

# Central Asia's Growing Trade Status and the Rise of Uzbekistan



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## Central Asia's Growing Trade Status and the Rise of Uzbekistan

### Introduction

After the dissolution of the Soviet Union in 1991, the newly independent Central Asian nations faced an extended period of economic reorganisation during which GDP flatlined and for a period dipped well below pre-Independence levels (see Fig. 1). Although the pace of change and the emphases varied according to the social, political and economic conditions in each country, the structural reforms implemented during this early period trended away from Soviet-style command economies toward more market-oriented economies.

By the second decade of independence, all five countries had made sufficient headway in establishing new financial institutions, defining their economic policies and priorities, building infrastructure, and forging cross-border economic relationships to return to growth. But even so, challenges lay ahead. For instance, economic growth in Kazakhstan, Tajikistan and Turkmenistan slumped in response to the 2008 - 2009 global economic crisis, albeit only briefly. And, while Kazakhstan and Turkmenistan both benefitted handsomely from the boom in commodity prices during the second decade of independence, falling prices thereafter contributed to a sharp drop in GDP in both countries. Declining oil prices – along with other factors, including sanctions imposed by the United States, the European Union and other countries in response to the March 2014 annexation of Crimea – also impacted economic growth in Russia. This had knock-on effects across Central Asia, where many countries maintain close trade ties with Russia or receive remittances from expatriates working there. These and similar challenges have ensured that structural reform aimed at economic diversification and further improving growth and competitiveness is an ongoing process across the region.

Foreign direct investment (FDI) in Central Asia has followed a trajectory similar to GDP (see Fig. 2). Inflows were initially minimal, except in Kazakhstan where the lucrative oil and mining sectors proved attractive to foreign investors. But even in Kazakhstan, it was well into the new century before FDI began to climb significantly and a few years after that before Turkmenistan and, to a lesser extent, Uzbekistan began to register significant increases. The pattern of growth in imports and exports parallels that of GDP and FDI (see Fig. 3 and Fig. 4), with similar dips seen in reaction to the 2008 - 2009 economic crisis and the more recent fall in commodity prices.

After more than twenty-five years of independence, the world now recognises the Central Asian countries as established sovereign states with reasonably well-founded economies. Three of the five countries – Kazakhstan, Kyrgyzstan and Tajikistan – are now members of the World Trade Organisation (WTO) and a fourth, Uzbekistan enjoys

WTO observer status. By agreeing to adhere to WTO rules and principles, these countries have clearly signalled their commitment to smooth-flowing and predictable free trade. As a result of these and other factors, investor confidence is building and international trading relationships are expanding and deepening. This Occasional Paper examines trade in Central Asia, highlights major achievements in recent years, and discusses prospects for the future, paying particular attention to Uzbekistan. With its newly elected President – the first change in its leadership since before independence – and a rapidly growing economy, it is without doubt a country to watch.

### **Uzbekistan: A Rising Economic Power in Central Asia**

Just this past June, the World Economic Forum (WEF) named Uzbekistan the second fastest growing economy in the world based on a projected growth rate of 7.6% for 2017<sup>1</sup>. The WEF attributes this to a combination of factors, including rising oil prices, favourable conditions for financing, economic activity in the Euro Area, and supportive policies elsewhere in the region. Regardless of the impetus, this is a remarkable achievement for a country whose GDP shrank by 11.2% in 1992, its first full year of independence, and didn't edge back into positive territory until 1996 (see Fig. 5). The very next year growth peaked at 5.2% before falling back to around 4%, where it hovered for several years before resuming its climb in 2008. Since then, annual growth has ranged from just under 8% to nearly 10%, resulting in an overall rate of 8.2% for the past decade. This is the highest in the Europe and Central Asia region and the eighth highest in the world<sup>2</sup>. It also represents a more than five-fold increase in GDP since independence (see Fig. 6).

The Uzbek economy is now on solid ground. In 2016, the service sector was the largest sector of the economy, generating 46.8% of GDP. Industry (mainly textiles, food processing, machine building, metallurgy, mining, hydrocarbon extraction, and chemicals) accounted for 34.6% of GDP and agriculture (primarily cotton, fruit, vegetables, grain, and livestock) accounted for 18.5%<sup>3</sup>. Industrial production grew by 5% over the previous year, services by 12.5% and agriculture by 6.5% – a promising indicator of future trends<sup>4</sup>.

Uzbekistan exported an estimated US\$11.2 billion in commodities and other goods in 2016. Of that, 35.1% went to Switzerland, 19.7% to China, 9.3% to Russia, 8.7% to Turkey, 7.2% to Kazakhstan, 5.4% to Bangladesh, and 4.9% to Afghanistan. Energy,

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<sup>1</sup> A. Grey (2017). These are the World's Fastest Growing Economies in 2017. <https://www.weforum.org/agenda/2017/06/these-are-the-world-s-fastest-growing-economies-in-2017-2/>.

<sup>2</sup> IBRD (2016). Country Partnership Framework for Uzbekistan, 2016-2020. <http://documents.worldbank.org/curated/en/537091467993490904/pdf/105771-CAS-P153590-OUO-9-R2016-0098-Box360260B.pdf>, p. 4.

<sup>3</sup> CIA World Factbook (2017). Uzbekistan: Economy. <https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html>.

<sup>4</sup> World Bank (2017). Uzbekistan Country Snapshot. <http://pubdocs.worldbank.org/en/421341493272766409/Uzbekistan-Snapshot-April-2017.pdf>.

cotton, gold, fertilizers, metals, textiles, foodstuffs, machinery, and automobiles were the leading products exported. Over the same period, the country imported an estimated US\$10.91 billion in commodities and other goods, mainly machinery and equipment, foodstuffs, chemicals, and metals. Of that, 22.2% came from China, 18% from Russia, 10.5% from South Korea, 10% from Kazakhstan, 5.8% from Turkey, and 5.2% from Germany<sup>5</sup>. (Uzbekistan's trade relationship with the 28-state European Union will be discussed in greater detail below.)

High commodity prices and gas, gold and copper exports have been the primary drivers of growth in Uzbekistan until now, and the revenues generated have financed increased investment and higher salaries<sup>6</sup>. This, in turn, has stimulated consumption and helped reduce the national poverty rate from 27.5% in 2001<sup>7</sup> to an estimated 12.8% in 2015<sup>8</sup>, thus addressing one of the country's Millennium Development Goals. Notwithstanding having shown more resilience and having weathered the 2008 - 2009 global economic crisis better than many of its neighbours, the country faces serious economic challenges going forward<sup>9</sup>. The recession in Russia (its second largest trading partner and a key source of remittances), slowing growth in China (its leading trade partner and an important investor in infrastructure), and falling prices for its leading export commodities have impacted the economy. If, as the World Bank predicts, exports plateau and commodity prices are slow to recover, Uzbekistan will need to find new drivers for growth.

Like his predecessor, the late President Islam Karimov, President Shavkat Mirziyoyev, recognises the need for change and is taking steps to improve the business climate, open up and diversify the economy, and address barriers to foreign investment. This requires careful planning. Uzbekistan's post-independence economic development model had as a laudable objective energy and food self-sufficiency, which, however, was based on import substitution under tight state control and export promotion. As a result, the country is not yet fully integrated into the world trading system.

Starting in the late 1990s, President Karimov announced a series of initiatives to incrementally reform the economy by reducing state intervention, providing better legal protections for business, liberalising the foreign exchange market, and promoting privatisation of major enterprises in key sectors<sup>10</sup>. But these changes were slow to materialise. To achieve its stated goal of becoming an upper-middle-income country by 2030, Uzbekistan needs to pick up the pace of economic transformation yet maintain

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<sup>5</sup> CIA World Factbook (2017). Uzbekistan: Economy. <https://www.cia.gov/library/publications/the-world-factbook/geos/uz.html>.

<sup>6</sup> World Bank (2017). Uzbekistan Country Snapshot. <http://pubdocs.worldbank.org/en/421341493272766409/Uzbekistan-Snapshot-April-2017.pdf>.

<sup>7</sup> Ibid.; and R. Bendini (2013). Uzbekistan: Selected Trade and Economic Issues. [http://www.europarl.europa.eu/RegData/etudes/briefing\\_note/join/2013/491518/EXPO-INTA\\_SP\(2013\)491518\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/briefing_note/join/2013/491518/EXPO-INTA_SP(2013)491518_EN.pdf), p. 11.

<sup>8</sup> UNDP (2017). Uzbekistan. <http://www.uz.undp.org/content/uzbekistan/en/home/countryinfo.html>.

<sup>9</sup> A.R. Lopez (2017). The Road Ahead, *Harvard International Review*. <http://hir.harvard.edu/article/?a=14507>.

<sup>10</sup> Bendini, p. 6-8.

annual growth at 6 - 8%<sup>11</sup>. Because the country will lose half of its resource base by 2030 at the current rate of exploitation, this will require a shift away from natural resources to more sustainable economic drivers. Consequently, the manufacturing and service shares of the economy will need to increase and the investment climate will need to improve.

By the time President Mirziyoyev took office, plans were already in place to further liberalise the economy. In January 2015, the Cabinet of Ministers formulated a Program of Action for economic development<sup>12</sup>. It highlighted seven key objectives: (1) to improve economic competitiveness through additional structural reform, modernisation and diversification; (2) to facilitate private sector development and enterprise; (3) to reduce the role of the state in the economy; (4) to strengthen corporate governance; (5) to expand domestic industrial production; (6) to build infrastructure; and (7) to improve job creation.

In his inaugural speech as acting President, the former Prime Minister committed himself to advancing the democratisation and reform agenda set by his predecessor. In February 2017, just two months after his formal election to office, President Mirziyoyev launched the Strategy for the Further Development of Uzbekistan in 2017 - 2021<sup>13</sup>. Among its key priorities are building and strengthening civic institutions, judicial and legal reform, economic liberalisation, and improved foreign relations, especially with other countries in the region. The President quickly acted on this last point, and with important consequences for Uzbekistan's political and economic relations with its neighbours. In March he visited Turkmenistan and Kazakhstan, where he signed agreements aimed at fostering bilateral cooperation. Uzbekistan held a National Industrial Fair and Astana hosted a large business forum in conjunction with his visit to Kazakhstan. Together these events generated more than US\$1 billion in trade deals and investment contracts. Shortly thereafter, President Mirziyoyev visited Russia, where he signed bilateral agreements covering the economy, industry, agriculture and other projects valued at more than US\$15 billion while nonetheless maintaining his predecessor's arm's-length approach to the five-nation Eurasian Economic Union (EEU). He also visited Kyrgyzstan in early October, the first official visit by an Uzbek leader to its neighbour since 2000.

Another important step in this process of strengthening regional ties was Kazakh President Nursultan Nazarbayev's state visit to Tashkent on September 16 - 17, 2017. During his visit the two sides sealed 13 bilateral agreements in energy, military and technical, water, border cooperation, and other areas. The second Uzbek-Kazakh

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<sup>11</sup> Center for Economic Research (2015). Uzbekistan Toward 2030. [http://www.cer.uz/upload/iblock/8d5/uzbekistan\\_towards\\_2030 - transition to resource-efficient growth model\\_2014.pdf](http://www.cer.uz/upload/iblock/8d5/uzbekistan_towards_2030_-_transition_to_resource-efficient_growth_model_2014.pdf), p. 2.

<sup>12</sup> UzReport (2015). Кабинет Министров Узбекистана определил Программу действий на ближайшую и долгосрочную перспективу. <https://uzreport.news/politics/kabinet-ministrov-uzbekistana-opredelil-programmu-deystviy-na-blizhayshuyu-i-dolgosrochnuyu-perspektivu>.

<sup>13</sup> M. Rakhimov (2017). New Priorities of Uzbekistan, *Journal of International Affairs*. <https://jia.sipa.columbia.edu/online-articles/new-priorities-uzbekistan>.



business forum, which took place as a side event of the visit, resulted in more than 100 business and investment deals worth some US\$400 million<sup>14</sup>.

Although Uzbekistan's foreign policy has long favoured bilateralism over multilateralism – as seen in the President's spring visit to Russia – in recent years the country has deepened its engagement with leading international governmental organizations (IGOs). For instance, the March 2017 visit of European Bank for Reconstruction and Development (EBRD) President Suma Chakrabarti to Uzbekistan culminated in the signing of a Memorandum of Understanding that ended a decade-long hiatus in EBRD activity in the country<sup>15</sup>. The MOU identified several areas for potential cooperation, including financial and other kinds of support for small and medium-sized enterprises and cross-border trade and cooperation, and measures to improve Uzbek economic competitiveness, attract FDI, and facilitate knowledge and technology transfer. Up to that point the EBRD had invested €894 million in Uzbekistan, and its current portfolio was worth €8 million. Since then, the bank has increased its investment substantially. At its October 18<sup>th</sup> meeting<sup>16</sup>, the EBRD board approved a finance package worth up to US\$100 million to enable the National Bank of Uzbekistan to increase its funding for micro, small and medium size enterprises and better support export and import operations through a trade facilitation program. Similarly, the European Investment Bank signed a framework agreement on understanding with Uzbekistan in October 2017, which provides for the entry of this major lender on the Uzbek market<sup>17</sup>.

The Asian Development Bank (ADB) also aims to foster trade in Uzbekistan through the agency of its Trade and Finance Program (TFP). The TFP currently works with five banks in-country and has invested US\$1.2 billion to date in support of 449 trade transactions, 66% of which were co-financed by the private sector<sup>18</sup>.

Since 2008, the World Bank Group's involvement in Uzbekistan has also been expanding. The principle objective set out in the International Bank for Reconstruction and Development (IBRD) Country Partnership Framework for 2016 - 2020 is to help Uzbekistan achieve upper-middle-income status by 2030 through the creation of half a million new jobs annually. The IBRD plans to do this by promoting private sector growth, increasing agricultural competitiveness, and improving public service

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<sup>14</sup> Газета.uz (2017). Узбекистан и Казахстан подписали соглашения на \$1,2 млрд. <https://www.gazeta.uz/ru/2017/09/18/business-forum/>

<sup>15</sup> EBRD (2017). MOU Between the Republic of Uzbekistan and the EBRD. <http://www.ebrd.com/documents/comms-and-bis/mou-uzbekistan-english.PDF>. Also, S. Pyrkalo (2017). Президент ЕБРР завершил визит в Узбекистан. <http://www.ebrd.com/cs/Satellite?c=Content&cid=1395255340713&d=Mobile&pagename=EBRD-RU%2FContent%2FContentLayout>.

<sup>16</sup> C. Putz (2017). EBRD Approves First New Projects for Uzbekistan since 2007. *The Diplomat*. <https://thediplomat.com/2017/10/ebrd-approves-first-new-projects-for-uzbekistan-since-2007/>

<sup>17</sup> Uzbekistan Today (2017). European Investment bank starts work in Uzbekistan. <http://www.ut.uz/en/business/european-investment-bank-starts-work-in-uzbekistan/>

<sup>18</sup> ADB (2017). Uzbekistan. <https://www.adb.org/sites/default/files/publication/27811/uzb-2016.pdf>

delivery<sup>19</sup>. The investment package supporting this effort is worth up to US\$3 billion over the five-year period.

As the preceding would suggest, Uzbekistan has already achieved a great deal. Looking back on 2016, *Uzbekistan Today* described the country's twenty-fifth year of independence as one of "enormous achievements" and "realised hopes"<sup>20</sup>. According to official Uzbek sources, more than 100 industrial projects worth US\$3.7 billion were completed in 2016. These include the expansion of a cement plant, serial production of T-250 passenger cars, construction of two 450 MW capacity combined cycle gas turbines, and construction of a 150 MW high-ash coal incineration plant. Another 22,000 projects were implemented under territorial socioeconomic development programs. Together they received US\$2.65 billion in support, US\$1.8 billion of which was FDI. This constitutes an 11.2% increase in FDI over the previous year. In total, 835 new businesses exported goods in 2016, and exports expanded by 246 new products and 52 new markets.

This is an impressive list of achievements, and the future looks promising for continued investment and expansion. Since taking office, President Mirziyoyev has been incrementally liberalising the Uzbek currency by first allowing some companies and banks to trade at market rates and then ending mandatory foreign currency sales<sup>21</sup>. On September 3<sup>rd</sup> he took another major step in this direction by issuing a decree effective September 5<sup>th</sup> that lifts restrictions on foreign exchange and ensures that the sum's exchange rate is determined by market factors. This will further open the economy to foreign investment and smooth cross-border trade.

As seen here, there is ample scope for further expansion of Uzbekistan's trade relationships, and this is particularly true for trade with the EU. More than ten years ago, Uzbekistan and the EU signed a Partnership and Cooperation Agreement (PCA) that eases trade by establishing a most-favoured-nation relationship between the two sides. Uzbekistan also benefits from the EU's Generalised System of Preferences (GSP), which gives it non-reciprocal access to the European market<sup>22</sup>. In 2016, Uzbekistan traded around €1,884 million worth of goods with the EU: €165 million in exports and €1,720 million in imports<sup>23</sup>. The 28-member European Union is currently Uzbekistan's third largest import partner, eighth largest export partner and fourth largest trading partner overall. The EU also provides Uzbekistan with considerable financial

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<sup>19</sup> IBRD (2016), <http://documents.worldbank.org/curated/en/537091467993490904/pdf/105771-CAS-P153590-OUO-9-R2016-0098-Box360260B.pdf>, p. 2.

<sup>20</sup> Uzbekistan Today (2017). Year of Achievements and Realised Hopes. <http://ut.uz/en/other/analysis/year-of-achievements-and-realized-hopes/>.

<sup>21</sup> Reuters (2017). Uzbekistan to Lift Most Forex Restrictions from Sept. 5. <https://www.reuters.com/article/uzbekistan-forex/update-1-uzbekistan-to-lift-most-forex-restrictions-from-sept-5-idUSL8NILK07E>.

<sup>22</sup> EU (2017). Ambassador Stiprais Speaks about EU-Uzbekistan Trade and Investment Cooperation. [https://eeas.europa.eu/headquarters/headquarters-homepage/19358/ambassador-stiprais-speaks-about-eu-uzbekistan-trade-and-investment-cooperation\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/19358/ambassador-stiprais-speaks-about-eu-uzbekistan-trade-and-investment-cooperation_en).

<sup>23</sup> European Commission, Directorate-General for Trade (2017). European Union, Trade in Goods with Uzbekistan. [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113461.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113461.pdf), p. 8.



assistance. The EU aid package for the current 2014 - 2020 period targets rural development and is valued at €168 million, which is a 124% increase over the 2007 - 2013 period<sup>24</sup>.

### **Trade in Post-Independence Central Asia**

All five Central Asian economies have grown since independence, although at different rates and some far more than others. Fig. 1 charts growth in GDP (current US\$), and neatly illustrates how each economy responded to such global forces as the 2008 - 2009 economic crisis and the more recent downturn in commodity prices. But inflation-controlled – or constant-price – GDP (constant 2010 US\$) data tell a slightly different story, one that complicates matters and calls for a more nuanced and integrated understanding of national, regional and global economic conditions and their interaction over time. The constant-price data presented in Fig. 7 confirm that the Central Asian economies floundered post-independence. But they also show that all five have grown at a steady rate since the turn of the century, with growth most pronounced in Kazakhstan, more moderate yet nonetheless significant in Uzbekistan and Turkmenistan, and relatively slow in Kyrgyzstan and Tajikistan. Moreover, these data reveal that growth slowed rather than plummeted in response to the worldwide economic challenges of the past decade, at least when consider in terms of real – or inflation-controlled – GDP.

Although individual analysts may favour one type of data over the other, it is clear that a shrewd investor must consider both in order to fully understand the risks and prospects for economic growth. This is particularly important in Central Asia, where trade generates a significant chunk of GDP. According to current World Trade Organization (WTO) figures<sup>25</sup>, between 2014 and 2016 trade accounted for 30% of GDP in Kazakhstan, 57.4% in Kyrgyzstan, 27.1% in Tajikistan, and 27.9% in Uzbekistan (comparable data are unavailable for Turkmenistan). Another measure of the relative importance of trade that is often used – because it puts a “human face” on things – is trade per capita. Trade per capita in Kazakhstan was US\$3,049 in 2016, in Kyrgyzstan it was US\$659, in Tajikistan it was US\$256, and in Uzbekistan it was US\$482. Trade slumped in the early years of independence, but over the past fifteen years the entire region has trended toward growth, as seen in Fig. 8 (exports) and Fig. 9 (imports). Notwithstanding this tendency towards growth, each country has followed its own path, as shown in the overviews below.

- **KAZAKHSTAN** – In 2016, Kazakhstan exported merchandise worth US\$36,776 million and imported merchandise valued at US\$25,175 million<sup>26</sup>. Three-quarters of its exports were fuel and mining products, and roughly 85% of its

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<sup>24</sup> EU (2017). Ambassador Stiprais Speaks about EU-Uzbekistan Trade and Investment Cooperation. [https://eeas.europa.eu/headquarters/headquarters-homepage/19358/ambassador-stiprais-speaks-about-eu-uzbekistan-trade-and-investment-cooperation\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/19358/ambassador-stiprais-speaks-about-eu-uzbekistan-trade-and-investment-cooperation_en).

<sup>25</sup> WTO (2017). Trade Profiles. [https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_profiles17\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_profiles17_e.pdf), pp. 188-385.

<sup>26</sup> Country overviews compiled from *ibid*.

imports were manufactured goods (see [Table 1](#)). Its leading export partner was the EU, with more than half of its export goods destined for that market. Russia was its leading import partner last year, followed by the EU and China, in that order (see [Table 2](#)). At present, Kazakhstan ranks 34<sup>th</sup> worldwide in merchandise exports (with the 28-member EU treated as a unitary trading entity) and 44<sup>th</sup> in imports.

- **KYRGYZSTAN** – The pattern in Kyrgyzstan, which currently ranks 110<sup>th</sup> in merchandise exports and 103<sup>rd</sup> in imports, is quite different from that seen in Kazakhstan. In 2016, Kyrgyzstan exported US\$1,545 million in merchandise, 21% of that manufactured goods, and imported US\$3,919 million worth, nearly two-thirds of which was manufactured goods. Almost half of its merchandise exports were destined for Switzerland, and more than a third of its imports originated in China. Russia and Kazakhstan were also major export and import partners of Kyrgyzstan last year.
- **TAJIKISTAN** – Tajikistan currently ranks 126<sup>th</sup> in merchandise exports and 110<sup>th</sup> in imports. In 2016, it exported US\$900 million in merchandise and over that same period imported US\$3,100 million worth. More than a third of its merchandise exports went to the EU and another third to Russia. Uzbekistan was its leading partner for merchandise imports followed by Russia.
- **TURKMENISTAN** – Turkmenistan now ranks 54<sup>th</sup> in merchandise exports and 84<sup>th</sup> in imports. In 2016, it exported US\$11,000 million in merchandise and imported US\$7,000 million. More than 40% of its merchandise exports were shipped to Russia. Russia was also its leading import partner, followed closely by Turkey, the EU and Ukraine.
- **UZBEKISTAN** – Uzbekistan currently ranks 61<sup>st</sup> in merchandise exports and 63<sup>rd</sup> in imports. In 2016, it exported US\$10,000 million worth of merchandise and imported US\$11,500 million worth. In 2015 (the most recent year for which data are available), nearly 45% of its merchandise exports were fuels and mining products. (Specific data on imports and trading partners are not available.)

The European Union features prominently in Central Asian trade, as seen in [Table 2](#) and the country overviews above. However, inconsistencies in how different reports present EU data – sometimes aggregating the data and sometimes breaking it down into the 28 member countries – confound analysis. Nonetheless, approximately a third of the Central Asia’s external trade is currently with the EU, making the EU the region’s largest trading partner. There are a great many political and economic factors at play here, but it can be said that EU interest in Central Asia stems in large part from two considerations: (1) Central Asia’s geostrategic position between Europe and China, Afghanistan and the Middle East, and (2) the region’s energy exports. Because all sides are keen to further expand their trading relationships, trade between the two regions warrants closer scrutiny.

Four of the five Central Asian states enjoy special access to the EU market under the Generalised Scheme of Preferences (Kazakhstan, as an upper-middle-income country, no longer qualifies), and all but Turkmenistan have in place Partnership and Cooperation Agreements with the EU<sup>27</sup>. (An agreement was concluded with Turkmenistan in 1998 but it has not yet been ratified by all EU member states.) These are significant arrangements in that they ensure most-favoured nation treatment for the participating countries, improve access to the European market and ease trade regulations between the two parties.

Trade between Central Asia and the EU is increasing but it remains vulnerable to worldwide economic fluctuations and turnover is low<sup>28</sup>. This can be seen in the pattern of growth over the past decade. EU imports from Central Asia grew from €16,027 million in 2006 to a high of €25,659 million in 2012 but then slipped back to €13,733 million in 2016. Exports to Central Asia followed a parallel trajectory. Total trade between the two regions was valued at €22,279 million in 2006, peaked at €35,719 million in 2012 and fell back to €22,132 million in 2016, partly as a result of declining commodity prices. At present, Central Asia's main exports to the EU are crude oil, gas, metals and cotton while machinery, transport equipment and other manufactured goods account for more than half of the EU's exports to Central Asia. The EU has more developed trading relations with some Central Asian countries than others. In 2016, its total trade with the individual countries was as follows: Kazakhstan – €17,972 million; Kyrgyzstan – €310 million; Tajikistan – €269 million; Turkmenistan – €1,782 million; and Uzbekistan – €1,799. With the notable exception of Kazakhstan, which now exports more than twice as much to the EU as it imports from the EU, trade is heavily dominated by EU exports to the region.

### **The Improving Business Climate**

Private sector investors and potential trading partners are understandably cautious. Most will consider the available risk assessments for the countries in which they anticipate doing business or investing, and all back their ventures with credit insurance. COFACE is a typical credit insurer that undertakes county risk assessments for its clients<sup>29</sup>. Its assessment of Central Asia is guardedly optimistic and not unlike the opinions offered by *The Economist*<sup>30</sup> and other observers. COFACE identifies the region's abundant natural resources, investment in infrastructure, strategic position between Europe and Asia, and international support as its major strengths. Among the potential weaknesses are a challenging business climate, long-term dependence on non-renewable natural resources and, in some cases, reliance on remittances and political uncertainty going forward. While some countries will inevitably out-perform others, COFACE predicts a

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<sup>27</sup> Compiled from European Commission Directorate-General for Trade (2017). Trade: Central Asia. <http://ec.europa.eu/trade/policy/countries-and-regions/>.

<sup>28</sup> Compiled from Ibid. Trade.

<sup>29</sup> Compiled from COFACE (2107). Country Risk Assessment. <http://www.coface.com/Economic-Studies-and-Country-Risks>.

<sup>30</sup> See *The Economist* (2017). Intelligence Unit. <http://country.eiu.com/All>.

gradual improvement in regional growth as external pressures ease, commodity prices inch up (especially in the gas and oil markets) and major infrastructure projects – such as those associated with China’s “Belt and Road” initiative – get into full-swing. But perhaps more to the point, the challenges noted by COFACE and other analysts are already known and each country is working to diversify its economy and improve business conditions for trading partners and foreign investors.

The World Bank Group’s annual Doing Business report offers two important measures of a country’s business climate. Since 2006 it has included an Ease of Doing Business ranking in the report and since 2007 a Trading Across Borders ranking<sup>31</sup>. This year’s report ranks 175 countries on these measures. Turkmenistan is not included but the other four Central Asian countries have climbed the rankings since their launch, some of them significantly so.

- **KAZAKHSTAN** – The 2017 Ease of Doing Business report ranks Kazakhstan at 35<sup>th</sup> overall and 117<sup>th</sup> in terms of trading across borders. These are impressive gains compared to the country’s position in 87<sup>th</sup> and 172<sup>nd</sup> place respectively in the inaugural year rankings. Although there is always more to be done, in recent years the country has taken important steps to improve cross-border trade. These include updating its customs procedures, streamlining customs clearance thereby reducing the cost of exporting goods, and easing congestion by opening a new border station and railway link at the Chinese border.
- **KYRGYZSTAN** – Kyrgyzstan has also improved its Trading Across Borders rank, in part by joining the Eurasian Economic Union, which resulted in a decrease in the cost and time needed to export goods. Kyrgyzstan currently ranks 75<sup>th</sup> overall and 79<sup>th</sup> on the trading across borders index. The first year the rankings were published, it came in at 104<sup>th</sup> and 173<sup>rd</sup> respectively.
- **TAJIKISTAN** – Tajikistan has made slower progress than its Central Asian neighbours. Its current overall rank is 128<sup>th</sup>, compared to 130<sup>th</sup> in 2006, and its Trading Across Borders rank is now 144<sup>th</sup> whereas in 2007 it was 163<sup>rd</sup>.
- **UZBEKISTAN** – Uzbekistan’s overall ranking has risen an impressive 64 places from 151<sup>st</sup> place in 2006 to 87<sup>th</sup> in 2017. However, despite simplifying its procedures for exporting goods and clearing customs, its current Trading Across Borders rank of 165<sup>th</sup> is only four spots higher than its position in the inaugural report.

The Central Asian states are also working to improve transparency and counter lingering perceptions of corruption. Advances in this area not only bolster investor confidence but help improve the business climate. Between 2012 and 2016 all five countries improved their scores on the Transparency International Corruption

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<sup>31</sup> Compiled from The World Bank (2017). Doing Business: Historical Data Sets and Trends Data. <http://www.doingbusiness.org/Custom-Query>.

Perception Index<sup>32</sup>. In 2016, Kazakhstan scored 29, which is up one point from 2012. Kyrgyzstan's present score of 28 is up four points, Tajikistan's score of 25 has climbed three points, Turkmenistan's 22 score is up five, and Uzbekistan's score has risen four points to 21. Given that the average score for the 176 countries assessed is 44, any upward movement over such a short span of time can be seen as solid progress.

Each year the World Economic Forum publishes *The Global Competitiveness Report*, which analyses a range of factors and institutions deemed critical to a country's prospects for long-term growth and prosperity. As part of this year's report, the WEF ranked 138 countries according to their overall competitiveness and on a number of contributing factors. These constituent factors are grouped under three broad headings: Basic Requirements, Efficiency Enhancers, and Innovation and Sophistication Factors. Three of the five Central Asian states are included in the report; Turkmenistan and Uzbekistan are absent<sup>33</sup>. Tajikistan has climbed slightly from 80<sup>th</sup> place in 2015 - 2016 to 77<sup>th</sup> place in 2016 - 2017. Although still the highest ranked Central Asia country, Kazakhstan has slipped from 42<sup>nd</sup> place last year to 53<sup>rd</sup> this year. Kyrgyzstan has also dropped back in the ranking: in 2015 - 2016 it ranked 102<sup>nd</sup> overall, and this year it ranks 111<sup>th</sup>. How each of these countries performed in specific areas can be seen in [Table 3](#) but it should be noted that the ranks are relative and, consequently, any country's change in rank has as much to do with actions taken by other countries as with actions it has taken on its own behalf.

A recent study conducted by the Moscow-based Expert Centre for Eurasian Development rated the Central Asian and South Caucasus countries on their appeal to investors and their business environment, political stability, and guarantees of investors' rights<sup>34</sup>. The results are interesting. Kazakhstan came out in first place because it was judged to have significant economic potential and a large market and to be committed to diversifying its economy and improving conditions for investment. The Centre cites no negative factors in its assessment except risks associated with the anticipated power transition in the near- to mid-term. Uzbekistan took third place, mainly due to its large internal market and labour force, diversifying economy, and political stability following the recent change in leadership. Weighing against that in the assessment are strong government interference in the economy, lack of respect for investors rights and perceived corruption. Kyrgyzstan took fifth place in light of its liberal legislation, inexpensive labour force, and favourable conditions for investment and the development of agriculture, light industry and tourism. Factoring against this are state interference in the economy, a limited internal market and a semi-skilled labour force. Tajikistan ranks seventh. Among the positives noted are its inexpensive labour force, mineral resources, and favourable climate for agricultural development. Negatives include its

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<sup>32</sup> Compiled from Transparency International (2016). Corruption Perception Index 2016. [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016#table](https://www.transparency.org/news/feature/corruption_perceptions_index_2016#table).

<sup>33</sup> WEF (2017). The Global Competitiveness Report 2016-2017. [http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf), p. viii.

<sup>34</sup> S. Pritchkin (2017). Ranking the Central Asian States as Investment Destinations, *The Diplomat*. <http://thediplomat.com/2017/04/ranking-the-central-asian-states-as-investment-destinations/>.

underdeveloped infrastructure and limited domestic market. These observations suggest that the prospects for growth in trade and investment are good but that much remains to be done to further elevate those prospects going forward.

## **Conclusion**

In their first decade of independence, the five Central Asian states focused on creating their own economic systems and frameworks for governance, out of necessity. By the second decade they had well-enough established political and economic institutions in place to play a meaningful role in world affairs and to return to economic growth. The focus of their attention then shifted to diversifying, modernising and liberalising their economies and to bringing their political and legal structures and institutional practices in line with international norms and expectations. Kazakhstan led the way economically and – as we have seen here – was joined in the second decade by Uzbekistan, which entered a sustained period of robust growth that has yet to show any signs of slowing.

It is to the credit of the Central Asian governments that they have identified vulnerabilities in their economies and barriers to trade and investment and are working steadily to counter them. This is a monumental task that is not yet complete. Not only has it entailed a still-ongoing process of economic restructuring and refinement of political and legal processes and structures, it has meant incrementally creating more favourable conditions for inward investment and trade, and for doing business in general. That work continues, but in the quarter century since independence all five countries have made enough headway to inspire a reasonable degree of optimism for the future and to bolster investor confidence. Of the several measures of progress reviewed here, perhaps the most enlightening is the World Bank's Ease of Doing Business report. Over the past ten years or so, each of the four Central Asian countries included in report has climbed in both the overall ranking and the trading across borders ranking, and three of the four have made truly impressive gains. This is not only a reflection of the progress they have made since independence but a signal of their commitment to further expanding and deepening their trading relationships going forward and attracting FDI.



## About the ECFA

Central Asia is a region the size of Western Europe and contains five countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Blessed with some of the richest and most diverse resources anywhere in the world, over the last twenty years the region has shown its commitment to become a reliable, long-term partner of the West.

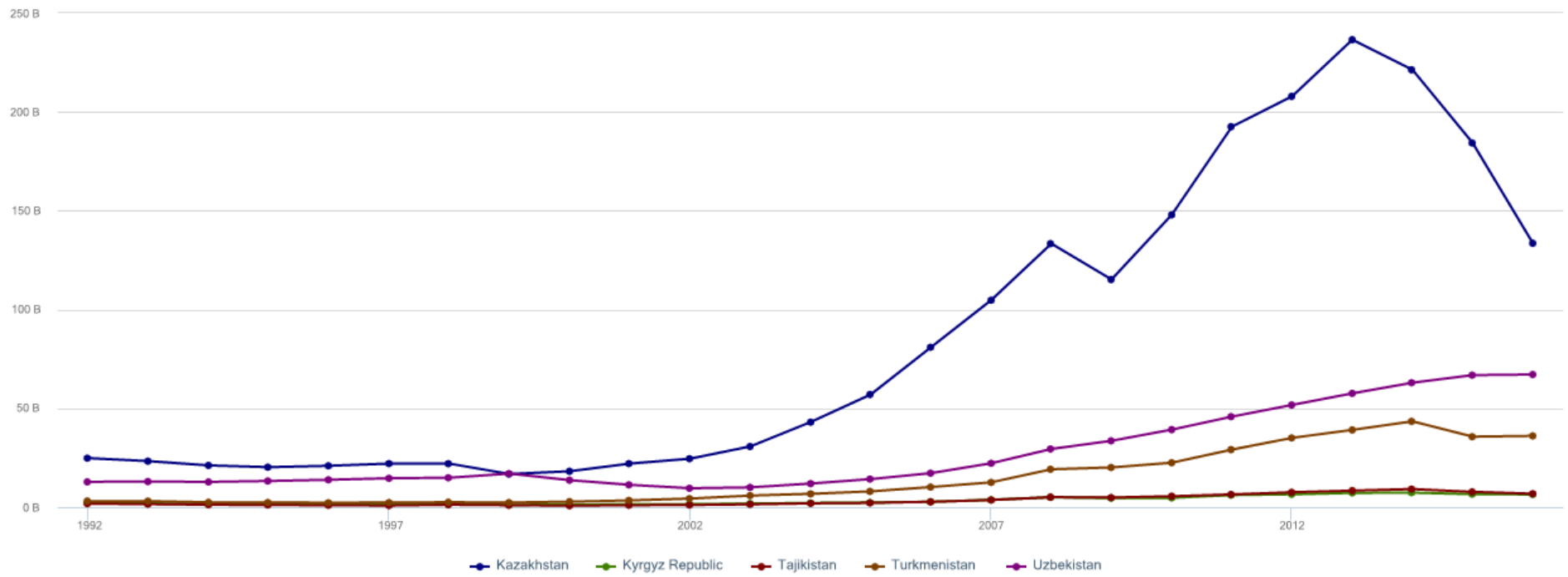
Kazakhstan is Central Asia's engine for economic growth, and the Kazakh Government has taken the lead in developing relations with the European Union. In its commitment to the process of deepening political and economic relations with European states, Kazakhstan is participating in the **Eurasian Council on Foreign Affairs (ECFA)** and is providing an annual contribution towards its running costs. The Honorary President of the Eurasian Council on Foreign Affairs is H.E. Kairat Abdrakhmanov, Foreign Minister of the Republic of Kazakhstan. As with similar institutions in other countries, it is anticipated that other governments in the region and corporate sponsors and private individuals will join the growing funding base of the ECFA.

Since its inception, the ECFA has established a growing reputation as a valuable and independent source of high-quality research, publications and information to keep European countries abreast of the fast-changing development of the Central Asian region. Increasingly seen as a stepping stone between East and West, the need for up-to-the-moment information on Central Asia has never been greater. Now in its fourth year, and in recognition of Central Asia's growing stature in world affairs, ECFA is expanding its remit to include the geopolitical and economic influence of China and the United States on the region.

A list of the ECFA's Occasional Papers can be [found here](#). You can [subscribe here](#) to receive all news updates as well as the ECFA's regular newsletters and bulletins.

*Important Disclaimer: Please note that the views expressed in the ECFA's Occasional Papers series do not represent the views of its Honorary President or the views of any of the members of the Advisory Council. The purpose of the Papers is to encourage debate and discussion on the important developments occurring in Central Asia.*

Fig. 1: GDP (US\$) in Central Asia, 1992-2016

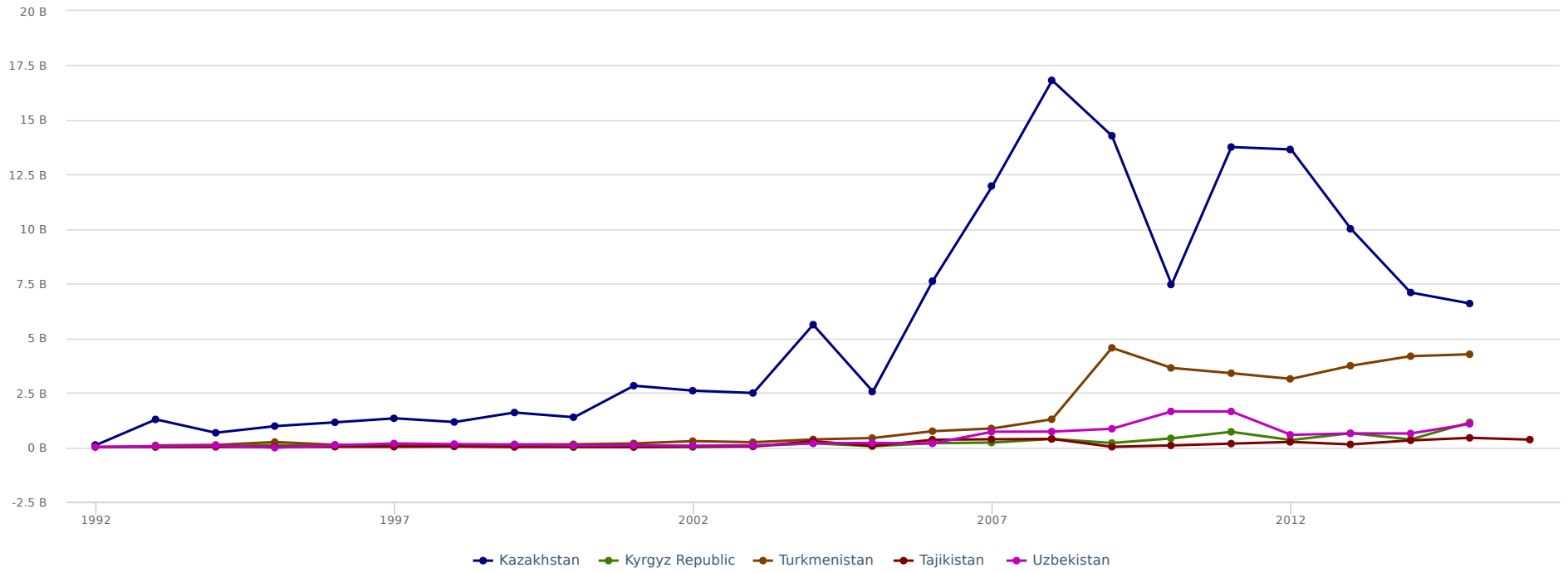


Series : GDP (current US\$)

Source: World Development Indicators

Created on: 07/17/2017

Fig. 2: Foreign Direct Investment, Net Inflows (US\$), 1992-2016

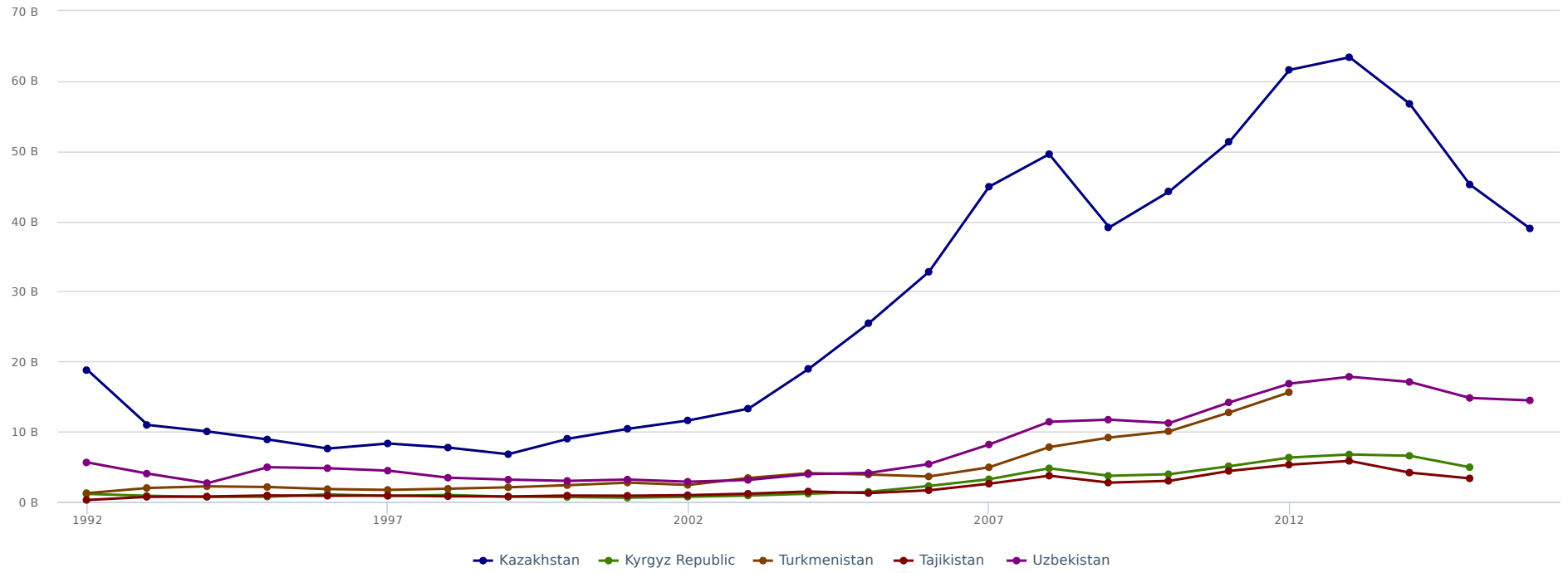


Series : Foreign direct investment, net inflows (BoP, current US\$)

Source: World Development Indicators

Created on: 07/17/2017

Fig. 3: Import of Goods and Services (US\$), 1992-2016

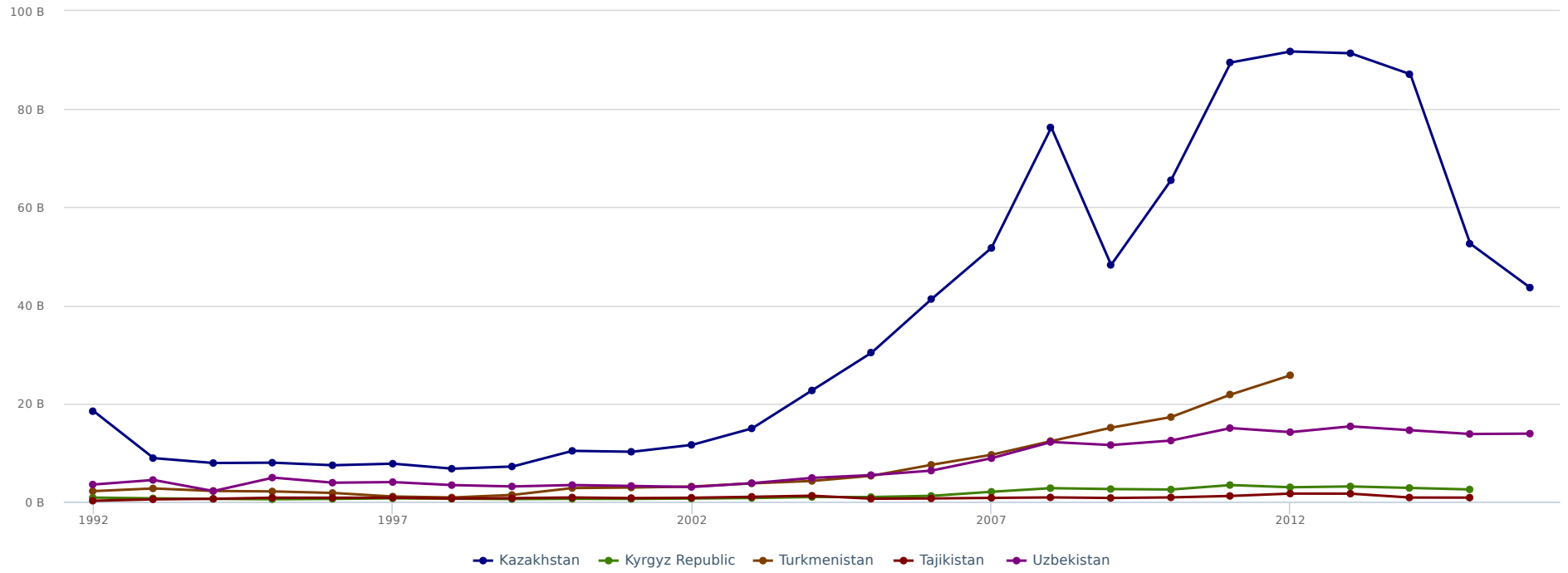


Series : Imports of goods and services (current US\$)

Source: World Development Indicators

Created on: 07/17/2017

Fig. 4: Export of Goods and Services (US\$), 1992-2016

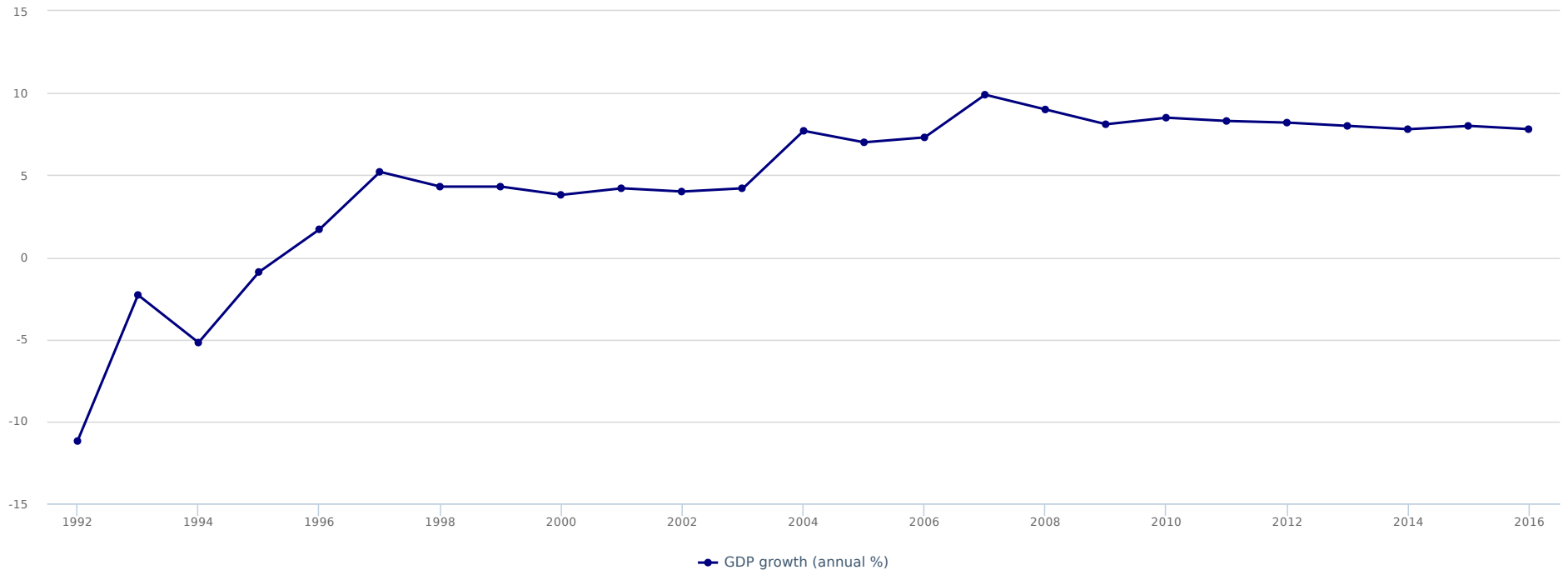


Series : Exports of goods and services (current US\$)

Source: World Development Indicators

Created on: 07/17/2017

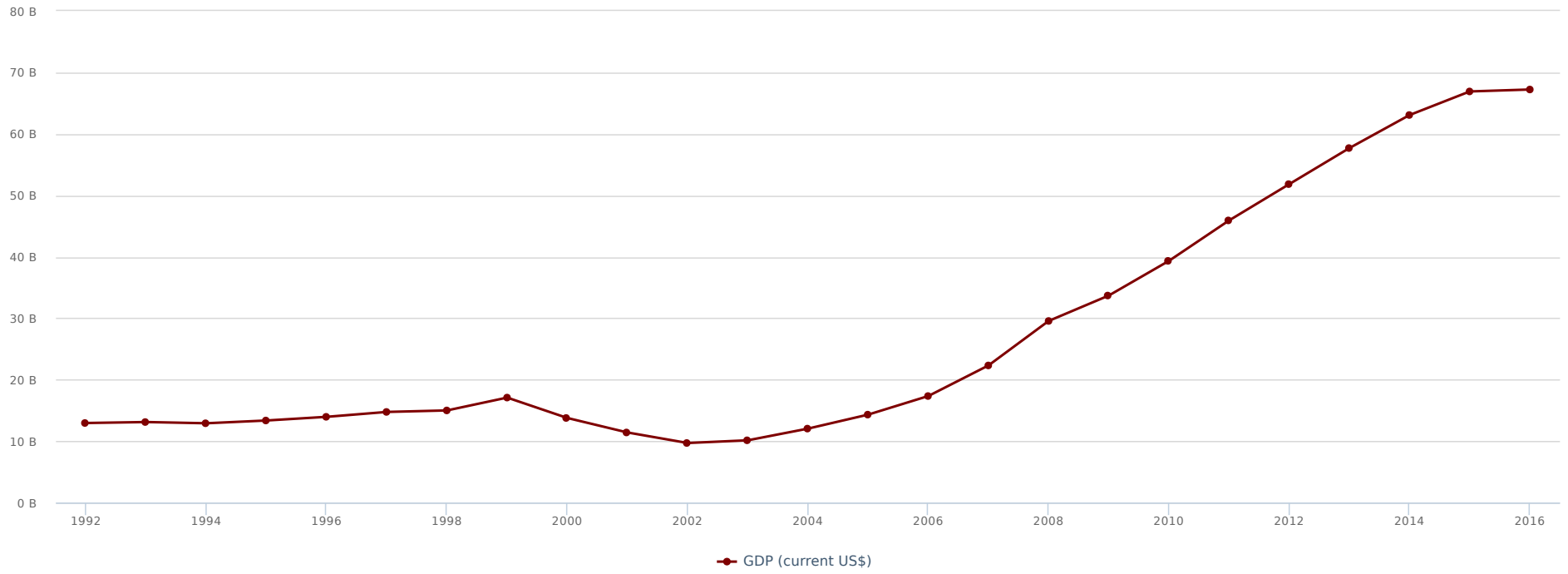
Fig. 5: GDP Growth (annual %) in Uzbekistan, 1992-2016



Country : Uzbekistan  
Source: World Development Indicators  
Created on: 07/20/2017



Fig. 6: GDP (US\$) in Uzbekistan, 1992-2016

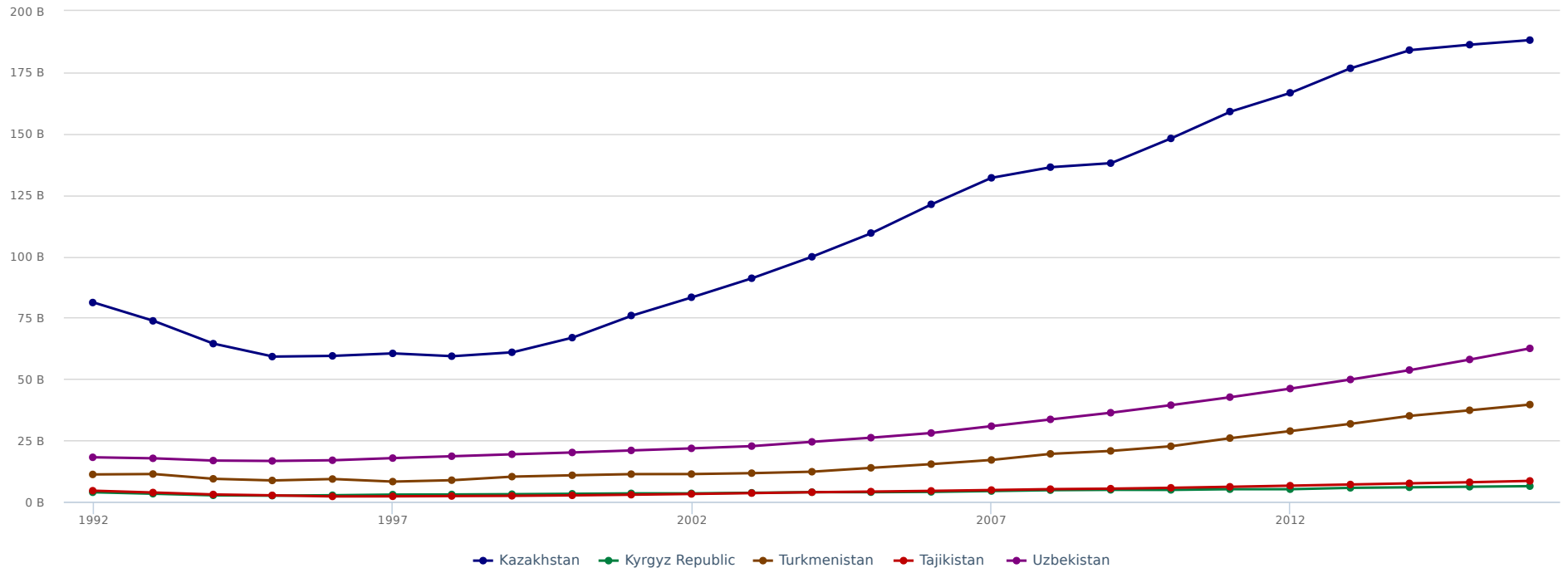


Country : Uzbekistan

Source: World Development Indicators

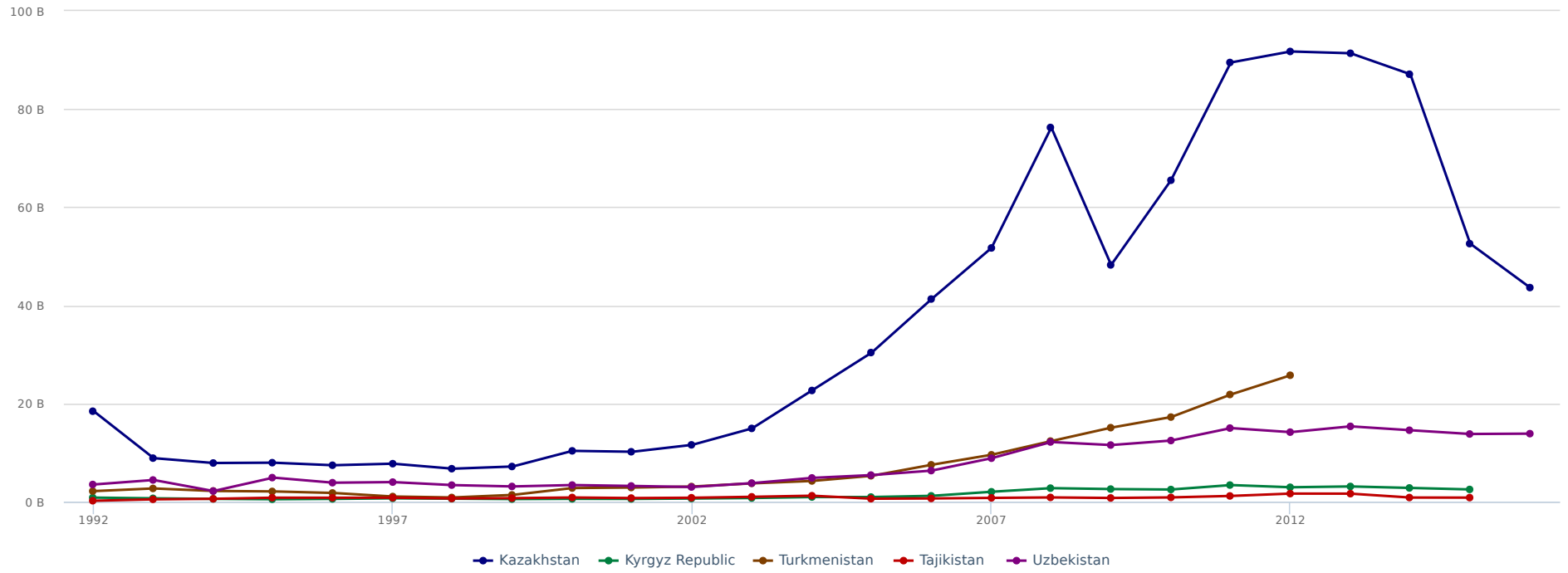
Created on: 07/20/2017

Fig. 7: Inflation-Corrected GDP (constant 2010 US\$) in Central Asia, 1992-2016



Series : GDP (constant 2010 US\$)  
Source: World Development Indicators  
Created on: 08/04/2017

Fig. 8: Export of Goods and Services (current US\$) in Central Asia, 1992-2016

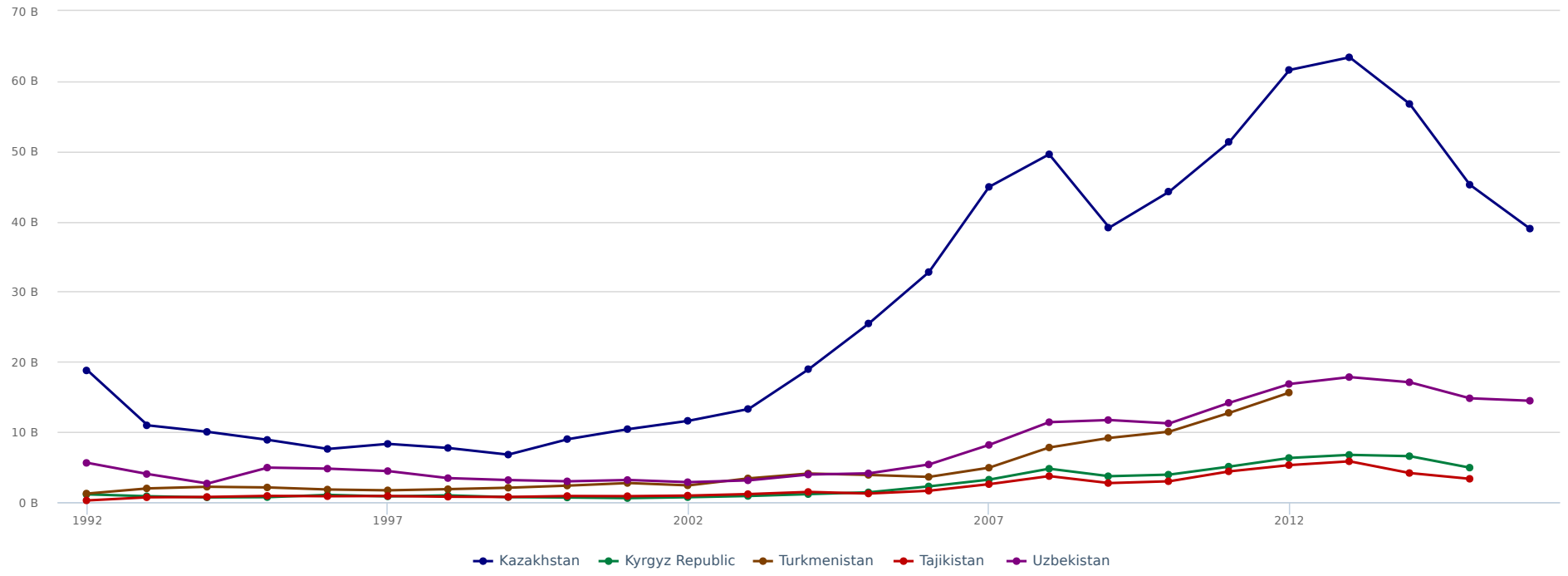


Series : Exports of goods and services (current US\$)

Source: World Development Indicators

Created on: 08/04/2017

Fig. 9: Import of Goods and Services (current US\$) in Central Asia, 1992-2016



Series : Imports of goods and services (current US\$)  
Source: World Development Indicators  
Created on: 08/04/2017

**Table 1: TRADE IN CENTRAL ASIA\***  
**MERCHANDISE EXPORTS AND IMPORTS BY COMMODITY GROUP, % (2015 data)**

KAZAKHSTAN		KYRGYZSTAN		UZBEKISTAN	
Leading Exports	Leading Imports	Leading Exports	Leading Imports	Leading Exports	Leading Imports
Agricultural Products (5.4%)	Agricultural Products (10.2%)	Agricultural Products (9.9%)	Agricultural Products (14.9%)	Agricultural Products (20.9%)	Agricultural Products N/A
Fuels, Mining Products (75.1%)	Fuels, Mining Products (4.1%)	Fuels, Mining Products (7.2%)	Fuels, Mining Products (20.2%)	Fuels, Mining Products (44.6%)	Fuels, Mining Products N/A
Manufactures (11%)	Manufactures (85.5%)	Manufactures (21.3%)	Manufactures (61.6%)	Manufactures (24.1%)	Manufactures N/A
Other (8.5%)	Other (0.1%)	Other (61.5%)	Other (3.3%)	Other (10.4%)	Other N/A

\*Export and import data not available for Tajikistan or Turkmenistan; import data not available for Uzbekistan.

Source: Compiled from World Trade Organization (2017). Trade Profiles 2017. [https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_profiles17\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_profiles17_e.pdf), p. 188-189, 198-199, 348-349, 368-369, and 384-385. [retrieved 28 July 2017]

**Table 2: TRADE IN CENTRAL ASIA\***  
**Merchandise Export and Import Partners, % (2016 data)**

KAZAKHSTAN		KYRGYZSTAN		TAJIKISTAN		TURKMENISTAN	
Export Partners	Import Partners	Export Partners	Import Partners	Export Partners	Import Partners	Export Partners	Import Partners
EU (50.3%)	Russia (36.3%)	Switzerland (45.5%)	China (38.1%)	Russia (37.4%)	Uzbekistan (28.8%)	Russia (41.1)	Russia (14.3%)
China (11.5%)	EU (22.6%)	Kazakhstan (10.6%)	Russia (20.8%)	EU (35.3%)	Russia (16.2)	EU (19.3%)	Turkey (14.2%)
Russia (9.5%)	China (14.6%)	Russia (10.2%)	Kazakhstan (16.5%)	Uzbekistan (14.1%)	Ukraine (13.1%)	Iran (9.7%)	EU (13.3%)
Switzerland (7.3%)	USA (5.1%)	Uzbekistan (8.8%)	EU (6.4%)	Switzerland (10.4%)	Kazakhstan (12.8%)	Turkey (7.4%)	Ukraine (12%)
Uzbekistan (2.5%)	Turkey (2.5%)	Turkey (6.3%)	Turkey (5%)	Kazakhstan (0.8%)	EU (12.8%)	Ukraine (6.6%)	UAE (8.9%)
Other (18.9%)	Other (19%)	Other (18.5%)	Other (13.2%)	Other (1.9%)	Other (16.6%)	Other (15.9%)	Other (37.4%)

\*Data not available for Uzbekistan.

Source: Compiled from World Trade Organization (2017). Trade Profiles 2017. [https://www.wto.org/english/res\\_e/booksp\\_e/trade\\_profiles17\\_e.pdf](https://www.wto.org/english/res_e/booksp_e/trade_profiles17_e.pdf), p. 188-189, 198-199, 348-349, 368-369, and 384-385. [retrieved 28 July 2017]



**Table 3: GLOBAL COMPETITIVENESS, 2016-2017  
CENTRAL ASIA, 2016-2017\***

<b>RANK (N=138)</b>	<b>KAZAKHSTAN</b>	<b>KYRGYZSTAN</b>	<b>TAJIKISTAN</b>
<b>OVERALL RANK (2016-2017)</b>	53	111	77
<b>BASIC REQUIREMENTS</b>	62	108	78
<b>Institutions</b>	49	105	41
<b>Infrastructure</b>	63	113	103
<b>Macroeconomic Environment</b>	69	90	89
<b>Health, Primary Education</b>	94	104	70
<b>EFFICIENCY ENHANCERS</b>	50	112	99
<b>Higher Education, Training</b>	57	87	75
<b>Goods Market Efficiency</b>	62	75	71
<b>Labour Market Efficiency</b>	20	102	33
<b>Financial Market Development</b>	104	96	105
<b>Technological Readiness</b>	56	117	114
<b>Market Size</b>	45	121	112
<b>INNOVATION, SOPHISTICATION FACTORS</b>	76	123	60
<b>Business Innovation</b>	97	119	74
<b>Sophistication</b>	59	123	46

\* Data not available for Turkmenistan and Uzbekistan.

Source: WEF (2017). Global Competitiveness Report 2016-2017.

[http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf) [retrieved 28 July 2017]