall because it must be clearly shown the core of our theme. First, let's look at the general meaning of foreign direct investment (FDI). It is not smooth to set a definition to FDI due to the fact despite the quantity of data to study is going beyond a normal limit amount and the general meaning of the advent of this data is similar, however, they are special from each other partially. But withinside the direction of this thesis work, I attempted to offer a preferred description by analyzing the basic materials. FDI is aimed investment at enhancing business practices in one economic region (the source country) by acquiring or purchasing assets in another economic region (the host country), merging with a contract, or investing in a newly selected business. Or, as The International Monetary Fund’s Balance of Payments Manual emphasizes, this is a type of investment that “The investment that is made to acquire a lasting interest in an enterprise operating in an economy other than of the investor, the investor's purpose is to have an effective voice in the management of the enterprise.”, Also, i should remind and give some definitions to other types of foreign investments to complete the knowledge cycle, such as portfolio investment, commercial

loans, and official flows. Portfolio investment is usually represented by the transfer of funds aimed at purchasing shares in a company established or operated in another country. Foreign investment can also include other security tools to raise funds for your company. A differentiator is that portfolio investment separates management and management of the company and participation in the company. Two other forms of foreign investment need to be considered: commercial loans and official flows. Commercial loans are usually bank loans granted by national banks to companies located abroad or to the governments of those countries. The official flows are a general term that refers to the various forms of development assistance that developed or developing countries receive from a country.
There are many benefits to investing in the FDI process. These include job creation, data transfer, and technology development over time. At the same time, the investment entity can also gain a number of benefits, such as further expanding its business or service chain and earning its own income or new technologies and new raw materials or new customers in new territory. To emphasize that this process does not only involve beneficial processes but also contains factors that are detrimental to both sides. Of course, many conditions must be met for FDI to be implemented. Most important are both parties must cooperate reliably and lawfully.

Different views on foreign direct investment.

FDI is a wide-ranging and complex practice, divided into types depending on its application. it can be differentiated based on the goals of both the investor (the source country) and receiving side (the host country).

The investor point of view

From an investor's perspective, American economist Richard E. Caves (November 1, 1931 - November 22, 2019) categorizes as follows:

- Horizontal FDI.
- Vertical FDI.
- Conglomerate FDI.

Horizontal FDI is mainly used to establish the production or expansion of a domestically produced product that is exactly the same in another region (the host country). Horizontal FDI is the most common type of investment, and it is performed to fully leverage certain monopolistic or oligopolistic advantages, such as patents or differentiated goods, especially if domestic growth would violate anti-trust laws or is mainly used to establish the production or expansion of a domestically produced product that is exactly the same in another region.

Vertical FDI is used to conveniently use raw materials located in another economic zone or to increase profits by being close to the customers. Furthermore, in other literature, vertical FDI is defined as the implementation of components of the same manufacturing process in several locations for specific advantages. For example, American automakers have had the following difficulties entering the Japanese market. The level of purchases of imported vehicles by the U.S. producers was unsatisfactory due to the confidence of the local population in domestic manufacturers, ease of purchase, and mainly the fact that the Japanese auto dealers had a closer relationship with domestic manufacturers. As a result, the aforementioned foreign automakers have created the foundation for the establishment of their own sales networks to promote their vehicles.
Last but not least, there is Conglomerate FDI, which is a totally different sort of investment from the others and can develop an entirely new product or service in a different economic zone, and it may also include both horizontal and vertical FDI. However, there are two major obstacles to overcome: entering a new economic zone and introducing a new product or service.

The host country's point of view

From the point of view of the host country, we can divide the FDI into three categories:

- ❖ Import-substituting FDI
- ❖ Export-increasing FDI
- ❖ Government-initiated FDI

Import-substituting FDI entails the manufacturing of products preciously imported with the aid of using the host country, always implying that imports with the aid of using the host country and exports with the aid of using the making an investment country will decline. This sort of FDI is probable to be decided with the aid of using the dimensions of the host country`s market, transportation cost, and barriers.

Export-increasing FDI is stimulated via way of means of the choice to are seeking for new reasserts of input, consisting of uncooked substances and intermediate items. This type of FDI is export-increasing withinside the experience that the host us of a will boom its export of uncooked substances and intermediate items to the making an investment us of a and different countries (wherein the subsidiaries of the multinational organization are located).

Government-initiated FDI can be triggered, for example, while the authorities give incentives to foreigners in to take the stability of the price deficit.

Others

Similarly, we are aware that Chen and Ku (2000) remember the impact of kinds of FDI techniques on income growth and survival, and divide the companies into expansionary and defensive sorts primarily based totally on outward FDI in high-salary or low-salary countries. Weng et al. (2010) additionally observe the companies` expansive and defensive outward FDI activities however recognition of the effect on product quality.

Safe property rights and national sovereignty within the FDI history.

Historical milestones of Foreign Direct Investments

One of the primary incentives for the development of European empires to the four corners of the globe in the early pre-modern period was the formation of foreign investments. Indeed, the massive accumulation of cash in the world's money centers, which considerably outnumbers the prospects for domestic investments, has resulted in foreign investment across the whole globe. Foreign investment in Europe has a long history, dating back to ancient times, and these investments are made in Asia, the Middle East, Africa, and other regions of the world. The Phoenicians, a civilization who lived from 1500 BC in what is now Israel and Palestine, are one of the oldest examples of pure foreign investment. The Phoenicians dealt with the Greeks via ships and developed colonies around the Eastern Mediterranean from where they might sell commodities from their countries such as wood and textiles today. These permanent outposts must be recognized as a permanent presence in a foreign country.

Following that, the Silk Road commerce routes were formed between Europe (Roman Empire), the Middle East, and the Pacific Ocean, spanning over 6000 kilometers through Asia's deserts, plains, and mountains. The Silk Road remained a vital link between Europe and Asia until the Middle Ages when maritime transit came to dominate international investment and trade. Beginning in the fourteenth century, Europe and China, as well as India, had considerable trade relations. Western European powers began to create permanent colonies in regions better known to them as a result of trade expeditions throughout this period and afterwards. The Dutch East India Company, founded in 1602 to pursue economic interests in Indonesia, is considered the world's first global enterprise. The Portuguese, as well as the British and French, started to build colonies in India and Africa. In addition, the protection of foreign investment in these areas was based on military power. The latter two republics also established colonies in North America, where fur trapping was a lucrative business. By the mid-seventeenth century, Portugal and Spain had already begun populating Central and South America, fueled by the desire for gold.

During the eighteenth and nineteenth centuries, most investments were done in the framework of colonial expansion. During this time, investments were made unilaterally by imperialist governments to colonial states, with a focus on natural resources. The

European powers' practice of colonialism was founded on the economic goal of exploiting the plentiful resources and inexpensive labor available in less developed countries. It was accomplished by the use of military and administrative presence. Wealth created by foreign investments was linked to the main European nations' political ambition of land acquisition and territorial sovereignty extension.

Early in the twentieth century, FDIs helped to build a substantial portion of the world's infrastructure, such as electric power in Brazil and telecommunications in Spain. Similarly, German chemical industries, like automakers in the United States, were growing outside of Germany before WWI. In addition, British corporations have long engaged in consumer products produced in other countries. However, according to the research of Wynne Godley (1926 - 2010) in 1999, which examines several occurrences of FDI in the British manufacturing industry prior to the 1890 year and finds that the industrial products sector received the majority of FDI from the 1890 year onwards. Before 1890 year, Godley further demonstrates that most investors in Britain were in the consumer products sector and that they largely failed because they were narrowly focused and driven only by a desire to improve access to the British market. Also, early European institutional literature on how aliens are treated by their host countries paved the way for subsequent conflicts in the field of foreign investment law such as not equality with domestic habitants. As a result, only one company namely The Singer Manufacturing company could the world's first modern MNC. The company transformed into the world's largest firm by 1900 as a consequence of its ardent commitment to FDI.

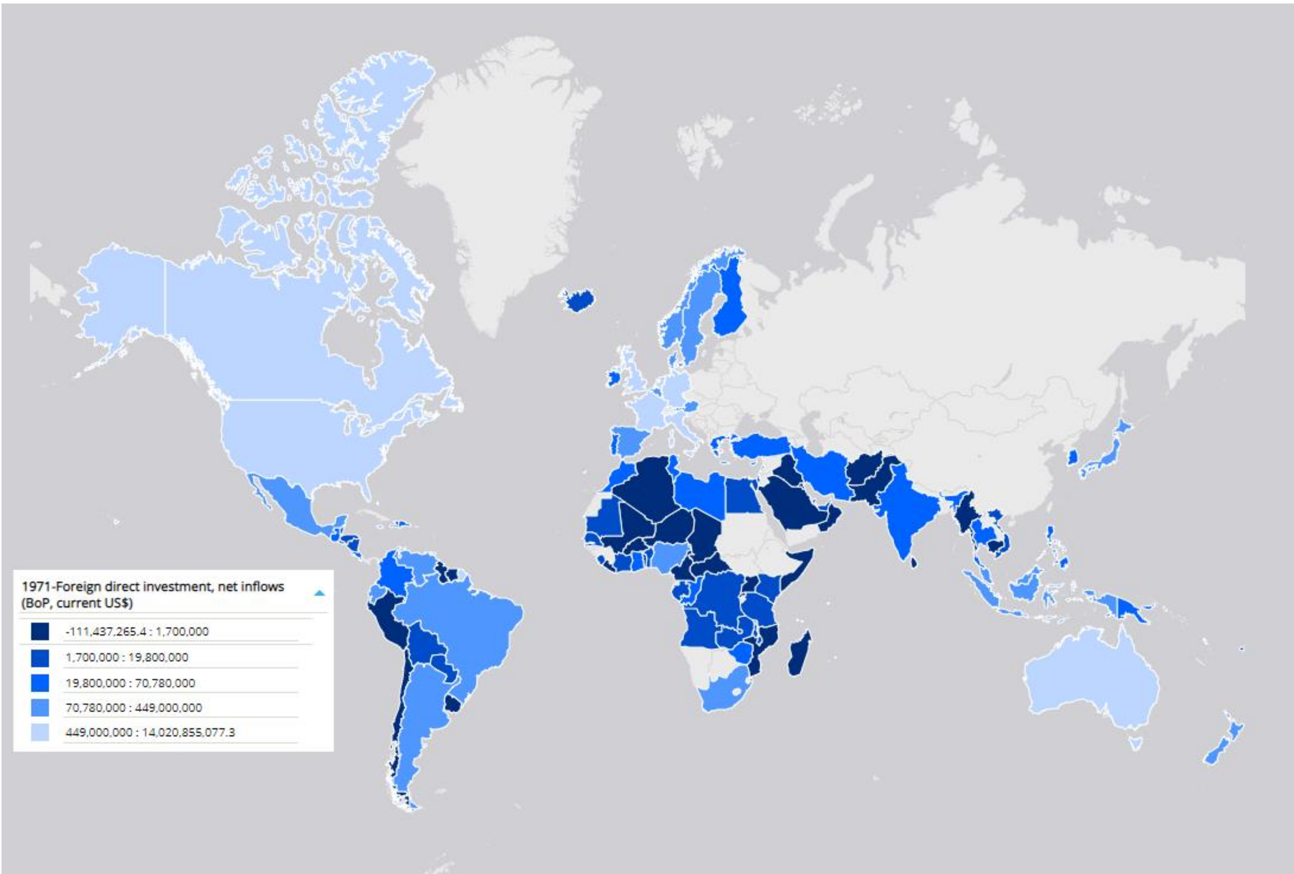
The twentieth century's massive growth

In the early 1900s, developing countries received two-thirds of global FDI. On the eve of WWI in 1914, FDI accounted for 40% of GDP in developing countries. Then, throughout time, the volume and content of foreign investment have changed. In 1914, 70% of US FDI in growing economies went into agriculture, mining, or petroleum; 26% went into services, and 1% went into manufacturing and the global stock of FDI was projected to be $15 billion; The United Kingdom was the biggest supplier of investment, followed by the United States and Germany; however, the United States was also the largest beneficiary of FDI. By 1938, the stock of global FDI had increased to $66 billion, with British corporations continuing to be the leading investors. The majority of the investment had been made in Latin America and Asia, with agriculture and mining playing a large role. As U.S. corporations became the primary source of FDI, these trends began to alter; manufacturing investment became more widespread.

The investment in Europe can be traced, and there is no doubt such investment existed in Asia, the Middle East, Africa and other parts of the world. Opposition to the upright standards was principally voiced in the form of the Calvo Clause, which was promoted by Latin American governments. The majority of governments supported the worldwide norm in the Hague Codification Conference in 1930. In contrast to the international minimum norm, the Montevideo Convention on the Rights and Duties of States was enacted in 1933 with a robust expression of the equality concept.

During the post-Second World War period, Britain lost its dominance as a creditor and USA emerged as financial power and the major economic region because of development in spheres of transport, communication technologies and the need of European countries and Japan for financial reconstruction following the damages inflicted by the war.

Foreign investments to developing countries were primarily motivated by the extraction of natural resources and the construction of railways at the beginning of the twentieth century; however, these investments have increasingly been in efficiency-seeking FDI such as textiles and clothing in East Asia since the 1960s, the automobile industry in Asia and Latin America since the 1970s, and strategic asset-seeking FDI as an example technology activity in Singapore and Malaysia. Textile production, for example, went to underdeveloped nations such as Mauritius, which had unused quotas for sale to industrial countries. The following map illustration shows foreign direct investment net inflows to almost every country in 1971 year (Map 1). The highest inflows were to Canada, the United Kingdom and Australia. The current Russian Federation and most parts of Asia regions' information stays undetected but Afghanistan had a net inflow



Map 1. 1971-FDI, net inflows (BoP, current US$) Source: World Development Indicators.

amount of 450,000 USD identified by source of United Nations Conference on Trade and Development, Foreign Direct Investment Online database. And some countries had negative inflow results for that time such as Saudi Arabia, Liberia and Chile. Lastly, total net inflows were 14,020,855,077USD.

Commodity prices began to rise in the 1970s. This had a positive and a negative impact on FDI. First, high prices encouraged increasing foreign direct investment in the extractive industry, notably in the oil and gas industries. Second, commodity-exporting countries' balance-of-payment surpluses supplied an ample supply of investable money. Commercial banks recycled this money to developing nations through large-scale sovereign lending. As a result, emerging countries have become more interested in sovereign borrowing than courting FDI. Furthermore, in the late 1970s, the economic buoyancy of any emerging nations prompted policymakers to seek inward-looking methods. Following that, a number of nations strengthened FDI policy limits. Investors reacted by decreasing FDI in emerging nations.

Commodity prices began to fall in the first half of the 1980s, industrial nations went into recession, and global interest rates rose; all of these factors contributed to a debt crisis. Economic policies that are inward-looking and focused on the state have resulted in poor productivity and isolation from the global economy. As a result, several nations began structural adjustment plans in order to realign their economies toward the private sector, foreign commerce, and competitiveness. Tariff reductions, business environment liberalization, and FDI deregulation were also part of these improvements. As a result of these reforms, FDI flows to developing nations began to grow in the second half of the 1980s.

Privatization had a key influence in attracting FDI in the 1990s. Countries such as Argentina, Chile, and Columbia attracted the greatest international investment since privatization was available to foreign investors. Moreover, the change in the attitude of other countries turns led to the removal of direct obstacles to FDI and to an increase in the use of FDI incentives. Continued removal of domestic impediments through deregulation and privatization was also widespread.

Another significant aspect of the 1990s was a reduction in Japan's prominence as a source of FDI, which was driven by the collapse of the Japanese bubble economy. The lates were marked by cross-border mergers and acquisitions prompted by deregulation and increased competition policy as the driving force for FDI. Furthermore, the trend toward liberalization of FDI regulatory regimes continues. The total number of treaties for the avoidance of double taxation had reached 1871 by the end of 1998. In 1998 and 1999, several adjustments were made to host government FDI policy, reinforcing the trend toward FDI liberalization, protection, and promotion (UNCTAD, 2000). This pattern appears to be sustainable for a long period, implying that FDI growth will be solid in the near future.

The composition and direction of FDIs have also altered over time. In 1998, the above-mentioned statistics of global FDI changed as 14% of US FDI in growing economies went into agriculture, mining, or petroleum, 59% went into services, and 27% went into manufacturing. As a result, there has been a significant shift away from natural resource FDI and toward knowledge-intensive enterprises.

Contemporary advancements

Foreign direct investments and foreign investors are becoming more important and influential in the international arena. International direct investments surged by 38% in 2015 to $ 1.7 trillion, the highest level since the 2009 financial crisis. Global FDI flows also continued to decrease in 2018, decreasing 13% to $1.3 trillion from a revised $1.5 trillion in 2017. Global FDI flows declined by 20% in the first half of 2019 compared to the previous half of 2018, totaling USD 572 billion. FDI inflow decreased by 5% in first quarter 2019 to USD 361 billion and by 42% in second quarter 2019 to USD 210 billion. Despite this downturn, direct investments continue to be one of the most significant players in the global economy, both for established and developing nations. Below figure 1 illustrates overall FDI net inflows for each year from 1987 to 2019. It is clear to see how the years were with challenges or positive reflections.

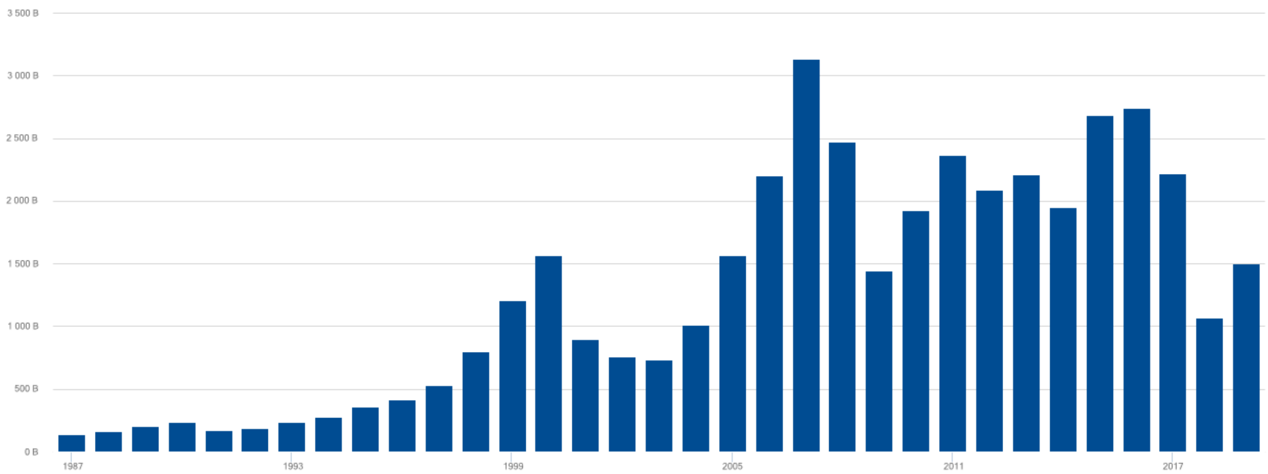


Figure 1. FDI, net inflows (BoP, current US$). Source: World Development Indicators;

Effect of Coronavirus Pandemic

This is the third year of the pandemic, and while the globe struggles to deal with the coronavirus outbreak, the economy of the countries has taken a hit. This exceptional circumstance, as well as the virus's rapid spreading in different versions, are being felt globally and affecting all commercial sectors. It was a crisis unlike any other, closing industries and schools, closing borders, and placing half of mankind on lockdown. It has resulted in a significant decrease in company cash flow and the possibility of mass insolvency. By 2019, 69 of the Top 100 have issued a comment on the impact of Covid-19 on their company. Of those, 41 have given profit warnings or signaled heightened risks, with 10 fore castings decreased sales, 12 anticipating negative effects on production or supply chain disruptions, and 19 anticipating both. Due to Covid-19, the top 5000 MNEs, which represent a large part of worldwide FDI, had seen their 2020 profits predictions reduced by 9% on average. The automobile industry (-44%), airlines (-42%), and the energy and basic materials industries have been struck the worst (-13%). Profits of MNEs located in emerging economies are more vulnerable than those of MNEs based in established economies: developing nation MNE profit projection has been revised lower by 16% (Table 1). Unfortunately, it is not finished, as instances continue to pile up throughout the world and economies continue to incur damages.

Table 1. Earnings revisions and capital expenditures of the top 5000

Sector/industry	Number of companies with earnings revisions	Average earnings revision (%)	Share of capital expenditures (%)
Basic Materials	389	-13	8
Consumer Cyclicals	671	-16	16
Airlines	45	-42	2
Hotels, Restaurants & Leisure	111	-21	2
Consumer Non-Cyclicals	351	-4	6
Energy	243	-13	20
Healthcare	195	0	3
Industrials	739	-9	14
Automobiles & Auto Parts	142	-44	9
Technology	358	-3	11
Telecommunications Services	105	1	11
Utilities	175	-5	10
Grand Total	*3'226*	*-9*	*100*

Source: UNCTAD, based on data from Refinitiv SA.

Large sums have been dedicated by developed and developing countries to treat this sickness, and a recession has begun. The impact of the current crisis scenario on economies is expected to be long-term. Countries will need to take steps to address this issue in the economy as quickly as possible; EU real GDP was 14% lower in the second quarter of 2020 compared to the same period in 2019, while family primary income fell by 7.3%. Table 2 also shows predicted the share of FDI reinvested profits for each region, indicating the indirect effect that earnings losses may have on FDI. For example, the average -9% earnings losses projected to date for 2020 could affect 52% of FDI flows; this assumes losses are distributed uniformly across MNE operations; in reality, earnings losses are more likely to be concentrated in foreign affiliates in affected areas, amplifying the impact on reinvested earnings.

Table 2. Earnings revisions of the top 5000 and relative importance of reinvested earnings in FDI, by region

Region/economy	Number of companies with earnings revision	Average earnings revision (%)	Share of reinvested earnings in FDI, 2018 (%)
Developed	**2'334**	**-6**	**61**
Developing economies	**864**	**-16**	**40**
Africa	42	-1	27
Developing Asia	730	-18	41
Singapore	16	-30	..
China	259	-26	..
Republic of Korea	121	-20	22
Malaysia	33	-20	..
Thailand	32	-15	72
Vietnam	8	-10	..
Latin America and the Caribbean	92	-6	43
Transition economies	**28**	**-10**	**93**
Total	**3'226**	**-9**	**52**

Source: UNCTAD, based on data from Refinitiv SA.

At this point, foreign investments and foreign investors will become more important. Foreign investments will be critical in providing countries with the resources they need to reorganize their economy.

The realization of foreign direct investment

The Effect

The entry of MNEs may affect the overall productivity levels of the host country by bringing in new ideas, advanced technology, better managerial skills that may improve the allocation of resources in the host country (Kindleberger, 1969). This process generates exchange offs for the two nations involved: the investing which source of the investment country and the host country which the recipient or the destination of the investment. There is a basic dispute that there is a large difference between those who support globalization and free markets and those who oppose globalization and free markets. Furthermore, believing in something ex-ante does not ensure that it will manifest ex-post. One explanation for disparities in impact is that FDI is managed by parties over whose local authority is restricted.

Positive effect

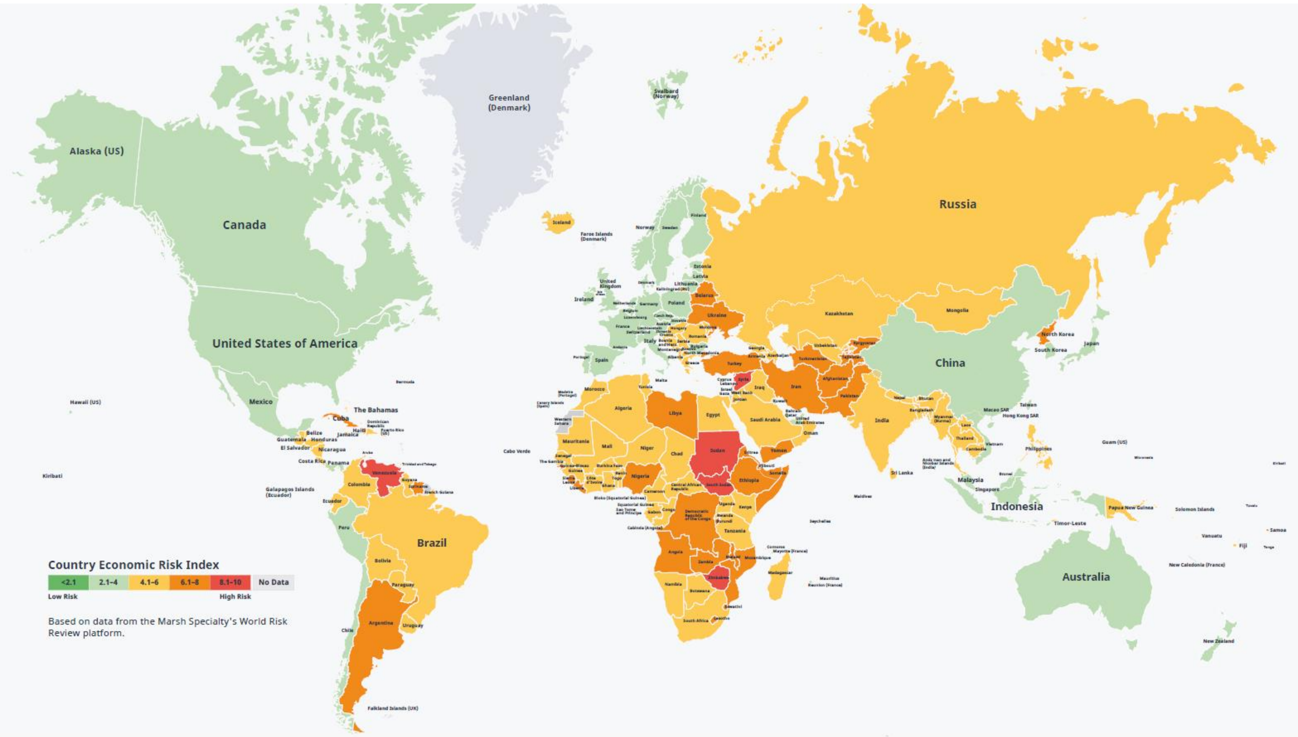
The fact that the investor in an FDI project is not from the host nation has economic, political, and social consequences that affect the cost and benefit of FDI. Hence, the consequences of FDI may be divided into three categories: economic, political, and social. The effects of FDI on the investing country or organization are described in the preceding paragraphs. The economic impact of FDI includes the consequences for macroeconomic and microeconomic variables such as production, trade balance, and market structure. When analyzing the macroeconomic consequences of FDI, the standard practice is to regard it as an increase in foreign borrowing. If there is unemployment and a capital shortage, as is common in developing countries, such borrowing leads to an increase in output and income in the host nation, as well as a favorable effect on the balance of payments, but has an uncertain effect on the term of trade. The formal study of the macro impact reveals that the host country would benefit most from taxes on foreign earnings. The micro effect of FDI is associated with structural changes in economic and industrial organizations. Markusen and Venables (1997) give a basic analysis such as product market competition, in which MNCs can substitute for native businesses, and linkage effects, in which MNCs must complement one another. As a result, it contributes to the growth of the local industry. The political consequences include such as FDI through the acquisition of local firms, resulting in changes in management and corporate governance and MNEs often enforce their firm rules, internal reporting systems, and information disclosure guidelines. The social concerns are primarily concerned with the establishment of enclaves and a foreign elite in the host nation, as well as the cultural impact on the local people, such as habits and tastes.

Negative effect

The negative impacts of FDI are the same as the positive effects in three contexts: economic, political, and social. The first economic repercussions are that MNEs undertake investments in other nations with the primary goal of maximizing profit. These nations have certain positive qualities, such as a low labour force, an abundance of natural resources, or high-quality expertise. MNEs often repatriate their investment earnings to their parent firms in the form of dividends or royalties paid to shareholders, as well as the simple transfer of accumulated profits. It also assists them in avoiding higher taxes through the use of transfer pricing. However, profit repatriation leads to large capital outflows from the host nation to the home country, which has a negative impact on the former's balance of payment. As a result, host governments frequently impose limitations on the number of earnings that MNEs can repatriate in order to avoid balance-of-payment deficits or depleted foreign exchange reserves. Such a strategy may entice these MNEs to reinvest their income in various initiatives within the host country. The political consequences include the issue of national sovereignty since the sheer bulk of MNCs investing may imperil national independence. Also, FDI, particularly in developing nations, has the potential to create a dual economy with one developed sector dominated by foreign enterprises and one undeveloped sector dominated by native firms. This may have an economic impact, but it is tied to a policy aimed at building a healthy legal system free of discontent on both sides. The country's economic structure alters as it becomes excessively reliant on the developed sector. This developed industry is frequently capital-intensive, whereas another is labor-intensive. As a result of this economic-political consequence, countries' economic progress is hampered since the majority of their inhabitants live in the underdeveloped labor-intensive sector. This impact may be seen in most oil-rich nations, where foreign investment in the oil and gas industry has resulted in a resource boom while leaving agriculture and manufacturing undeveloped. The social effect can be described as an investment in natural resources because a significant amount of FDI is focused on emerging and less developed nations' natural resource industries. The majority of these countries have lax or non-existent regulatory regimes. In order to encourage FDI, nations may purposefully omit or relax regulatory standards. The solution to these issues is to strengthen the host country's competence to regulate and build worldwide living and environmental standards.

The Risk

There is one important risk is the risk of the host country environment of cash flow. Country risk provides an analysis of the circumstances, such as avoiding investing in high-risk nations, countries where the MNC is presently doing international business, and the requirement to analyze a specific type of risk for a proposed project in a foreign country. Aside from the usual risks connected with any type of domestic or overseas investment, such as market risk, economic risk, political risk, and credit risk, investing beyond a country's national borders implies additional and distinct types of risk.



Map 2. Political Risk Map 2021
Source: Marsh McLennan (the world's leading insurance broker and risk advisor)

Returning to one of the main risks, country risk is caused by political risk causes as well as economic or financial risk elements. As a result, political risk is a subset of nation risk caused by political risk variables. As an example, Map 2 shows Political Risk Map 2021 is based on data from Marsh Specialty's World Risk Review platform. The country risk platform provides risk ratings for 197 countries across nine indicators relating to security, trading, and investments. Ratings are updated monthly and range along a 0.1 to 10 scale. Risks can be distinguished according to their underlying cause. For example, a subsidiary's prospective bankruptcy is a national risk, if it is the consequence of the firm's mismanagement it is a commercial risk.

Chapter Two - Overview of Central Asia

Back in the day

Economics and politics have always been strongly interconnected in central Asia. The five Central Asia republics were, together with Azerbaijan, the poorest Soviet republics. Their role in the Soviet division of labor was limited to supplying a small range of primary products, including cotton, oil and gas, and minerals. With no prior history as independent in December 1991. At that time, they faced three major economic shocks: the end of central planning, hyperinflation, and the collapse of the supply and demand chain. Among the five countries, three of them have been more politically stable since independence in 1991. In Uzbekistan, Kazakhstan and Turkmenistan but with different and undefined cases. By contrast, Tajikistan experienced a bitter civil war until 1997, and the Kyrgyz Republic (Kyrgyzstan) has seen two presidents overthrown during the 2000s. The disparities in fortunes reflect the first group's capacity to subsist off their natural resources, as opposed to the other two countries' more unstable resource base.

Population

First, despite significant outflow of migration outflow the central Asia population is still increasing and it is more than 76 million and equivalent to 0.95% of the total world population. Last 40 years, the population has increased 85% or more than 35 million and the median age is 27.6 years the youngest region except for Africa by Worldometer data. More detailed information and forecast of the 2025 year are illustrated below in table 3.

Country	Population (present)	Median Age (present)	Fertility Rate (present)	Density (P/Km^2) (present)	Urb. Popul. % (present)	Global Rank (present)
	Forecast 2025 year	Forecast 2025 year	Forecast 2025 year	Forecast 2025 year	Forecast 2025 year	Forecast 2025 year
Kazakhstan	18,776,707	30.7	2.76	7	57.7%	64
	19,787,746	31.8	2.76	7	58.1%	64
Turkmenistan	6,031,200	36.9	2.79	13	52.5%	113
	6437589	28	2.79	14	55.0%	113
Tajikistan	9,537,645	22.4	3.61	68	27.3%	95
	10,563,159	22.7	3.61	75	27.3%	89
	6,524,195	26.0	3	34	35.6%	111

Kyrgyzstan	7,009,833	26.8	3	37	35.7%	109
Uzbekistan	33,469,203	27.8	2.43	79	50.1%	42
	35,617,696	29.6	2.43	84	50.1%	43

Table 3. Demographics table. Source: Worldometers.

Unemployment

However, unemployment remains a problem in all of the region's countries, affecting young people the most. The average value of unemployment refers to the share of the labor force that is without work but available and seeking employment is around 6.6 in 2021 by World Development Indicators. The main problem is a large share of unemployed people is unregistered, being categorized as seasonal workers or self-employed, as well as emigrating to find employment overseas, for a variety of reasons, including a difficult and time-consuming bureaucratic procedure, low rate of salaries, a lack of legal literacy, and extremely poor labor productivity. More unemployment rate information is presented in figure 2.

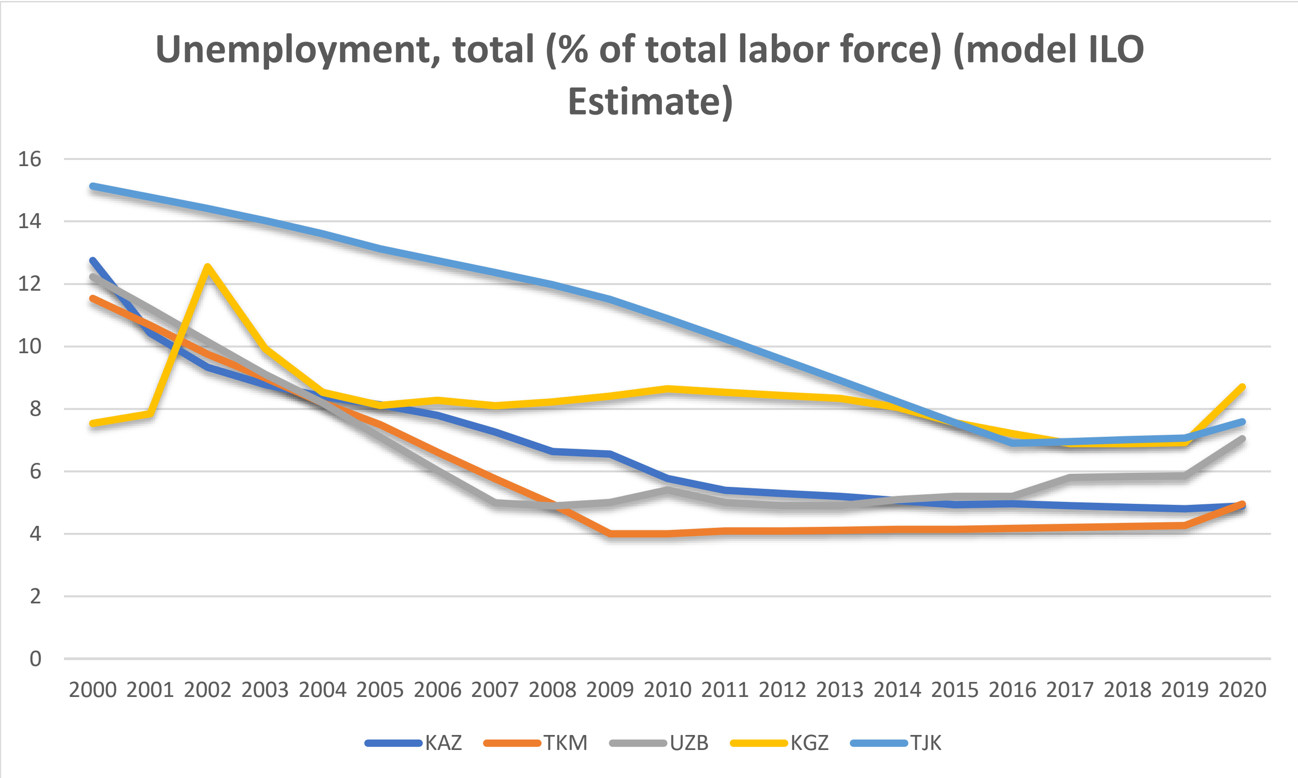


Figure 2. Source: World Development Indicators

Education

At the same time, competent workers are in short supply in the healthcare, education, industrial, transportation, and utility sectors. National education systems cannot provide the region's economies with the required amount of adequately skilled workforce. The main reasons for this paradox are most people's persistently low standard of education and skills in the region, high level of corruption, low teacher qualifications and weak infrastructure do not allow for training students properly. As a result, the Central Asian economies each year attract tens of thousands of foreign blue and white collar employees from China, Turkey, Russia, India, and other countries to work on new industrial and construction projects. Following more related statistic data to education (table 4).

Country	Human Development Index (2019)	Literacy rate, (% of people ages 15 and above)	Education System Rank (2022)
Kazakhstan	0.825(51)	99.78% (2018)	43
Turkmenistan	0.715(11)	99.69% (2014)	169
Tajikistan	0.668(125)	99.98% (2014)	87
Kyrgyzstan	0.697(120)	99.58% (2018)	64
Uzbekistan	0.720(106)	99.9% (2019)	63

Table 4. Statistic data of education in Central Asia. Sources: UNESCO Institute, World Development Indicators, New Jersey Minority Educational Development;

Economic analysis

However, in the previous 20 years, Central Asia has seen remarkable economic expansion, which has been accompanied by major improvements in quality of life and success in combating poverty. Experts predict that growth in the region will be moderate in 2022, at a pace of 3.8%. At the same time, the insufficiently diverse local economies are vulnerable to foreign economic conditions. According to the World Bank, Central Asia's anticipated growth rate is "supported by a modest rise in commodity prices and foreign direct investment as the subregion deepens its integration with China's Belt and Road Initiative." Furthermore, the region's economies are inextricably connected to Russia's economic fate. Economic and regulatory headwinds in both neighboring countries, Russia and China, may potentially affect Central Asia's development projections. Over the previous two decades, Central Asian economies have grown faster than those of several of its neighbors, including the EU, Russia, Iran, and Turkey. Tajikistan, the region's poorest country, has reduced poverty from 73% in 2003 to 31% in 2015. Nonetheless, the region's economy remains dependent on a few variables, such as natural resource exports in Kazakhstan, Turkmenistan, and Uzbekistan, or labor exports in Tajikistan and Kyrgyzstan. The annual GDP growth of the region's countries shown from 2012 to 2020 years in figure 3. Most visible change happened in 2020 with reason of pandemic.

Country	GDP per capita in 2020 (current US$)
Kazakhstan	10963.71
Kyrgyzstan	1098.09
Tajikistan	1199.06
Turkmenistan	7692.58
Uzbekistan	3004.98

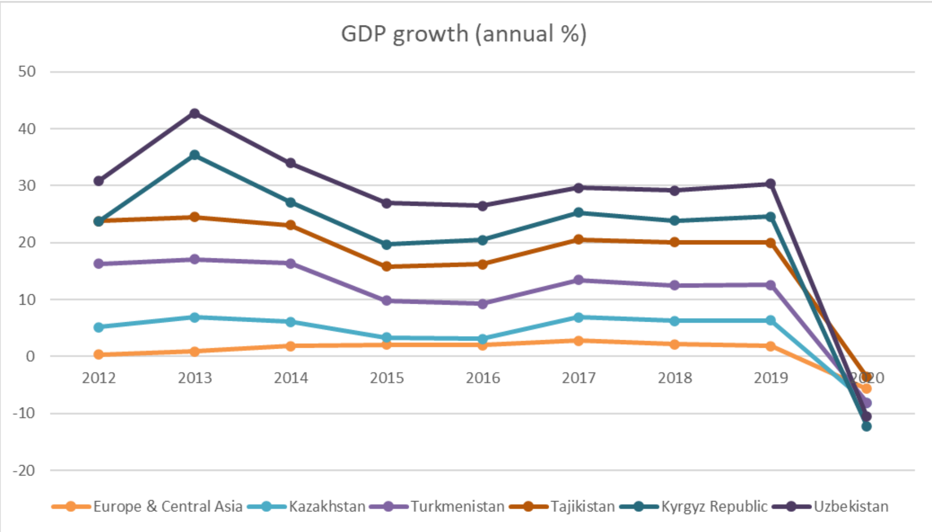


Figure 3. GDP Information. Source: World Development Indicators.

In additional, Central Asia's output growth is expected to stay stable at 4.3% in 2022, with stricter monetary policies in certain countries weighing on the rebound. Growth is predicted to accelerate to 5.1% in 2023, aided by increased investment (Table 5). Growth in Uzbekistan should continue to benefit from the implementation of its reform plan, which has advanced despite strong challenges during the epidemic. Concerns about spillovers from political stability in neighboring countries, notably Afghanistan, are weighing on the medium- to longer-term prognosis for Central Asia. The picture is further clouded by political instability inside the area as a result of domestic political tensions, social upheaval, and border issues.

(Real GDP growth at market prices in per cent, unless indicated otherwise)						Percentage point differences from June 2021 projections		
	2019	2020	2021e	2022f	2023f	2021e	2022f	2023f
EMDE ECA, GDP[1]	2.7	-2.0	5.8	3.0	2.9	1.9	-0.9	-0.6
GDP per capita (U.S. dollars)	2.3	-2.4	5.5	2.8	2.8	1.8	-0.9	-0.6
EMDE ECA, GDP excl. Turkey	3.2	-3.1	4.8	3.3	2.9	1.1	-0.4	-0.3
(Average including countries that report expenditure components in national accounts)[2]								
EMDE ECA, GDP[2]	2.5	-2.0	5.9	2.9	2.7	1.9	-1.0	-0.7

PPP GDP	2.4	-2.0	5.9	2.8	2.7	2.0	-1.0	-0.6
Private consumption	3.5	-3.7	7.7	3.1	3.1	4.0	-0.8	-0.5
Public consumption	3.0	3.4	1.7	1.5	2.1	0.9	0.8	0.5
Fixed investment	-0.5	-2.2	4.1	2.8	4.0	-0.8	-3.8	-1.0
Exports, GNFS[3]	3.6	-6.7	10.5	5.7	4.9	4.9	0.2	-0.5
Imports, GNFS[3]	2.9	-4.6	10.0	5.5	6.1	4.9	-1.5	0.5
Net exports, contribution to growth	0.4	-1.0	0.5	0.3	-0.2	0.2	0.6	-0.3
Memo items: GDP								
Commodity exporters[4]	2.5	-2.9	4.3	2.7	2.4	1.0	-0.7	-0.4
Commodity importers[5]	2.8	-1.2	7.3	3.3	3.4	2.7	-1.1	-0.8
Central Europe[6]	4.5	-3.5	5.7	4.7	3.7	1.1	0.1	-0.3
Western Balkans[7]	3.7	-3.3	5.9	4.1	3.8	1.5	0.4	0.0
Eastern Europe[8]	2.7	-3.2	3.1	1.4	3.2	1.2	-1.4	0.6
South Caucasus[9]	3.8	-5.3	6.3	3.9	3.6	2.7	-0.3	-0.4
Central Asia[10]	4.9	-1.4	4.3	4.3	5.1	0.6	0.0	0.0

Table 5. Europe and Central Asia forecast summary. Source: World Bank.
Note: e = estimate; f = forecast; PPP = purchasing power parity; EMDE = emerging market and developing economy. World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not differ at any given moment in time. The World Bank is currently not publishing economic output, income, or growth data for Turkmenistan owing to a lack of reliable data of adequate quality. Turkmenistan is excluded from cross-country macroeconomic aggregates.
1. GDP and expenditure components are measured on average 2010-19 prices and market exchange rates.
2. Aggregates presented here exclude Azerbaijan, Bosnia and Herzegovina, Kazakhstan, Kosovo, the Kyrgyz Republic, Montenegro, Serbia, Tajikistan, Turkmenistan, and Uzbekistan, for which data limitations prevent the forecasting of GDP components.
3. Exports and imports of goods and nonfactor services (GNFS).
4. Includes Armenia, Azerbaijan, Kazakhstan, the Kyrgyz Republic, Kosovo, the Russian Federation, Tajikistan, Ukraine, and Uzbekistan.
5. Includes Albania, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Hungary, Moldova, Montenegro, North Macedonia, Poland, Romania, Serbia, and Turkey.
6. Includes Bulgaria, Croatia, Hungary, Poland, and Romania.
7. Includes Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia.
8. Includes Belarus, Moldova, and Ukraine.
9. Includes Armenia, Azerbaijan, and Georgia.
10. Includes Kazakhstan, the Kyrgyz Republic, Tajikistan, and Uzbekistan.

Over the next 15 to 20 years, resolving all of the paradoxes will be a strategic aim for all Central Asian countries. This is the key to the region's "great transition," which is presently unfolding.

Industrial sector and Natural Resources

The Central Asian region is interesting for the world economy, first of all, as a source of raw materials. Oil, gas, coal and metals are currently the most sought-after exported commodities, in turn, the products of the agricultural sector also provide dynamic growth. According to confirmed data, the total volume of oil reserves in the countries of Central Asia reaches 31.4 billion barrels, and the total volume of natural gas reserves is 825.8 trillion. cubic meters, which is 1.79% of the world's oil resources and 11.38% of gas resources in 2021. A little over 95% of the region's oil reserves and 83% of the gas reserves are in Kazakhstan and Turkmenistan, respectively. The region ranks 10th in the world in terms of coal production, and 19th in terms of electricity generation. Turkmenistan is rich in deposits of gas reserves, which ranks second in the CIS after Russia in terms of reserves. Coal deposits are available in all republics, with the exception of Turkmenistan. The region has large reserves of ferrous, non-ferrous and rare metals; in terms of total gold production (Uzbekistan - 101.6 tons, Kazakhstan - 78.4, Kyrgyzstan - 24.3).

The Republic of Kazakhstan has significant deposits of mineral and energy resources - out of 110 elements of the periodic table, 99 have been identified in the bowels of the country, 70 have been explored, more than 60 are used, including 8% of the world's iron ore reserves and about 25% of uranium. The country has one of the most powerful oil and gas potentials in the Caspian zone - Kazakhstan accounts for about 3% of the world's oil reserves and 1.2% of natural gas, and the country continues to increase production and export of energy resources.

Uzbekistan also has a significant natural and industrial potential based on reserves of natural gas (7.8 trillion m3), oil (1 million tons), copper, uranium, phosphorites, rare earth and precious metals. The republic holds fourth place in the world in terms of gold reserves, and seventh in terms of its production. Uzbekistan also exports gold, uranium ore, mineral fertilizers, natural gas, textile and food industry products, metals, cars. The number of exports in 2010 amounted to more than 13 billion dollars, imports (mainly industrial products) - 8.8 billion dollars. Among the current development priorities of Uzbekistan are ensuring sustainable and balanced growth rates, structuring and modernizing the economy, technical and technological renewal of its most important industries, further liberalization of tax policy; creation of maximum favorable conditions for private business and a consistent reduction in the presence of the state in the economy; attraction of foreign investments; expanding the scale of reforms in the banking and financial system and in public utilities. The focus is on the fuel and energy and gas and petrochemical complexes, energy, gold mining and non-ferrous metallurgy, chemical and textile industries, information and communication technologies.

Turkmenistan has an abundance of oil, gas, sulfur and potash. Emerging industries in Turkmenistan include oil and gas refining and processing; production of glass, fabrics and clothing; food industry. According to the results of surveys of OPEC, the independent American agency EIA, the British oil giant BP, about 200-260 thousand barrels of oil (28-36 thousand tons) are in Turkmenistan every day and about 70 billion cubic meters of gas annually, according to the rate of increase in productivity ranked 11th in the world. Turkmenistan actively encourages interested foreign companies to participate in the development of gas fields on the shelf of the Caspian Sea - Thus, according to the program for the development of the oil and gas industry of Turkmenistan for the period up to 2030, it is planned to increase oil production to 110 million tons by 2030, and natural gas - up to 250 billion. cube meters per year.

The industry is represented by energy and exploration. In the 1990s, the republic experienced a major de-industrialization and even a recession by Central Asian standards: Kyrgyzstan's GDP in 1990-2001 was 10.35 times higher (in neighboring Uzbekistan, 3.45 times over the same period). Kyrgyzstan has huge reserves of antimony, mercury, lead, zinc and other precious metals, as well as significant hydropower resources.

Tajikistan exports approximately 80% of commodities and materials: aluminum, cotton, prepared food products, precious and semi-precious metals and stones. Tajikistan has inexhaustible reserves of hydro resources and has also concentrated on itself more than 55% of all water resources in the region. The electric power industry is a very well-developed and promising industry, Tajikistan is a major exporter of electricity, and the country ranks eighth in the world in terms of hydropower reserves.

Agricultural sector

"There is a rich diversity of agricultural production in Central Asia. In terms of cultivation patterns and agrarian structures, there are differences between the Central Asian republics (CARs), but also within countries. Crop diversity in Central Asia has increased since 1991, but the different countries have also maintained, to some degree, the specializations they assumed under Soviet rule." by Irna Hofman (Research Associate at the University of Oxford).

Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan have a diverse range of cultivated crops, including numerous landraces with distinct traits. Cereals (wheat, barley, rice, maize, sorghum, etc.), food legumes (bean, chickpea), vegetables (tomato, potato, onion, garlic, coriander, etc.), melons, industrial and stimulant crops are the most important crops grown in the region (cotton, sugar beet, groundnut, sesame, tobacco). Apple (Malus Domestica), apricot (Armeniaca Vulgaris), peach (Persica Vulgaris), pear (Pyrus communis), plum (Prunus domestica), grape (Vitis vinifera), almond (Amygdalus communis), pistachio (Pistacia vera), pomegranate (Punica granatum), and fig are the most popular fruits (Ficus Gorica). Ehe leader in the list of the largest wheat production is Kazakhstan with 14.8 million of tons in 2017, then Uzbekistan with 6.1 million tons in same year. Respectively, agricultural production was same rank position for Kazakhstan and Uzbekistan in the region. But share of percentage of employments of other countries such as Kyrgyzstan and Tajikistan ranked first and second, respectively in 2018. More characteristics illustrated in Table 6.

Country	Share of agriculture in employment in 2018 (%)	Agricultural land use in 2016 (Million hectares)	Agricultural production in 2016 (million $)	Agricultural land in individual farms (%)	Labor/land (persons/hectare)	Wheat production in 2017 (Million tons)
Kazakhstan	15.0	217.0	10.116	39	0.010	14.8
Kyrgyzstan	26.5	10.6	2100	95	0.074	0.6
Tajikistan	51.1	4.9	1963	83	0.306	0.9
Turkmenistan	22.8	33.8	2861	93	0.028	1.0
Uzbekistan	33.4	26.8	16034	98	0.139	6.1

Table 6. Variables for Agriculture sector. Sources: Trading Economics (2020), FAO (2019), World Bank (2019), IAMO (2018);

Agriculture is a significant economic sector in Uzbekistan and agriculture, forestry, and fishing accounting for around 25.1% of GDP in 2020 and employing approximately 33.4% of the labor force in agriculture sector. Cotton and grain are the country's main crops, but the removal of quotas and price limits in 2020-2021 will allow for a move to higher-value fruit and vegetable agriculture. According to The International Trade Centre, the country ranked 8th (1.2 in millions of US dollars) in cotton products exports for 2020 but its production is decreasing year by year. In 2020, agriculture product exports provided around 8.8% of Uzbekistan's external profits. The government intends to boost agricultural output by using new technology, as well as to expand processing and packaging capabilities to add value to local and export products. A total of $600 million in loans and grants will be sought to digitalize agriculture, boost soil fertility, and introduce contemporary agricultural technology.

Developed in Turkmenistan the leading agricultural activity in cotton growing, as well as highly developed grain-growing - the production of wheat and rice. There are farms engaged in horticulture, melon growing, and vegetable growing. Animal husbandry is represented mainly by horse breeding (Turkmenistan - the birth of Akhal-Teke horses), sheep breeding and camel breeding, cattle production is less developed.

A significant part of agricultural products in the Kyrgyzstan economy is for export. The agricultural industry employs the majority of Kyrgyz people, accounting for over 40% of the labor force. And, while accounting for 14% of GDP, the second-largest component of GDP, it is unorganized and undercapitalized, and the Kyrgyzstan food processing industry remains undeveloped. The majority of agriculture is done by families on tiny parcels of land. Larger production, notably in apples, apricots, cherries, sugar beets, beans, cotton, tobacco, and walnuts, is regional and yet on a small scale by Western standards. Most people raise small amounts of fruits and vegetables for local consumption, while Kyrgyzstan exported more than $155 million in food in 2020. Small-scale enterprises are available in a range of categories, including orchards, dried fruits, improved seed, fertilizer, small-scale agricultural equipment, food processing equipment and slaughterhouses, enhanced storage, and packaging. Several international donor projects, including those funded by USAID, are aimed at improving credit to the sector, but the results have been mixed. Other USAID programs include the "Enterprise Competitiveness Project," an economic development effort aimed at creating jobs and preventing the migration of Kyrgyz labor migrants, particularly to Russia. The project assists Kyrgyz SMEs in becoming more competitive in local and regional markets.

The economy of Tajikistan is focused on agriculture and achieving the status of the country as an industrial-agricultural country will ensure the implementation of the National Development Strategy of the Republic of Tajikistan until 2030. Since 2000, there has been a steady economic growth of 5-7%. For the development of the economy, the government opened 4 SEZs and they are functioning well today. FEZ subjects are given a number of economic privileges. They are exempt from taxes and customs duties. All administrative barriers to the development of the SEZ have been removed. In 1991 - 2013, the share of employment in agriculture decreased from 36% to 19%, while the share of employment in industry increased from 21% to 51%, in construction, it decreased from 8% to 3%, in the service sector from 35% to 27%. Cotton is the main agricultural crop in Tajikistan; up to 90% of the harvested raw materials are exported. Tajikistan also grows cereals, vegetables, fruits, tobacco, potatoes, cattle breeding is developed.

Growth and Size of local market

At the same time, the insufficiently diverse local economies are vulnerable to foreign economic conditions. The limited local market, weakened by a series of currency devaluations from 2014 to 2019, is unable to generate the necessary demand, and new initiatives are fully dependent on foreign corporations in terms of technology.

Kazakhstan remains the world’s largest producer of uranium and possesses enormous deposits of a wide range of metals, including gold, iron, chrome, copper, zinc, vanadium and rare piles of earth. Kazakhstan also has the second-largest oil reserves and the second-largest oil production after Russia among the former Soviet republics. The United States is among the largest foreign investors in Kazakhstan, with the bulk of investment directed in the oil & gas industry. Launched in 2018, the Astana International Financing Center (AIFC) offers special tax, visa, and employment regimes for companies looking to invest in this middle-income market. The AIFC Court and International Arbitration Center (which are autonomous and independent from the legal system of the Republic of Kazakhstan) provide a common law court system for the settlement of business disputes. AIFC is also actively involved in the country's development of green finance and a green bond market, as well as other sustainable development activities. A burgeoning middle class and rising real earnings have boosted demand for high-quality goods and brand names. Kazakhstan serves as a trading gateway to a market of about 150 million Caspian Sea customers, 50 million in Central Asia, and 300 million in Western China. Cheap Russian and Chinese commodities penetrate Kazakhstan's borders, but Western goods and knowledge are also in high demand. Consumers are prepared to pay extra for imported goods and services that provide superior quality and innovation in some circumstances. Customer service in Kazakhstan is sometimes insufficient; offering after-sales support to consumers might provide enterprises with a competitive advantage in the market.

Uzbekistan, with a population of 34 million, possesses the foundation needed to become a regional economic powerhouse: a lively, literate, and enterprising population, the biggest in Central Asia, reasonably adequate infrastructure, and the region's largest potential consumer market. Despite a difficult year, Uzbekistan achieved 1.6% economic growth, with GDP expected to reach 580.2 trillion Soum ($57.7 billion) in 2020. However, GDP in US dollars remained nearly unchanged at $57.7 billion due to a 10.2% devaluation of the national currency versus the dollar. The construction industry remained a significant economic engine, with the number of active projects increasing by 9.1% after the government allowed public and private building projects to be implemented during the epidemic. Consumer goods manufacturing, agriculture, and retail commerce all increased by 3-3.6%. Uzbekistan's foreign reserves profited from windfall gains from the shipment of 100 tons of gold when the world market price peaked in 2020, more than compensating losses from a 78% drop in natural gas exports. Furthermore, Uzbekistan depended on foreign money to fund anti-pandemic and economic assistance measures, resulting in a $9.4 billion (or 38.5%) increase in external debt. The coronavirus outbreak has a detrimental influence on world trade. Uzbekistan's foreign trade turnover fell from $42.2 billion in 2019 to $36.3 billion in 2020, with $15.1 billion in exports and $21.2 billion in imports. Surprisingly, Uzbekistan's trade deficit shrank by just $0.3 billion. The country's industrialization program of importing new capital equipment to improve its manufacturing sector and infrastructure was maintained, with the machinery and transportation sectors contributing for 37.6% of overall imports. In 2020, gold was Uzbekistan's top export item, accounting for 38.3% of total exports, or $5.8 billion.

According to official government data, Turkmenistan’s Gross Domestic Product (TMT 142.7 billion) was $40.76 billion in 2018 (TMT 142.7 billion), $38 billion in 2017 (TMT 133 billion), and $36.18 billion (TMT 126.6 billion) in 2016. Although an official GDP figure for 2019 was not yet available, the government reported an implausibly high GDP growth rate of 6.2% in 2019. GDP growth was reported to be 6.5% in 2018. The majority of economic indicators given by the government are usually regarded as untrustworthy. In 2019, and early 2020, the black-market exchange rate was five to seven times the official rate. Furthermore, the government is centralized and opaque, with much information that is widely available in most other nations designated as a "state secret." Turkmenistan releases a limited number of national statistics, but its data collecting and evaluation procedures are frequently untrustworthy. Turkmenistan's overall exports increased from $10.1 billion in 2018 to $10.3 billion in 2019, according to UN Comtrade data and International Trade Centre figures, while imports decreased from $2.8 billion in 2018 to $2.7 billion in 2019. As a result, the trade surplus was reported to be $7.6 billion in 2019 and $7.3 billion in 2018.

Kyrgyzstan has a substantial informal sector, which accounts for up to 24% of GDP. Russia and China continue to be key contributors to the Kyrgyz economy through trade and investment. Progress in battling corruption, enhancing openness in the business permit issuing and taxes, addressing persisting energy challenges, and attracting new sources of foreign investment while lowering reliance on international donors are all critical to long-term prosperity. The most tested technique for market entrance remains the formation of a joint-stock venture with a local partner who is familiar with the system.

Tajikistan's smaller economy offers exporters and investors dangerous prospects. At the same time, Tajikistan, with a population of 9 million people and a number of potentially significant energy infrastructure, mining, and tourism projects, as well as regional access to Uzbekistan, Afghanistan, Kyrgyzstan, and China, has the potential to become a significant transit hub and market for American exporters. Remittances transferred from Russia amount to 30% of Tajikistan's GDP, according to figures from the Central Bank of Russia and other estimations. Despite an official GDP growth rate of 7.1% in 2017, Tajikistan's economy is still dealing with serious economic challenges leftover from the 1992-1997 civil war. Tajikistan has enormous hydro energy-generating potential, which, if realized, might lead to a huge demand rise. Tajikistan's geographical location may allow it to become a regional transit center if its airports are developed to facilitate bulk air freight and passenger transfer.

Political stability and Corruption

The region is characterized by a massive shadow economy. According to Sherzod Qudbiyev, Minister of Employment and Labor Relations of the Republic of Uzbekistan, just 40% of the country's economically active population is legally employed, with the remainder working in the shadow economy. Widespread corruption and the active participation of the state in the economy stifle the growth of a private enterprise. An average score of just 27 out of 100 and rank consist of 180 countries in 2021, Central Asia is still the second lowest-performing region on the CPI by Transparency International organization (Table 7).

Corruption Index	Kazakhstan		Uzbekistan		Turkmenistan		Tajikistan		Kyrgyzstan	
2017	31	122	22	157	19	167	21	161	29	135

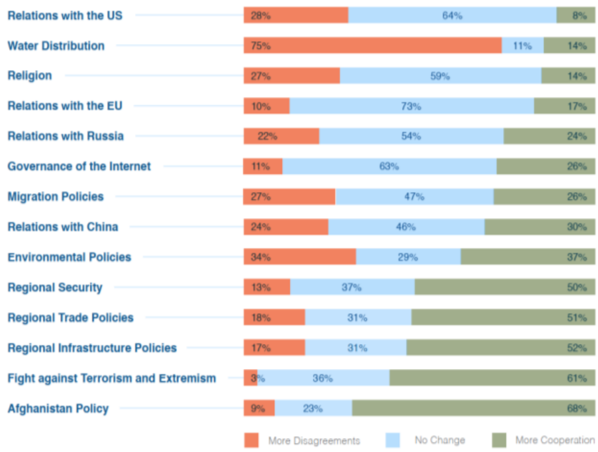
2019	34	113	25	153	19	165	25	153	30	126
2021	37	102	28	140	19	169	25	150	27	144

Table 7. Corruption index of Central Asia countries.
Source: Transparency International the global coalition against corruption;

Most large business owners have links to the state or have amassed wealth outside of the country. An increase in geopolitical tensions, maybe followed by new sanctions and resulting in additional financial market pressures, is a major negative risk in Central Asia. An increase of conflict in Kyrgyzstan and Tajikistan, especially in borders, as well as security issues and concomitant refugee spillovers from Afghanistan, might destabilize the area. The survey of 520 experts from all cross-world to help strengthen the EU-Central Asia relations by SPCE Hub, OSCE Academy in Bishkek and Fredrich Elbert Foundation determined the main challenges and importance of those challenges in the region. (Figure 4)

Figure 4. Surveys about challenges and importance factor table.

In your opinion, which objectives will the governments most likely prioritize in the next three years?



In your view, which of these issues will lead to greater cooperation and which to greater disagreements between the Central Asian states in the next three years?

In your view, what will be the central challenges facing the economies in the next three years?

Kazakhstan's government recognizes the importance of enacting fundamental economic changes in order to enhance productivity and growth. However, reform implementation has been uneven, and challenges remain in addressing issues such as the country's competitiveness and economic diversification, its over-reliance on the extractive sector, corruption, inefficient bureaucracy, criminal liability for unintended tax infractions, and arbitrary law enforcement, particularly at the regional and municipal levels. The Kazakh government has attempted to improve the investment climate, with some success in changing the regulatory landscape, but more work remains to be done. Since 2008, Kazakhstani authorities have adopted 43 changes recognized by the World Bank Doing Business Report. However, the country still trails behind in terms of openness and other key indicators for investors, ranking 94th out of 180 nations in Transparency International's (TI) 2020 Corruption Perception Index. The government's attempts to enhance the investment landscape are ongoing under the Business Roadmap 2025 and extend beyond it with the Kazakhstan 2050 Strategy, which seeks to place Kazakhstan among the top 30 most developed countries by 2050. According to the most current study from the Heritage Foundation's Index of Economic Freedom, the country is "moderately free," ranking 34 out of 180 countries, much ahead of neighboring China (107) and Russia (92). Its total score has risen by 1.5 points, owing mostly to improved fiscal health.

The Constitution of Uzbekistan provides for a presidential system with a separation of powers and a representative government. In practice, the president's office and the executive branch wield a great deal of power. Uzbekistan's next presidential election will be held on October 24, 2021. Following his victory in 2016, President Mirziyoyev started a reform program aimed at transforming Uzbekistan from a closed, isolationist country to one ready to collaborate with its neighbors, as well as regional and global forces. In 2017, the government began implementing reforms necessary for the transition to a more transparent, competitive, and market-based economy. "Uzbekistan is one of the most consistent improvers in the CPI, from a score of just 17 in 2012 to 28 this year. Reforms adopted since 2016 contributed to modest increases in civil liberties, particularly freedom of expression. However, Uzbekistan remains an autocracy and much more is needed to achieve lasting wins against corruption." - by Corruption Perception Index 2021

Since Turkmenistan's independence in 1991, it has maintained a stable political climate. President Gurbanguly Berdimuhamedov, who was originally elected in 2007 and re-elected in 2012 and 2017, vowed to open up the country and enhance the investment climate, but these promises have yet to be achieved. Turkmenistan does not permit private property ownership, and the majority of its enterprises are state-owned. Subsidies are provided by the government in critical areas such as agriculture. In January 2019, state subsidies to the general public for utilities like natural gas, electricity, and water were phased off. According to official Turkmen government data, the private sector now accounts for 70% of the GDP. This statistic, however, cannot be independently confirmed and excludes the hydrocarbon industry, which accounts for an estimated 35% or more of GDP. Retail trade, services, processing, and production are the main sectors where private ownership is permitted, though sometimes with price controls imposed by the government. Turkmenistan announced intentions to privatize state-owned properties in 2012 as part of the State Program for Privatization of Enterprises and State Property. However, the process has been sluggish thus far, with few bidders ready to pay the government's asking prices. Only a few foreign petroleum companies successfully operate under production sharing agreements (PSAs).

The political situation in Kyrgyzstan is ideal for daring investors who have done business in other regions of the former Soviet Union and have a high-risk tolerance as well as a flexible time horizon. Corruption is widespread, and the rule of law is weak. The judicial system is not autonomous, and every branch of government is constrained by capacity and budget constraints. A legal framework exists for the majority of areas of interest, however, enforcement is inadequate, notably in the domain of intellectual property rights. Furthermore, unpredictability in the legislative environment makes it impossible to provide consistency in corporate tax rates, property rights, and laws affecting the business climate. Investors should be aware that the unregulated grey economy accounts for more than a quarter of all economic activity in the country. Investors in politically sensitive sectors, such as resource extraction, may have to spend a significant amount of time renegotiating contracts with the Kyrgyz government, and in the worst-case scenario, may lose control of their operations, as happened with the Canadian-owned Kumtor gold mine in 2021.

President Imomali Rahmon, who has held his present position since 1994, was proclaimed the victor of the October 2020 presidential election, with 90.9% of the vote in Tajikistan. The dynastic succession to his oldest son Rustam Imomali, mayor of Dushanbe and head of the parliament's upper house, has been postponed to a later, yet unannounced date. The business climate is difficult due to pervasive corruption, with the president's immediate family and close cronies dominating local firms. Tajikistan has the largest tax burden in post-Soviet Central Asia, and tax irregularity is anticipated to remain common and pervasive. The court is significantly influenced by the ruling political class, and investor rights are badly safeguarded. Courts are more likely to rule in favor of the government or individuals with close familial or patronage links to the president and his family. The increasing diplomatic hostility between the Taliban regime in neighboring Afghanistan and the Tajik government creates security worries along the 1,360-kilometer border with Afghanistan. Recent border clashes in June-July 2021, when the Taliban was in the process of capturing control of Afghanistan's northern regions, highlighted these threats.

FDI in the region

Between 2014 and 2020, the EU alone granted the region around $1.2 billion in unrestricted funding. The EU developed a Central Asia plan in 2007, which was amended in 2019 to increase political dialogue and extend cooperation in rule of law, education, the environment, and water resources. The United States has committed moreover $9 billion in direct aid to the area to help the democratic transformation and economic growth, as well as humanitarian assistance. Although Chinese firms make significant investments in Central Asia, they are virtually equal to those made by the

United States and Russia and are 3.5 times less than those made by EU nations. Between 2007 and 2019, Central Asian nations attracted $378.2 billion in foreign direct investment. Kazakhstan received 77.7% of all FDI channeled to the area. Kazakhstan is also the largest country in Central Asia, accounting for more than 60% of the region's GDP (GDP). Also, in the first quarter of 2020, Kazakhstan received $3.6 billion in FDI. More detailed inflows to each country in the region were determined from 2000 to 2019 years by World Development Indicators (Figure 5). The favorite one is Kazakhstan during this period of time and the weakest one in Tajikistan.

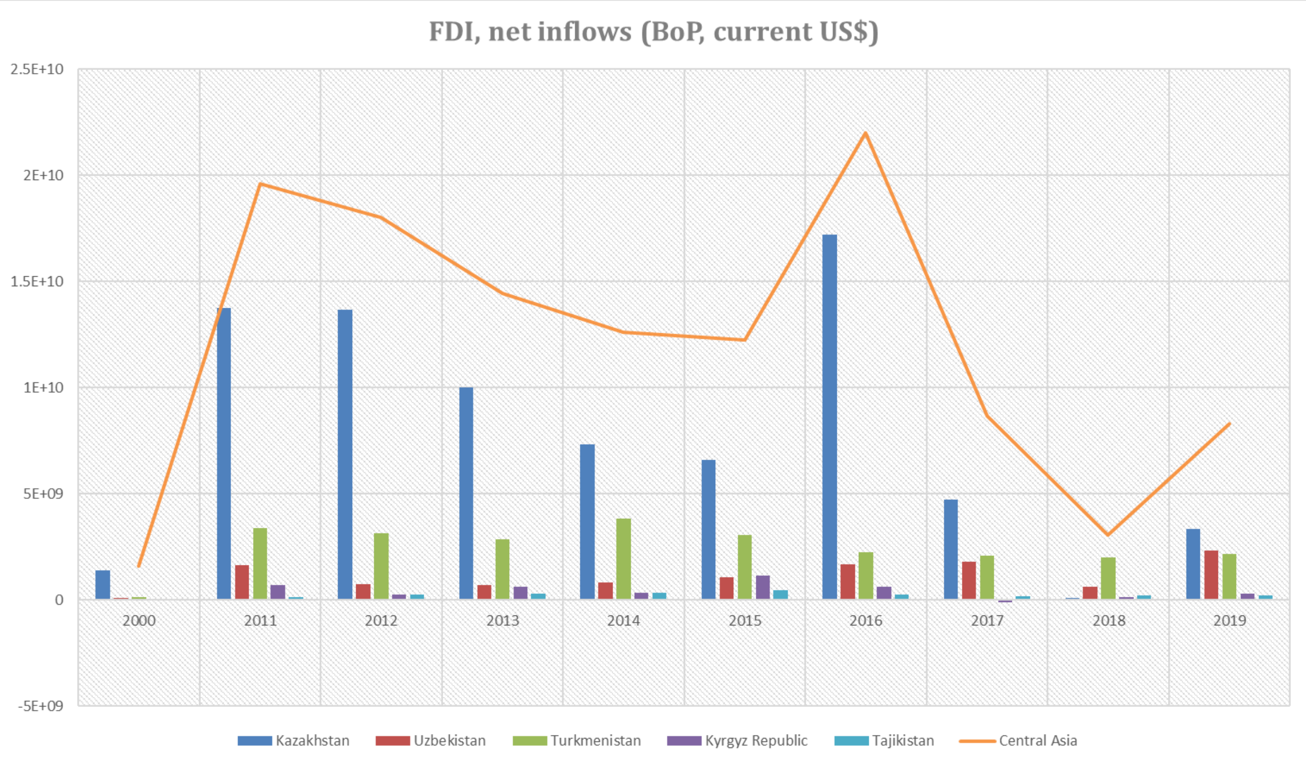


Figure 5. FDI, Net inflow (BoP, current US$) Source: World Development Indicators.

Despite the comparatively excellent macroeconomic position, with GDP rising by 1.6% in 2020, and the country's efforts to attract new FDI, inflows to Uzbekistan fell by 26% to $1.7 billion in 2021. The government reported in May 2020 that 70 firms and consortiums from 30 nations had submitted ideas for green-energy projects. Many companies have invested economy of Uzbekistan. For example: in service sector, the Bashan Investment Group (Singapore) bought the majority of Hotel Uzbekistan’s shares for $23 million, via an auction.

FDI Regulation

There are certain Central Asian countries that have a poor reputation as foreign investment host country. Since 2008, greenfield FDI inflows to Central Asia have totaled $113 billion, accounting for over 1.5% of worldwide FDI. Kazakhstan is takes most part of greenfield FDI inflow as 70% from all greenfield flow in Central Asia.

Following countries in order of amount of inflows, Uzbekistan with 16%, Turkmenistan with 8%, Tajikistan and Kyrgyzstan get less than 6%. However, all five Central Asian governments are attempting to attract greater investment by enacting various reforms and there are certain regional agreements concerning foreign investments, such as the Eurasian Investment Agreement (EIA) and the Commonwealth of Independent States (CIS) investor rights convention. These accords do not give additional protection to foreign investors and typically rely primarily on the legislation of the host nation. Article 2 of the EIA, for example, states that investment admittance is determined by the host country's legislation. This clause empowers the host nation to discriminate against foreign investment or impose harsh conditions during the pre-entry period.

Foreign investors are defined as natural individuals and entities, including public bodies, under Kazakhstan's investment legislation. Comparative evaluations of BITs reveal that in comparison to other host nations, the engagement of public bodies in a Bit is a widespread practice. Almost all of Kazakhstan's BITs have a territorial condition. That is, foreign investment must be formed and maintained on Kazakhstani territory in order to benefit from Bit safeguards. Kazakhstan BITs defend foreign investment against expropriation. Such regulations include both direct and indirect expropriations. Some of Kazakhstan's BITs have no specific definition of indirect expropriation. In general, in the context of BITs, the relevant terms relating to indirect expropriation will be evaluated by arbitral and tribunal reference to their meaning under international law.

Uzbekistan is a signatory to over 53 Bits and the Energy Charter Treaty. Uzbekistan has begun a new phase of economic liberalization, commencing with a major revision of its FDI regime in 2017. Unlike other Central Asian governments, it is not a common clause in Uzbekistan's BITs to include the public entity or sovereign. In addition, some Uzbekistan BITs impose additional requirements on entities, such as an "effective and continuous link" to the Uzbek economy." It is possible that some foreign entities, particularly offshore companies, are not considered foreign investors under the terms of this provision. Such laws, however, do not define an "effective and continuous link" to a specific business. An offshore company, according to the OECD definition, is a corporation that is nominally registered, incorporated, or otherwise legally formed in an economy but has no activity or operation in that economy other than in a pass-through capacity. For international investors, Uzbekistan's BITs include national and most-favored-nation provisions. In the case of the national treatment clause, domestic and international investors are governed by different laws and regulations, as opposed to Kazakhstan, Kyrgyzstan, and Tajikistan's FDI regimes. Foreign investors are often treated better than native investors.

Unlike all the other Central Asian governments, most Turkmen BITs exclude public institutions from the reach of international investors. Foreign investment entry is also more stringent than in Kazakhstan and Kyrgyzstan's BITs. The entrance provisions of Turkmenistan's BITs are to be harmonized. From this vantage point, the acceptance of foreign investment is heavily reliant on Turkmen legislation. This is the primary feature of Turkmen BITs. For example, "Each Contracting Party shall encourage and create favorable conditions for investors of the other Contracting Party to invest capital in its territory, and, subject to its right to exercise powers conferred by its laws and regulations, shall admit such capital" All of Turkmenistan's BITs defend foreign investors from both direct and indirect expropriation. Although the requirements for expropriation (public purpose, due process of law, non-discrimination) are practically the same in the majority of Turkmenistan's BIT, the phrasing of expropriation sections is not consistent.

Kyrgyzstan is a signatory to over 35 bilateral investment treaties as well as the Energy Charter convention. However, there are several issues with implementing such an investment program. Political stability is widely acknowledged as one of the most important factors required to attract foreign investment into a host country. Recent events in Kyrgyzstan reveal that there are issues with law enforcement as well as substantial political instability. Kyrgyzstan guarantees expropriation protection in the scope of its investment agreements. There is no specific definition of indirect expropriation under such regulations. It is referred to be "equal to nationalization and expropriation" instead of this word. It is widely assumed that public policy is broad enough to encompass all aspects of the host country. This is a common technique when countries have issues with the rule of law and transparency.

Tajikistan is a signatory to over 38 BITs, as well as the Eurasian Investment Agreement and the Energy Charter. It is impossible to argue that Tajikistan actively promotes foreign investment by expanding the number of BITs. Tajikistan's BITs include broad principles of foreign investment such as investment entrance, investment treatment, expropriation clauses, transfers, and dispute resolution processes. The bulk of Tajikistan's BITs, like Kazakhstan's and Kyrgyzstan's, enforce territoriality criteria in the scope of investments. Foreign investors can also invest in government enterprises. In Tajikistan's Bits, unique rules relating to the entrance of foreign investment are frequent. For example, Article 2/1 of the Tajikistan-Austria BIT states, "each Contracting Party shall, according to its law and regulations, promote and admit investments by investors of the other Contracting Party", while Article 3/1 of the Tajikistan-Switzerland BIT states that, …subject to its right to exercise powers conferred by its laws each Contracting Party shall admit such investments.

Wages and Inflation

The average and minimum salary in Central Asia are useful for anyone visiting or willing to invest in this region's country. The region's economy offers a number of opportunities, and the country's GDP is growing steadily. According to As of the 2021 year, Kazakhstan's minimum wage rate is 22,859 Kazakhstani tenge a month ($67), 747,300 Uzbekistani soum in Uzbekistan ($68), 400 Tajikistani somonis ($50) in Tajikistan and it increased to 1970 Kyrgyzstani som ($23.2) in 2021. The minimum salary is valid in all countries. It can be defined for average salaries from 2010 to 2019 in the region (Figure 6).

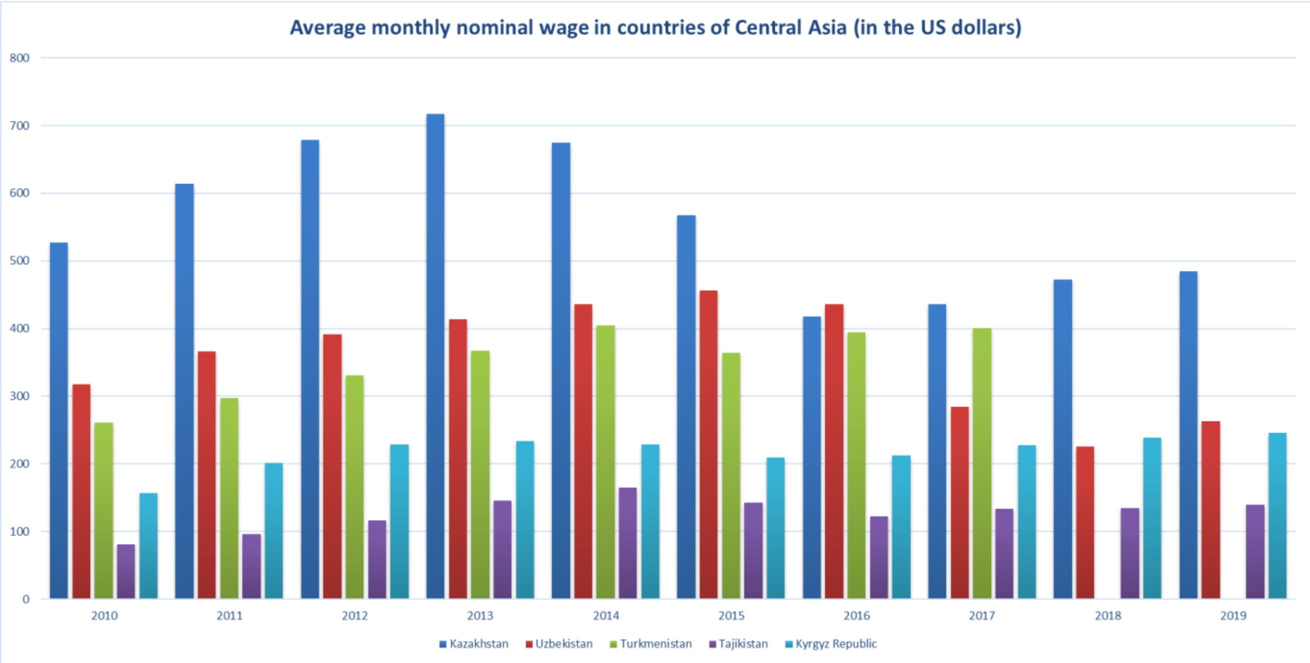


Figure 6. Average monthly nominal wage in countries of Central Asia (in the US dollars)
Source: The Interstate Statistical Committee of the Commonwealth of Independent States

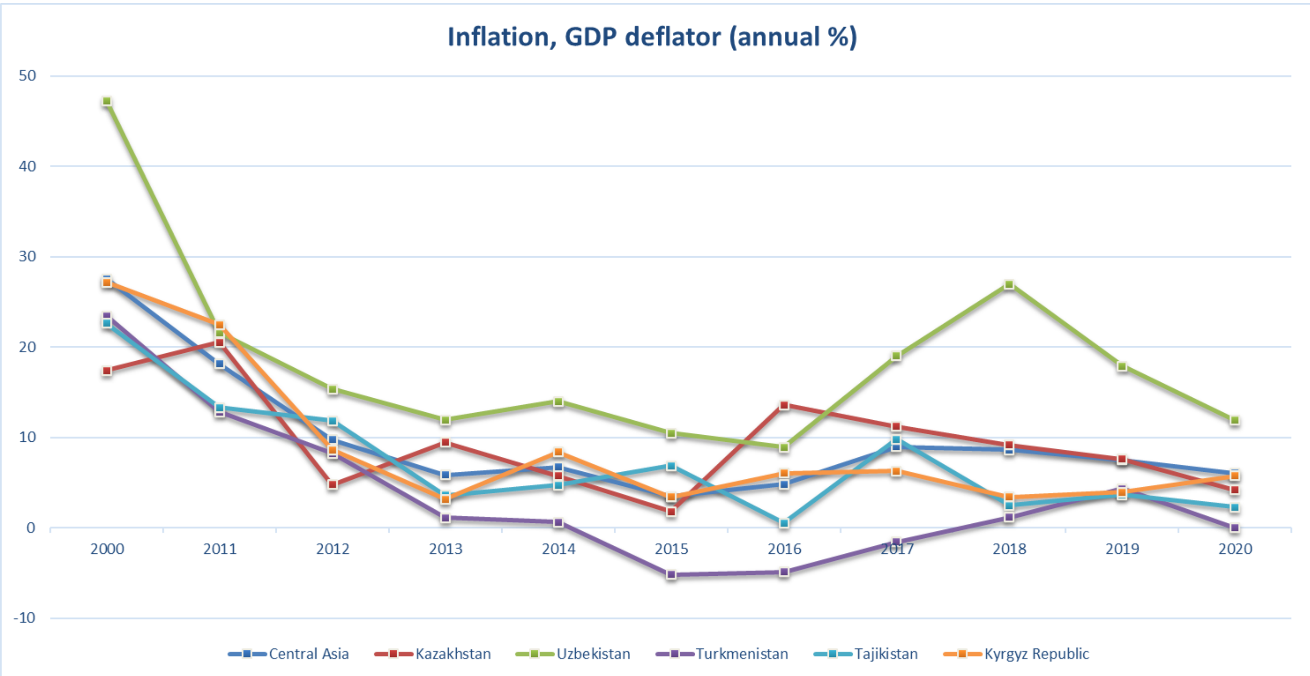


Figure 7. Source: The GDP deflator. World Bank Indicators.

According to European Bank for Reconstruction and Development (EBRD) analysts, increased liquidity is driving greater lending and higher asset values across the region, as well as a rise in consumer price inflation in all Central Asian nations (Figure 7).

The inflation rate in Uzbekistan fell to 10% in December from 10.30% in November of 2021, in Kazakhstan, it rose to 8.5% in January of 2021, from a five-month low of 8.4% in the previous months, in Turkmenistan, it fell to 10% in 2020 from 13.40% in 2019, in Tajikistan it fell to 8% in November from 8.70% in October of 2021, and in Kyrgyzstan decreased to 11.20% in December from 12.30% in November of 2021. According to our econometric models, Uzbekistan's inflation rate is expected to trend around 9.00% in 2023, Kazakhstan's inflation rate is expected to trend around 4.50% in 2023, Turkmenistan's inflation rate is expected to trend around 10.00% in 2023, Tajikistan's inflation rate is expected to trend around 6.80% in 2023 and 5.20% in 2024, and Kyrgyzstan's inflation rate is expected to trend around 5.00%.

Wages in the national currency are growing in Kazakhstan, although they are still lower in dollar terms than in 2010. The PCI was worth more than $527 in 2010, but it is now worth over $485 in 2019. Wages had therefore grown in national currency terms throughout the ten years, but not in dollar terms. It is vital to highlight that the tenge, as an oil-linked currency, is one of Kazakhstan's national economic vulnerabilities. As a result, decreasing oil prices can have a significant impact on currency devaluation (Figure 8).

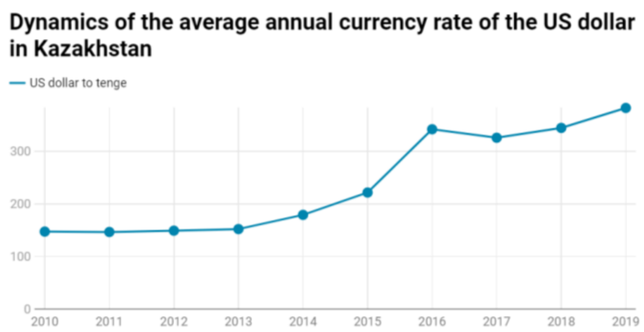


Figure 8. Currency rate of US$ in Kazakhstan. Source: World Bank Indicators

Uzbekistan. Annual inflation in 2020 was lower than in the previous two years, with the GDP deflator at 11.9% and consumer price inflation at 12.9% relative to a 2019 baseline. The same situation as other countries in the region, amount of salary increase but it is still not dollar currency. In 2017, the government changed policy related to currency rates. The change allowed free and official exchange operation access to the dollar and not many foreign currencies (Figure 9).

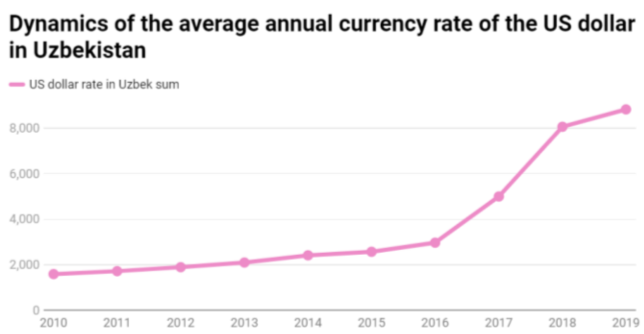


Figure 9. Currency rate of US$ in Uzbekistan. Source: World Bank Indicators

It should be mentioned that there are significant data gaps in Turkmenistan's statistics. Turkmenistan's economy is centralized, and many corporate choices appear to be political in nature. On January 1, 2015, Turkmenistan depreciated its native currency, the manat (TMT), by 19%, to an exchange rate of 3.5 TMT/1 USD. The rate between 2008 and 2014 was 2.85 TMT/1 USD (Figure 10). Due to tight government exchange restrictions, converting manat into US dollars (or other hard currencies) is extremely difficult. The black market currency rate remained generally stable throughout 2019 at 18 TMT/1 USD, but grew more erratic during the COVID-19 epidemic, reaching as high as 25 TMT/1 USD at times. The government does not make available information on its hard currency reserves.

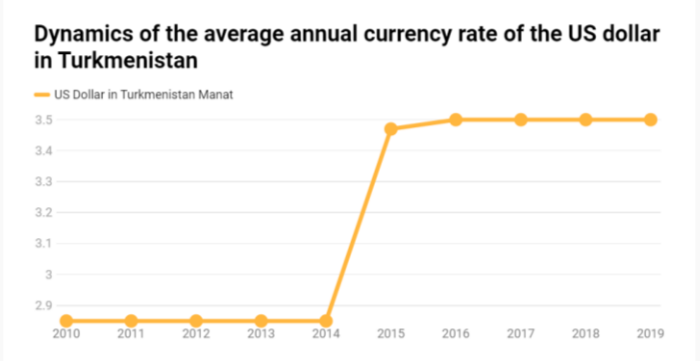


Figure 10. Currency rate of US$ in Turkmenistan. Source: World Bank Indicators

Kyrgyzstan ranks fifth among Central Asian countries in terms of PCI indices. The Wage increase was recorded from 2010 to 2013, however, with the weakening of the national currency, wages in dollar terms fell in 2014 and 2015. Wage levels have increased between 2016 and 2019. According to the CIS Statistical Committee, it reached a high of $246 in 2019, with a low of $156.4 in 2010 (Figure 11).

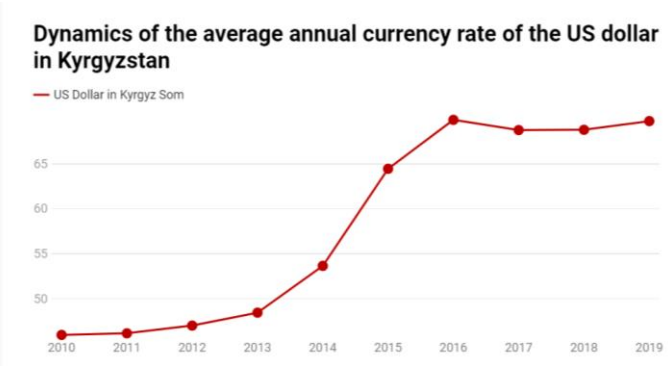


Figure 11. Currency rate of US$ in Kyrgyzstan. Source: World Bank Indicators

Tajikistan has the lowest per capita income of any Central Asian country. Despite the Tajik somoni's year-on-year depreciation against the US dollar, median dollar income levels have been consistently climbing from 2017 to 2019. It is worth noting that Tajikistan's greatest median wage of $165.4 was attained in 2014, while the lowest was $ 80.9 in 2010 (Figure 12).

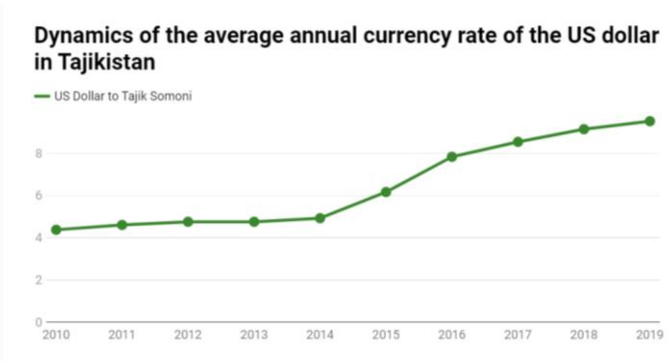
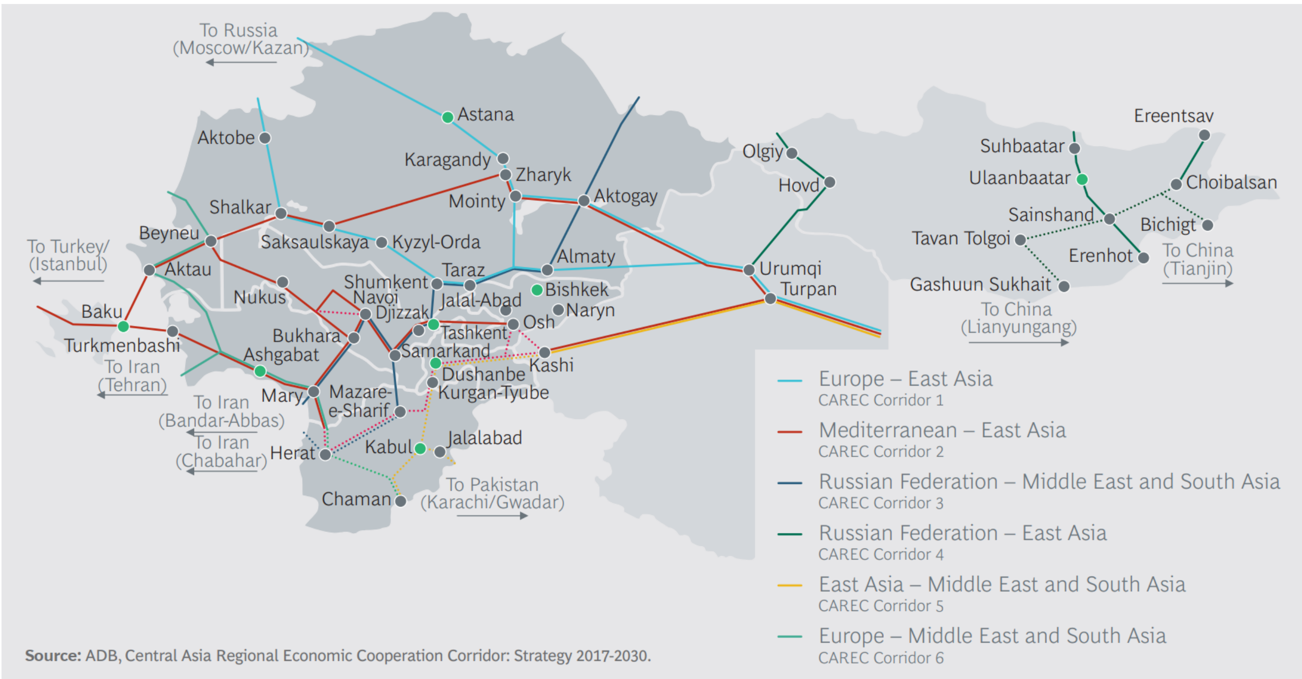


Figure 12. Currency rate of US$ in Tajikistan. Source: World Bank Indicators

Transport & Infrastructure

The region has a distinct geographical advantage due to its location in the center of Eurasia. For example, in 2018, railway freight transit in Kazakhstan barely topped 17 million tons, a fraction of the tonnage transported by the Trans-Siberian Railway. Nonetheless, its transportation potential is underutilized due to inadequate infrastructure, customs, and technological constraints. Central Asian countries have developed thousands of kilometers of domestic and international railway lines in the nearly 40 years following the collapse of the USSR. Nonetheless, severe issues persist. Turkmenistan completed the unification of its national railway network into a single system in 2006, Uzbekistan just in 2018, and Tajikistan and Kyrgyzstan still lack a fully functional national railway network. Kazakhstan is emerging as a significant transport and logistics center in the area, connecting China's and South Asia's enormous and rapidly increasing markets to Russia's and Western Europe's via road, rail, and the Caspian Seaports. The region's road transportation capacity is likewise an unresolved problem. Aside from an inadequate transportation network, many sections of Central Asia have a severe dearth of other types of infrastructure, such as power and residential gas supplies. The region serves as the primary transit route for EU nations, China, and Russia. For example, China sees the area as an important alternative route for the delivery of energy resources, as seen by projects such as the Central Asia-China gas pipeline. China and Central Asia have been expanding logistics and transit channels at the initiative of the Chinese government through initiatives as part of the Belt and Road Initiative (BRI). The region is also the major route for the Caspian Pipeline Consortium's oil pipeline system. Main transport corridors in Central Asia by Central Asia Regional Economic Cooperation Corridor: strategy 2017-2030 (Map 3).



Map 3. Economic Cooperation Corridor.

Commodities

Commodities account for the majority of exports, and remittances account for the majority of foreign currency transfers from outside. Because of little complementarity of production and low competitiveness, trade between the nations is limited. The surge in commodity prices has benefited exporters of oil, gas, and metals in Kazakhstan, Turkmenistan, and, to a lesser extent, Uzbekistan. Simultaneously, commodity importers such as Kyrgyzstan and Tajikistan benefit from the increasing demand for migrant labor, which has resulted in greater remittance flows from Russia. At the same time, the EBRD has warned about potential dangers like rising commodity and energy costs, weakening labor markets, and supply chain disruptions.

Related Main Countries and Organizations

Kazakhstan and Kyrgyzstan are members of both the Eurasian Economic Union where common economic and industrial policy, as well as unrestricted mobility of products, capital, labor, and services. and the World Trade Organization (WTO), Tajikistan is just a member of the WTO, while Uzbekistan is currently in the process of joining. However, regional integration has been slow: unlike the Association of Southeast Asian Nations (ASEAN), Central Asia lacks a single economic institution that ties the area together. Also, China's Belt and Road Initiative (BRI) was announced in 2013 and intends to build a commercial and infrastructure network connecting Asia to Europe and Africa via ancient trade routes such as the land and maritime Silk Road. Many Central and South Asian nations have now signed cooperation agreements with China to invest in energy and transportation infrastructure.

In contrast, these relationships have different points of view, such as Russia's desire to obtain a competitive advantage over other trading partners in order to defend its political views and struggling industries. China wishes to reduce delivery times and gain access to growing markets with natural resources. The United States and other Western countries aspire to extract riches by owning and controlling valuable assets such as natural resources and money. Above mentioned the survey results about the perception of global powers and their projected influence in Central Asia (Figure 13).

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Top 1 Partner	Russia China	Russia	China	China	Russia China
Top 2 Partner		China	Russia	Russia	
Top 3 Partner	EU	Turkey	Iran	Turkey	EU

Figure 13. Important countries for Central Asia countries.

Kazakhstan's largest export destinations include China, Italy, Russia, the Netherlands, Uzbekistan, India, Turkey, and France. Switzerland, Greece, Spain, Romania, and South Korea are among the others. Kazakhstan's exports to the United States amount to 1.3% of total exports.

Uzbekistan's commerce with the United States fell from $603.9 million in 2010 to $275.1 million in 2020. The $318.9 million decreases in imports from the United States pushed the country to 17th position on the list of trading partners. Uzbekistan has signed bilateral treaties with 54 nations to avoid double taxation, while the United States considers the 1973 U.S.-USSR tax treaty to be in force with regard to Uzbekistan, whereas the Uzbek government does not. Uzbekistan also has accords with 47 countries that provide the most favored nation treatment. U.S.-Uzbekistan trade accords, including most favored nation status, and agreements promoting and reciprocally safeguarding investment were concluded in 1994 but never ratified by the US. Uzbekistan joined the CIS Free Trade Zone Agreement in 2014. Uzbekistan became an observer member of the Eurasian Economic Union (EAEU) on December 11, 2020. Major Trade Partners (Uzbekistan official statistics, 2020): China, 17.7%, Russia, 15.5%, Kazakhstan, 8.3%, Korea, 5.9%, and Turkey, 5.8%.

China is Turkmenistan's largest gas consumer, receiving 33.2 billion cubic meters of Turkmen gas in 2019. Russia halted all Turkmen gas imports from January 2016 until April 2019 due to a pricing disagreement, and now purchases just small amounts of gas from Turkmenistan. Exports to Iran, Turkmenistan's only other large market, have been halted since January 2017, owing to a price disagreement. Turkmenistan's main import partner in 2019 was Turkey, closely followed by Russia. Turkey is Turkmenistan's second-largest export partner after China. According to the United States Census Bureau, US exports to Turkmenistan totaled $28.3 million in 2019, down from $30.9 million in 2018, while US imports from Turkmenistan reached $16.2 million, up from $11.5 million in 2018. In 2019, agricultural machinery and chemical items were the most important US exports to Turkmenistan. Turkmenistan's main imports to the United States were various carbon products and vegetable extracts.

In August 2015, Kyrgyzstan acceded to the EAEU and is still in the process of transitioning to the Eurasian Economic Union (EAEU). The accession process has changed economic conditions since cheaper commodities from other EAEU member states continue to have an influence on Kyrgyz local industry. The EAEU admission also resulted in additional regulatory hurdles and a rise in non-tariff barriers, to which the Kyrgyz government and industry have struggled to adjust.

Tajikistan's top export partners are Kazakhstan (27.1%), Turkey (19.5%), Luxembourg (10.4%), Afghanistan (8.32%), and Switzerland (7.46%). Russia (32.6%), China (20 %), Kazakhstan (18.5%), Germany (3.83%), and Turkey are Tajikistan's top import partners (3.79%). Tajikistan regards the United States as a source of high-quality equipment and is interested in purchasing US components for large infrastructure projects. Such initiatives might be financially supported by the US EXIM Bank, IFC, EBRD, MIGA funds, and OPIC funds. Tajikistan's expanding ties with commercial partners in Southern Asia have the potential to produce considerable economic development and demand. Tajikistan's economy is primarily reliant on imports, and most US businesses would face severe competition from China and, to a lesser extent, CIS nations rather than domestic companies.

Econometric Analysis

Methodology

In this part of the thesis, we studied the conditional logit model as the economic framework for analyzing data. The model illustrates how economic agents or source areas that want to invest (in our case), choose among a discrete set of unordered outcomes or prefer to invest in certain areas (in our case). It connects economic theory with economic estimation and it is organized around the concept of maximation. All choices might be differently ranked among agents by their preferences. The model study is consisted of analyzing data as follows.

First, choices which source countries or organizations made decisions must be observed, then all alternative choices which agents did not make, must be studied, too. Then, analyzing choice characteristics that differentiate and learn about decision-maker preferences. Finally, we implement the conditional logic framework to find chosen maximized utility variable:

$$U_{ijot} = \beta_1 x_1 + \beta_2 x_2 + \ldots + \beta' x_{jt} + \beta'' x_{ojt} + \beta''' x_{ijt} + \varepsilon_{ijot} = (X\beta)_{ijot} + \varepsilon_{ijot}, \quad (1)$$

i = 1, …, I consumers (investments)

j = 1, …, J choices (locations)

t = year

o = origin country

U_{ijot} = agent i's utility from choice j

X, x = characteristics of choice j

β = preferences for observed choice characteristics (each choice has specific β)

ε_{ijot} = error term, idiosyncratic preferences for choices (unobserved characteristics, preferences are random, optimization mistakes, misspecification of the utility function)

Then, probability estimation with binary choice model (0 or 1), if a particular investment in country j was made, choice equal to one, if it locates in another country of the region, it equal to zero. These models are based on the assumption that many variables will influence the investment choice. And, we use $V_{ijot} = (X\beta)_{ijot} = \beta' x_{jt} + \beta'' x_{ojt} + \beta''' x_{ijt}$ to imply the deterministic component, and m to explain individual's choice set, in our case it means, a set of Central Asia countries, superset of j. The likelihood that investment i

from a source country o locates in a certain Central Asian country j at a specific year t is the probability that the utility yield from locating in that country *(j)* will be more effective than the utility yield from locating in all other Central Asian countries.

$$p_{ijot} = prob(j \text{ maximizes utility for } i) = prob(V_{ijot} > V_{imot},\ \forall m \neq j), \quad (2)$$

$$= prob((X\beta)_{ijot} + \varepsilon_{ijot} > (X\beta)_{imot} + \varepsilon_{imot},\ \forall m \neq j)$$

$$= prob(\varepsilon_{ijot} - \varepsilon_{imot} > (X\beta)_{imot} - (X\beta)_{ijot},\ \forall m \neq j) = \frac{exp\,(Vijot)}{\sum_{i=0}^{j} exp\,(Vijot)} \quad (3)$$

Above mentioned probability equation shows agents make certain types of choices that probability of object j which highest utility among alternatives in agent i's choice set. And it's equivalent to the probability that V_{ijot} utility is greater than V_{imot} for all of object's m in the individual's choice set, in the condition of all m except j. Following equations (3) is a result of merging (1) with (2) and after changing locations of variables to different sides as latest version probability equation that based on our data and assumption about differences between two errors that translate this probability statement into an equation that we can use for the maximum likelihood that $(X\beta)_{imot} - (X\beta)_{ijot}$ terms are to be less than the difference of epsilons. As a result, we can use this choice probability equation as agent or organization i chooses location j that is that location j is a utility-maximizing location within the consumer's choice set. Mathematically it means, the probability is chosen location j is proportional to relative utility $exp\,(Vijot)$ compared to all of the other locations $\sum_{i=0}^{j} exp\,(Vijot)$ in the other options set. Also, the model's goal is to estimate the coefficient β, if this is negative, it suggests that the importance of an option is diminished as the value of the relative variable increases and vice versa.

Data

The definition of the data to be utilized as a dependent variable is the initial stage in developing the econometric model. We inserted the data from the Financial Times' FDI Markets database, which contains all of the FDI projects that have been announced since 2003. The following information is provided for each project: the countries of origin and destination, the name of the investing firm, the date of the announcement, the kind of investment, the destination sector, and the total value of the investment. The data set consists of all invested inflow information which amount is 1144 operations which more than half, 638 investments received by Kazakhstan, the undesirable one is Kyrgyzstan with 54 investments and the ahead of invested source countries are Russia, China and the U.S. with 206, 107, and 100 investments, respectively. Also, there are other databases that participated in creating country variables such as World Development Indicators (WDI), Worldwide Governance Indicators (WGI), French institute for research into international economics (CEPII), United Nations Economic Commission for Europe (UNECE), and Penn World Table version 10.0 (PWT10.0) databases. However, there was an issue that not all countries of the region have full data, especially Turkmenistan. We discussed difficulties collecting information about the mentioned country and others in the following chapter. As a result, we could not use all regressors which we wanted.

To adopt this model, several changes have to be made to the dependent variable's beginning database. The first stage was to assign a unique progressive number to each investment in the database by adding value to the variable number, which was required to determine the range of options between nations. In a subsequent operation, the database was burst, generating a record for each of the five countries under consideration for each investment. This was accomplished by adding a new Country Code column that included the unique identification for each nation.

Simultaneously, the Boolean variable choice was created, with a value of 1 if the row Country Code matches the national code of the country really intended for the investment, and a value of null otherwise.

The following table shows all independent variables and information about them which used for determining investor preferences and created by above mentioned data sets.

Variable(s)	**Stata Name**	**Explanation**	**Source**
Log GDP per capita	lgdp_pc_i	Log of GDP per capita (2010 US$)	WDI
GDP growth	gdp_growth_i	GDP growth (annual %)	WDI
Log Population	lpop_i	Log of population	WDI
Wage	wage_e	Monthly gross wages, current US$	UNECE
Infra-firm Agglomeration	cum_inv	N. of FDI from same firm from 2003 t-1	FDI market
Country of origin Agglomeration	cum_bilateral	N. of FDI from same origin from 2003 t-1	FDI market
Industry Agglomeration	cum_activity	N. of FDI from same industry from 2003 t-1	FDI market
Natural Resources rent	nat_res_rents	The sum up of ores and metals exports, fuel exports and agricultural exports for total natural resources rents as percentage of GDP	WDI
Trade openness	trade_sh_i	Trade % of GDP	WDI
Regulatory quality	reg_quality	WGI regulatory quality index (from -2.5 to 2.5.)	WGI
Political stability	pol_stability	Political Stability and Absence of Violence/Terrorism	WGI

Table 8. Conditional logistic regressors.

In addition, there is one more variable namely the choice variable which will be the dependent variable of the conditional logit model.

Using Country Code as a key, all the columns of the regressors were connected using a joint operation between the database of the dependent variable and that of the determinants. In consequence, all conceivable selection factors must be considered in order to evaluate the investment's destination.

As a result, the final database contains 5720 observations and 164 variables: 20 from the investment database, 11 defined regressors, and 4 model variables.

Moreover, Stata / IC 16.0 software was used to perform the regressive analyzes.

The Result

In this following stage, the conditional logistic regression table (Table 15) evaluates the rate of importance for investors with 11 regressors. We will describe them steadily by own order. The first one is log GDP per capita and investor firms' preference matches with this character and it with a 0.005 P-value takes significant place for investors' precedency. The next chosen one is GDP growth in the Central Asia countries. This regressor's coefficient is negative and is not significant. However, 0.062 is close to 0.05 for being significant. The logged population has a positive coefficient of 1.037493, but investor organizations or firms left it as not significant, while some argue that a good population rate is a catalyst for long-run progress with potential. Also, distribution wages for workers are not significant with a negative coefficient for our unexpected situation in this case because as many production processes are shifted to low-wage countries. Following two parameters, "country of origin agglomeration" and "industry agglomeration" are different in importance rate but same in the coefficient parameter as positive ones. The first one is not significant but the second one is strongly significant. The following two determinants are almost in the same position as not important and have positive coefficient value, natural resources rent, trade openness of locations, respectively. Given the features of the Central Asian region, the quality of regulations is particularly relevant and has a positive influence on the choice of the nation in which to invest. Lastly, political stability is positive and not important but the higher stability in country politic - the more investors are courage from engaging in a particular economy, as this denotes greater stability in perspective. In the next chapter, we compared the results to actual facts and analyzed local conditions.

Conditional (fixed-effects) logistic regression

	Number of obs = 5,720
	LR chi2(11) = 1178.90
	Prob > chi2 = 0.0000
Log likelihood = -1251.7494	Pseudo R2 = 0.3201

choice	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
lgdp_pc_i	.3968891	.142316	2.79	0.005	.1179549	.6758233
gdp_growth_i	-.0301384	.0161408	-1.87	0.062	-.0617738	.001497
lpop_i	1.037493	.0956747	10.84	0.000	.8499743	1.225012
wage_e	-.7346311	.6668887	-1.10	0.271	-2.041709	.5724467
cum_inv	1.048751	.1248324	8.40	0.000	.8040839	1.293418
cum_bilateral	.2663687	4.982641	0.05	0.957	-9.499428	10.03217
cum_activity	7.18348	2.298693	3.13	0.002	2.678125	11.68884
nat_res_rents	.0054552	.0057014	0.96	0.339	-.0057194	.0166298
trade_sh_i	.0021286	.0032111	0.66	0.507	-.004165	.0084222
reg_quality	.2516671	.1158119	2.17	0.030	.02468	.4786541
pol_stability	.1499506	.1160255	1.29	0.196	-.0774551	.3773564

Table 9. Conditional logistic regression.

The second table (Table16) determined differences among preferences of main investor countries to the Central Asian countries and all analyzed data set. Main investors were from Russia and China with 206 and 107 investments, respectively, among all number of inflows as 1144 from 2003 to 2018 years. If we chose distinctive ones from the beginning, we can take log GDP per capita from market determinants. The regressor is extremely significant for all foreign investors than Russia and China because both countries do not interest in the first character of the above-mentioned receiver countries of investment. However, logged population regressed variable has a high rate of importance among all locations of investors with positive coefficient parameters. On the other hand, the next regressor as wage in Central Asian countries have the same negative coefficient but is not significant to pay attention to while investing. We did not expect that natural resources rent does not be significant for Russia or China even for other firms or organizations from other countries. From agglomerations, infra-firm and industry are really important for Russia and other locations but not for China with positive coefficients. Finally, both countries do not interest in other regressors as much as described above except GDP growth and regulation quality not much important for other foreign firms and one parameter such as political stability slightly significant for Russia.

	C3	Russia	China
Choice			
lgdp_pc_i	0.397^{***}	-0.128	-0.0459
	(0.142)	(0.332)	(0.466)

gdp_growth_i	-0.0301*	0.00124	-0.0655
	(0.0161)	(0.0350)	(0.0571)
lpop_i	1.037***	0.824***	0.944***
	(0.0957)	(0.232)	(0.313)
wage_e	-0.735	-0.160	-0.949
	(0.667)	(1.468)	(2.483)
cum_inv	1.049***	0.828***	0.511
	(0.125)	(0.176)	(0.398)
cum_bilateral	0.266	-3.782	28.00
	(4.983)	(13.92)	(25.84)
cum_activity	7.183***	18.30**	4.533
	(2.299)	(8.220)	(6.058)
nat_res_rents	0.00546	-0.00115	0.0295
	(0.00570)	(0.0131)	(0.0193)
trade_sh_i	0.00213	-0.00240	0.00643
	(0.00321)	(0.00703)	(0.00901)
reg_quality	0.252**	-0.0517	0.541
	(0.116)	(0.268)	(0.379)
pol_stability	0.150	0.566*	-0.00718
	(0.116)	(0.297)	(0.402)
N	5720	1040	540

Table 10. Conditional logistic regression for certain countries.
Standard errors in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

The last table (Table 17) illustrates differences between invested spheres in Central Asia. Also, here we tried to explain most distinctive results among spheres which investment done by foreign companies to Central Asia. So, from the result, the area popular with service and manufacture industries in investor firms. The first and high significant rate showed in log GDP per capita in service than other fields with positive coefficient in all cases. Highlighted regressions are Log population and intra-firm agglomeration because they have high level of significance in all cases. The results indicate that other variables show contrasting results such as wages in Central Asia with negative coefficient is normal significant in-service sector, industry agglomeration does not favorite among mentioned areas but it has high positive coefficient with slight importance rate in service sector, too. Natural resource renting and trade's importance rates show normal score in manufacturing sector. Finally, the importance related to regulatory quality does not play any role in manufacturing sphere but it slight important for service sector and normal significant for resource sector and other parameters do not have importance rate in chosen type of sectors.

	manufacture	service	resource
log gdp pc	0.038	0.797***	0.473
	(0.266)	(0.218)	(0.324)
gdp growth	0.000	-0.039	-0.026
	(0.029)	(0.025)	(0.036)
log population	1.472***	0.901***	0.781***
	(0.209)	(0.141)	(0.201)
wage	0.211	-2.106**	-0.129
	(1.210)	(1.010)	(1.608)
intra-firm agglomeration	1.371***	1.095***	0.599**
	(0.280)	(0.180)	(0.240)
country-of-origin agglomeration	11.541	-5.742	16.335
	(10.624)	(6.611)	(14.722)
industry agglomeration	6.189	6.333*	-35.239
	(4.552)	(3.833)	(24.693)
nat_res_rents value	0.028**	-0.004	0.005
	(0.011)	(0.009)	(0.012)
trade	0.013**	-0.005	0.001
	(0.007)	(0.005)	(0.007)
regulatory quality	0.225	0.301*	0.539**
	(0.225)	(0.169)	(0.268)
political stability	0.186	0.051	-0.163
	(0.214)	(0.171)	(0.294)
N	1790.000	2930.000	905.000

Table 11. Conditional logistic regression in certain spheres.
Standard errors in parentheses * $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$.

Chapter Three - Specific Outcome.

Methodology

Hypotheses

The following hypotheses are developed and evaluated based on a survey of the literature on the research topic:

1. For recent decades, emerging markets in Asia have achieved significant economic growth which depends heavily on capital. The nations have accelerated attracting foreign direct investment (FDI) with innovative and positive changes in the level of governance structures.

2. However, there are many difficulties and unexpected issues that raise questions for in all countries in Central Asia such as political issues, corruption, tax regulations, bureaucracy and implying the changes to reality.

Research methods

The thesis work provided different methods of approaches based on quantitative and qualitative pieces of information. Data sources include international and national statistical data, official state documents, research papers, mass media publications, and surveys of competent specialists by official organizations. One of the main resources was World Bank open data which has availability of 5,113 datasets from the International Bank for Reconstruction and Development (IBRD, 189 countries), International Development Association (IDA, 174 countries), International Finance Corporation (IFC, 185 countries), Multilateral Investment Guarantee Agency (MIGA, 182 countries), and International Centre for Settlement of Investment Disputes (ICSID, 156 countries).

Doing Business ranking for Central Asian countries (Figure 14):

	2008 Ranking out of 178	2019 Ranking out of 190	BEST DIMENSIONS	DIMENSIONS REQUIRING REFORMS
KAZAKHSTAN	71th	28th	• Protecting minority investor – 1st • Enforcing contracts – 4th • Registering property – 18th	• Trading across borders – 102nd • Getting electricity – 76th • Getting credit – 60th
UZBEKISTAN	138th	76th	• Starting a business – 12th • Getting electricity – 35th • Enforcing contracts – 41st	• Trading across borders – 165th • Obtaining construction permits – 134th • Resolving insolvency – 91st
KYRGYZ REPUBLIC	94th	70th	• Registering property – 8th • Obtaining construction permits – 29th • Getting credit – 32nd	• Getting electricity – 164th • Paying taxes – 150th • Enforcing contracts – 131st
TAJIKISTAN	153th	126th	• Protecting minority investors – 38th • Starting a business – 60th • Enforcing contracts – 61st	• Getting electricity – 173rd • Trading across borders – 148th • Resolving insolvency – 146th

Figure 14. Source: World Bank Doing Business database, 2017-2019.
Note: Turkmenistan is not included in the Ease of Doing Business index due to the lack of reliable data.

Costs of starting a business in Central Asia and other regions (Figure 15):

	COST OF STARTING A BUSINESS (USD)	COST OF LABOR (average wage, USD)	COST OF REGISTERING PROPERTY (% of property value)	COST OF CONSTRUCTION PERMITS (% of warehouse value)
Kazakhstan	$26	$516	0.1%	1.9%
Uzbekistan	$69	$284	1.2%	3.4%
Kyrgyz Rep.	$23	$216	0.2%	1.7%
Tajikistan	$214	$154	3.1%	2.0%
Middle East and North Africa	$1,417	n/a	6.0%	4.3%
Latin America and Caribbean	$3,102	$854	5.8%	3.2%

Figure 15. Source: World Bank Doing Business database, 2018; official country statistics.
Note: Turkmenistan is not included in the Ease of Doing Business index due to the lack of reliable data.

Intraregional trade in Central Asia (Figure 16):

SHARE OF TOTAL EXPORT OF THE FIVE COUNTRIES TO OTHER CENTRAL ASIAN COUNTRIES (%)

Export to						Total	Main exported commodities in regional trade
KAZAKHSTAN	_	1.7 %	0.7 %	0.7 %	0.1 %	3.2 % ($1.7 b)	Wheat & wheat flour Resources (oil & gas)
UZBEKISTAN	1.3 %	_	0.1 %	N/A	N/A	1.4 % ($0.7 b)	Fruit & vegetables Resources (oil & gas)
KYRGYZSTAN	0.3 %	0.2 %	_	<0.1 %	<0.1 %	0.6 % ($0.3 b)	Transportation & machines Mineral products (ores)
TAJIKISTAN	0.3 %	N/A	<0.1 %	_	N/A	0.3 % ($0.2 b)	Mineral products (ores) Fruit & vegetables
TURKMENISTAN	0.1 %	N/A	<0.1 %	N/A	_	0.1 % (< $0.1 b)	Resources (oil) Seed oils

Exports from KAZ to UZB represent 1.7% of the total exports of the 5 countries

Figure 16. Source: World Bank Doing Business database, 2018; official country statistics.

Kazakhstan

Kazakhstan fact sheet (2020)

GDP
$169.84B

GDP per capita
$10963.71

Labor force
9.2 M

Urbanization
57.67%

Total export value
US$50.9B

Real GDP growth
2.5% (CAGR 2013-17)

Inflation
8.7%

Unemployment
4.9%

Official currency (27.03.2022)
Tenge - KZT(USD/KZT)=494.16

Languages
Kazakh (official), Russian

Main export commodities (in value)
Crude Petroleum (49.6%)
Refined Copper (5.62%)
Petrolium Gas (5.18%)

Main export destinations (in value)
China (18.5%)
Italy (13.3%)
Russia (10.2%)

Figure 17. Sources: World Bank Indicators (WBI), Trading Economics, The Observatory of Economic Complexity (OEC), Agency of the Republic of Kazakhstan on Statistics, National Bank of Kazakhstan.

Advantage - Entrance

First of all, Kazakhstan is the most developed economy in Central Asia. Foreign direct investment (FDI) into Kazakhstan has been significant in recent decades. Kazakhstan's success in attracting FDI can be attributed to the country's vast natural resources and the country's leadership's commitment to welcoming FDI and promoting the country's stable economic growth, as well as developing non-extractive sectors such as agriculture, renewable energy, infrastructure, logistics, and transportation. Kazakhstan is placed 25th in 2019 as written in figure 14, then it increased to 25th rank in the World Bank's Doing Business 2020 report for Ease of Doing Business.

Kazakhstan's former President, Nursultan Nazarbayev, unveiled the Kazakhstan 2050 Strategy, in the annual address to the nation in December 2012, which aims to make Kazakhstan one of the world's 30 most developed countries2. And its state planning system for the medium term and developed in the implementation of the long-term strategy was approved as № 636 decrees in February 2018. A comprehensive and pragmatic economic policy, such as infrastructure development, modernized systems for managing state assets and natural resources, accelerated industrialization, modernization of agriculture and new water resource policies, the development of a culture of entrepreneurship, new social policies, targeted development of knowledge and professional skills, and further strengthening of state institutions, are all part of the strategy.

In November 2014, the Nurly Zhol (Shining Path) infrastructure development initiative was launched with the goal of developing an efficient transport and logistics infrastructure in Kazakhstan4. The program will include the following projects: the completion of 3,800 km of roads; the reconstruction of runways at Kostanay and Balkhash airports; the modernization of the Dostyk–Moyynty railway line and the electrification of the Moyynty–Aktogay railway line; the development of water transport through the purchase of 48 ships, including six merchant fleets; and major lock repairs.

The New Silk Road is a massive transportation infrastructure project that will connect the Pacific coast to Europe. It will be difficult to redirect container trade to the mainland because the present marine route is substantially cheaper. The new overland route through Kazakhstan, on the other hand, reduces delivery durations from 40–60 days to 13–14 days. The country accounts for 70% of land transit traffic from China to Europe and vice versa5. Kazakhstan finally established the Astana International Financial Centre (AIFC) in the area of the EXPO-2017 exposition in July 2018. As of 2021, the AIFC had registered over 700 enterprises from 42 countries.

Also, The Government of Kazakhstan provided scholarships under the "Bolashak" Program to increase the quality of training of human resources in the tourist industry. There have also been beneficial developments in marketing the country's tourism image across the world. Kazakhstan launched an official internet tourism portal in 2010, providing information about the country as a tourist destination and allowing potential tourists to book hotels, flights, and excursions (VisitKazakhstan.kz). International mass media and various international tourism events are also used to promote the country's tourist potential.

Economic Zones

A dry port, a logistical and industrial zone, a railway station, and the Altynkol Kazakh-Chinese Khorgos International Centre of Boundary Cooperation are all part of the Khorgos-Eastern Gate special economic zone (SEZ). Shipments that used to take up to 40 days by sea from Asia to Europe may now be carried in only 10 days thanks to the dry port. In 2018, Khorgos handled 311 container trains on the China-Europe transit line, and over 1.2 million people visited the duty-free trade zone. Over US$1.4 billion has already been invested in the project6.
Special economic zones:

1. Astana, New City (Nur-Sultan) — construction of industrial facilities and infrastructure.
2. National Industrial Petrochemical Technopark (Atyrau region) — manufacture of petrochemical products and construction of industrial facilities.
3. Morport Aktau (Mangystau region) — metallurgy, construction of industrial facilities.
4. Innovative Technologies Park (Almaty) — IT services.
5. Ontustik (South Kazakhstan region) — production of textile and other materials.
6. Saryarka (Karaganda region) — metallurgy, construction of industrial facilities.
7. Khorgos Eastern Gates (Almaty region) — production of food, textiles, non-metallic minerals and other materials.
8. Pavlodar (Pavlodar) — manufacture of chemical and petrochemical materials and construction of industrial facilities.
9. Taraz Chemical Park (Taraz) — manufacture of chemicals and non-metallic minerals.
10. Astana-Technopolis (Nur-Sultan) — production of food, pharmaceuticals, machinery and other products and construction and commissioning of infrastructure facilities.
11. Turkistan (Turkistan) — construction of infrastructure, industrial and social facilities.
12. ICBC Khorgos (Almaty region) — development of cross-border trade and economic cooperation, development of export-oriented manufacturing.
13. Qyzyljar (Petropavlovsk) — production of food, electronics, mechanical engineering and medical services Companies registered as participants of an SEZ enjoys the following benefits:

• the SEZ territory is classed as a free customs zone
• free land lease
• tax incentives (subject to certain
criteria), and specifically:

• 100% relief on land tax/land use fees
• 100% property tax relief
• 100% CIT relief
• 0% VAT on supplies of goods to the SEZ
• VAT exemption for supplies of goods in the territory of the SEZ
• 100% social tax relief (only for the Innovative Technologies Park)
• simplified procedures for engaging foreign labor.

Tax Regulation

Corporate and personal income of populations' tax rates are low compared to international standards but penalties are high. Withholding taxes (WHTs) on cross-border payments are widespread, and the rates are substantial sometimes even when the recipient has never entered Kazakhstan. However, Kazakhstan has tax treaties with several countries that allow withholding taxes to be lowered or avoided provided all appropriate documentation is in place. However, the MLI regulations, which came into force in Kazakhstan on October 1, 2020, should be studied and adequately supported8. Branch profit tax is levied at a regular rate of 15% on all permanent establishments of foreign legal organizations. Tax treaties frequently minimize it. Dividends are subject to the same basic rate of taxation, which may be reduced through treaties with MLI limitations. Dividends are tax-free after three years, except for investments in oil and gas or mining activities until a specified part of the minerals is processed, dividends given to businesses registered in tax havens, and investments in some CIT-exempt entities.

The interest on investor loans is deductible if the debt-to-equity ratio is less than 4:1. (7:1 for financial organizations). At best, an investor will pay 10% WHT on cross-border interest (due to a double tax treaty) and be able to claim a 20% CIT deduction9. (Table 8)

Type of Income	Tax rate
Employment income of residents and non-residents taxed by the local employer/host company	10%
Income of residents who receive income under a service agreement	10%
Income of lawyers and private notaries	10%
Capital gains, interest and winnings of residents	10%
Dividends received by residents from Kazakh companies	5%
Capital gains, dividends, interest and royalties paid to non-residents by Kazakh legal entities	15%
Any other Kazakh-source income paid to non-residents that are not received from a tax agent (local legal entity)	20%

Table 12. Source: Public services and online information of Kazakhstan (egov.kz). Tax table of Kazakhstan.

According to current tax legislation, income received in cash or in-kind by foreign people for work performed in Kazakhstan, regardless of where the income is paid, is considered Kazakh source income and is subject to Kazakh personal income tax (PIT 10%). And, In Kazakhstan, source income is reported and taxed using one of two methods: self-assessment via an annual PIT return, or at source via a local corporation serving as a so-called "tax agent".

Determinants - Risk Mitigation

Kazakhstan's economy is still strongly reliant on natural minerals, hence economic diversification is a top objective for the country. The extractive industry accounts for 17% of GDP. In terms of trade value, hydrocarbon exports accounted for two-thirds of Kazakhstan's exports in 2017. The federal budget of Kazakhstan is similarly strongly reliant on hydrocarbons. The oil and gas industry accounts for up to 50% of state revenue.

Access to financing is also a limitation on the growth of the private sector, restricting the process of diversification. Bank lending is the most important source of funding for businesses, yet domestic credit to the private sector is very low in Kazakhstan, accounting for only 27 percent of GDP. Kazakhstan behind countries like Russia (52.7 %), Chile (78.6 %), and China (155,8%).

Corruption and the rule of law continue to be major impediments to conducting business progress, successful tourism and other forms of development in the country. The non-transparent application of legislation continues to be a serious issue and an impediment to commerce and investment. Foreign investors have expressed dissatisfaction with the inconsistency of the criteria. Kazakhstan is ranked 102nd out of 180 nations in the corruption perception index. Despite the fact that the central government has implemented various beneficial and progressive legislation, local governments may interpret rules arbitrarily. The 100 Precise Steps National Plan, which was unveiled in 2015, was the first attempt to address such systemic domestic difficulties by tangible steps in five critical areas (New Modern State Apparatus; Rule of Law; Industrialization and Economic Growth; Nation with a Shared Future; Transparent and Accountable Government). Despite all the efforts, there are still systemic issues that foreign businesses and other stakeholders are concerned about. These are as follows: Rule of Law:

- the development of an independent judiciary; Intellectual Property Protection: the active promotion and consistent enforcement of intellectual property rights;
- Transparency in Rule Making: Use eGov principles to offer stakeholders with meaningful opportunities to comment on rule revisions.
- Law Interpretation: Ensure uniform interpretation of national laws by local officials, particularly in the administration of Kazakhstan's taxes, revenue collection, and customs operations.

- Standards and regulations: replace outmoded Soviet-era rules with generally accepted worldwide standards.
- Tax Issues: Put an end to criminal responsibility inquiries for minor tax offenses.

Uzbekistan

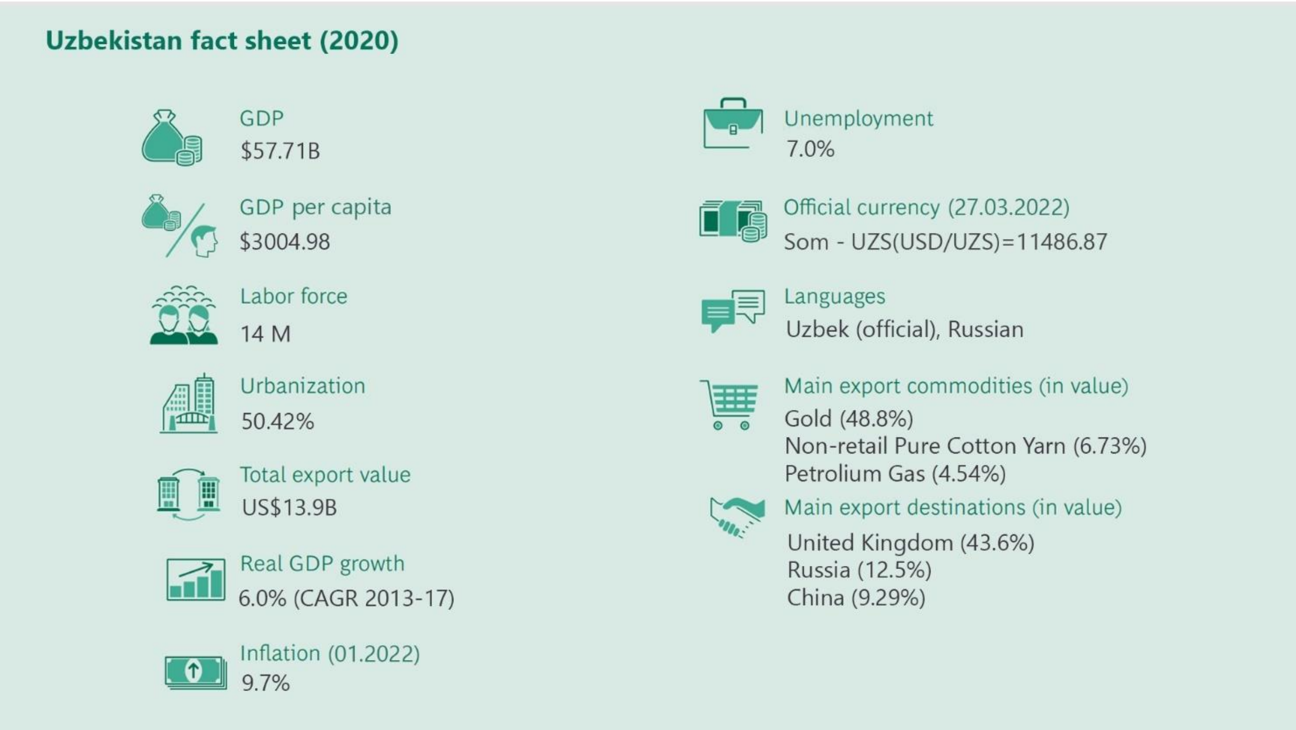


Figure 18. Sources: World Bank Indicators (WBI), Trading Economics, The Observatory of Economic Complexity (OEC), State Committee on Statistics of Uzbekistan, The Central Bank of Republic of Uzbekistan.

Advantage - Entrance

In 2020, establishing a favorable environment for private and foreign direct investment and lowering the state sector's proportion of the economy for aimed at enhancing economic development and improving public welfare by government's leadership continued to implement reform policies such as establishments of new government agencies and a one-stop-shop mechanism to facilitate investment to attract more investment. Economic measures to diversify away from oil and other commodities will help the countries achieve that goal while building resilience against external shock. The Action Strategy for the Further Development of Uzbekistan in 2017- 2021 outline such reforms. The region’s stability has often been associated in the West with authoritarian regimes, which raises the question of power struggles during succession. However, the change in leadership in Uzbekistan in 2016 provided a positive example of political transition, as did subsequent reforms towards more openness in the country. As examples several laws, presidential decrees, and government resolutions relate to foreign investors. The main laws are: Law on Investments and Investment Activities (ZRU-598, December 25, 2019); Law on Guarantees of the Freedoms of Entrepreneurial Activity (ZRU-328, 2012); Law on Special Economic Zones (ZRU-604, February 17, 2020); Law on Production Sharing Agreements (№ 312-II, 2001); Law on Concessions (№ 110-I, 1995); Law on Investment and Share Funds (ZRU-392, 2015); Law on Public-Private Partnership (ZRU 537, 2019); are approved. The Law "On Investments and Investment Activity" was adopted in Uzbekistan, and it went into effect on January 27, 2020 which was released on 14.12.2019 №598. Among the significant developments were the consolidation of official support for investment and investment activities in the form of incentives, the allocation of centralized investments for co-financing of an investment project, and the provision of financial, advising, and informational assistance. Also, the law may include not main but basic incentives, such as, concessions on taxes and payments, transfer of property rights and other property rights to the investor at a preferential or zero redemption value, subsidizing of interest rates on loans obtained by the investor for the implementation of the investment project.

“In all other parts of world light descends upon earth; from holy Bukhara it ascends” (Blunt, 1973). The city of Bukhara is one of Central Asia's oldest towns. It may be found in modern-day Uzbekistan. The city has 530 historic structures, 130 of which are on UNESCO's World Heritage List, including the oldest historical building, Buharhudatov Fortless, which dates back to 500 BC. In addition, Tolstov, a well-known Russian archaeologist and ethnologist who studied extensively in Uzbekistan, Kazakhstan, and Turkmenistan, discovered several ancient towns going back to 3000 B.C. in Khorezm. The most important feature of Khiva, which is recognized as a “museum city” since 1967 and has been under UNESCO protection since 1990, namely Ichan Kala and its architectural integrity reflecting the past despite the fact that most of the monuments are inherited covering a 26 hectares area from the 19th century. One more ancient city is Samarkhand and one of the oldest cities in the world. "Founded in the 7th century B.C. as ancient Afrasiab, Samarkand had its most significant development in the Timurid period from the 14th to the 15th centuries. The major monuments include the Registan Mosque and madrasas, Bibi-Khanum Mosque, the Shakhi-Zinda compound and the Gur-Emir ensemble, as well as Ulugh-Beg's Observatory.". Those main locations shows how is the country has potential to tourism exploration.

Economic Zones

In 2021, Uzbekistan established a multi-tiered ISDS process and passed a statute establishing special economic zones to encourage FDI. Also, the country has established 22 free economic zones (FEZ) in various sections of the nation in order to strengthen the country's economy and attract foreign investment. The FEZ has implemented 453 projects totaling $ 2.6 billion, creating around 36 thousand employment. In addition, the Volkswagen Group (Germany) has initiated an investment project in Jizzakh's SEZ in 2020.

- FEZ of industrial branch: Navoi, Angren, Jizzakh, Urgut, Gijduavan, Kokand, Hazarasp, Termez, Namangan, Sirdarya, and Chorokchi.
- FEZ of pharmaceutical industry: Nukus Farm, Zomin Farm, Boysun farm, Syrdarya Farm, Bostonlik Farm, Parkent Farm, and Andijon Farm.
- FEZ of tourism industry: Free Tourist Zone “Charvak”.
- FEZ of agricultural sector: Balik ishlab chiqarish, and Bukhoro-agro.

Tax Regulation

The government wants to attract foreign investment and management services to the airports as public-private partnerships with an exemption from customs duties and 50% reduction in income and property taxes for three years.

The Republic of Uzbekistan imposes the following main taxes and fees on its territory:

Value added tax	15%
Income tax (for certain categories of taxpayers)	15% (20%)
Social tax	12%
Personal income taxes	12%
Tax on property of legal entities	2%
Land tax for lands of agricultural purpose	0.95%
Withholding Tax rates	
Dividend and Interest	10%
Insurance premiums paid for insurance of reinsurance of risks	10%
International telecommunication, transportation and freight services	6%
Royalties, Rent, Income from sale of property, services fees, and other types of taxable income	20%

Table 13. Source: Deloitte, Worldwide Tax Summaries Online. Tax table of Uzbekistan

The following are some of the primary benefits outlined in the legislation:

Land and water usage taxes are removed for producers of government-prioritized goods and services (if FDI between US$ 300,000 and US$ 3 million for 3 years; If FDI is between US$ 3 million and US$ 10 million for 5 years; If FDI is more than US$ 10 million for 7 years;)

Foreign oil and gas exploration companies, as well as their foreign contractors and subcontractors, are exempt from several taxes (income tax, land tax, property tax, subsoil use tax, and customs payments) (excluding VAT and customs fees) in relation to equipment and services imported for these works.

Furthermore, with a special Presidential decision and the signing of an investment agreement, a firm with foreign interests may be awarded extra tax exemptions and other benefits. Additional incentives may include: exemption from particular taxes, customs fees, aid with visas and work permits, and so on, depending on criteria such as the importance of the company's project to the government and the number and nature of the investments to be made.

Determinants – Risk Mitigations

Uzbekistan, like other Central Asian countries, is heavily reliant on Russia and China for 80% of its gas exports, as well as commodities, weather conditions for agriculture (25% of GDP), and expatriate remittances (15% of GDP), overall, those countries receive 12.5% and 8.29% of all export volume (Figure 18), respectively. Foreign firms are describing incidents of non-transparent governmental procurement practices, poor enforcement of intellectual property legislation, and government agencies and state-owned corporations failing to comply with stated policy guidelines and regulations. Uzbekistan has the potential to become one of Central Asia's most successful economies, but in order to do so, it must guarantee that market and other reforms become established through modernizing legislation, such as limited financial intermediation, strong dollarization, mostly directed credit, low bank deposits, and delayed institutional development (corruption, bureaucracy, weak parliament, lack of effective opposition) and ensuring that laws are adequately implemented. Uzbekistan is ranked 69 in 2020 Ease of Doing Business with a Score of 69.9 from 100 and ranked 179 in Transparency International’s Corruption Perceptions Index. “The investment laws, which were developed over three years with the assistance of the United Nations (UN) Development Program, deliver on the stated aim of easing the regulatory environment for foreign investors. However, as is common in markets with weak institutions, investors are set to face challenges with the interpretation and implementation of the investment laws when dealing with regulatory bodies and local administrations.” by Kate Mallinson. Limited manufacturing activity (16% of GDP), weakly competitive markets (high concentration in key sectors) and, a low share of the private sector in the economy (50% of GDP) can be barriers to investors. Also, in recent years many forms against corruption applied in realization, but it has not gone, "The documentation and clinical analysis of such practices trigger challenges. Processes captured under the rubric of corruption, are frequently understood in quantitative terms using different measurement tools. It is exceedingly difficult, given the secretive nature of such transactions and the often-unchecked power enjoyed by practitioners, to qualitatively document them, at least at a grand level. Without qualitative documentation based on representative and robust samples, it is difficult in turn to produce sophisticated and reliable forms of analysis that can guide policy and practice" article written by Professor Kristian Lasslett

Turkmenistan

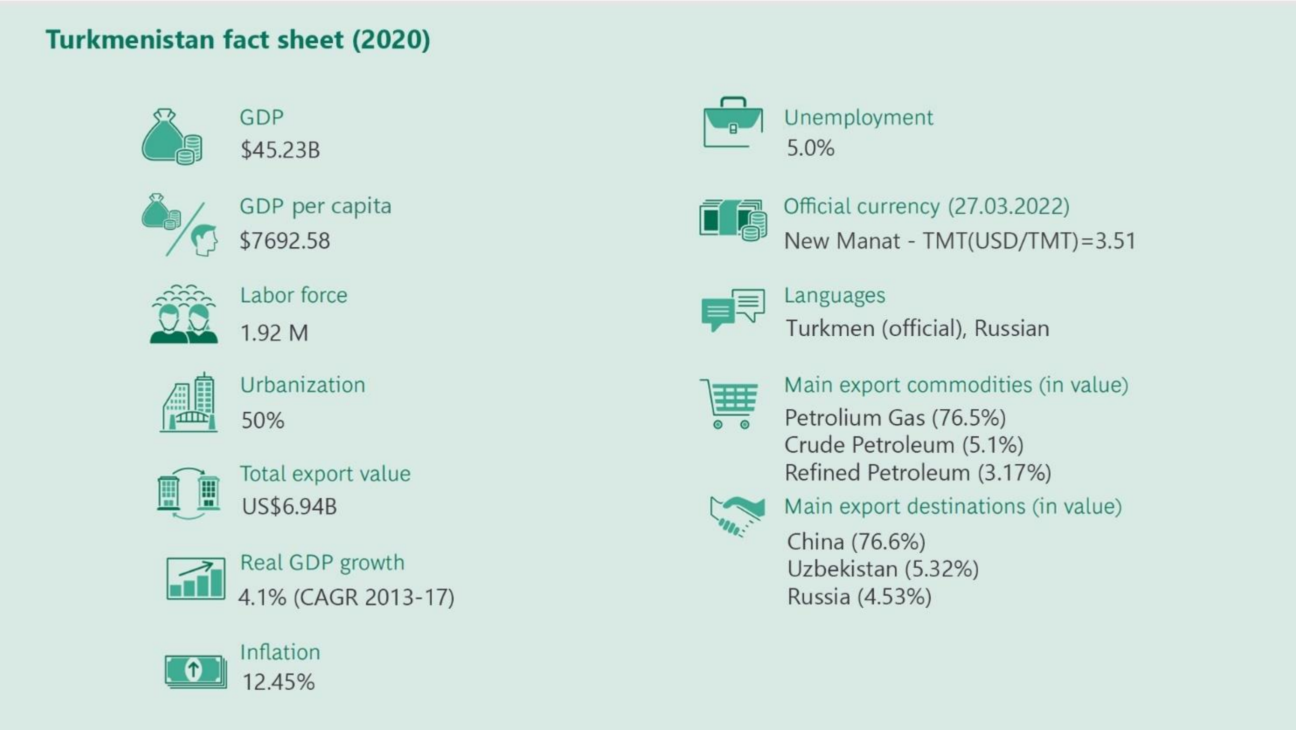


Figure 19. Sources: World Bank Indicators (WBI), Trading Economics, The Observatory of Economic Complexity (OEC), Statistical, Economic and Social Research and Training Centre for Islamic Countries, Central Bank of Turkmenistan.

Advantage - Entrance

Turkmenistan's economic growth has been strong throughout the last half-decade, increasing from 2017 to 2019, slowing dramatically in 2020, and then recovering in 2021. The majority of investments assist the oil and gas industry. The national statistics committee has not released data on FDI; nonetheless, international experts suggest that China is the country's greatest foreign investor, as are other Central Asian countries. Turkmenistan got 39% of its FDI from China in 2012, followed by Russia (16), the Persian Gulf nations (12%), Turkey (9%), and Canada (8%). The average trade-weighted tariff rate is 2.9%, but nontariff obstacles, compounded by strong governmental engagement in many industries, depress trade flows. The entire investment structure is nontransparent, sometimes realized information can be uncertain or changed during the process. Foreign investment is prohibited in numerous industries and the restricted ability of the undeveloped banking sector to lend inhibits the growth of an entrepreneurial sector. However, the Minister of Finance and Economy reported that the state collected more than 208.5 million manats in rent from state properties and approximately 470 million manats from the privatization of 95 state-owned assets. One of the not many advantages of country policy is neutrality from other regional blocks which were recognized by the United Nations in 1995. As an example, in reality, Turkmenistan does not belong to the Eurasian Economic Union. Turkmenistan will become a WTO observer only in July 2020. However, when creating laws and regulations, the government frequently inserts a language stating that international agreements and laws will take precedence over local legislation in the event of a dispute.

Turkmenistan has enacted a number of strategy documents, the most prominent of which being the National Socioeconomic Development Programme for 2011-2030, which has subsequently been augmented with a shorter-term blueprint for 2019-2025. While these publications convey a vision of Turkmenistan's future growth, particularly in terms of diversifying the country's economy away from reliance on natural gas, they do not provide a precise set of intermediate stages. Several ministries, including the Ministry of Energy and Industry's industry-related departments, as well as the Ministries of Road Transport, Railway Transportation, and Communications, were consolidated into a single ministry, the Ministry of Industry and Communication, in early 2019. The government attempted this consolidation in part to better the execution of changes in transportation, communications, and industrial policy. Turkmenistan's new institutional structure might promote integrated planning of the country's transportation infrastructure if the unification of formerly autonomous ministries allows for more efficient policy coordination.

Economical Zones

In October 2017, the Law on Free Economic Zones was enacted. It ensures the rights of both international and domestic firms to operate in free economic zones without profit caps, prohibits nationalization of corporations functioning in the zones, and prohibits discrimination against foreign investors. There are presently no FEZs in Turkmenistan, according to the law. There were formerly ten FEZs:

- Mary-Bayramaly
- Ekerem-Hazar
- Turkmenabat-Seydi
- Bakharly-Serdar
- Ashgabat-Anew
- Ashgabat-Abadan
- Saragt
- Guneshli
- Ashgabat International Airport
- Dashoguz Airport

However, these zones were not effective in attracting increased economic activity, in part because the government interfered with the commercial choices of enterprises based in the zones and did not provide money for FEZ infrastructure. Other benefits that are promised include:

- ❖ Preferential tax treatment, including exemption from profit tax if proceeds are reinvested in export-oriented, high-tech businesses;

- ❖ After-tax profit repatriation;
- ❖ Customs duty exemption, except for products of foreign origin;
- ❖ Product exports;
- ❖ Product pricing is determined.

Turkmenistan established the Awaza (Avaza) Tourist Zone in 2007 to encourage tourism and the development of the Caspian Sea shoreline. Investments in the development of tourist zone “Avaza” reach the US $ 1.4 billion. It provided tax breaks to individuals who wanted to invest in the building of hotels and leisure facilities. Foreign investors, particularly those operating in free economic zones, may benefit from license and tax exemptions, reduced registration and certification costs, land leasing rights, and longer visa validity, according to the Law on Foreign Investments. however, the legislation is inconsistently applied and enforced.

Turkmenbashi seaport on the Caspian Sea (US$ 2 billion) has significant cargo potential. The development of the Turkmenbashy Sea Port, as well as accompanying roads and logistics, as well as the formation of free economic zones, may result in increased international commerce and foreign investment. Also, Ashgabat airport (US$ 2.5 billion) has great potential for the passenger flights or cargo industry, too. However, a lack of supporting elements, such as ease of acquiring visas, a restricted number of planes flying into the nation, and limitations on shipping operators, limit the use of this infrastructure.

Tax Regulations

Foreign investors do not have a comfortable climate with higher tax rates than most domestic enterprises. The 2004 Tax Code was adopted and it was modified three times, in 2005, 2006, and 2007, however, most tax rates remained intact.

Income tax (Joint Venture or Domestic) (Foreign)	10% (8%)(20%)
Value added tax	15%
VAT rate	15%
Dividend/Interest/Royalty	15%
Excise Tax (Import)	Beer - 50%, Wine - 100%
Excise Tax (Domestic)	Beer - 10%, Wine - 15% to 40 %
Production Sharing Agreement (PSA)	
Income tax for the holder	20%
PSA holders’ employee and subcontractor	10%
Royalty	1%-15%
Welfare tax	20%

Table 14. Source: Deloitte, Worldwide Tax Summaries Online. Tax table of Turkmenistan.

In addition, tax and other advantages are offered in the new legislation for those wanting to invest in the building of hotels and recreational facilities in the aforementioned National Tourist Zone on the Caspian Sea coast. The Tax Code approved the building and installation of tourism facilities, and some tourist services, including food and accommodation, are VAT-exempt. For the first 15 years, no income tax will be charged on tourist accommodation and catering. And one more interesting thing is tax and investment incentives can be negotiated on a case-by-case basis. The president has frequently issued special decrees offering individual investors tax breaks and other benefits while recouping their initial investment. Also, PSA concessions for 20-25 years have been granted to six international energy corporations under the Petroleum Law: three offshore and three onshore concessions. Five of the current concessions are in the oil and gas sectors, with one in the power sector.

Determinants - Risk Mitigations

The country does not have a precise and sufficient amount of information for the investment climate for the reason that the country is isolated from information flow by the government and this is the main problem as mentioned in econometric analysis, too. Large-scale business is mainly undertaken with the Turkmen government, which mostly deals with those with whom it has close relations. The labor code is not strictly enforced. Foreign firms have complained that the government has been slow in making payments to them. The majority of the industrial base is controlled by subsidized state-owned firms, including onshore hydrocarbon production, chemicals, transportation, and power. A five-year downward trend in economic freedom has been maintained in Turkmenistan. The country has experienced a 1.2-point overall loss of economic freedom since 2017, with small advances in labor freedom and investment freedom offset by lower scores for rule of law. It is one of the world's most "Repressed" countries. In this strictly controlled economy, comparisons of government expenditure and taxation are virtually useless. Several additional metrics in the Index are among the lowest. All land is owned by the government, and other real property ownership rights are restricted. Contract enforcement and property rights protection are both unsuccessful. The ostensibly independent court is fully subject to the president, who selects and dismisses judges at his discretion. Judges are undertrained and susceptible to bribes. Corruption is widespread, and anticorruption laws are rarely implemented. All visitors must register upon entering, and most border crossings require specific authorization. Inviting foreigners is sometimes difficult since authorities can and do refuse entrance visas without reason. Due to these travel restrictions, international investors seeking to enter Turkmenistan for the first time may struggle to get entrance visas unless invited by the government. Even seasoned investors continue to express their dissatisfaction with the bureaucratic procedures and delays in this area.

While Turkmenistan is not a member of the World Trade Organization (WTO), it has adopted a number of regulations in major WTO sectors such as investment, banking, intellectual property rights, customs, and privatization. However, the law is not consistently implemented. Turkmenistan has not signed the Agreement on Trade-Related Investment Measures and is not in conformity with it (TRIMS).

Tajikistan

Figure 20. Sources: World Bank Indicators (WBI), Trading Economics, The Observatory of Economic Complexity (OEC), National Bank of Tajikistan.

Advantage - Entrance

Tajikistan's Investment Law foreigners can invest by jointly owning shares in existing companies with other Tajik companies or Tajik citizens; establishing fully foreign-owned companies; or entering into agreements with Tajik legal entities or citizens that allow for other types of foreign investment activity. This law ensures that both domestic and international investors have equal rights. Foreign corporations may purchase assets such as stock and other securities, as well as land lease and mineral usage rights. Foreign corporations may also exercise all property rights to which they are entitled, either alone or in collaboration with Tajik companies and Tajik nationals. The majority of Tajikistan's current international accords grant the country the most-favored-nation status. Tajikistan's leadership has consistently called for increased US investment. Despite this, Tajikistan has close relations with Beijing and Moscow and has typically sought state-led investment and foreign loans from these countries. Overall Foreign Direct Investment (FDI) to Tajikistan declined 53% to USD 162 million in 2020, with Chinese investments, which represent three-quarters of all FDI, falling 50% to USD 120.3 million. Russia was the second-largest source of FDI (USD 13.9 million), followed by Cyprus (USD 8.2 million) and Turkey (USD 7.8 million). Except for aviation, defense, security, and law enforcement, which require special government clearance, Tajikistan's legislation allows for 100% foreign ownership of domestic enterprises. Investors must submit ideas for screening to all appropriate government bodies, which can be time-consuming and inconvenient. The investor's request is being reviewed by the State Committee on Investments and the State Property Management. To comply with anti-money laundering requirements, screening proposals frequently include background checks on the firm, the person(s) representing the company, and the identification of a financial source. The Tajik government regulates investments through a number of laws, including the Law on Investment Agreement, the Law on Concessions, the Law on Resources, the Law on Legal Status of Foreigners, the Law on Free Economic Zones, the Law on Investments, the Concept of State Policy on Investments and Investment Protection, the Law on Natural Resources Tenders, and the Law on Privatization of Housing.

Tajikistan now has 356 bank branches, an increase of 8% from 2019. Tajikistan has 69 credit institutions, comprising 18 banks, one Islamic bank, 18 microcredit deposit organizations, five microcredit organizations, and 27 microcredit funds, according to the most recent National Bank of Tajikistan (NBT) report dated December 2020. Another advantage of the growth in government digitalization is the "one-stop-shop" website for investors, which was created in 2019.

Tajikistan's government established an ambitious National Development Strategy 2016-2030 in 2016, emphasizing the need for private sector investment. The Tajik government intends to attract up to USD 55 billion in FDI by 2030, according to the 2016-2030 strategy. However, in light of the country's economic and tax environments, this strategy looks to be more aspirational than practical.

Tajikistan has signed many international treaties to safeguard intellectual property rights (IPR), notably the World Intellectual Property Organization (WIPO) Convention. Tajikistan has signed 17 treaties overseen by WIPO and IPR-related laws, regulations, and treaties are listed here rearranged.

Economic Zone

Tajikistan's government encourages international investment and supports domestic firms involving government interests through four Free Economic Zones, providing permission, state guarantees or tax privileges. Manufacturing firms must invest a minimum of USD 500,000, trade firms must invest a minimum of USD 50,000, and service and consulting firms must invest a minimum of USD 10,000 to be eligible for preferential tax treatment. Kulyob's newest Free Economic Zone was established in March 2019. Those Free Economic Zones are the following:

	Location	Area (ha)	Specialization	Reason
FEZ “Sughd”	Khujand district	320	an industrial innovative	favorable site for export-oriented

				enterprises
FEZ “Dangara”	Dangara region	521.32	an industrial innovation	increase the export potential, workplaces, international labour distribution, improve the living standards
FEZ “Ishkoshim”	Osh region	200	a commercial production, mining	tourism (medical and recreational) sector, attract FDI.
FEZ “Panj”	Khatlon region	401,6	a special regime and special preferential terms for investment.	export potential, quality of management, the efficiency of production of products competitive in the world market, attract domestic and foreign investment

Table 15. Free Economic Zones of Tajikistan. Source: FEZ of the Republic of Tajikistan.

Taxes and customs charges are not charged, save for customs clearing fees, when commodities are exported from the FEZ region outside the Republic of Tajikistan, and economic bans and limitations are not imposed. Customs taxes are not collected on items exported from the FEZ to Tajikistan, and VAT is paid by the buyer. Imports of international and domestic commodities, as well as industrial and construction equipment, into the FEZ, are exempt from customs taxes and VAT tax.

The determination of the country of origin of items manufactured in the FEZ and imported into it is carried out in line with Tajik legislation and international legal acts recognized by Tajikistan.

Tax Regulation

Firstly, investors should be aware that financial transfers from parent firms to Tajik operations are taxed as revenue. Tajikistan's current tax law was enacted in 2013, and a 2019 tax reform project is set to go into effect in 2022. Some of the main privileges of the tax code, profit tax breaks are staggered based on the size of the investment: two years for USD 200,000-500,000, three years for USD 500,000-2 million, four years for USD 2-5 million. Further, companies that produce goods are profit tax-exempt for 12 months from the date of state registration. Should the government change its tax code after an investment is made, the investor has the right to keep the initial conditions.

Tax Type	Rate
Income tax	13%
VAT	0%-18%
Social Security Rate (Comp)(Employees)	26%(25%)(1%)
Corp. income tax-commodity pr. (another type of entity)	13% (23%)
Sale or assignment property tax (non-residence)	25%
Sales of goods, work, and service	18%
Export (except metal and stones)	0%
Non-resident Companies	
Dividend/Interest/Royalty	12%
Income from insurance premiums, payable under insurance and re-insurance agreements	6%
International telecommunications or freight services and transportation between Tajikistan and other countries	5%
Sea freight payments	6%
Other types of income	15%

Table 16. National Center of Legislation under the President of the Republic of Tajikistan.
Sources: Deloitte, Tax and Investment Guide: Tajikistan 2021.

To claim double tax treaty relief on other types of Tajikistan-sourced income, foreign legal entities must provide proof of tax residency in their home country to the tax agent, along with supporting documentation such as constituent documents, copies of agreements, invoices, and any other relevant documents.

Determinants – Risk Mitigation

Tajikistan's regulatory framework is opaque. Despite recent advances in making presidential decrees and legislation available online, official instructions, ministerial memoranda, and regulations are sometimes inaccessible to the public. According to World Bank and IFC studies, Tajikistan is rated 106th out of 190 economies in the ease of doing business in 2018. Tajikistan rose to 106th place in 2019 from 126th place in 2018. Despite efforts to promote fiscal openness, publicly available budget papers fall short of internationally accepted norms. Tajik law acknowledges the importance of municipal courts in dispute settlement and arbitration, but there is no respected arbitration organization for settling conflicts between individuals and enterprises on a domestic level.

According to international evaluations, Tajikistan should break down data by the ministry and include information concerning debt owned by State-Owned Enterprises. Tajikistan has signed bilateral agreements on arbitration and investment disputes with various nations, however, local domestic courts may not always adequately implement or accept these judgements. The local courts are largely used to settle disputes over agricultural plot demarcations as part of the land reform movement, and they are not utilized to settle non-agricultural business problems. TALCO, a state-owned corporation, lost an international dispute procedure in 2013 and finally settled the issue in 2017.

Tajikistan has established anti-corruption legislation; however, enforcement is politically driven and typically unsuccessful in addressing public-sector corruption. Amendments to the criminal law made in 2016 now allow anyone convicted of bribery-related offences to escape jail in exchange for paying penalties (roughly USD 25 for each day they would have served in prison had they been convicted under the previous criminal code). Also, another anti-corruption law related to officials' and political parties' families. Tajikistan's laws include provisions for avoiding conflicts of interest while granting contracts. The Tajik government does not compel private enterprises to adopt internal rules of conduct that ban public officials from being bribed. To identify and prevent bribery of government officials, private corporations do not utilize internal controls, ethics, or compliance systems.

In Transparency International's 2020 Corruption Perceptions Index, Tajikistan ranks 150 out of 180 countries and gained 28 out of 100 score. While the administration is eager to encourage foreign investment, investors continue to find the nation difficult. Foreign investors' success is presently strongly dependent on good relationships and assistance at the highest levels of the Tajik government.

Kyrgyzstan

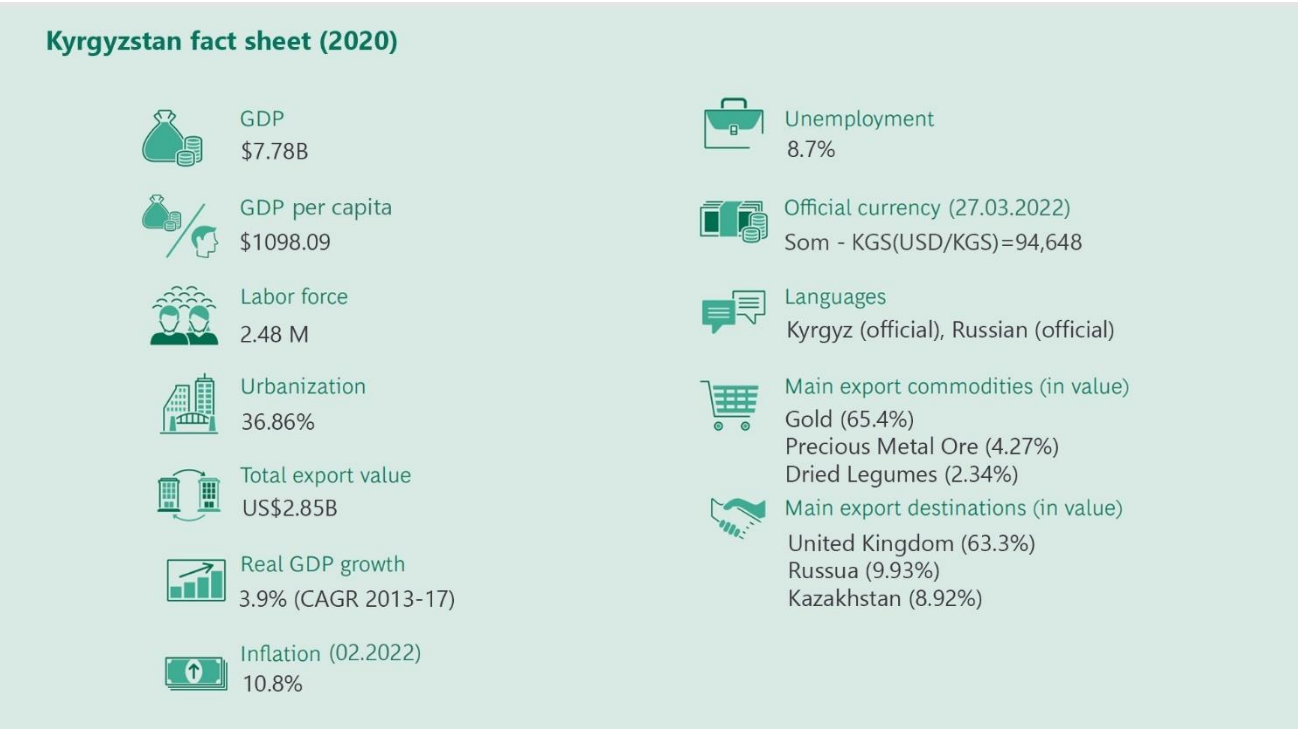


Figure 21. Sources: World Bank Indicators (WBI), Trading Economics, The Observatory of Economic Complexity (OEC), National Statistical Committee of Kyrgyz Republic, National Bank of the Kyrgyz Republic.

Advantage - Entrance

FDI has historically targeted mining-related sectors, finance, and petroleum product manufacturing in Kyrgyzstan; however, the new government's stated commitment to developing the country's digital economy and enhancing regional trade integration presents numerous long-term investment opportunities in agribusiness and food processing, ICT infrastructure, energy, tourism, transit and customs. However, the country remains a frontier market, geared toward higher-risk investors looking to leverage on the country's low market entry hurdles, lack of prohibitions on foreign ownership, and export-oriented tax incentives to establish a presence in Central Asia.

The Kyrgyz economy dropped by 8.6% of GDP in 2020, owing mostly to declines in construction, tourism, and non-gold exports. Total inbound foreign direct investment in 2020 is expected to fall by more than 50%, owing to lower inflows from the country's major investors: Canada, China, the United Kingdom, and Russia. The International Monetary Fund predicts that growth of country will be in 2022, with a full recovery to pre-pandemic levels by 2023, barring a significant return of COVID-19 or political turmoil. The government's focus on decreasing public debt, which is at 68 percent of GDP, may limit budgetary capacity in the short to medium term to proceed with public projects and public-private partnerships agreed in 2019.

Several committees and councils have been created by the government to coordinate collaboration between business organizations and government entities. In November 2018, One of main stages is a long-term strategy which called the Kyrgyz National Development Strategy 2040. Additional areas in the strategy include 'Unity, Trust, Creation 2018-2022,' the Digital Kyrgyzstan Strategy 2019-2023, the Cybersecurity Strategy 2019-2023, the Development of the KGZ Judicial System 2019-2022, and the Green Economy. Participation of the Kyrgyz Republic in the newly announced CASA-1000, which may improve the country's export capacity and investment possibilities in the industry. The Kyrgyz Republic's newly reformed Investment Promotion and Protection Agency (IPPA), which reports to the Ministry of Economy and Finance (as of February 2021), is in charge of developing and implementing measures to attract and boost investment activity. Its mission is to work with state agencies, local governments, businesses, and non-state actors to encourage investment. Also, the Institute of the Business Ombudsman was established in January 2019 as an independent non-state agency supported by external donors to safeguard the rights, freedoms, and legitimate interests of local and foreign business enterprises. The Business Ombudsman's role is to safeguard the legitimate interests of businesses, investigate complaints against state agency acts, and offer systematic solutions to minimize business risks and enhance the business environment in the country. Since 2017, the Business and Entrepreneurship Development Council, chaired by the Speaker of the Parliament, has met on a monthly basis to consider ways to enhance investment. The presidential order establishing the Committee under the Kyrgyz Republic's National Council on Sustainable Development was signed on December 24, 2019, with an addendum designating the Vice-Prime-Minister for Economic Development, the Business Ombudsman, and the leaders of business groups. The Kyrgyz government also works with the business community through a variety of local groups that serve as a voice for entrepreneurs and businesses, such as Amcham, IBC, and the Kyrgyz National Alliance of Business Associations.

As a WTO member, the Kyrgyz Republic is required to defend intellectual property rights. In 2002, the Kyrgyz Republic ratified both the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty. The Kyrgyz Republic was not featured in the 2019 Special 301 report, but it was included in the 2019 U.S. Trade Representative's Notorious Markets report owing to the prevalence of counterfeit products sold at the vast Dordoi bazaar - Central Asia's largest market. Counterfeit Chinese items are also re-exported to Russia and Kazakhstan. There has been no special action taken against the Dordoi market. In 2020, the Kyrgyz Republic did not enact any new intellectual property laws or regulations.

Economic Zones

The Kyrgyz Republic has five Free Economic Zones (FEZs): Bishkek, Naryn, Karakol (Issyk-Kul province), Leylek (Batken province), and Maimak (Talas province). Each is strategically placed to take advantage of transportation infrastructure and/or customs stations along Kyrgyz borders. Exemption from many taxes, fees, payments, and varies from 0.1% to 2% of sales related to the zone of location, as well as streamlined customs processes and direct access to utility providers, are among the government incentives for investing in the zones. The manufacture and sale of petroleum, alcoholic beverages, and cigarette products are prohibited in FEZs. The Kyrgyz government has cut the tax burden on international investors' earnings repatriation to match the tax rate for local investors. The Ministry of Economy and IPPA frequently indicate the government's openness to negotiate possible incentives, such as land access, with particular international companies. To encourage investment in the IT industry, the Kyrgyz government established a "zero-tax zone" at the Kyrgyz Republic's High Technology Park, which waives tax burdens for enterprises that export 80% of total products and services.

While there are no official legislative requirements for local employment, most big multinational investors face intense public pressure to maintain minimum local employment, notably in the mining and construction industries. Local employment quotas for boards of directors, senior management, and/or other staff may be included in possible investment agreements for new investors. The Kyrgyz government has no "forced localization" measures in place. There are no known government/authority-imposed requirements on investment clearance. The Bilateral Investment Treaty between the United States and Kyrgyzstan assures that investments are free of performance restrictions, such as the use of local products or the export of local commodities.

Tax regulation

On December 22, 2021, the new tax code was accepted in the third reading[36], with the goal of streamlining VAT refunds and reimbursements and establishing an alternate strategy to settling tax disputes. Tax administration procedures will be simplified in order to decrease the room for interpretation and remove anomalies in the application of legal standards and criteria. This is a significant change for the country since the existing tax administration is difficult and the expenses of tax compliance are quite high.

The system provides for fundamental taxes like income tax, sales tax, and value-added tax (VAT) without a registration threshold under this general tax. Large firms having a yearly revenue of more than 30 million soms will be subject to the general tax regime. In addition, a simpler taxation system is based on a single tax. The streamlined method will be used by small and medium-sized businesses with a turnover of fewer than 30 million soms.

Taxes	Rate
Value-added tax (VAT)	12%
Income tax	10%
Profit tax	10%
Property tax (residential, business)	0.35%, 0.8%
Corporate taxes	
E-commerce tax (on net profit)	2%
Profit tax (gold)	10% (0%)
Income tax (gold alloy and refined gold, gold ore and gold concentrate)	1%-20%, 8%-27%
Sales taxes (trading, other act) (in cash, non-cash, not outlined, for banks, mobile communication act.)	1%-2%, 0%, 2%-3%, 2%, 5%.
Withholding taxes	
Dividend/Interest/Royalty	10%
Insurance tax	5%
Other service and activities	10%

Table 17. Source: Worldwide Tax Summaries Online. Kyrgyzstan Tax Table.

Certain supplies are zero-rated in terms of VAT. Exports, with the exception of certain limited categories of export, foreign transportation, and services associated with the provision of transit air flights related to international transportation are included. The provision of goods, works, or services for the official use of diplomatic and consular representatives is taxable, although it may be repaid if certain requirements are satisfied. Kyrgyzstan has implemented taxation double tax treaties (DTTs) with 30 countries and has two DTTs in the works with two more. We consider that in circumstances when some DTTs envisage tax rates for dividends, interest, or royalties that exceed the rates intended by Kyrgyzstan domestic tax legislation, such income is subject to taxes at the rate envisioned by the aforementioned tax legislation.

Determinants – Risk Mitigation

The Kyrgyz Republic's legal and regulatory framework is yet immature, and implementing legislation and court rulings pertaining to business transactions are contradictory with international conventions. Heavy bureaucracy, a lack of accessibility among decision-makers in charge of investment promotion, and frequent leadership changes as a result of political instability all impair investor trust. Furthermore, there is a significant capacity gap in terms of institutional legal expertise and local officials and local law enforcement capacity between the capital (Bishkek) and regional municipalities, particularly in remote, rural areas, which impedes the conduct of business, particularly in Kyrgyzstan's regions. There are a variety of legal restrictions on the right of foreign individuals to own land in the Kyrgyz Republic, such as a foreign person may not own or use agricultural land, expanding residential land, may use non-residential land transferred thereto by way of universal succession, except agricultural and mining use land, subject to permission of the Kyrgyz Government, for a period of up to 50 years, and foreign persons who have acquired ownership of land by way of universal succession.

Although, the overthrow of former President Soorenbai Jeenbekov's government in October 2020 in a populist uprising against vote-buying and administrative corruption paved the way for the installation of a populist administration led by President Sadyr Japarov, who quickly reorganized the government and enacted sweeping constitutional reforms. While preserving relations with important economic allies Russia and China, the Japarov government also wants financial assistance and international investment from the United States and other Western nations to boost economic recovery. However, detentions and harsh methods against private enterprises have escalated under the auspices of a broad anti-corruption effort, causing severe worries among international investors about the security of their interests. In May 2021, the government imposed a $3 billion punishment on the country's largest foreign investor, Centerra Gold Inc, as well as three months of external management. Although the government and Centerra Gold Inc. have moved into arbitration processes, the case is expected to have long-term ramifications for the country's already difficult investment climate.

Anti-corruption activists and Kyrgyz journalists investigating corruption have faced intimidation and physical violence in recent years, as well as incarceration on unrelated accusations. Such incidents are rarely adequately probed by law enforcement. The government implemented a program of "economic amnesty" for corruption in October 2020, providing the criminal restores stolen assets. International experts have questioned the validity of such amnesty, and a number of high-profile arrests have ended in quick release after payment of penalties.

Conclusion

Central Asian governments have made specific measures in recent years to entice global corporations to invest in their territories. Countries create a welcoming environment for investors by establishing special Free Economic Zones FEZs, new regulatory legislation, tax breaks, and the provision of online guides for international investors. However, there are several hard challenges that investors may confront during the company's realization phase.

The main common barriers are corruption, political regimes, property rights and risk of not-total independence in economic spheres by country giants in face of Russia and China, such as current days, conflict of interest between Russia and U.S, UE countries about Ukraine. And it might affect all counties in Central Asia.

Moreover, there might be unique problems in each country. Kazakhstan most developed and leader in an inflow of investment in the region. However, rule of law and bureaucracy take systemic issues that need to be more improved.

In current years, Uzbekistan has done great progress in the establishment of laws and reforms in every layer of economics among other countries in the region. But these new changes need law security, guarantee and creation of more stable institutions for implementation.

Turkmenistan differentiates itself as the most isolated, authoritarian regime of rule and foreign investors and other stakeholders are concerned about appearing difficulties from nowhere. On the other hand, the country has the potential to be the developed and largest exporter in the oil and gas industry to attract investors.

In decade years, Tajikistan has shown more stable economic growth than other countries and the government tries to make a better climate for mining, agriculture and other spheres. However, the result from the conditional logit model is proved by the current country because despite a stable political situation the country is the last region in the group by many development criteria and attractiveness is low for investors. Also, the government regime is not in the best condition, it needs democratization, new regulations, avoidance of migration and improvements of law acknowledged at the regional level.

Kyrgyzstan has common features with Tajikistan, it has rich endowments, including minerals, forests, arable land, and pastures, and has significant potential for the expansion of its agriculture sector, hydroelectricity production, and tourism industry. And, the major risks are rights of foreign investors, social risk, and political risk as a result of the forceful takeover of power, constant changes of government and its structure.

From econometric analysis, the conditional logit model determined significant attractiveness sides of Central Asia with the inflow of investment within from 2003 to 2018 years. We used World Development Indicators (WDI), Worldwide Governance Indicators (WGI), United Nations Economic Commission for Europe (UNECE), and Penn World Table version 10.0 (PWT10.0) databases. And, it determined us investor preferences such as regulatory quality is quite important and political stability not significant to apply investment to the area. Also, the most active and favorite countries as Russia and Chine with other invested companies defined in point of view investment which is Chine and Russia interested in population, in addition, Russia interested in agglomeration regressors, too. Finally, there analyzed sectors such as manufacture, service, resource and special one is the service sphere.

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Terms:

Adult literacy rate - the percentage of people ages 15 and above who can both read and write with understanding a short simple statement about their everyday life.

Bilateral investment treaty (BIT) - an agreement establishing the terms and conditions for private investment by nationals and companies of one state in another state.

The Central Intelligence Agency (CIA) - the Agency and historically as the Company, is a civilian foreign intelligence service of the federal government of the United States.

French Institute for Research into International Economics (CEPII) - part of the network coordinated by the Economic Policy Planning for the Prime Minister.

Greenfield Investment – realization of the subsidiary branch of the firm in another economic region from the starting point.

International Taxation - the study or determination of tax on a person or business subject to the tax laws of different countries, or the international aspects of an individual country's tax laws as the case may be. Governments usually limit the scope of their income taxation in some manner territorially or provide for offsets to taxation relating to extraterritorial income.

Investor state dispute settlement (ISDS) - a procedural framework that permits a foreign investor to file arbitral proceed nags directly against the nation in which he or she has invested.

Multinational Company (MNC) - firm that refers to the cross-border activity of importing and exporting, where goods are produced in the domestic market and then exported abroad, and vice versa.

Penn World Table (PWT) - a database with information on relative levels of income, output, input and productivity

The annual average rate of change of the gross domestic product (GDP) - change in a country's economic output to measure how fast an economy is growing.

The Economist Intelligence Unit (EIU) - the research and analysis division of the Economist Group, providing forecasting and advisory services through research and analysis, such as monthly country reports, five-year country economic forecasts, country risk service reports, and industry reports.

The GDP deflator - the implicit price deflator, estimates price increases for all products and services produced in an economy.

The Human Development Index (HDI) - a statistic composite index of life expectancy, education, and per capita income indicators, which are used to rank countries into four tiers of human development.

The Organization for Economic Co-operation and Development (OECD) - is an intergovernmental economic organization to stimulate economic progress and world trade.

The Worldwide Governance Indicators (WGI) - a research dataset summarizing the views on the quality of governance provided.

United Nations Conference on Trade and Development (UNCTAD) - the main authority of the General Assembly in the sphere of trade and development. Its purpose is the promotion of trade and development, particularly in developing countries.

World Development Indicators (WDI) - the primary World Bank collection of development indicators, compiled from officially recognized international sources.

Worldometer - run by an international team of developers, researchers, and volunteers with the goal of making world statistics available in a thought-provoking and time relevant format to a wide audience around the world.