CENTIL.LAW

2017 INVESTMENT OUTLOOK FOR CENTRAL ASIA

Introduction

Although the Central Asian countries account for less than 1% of the global population, the region has traditionally occupied a geostrategic place at the crossroads of West and East. As such, for almost half of the past millennium the region has served as an important trade centre connecting many economic and cultural facets of the Eurasian region. Central Asia has a long and fascinatingly rich history that reflects economic, cultural and scientific developments.

Today, the region has large reserves of natural and human resources and yet remains largely unexplored, as reflected by the region's openness to the global economy. Such poor connectedness to the global economy is probably a result of the countries' Soviet heritage and policies designed to cope with the deep "transition recession" that afflicted all the Central Asian countries[1].

Indeed, the dissolution of the Soviet Union (associated with the loss of budget transfers and support of inefficient state-owned enterprises, the disruption of trade links and the abandonment of price controls) had a devastating impact on all the Central Asian countries, with some recovering only 15 years later. Indeed, how each of these countries coped with the transition recession has depended on the presence of natural resources, as well as on the depth and duration of institutional changes2. Certain countries, such as Kazakhstan and the Kyrgyz Republic, were more liberal in their reforms of the market economy, whereas others, such as Uzbekistan and Turkmenistan, have opted for a more gradual approach to liberalisation, with the government maintaining control over key sectors of the economy.

However, regardless of the policies chosen, it seems that most Central Asian countries have achieved the minimal requirements of creating a market economy by reducing the role of the government, liberalising prices and implementing small-scale privatisation. More liberal reforms appear to be underway, including large-scale privatisation, improvements in governance indicators, enterprise restructuring, and deep institutional reforms.

Looking ahead to ten or twenty years from now, it appears that the Central Asian region is going to face a number of great opportunities, along with some daunting challenges. As such, the region has significant potential and a unique opportunity to accelerate its economic and social development, as well as to achieve widespread prosperity. However, such progress can only be achieved if the region fully acknowledges the emerging internal and external requirements and challenges associated with increased urbanisation and globalisation, improvement of the business environment, the consequences of climate change and the corresponding revision of institutional changes, whilst also creating a welcoming environment for foreign direct investment (FDI). Ultimately, it seems that history is repeating itself, reminding us all that the more open a region is to innovation, ideas, trade and regional collaboration, the more likely it is to generate synergy that can result in further economic, social, technological and cultural improvement.

This snapshot of the recent economic, business and legal indicators within the Central Asian region is intended to serve as an introductory guide to investors, policymakers and academics as they study, analyse and seek to understand this fascinating region.

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[1] Mitra (2016)

[2] Pomfret (2010a; 2010)

We know that empirical evidence shows that economic and business developments are not necessarily related through the decades. However, we believe that the external shocks, corresponding institutional changes and associated government agendas that arise in one decade may provide a partial context for the developments in the following decade. As such, we have carefully evaluated the recent changes in order to formulate our projections for what to look for in the coming years.

Weathering uncertain external environment

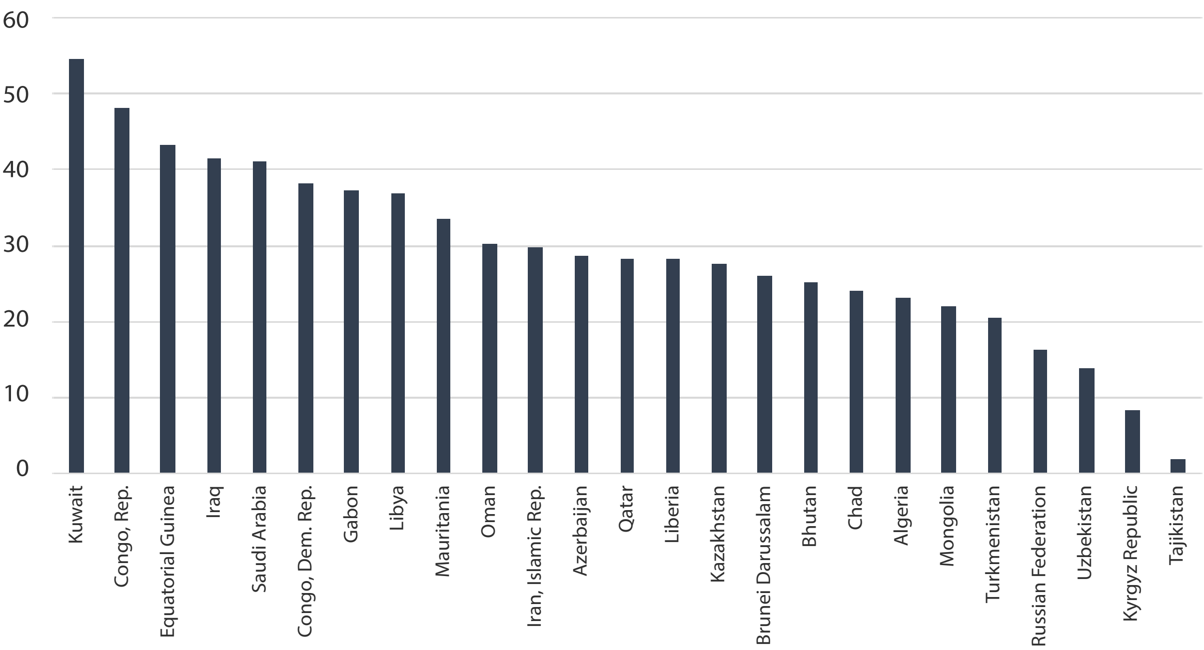
The volatility of the commodity markets and their impact on developing and emerging economies were widely discussed in 2016. Countries with a rich mineral base have been battling against external macro shocks with the oil crisis unfolding between mid-2014 and 2016, when oil prices reached a 10-year low. From their peak in summer 2014 to the trough in January 2016, Brent crude oil prices decreased by $82 per barrel (70%).

In 2016, the European Central Bank stated that:
Whilst most of the oil price decline in 2014 can be explained by the significant increase in the supply of oil, more recently the lower price has reflected weaker global demand. On the supply side, significant investment and technological innovations – particularly in shale oil extraction – have caused oil production to surge at a time of weakening growth, particularly in energy-intensive emerging market economies, putting downward pressure on oil prices. Meanwhile, OPEC's decision in November 2014 to keep production quotas unchanged intensified the downward pressure on oil prices amid rising oil inventories. (Issue 4).

More recently, however, concerns have arisen that weaker global growth has been the main driver of the decrease in oil prices. Considering that the majority of the decline in oil prices was supply driven, and the rest demand driven, the shared effect of these two forces on global economic output is close to zero (or negative and only marginally significant).

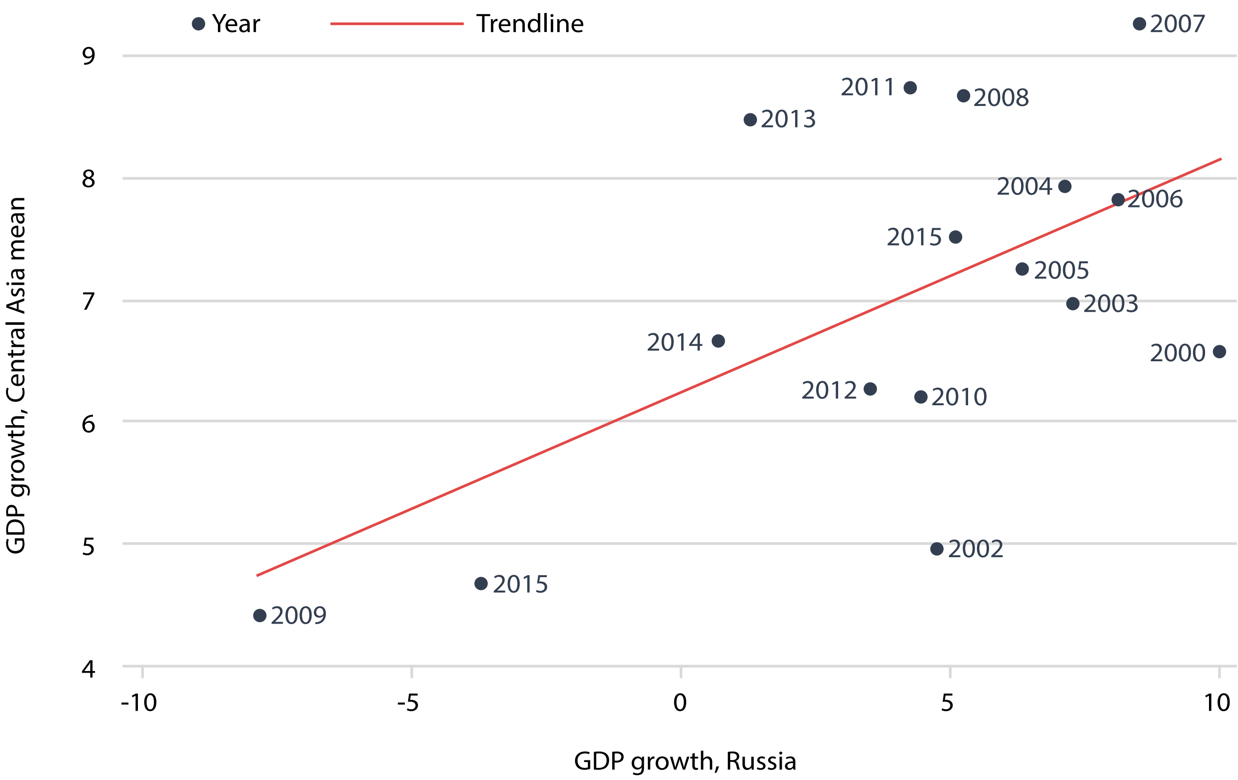
However, the effect of the oil price decline on oil-exporting countries has been more pronounced, and has been followed by a number of spillovers into other emerging markets. Central Asia is a region that is largely dependent on the prices of various commodities. The share of the resources sector in relation to GDP in these countries is 14%, which on average exceeds the global average of 3%. This implies that economic growth in this region in the past decade was largely driven by favourable commodity prices.

Figure 1. Total natural resource sector relative to GDP
Source: World Bank, 2017



However, unlike with past external shocks, the current decline in oil prices has combined with other external shocks, such as the economic and political sanctions imposed on Russia, which affected the existing macroeconomic trends. This is particularly so if you consider that the Central Asian economies are still very much dependent on (1) oil and gas prices and (2) the existing macroeconomic environment in Russia, which determines the inflow of remittances, exchange rate movements, bilateral trade flows and Russian investment in the region. For example, our estimates reveal that nearly 35% of the economic growth of Central Asia (figure 2) since 2000 can be explained by the GDP growth rates of Russia, the region's main trade and investment partner. Therefore, the ongoing Russian economic recession since 2014 has hampered economic growth rates in the region. Moreover, we find that Central Asia lost almost 3 percentage points in GDP growth rates due to the output decline in Russia between 2013 and 2015 alone.

Figure 2. GDP growth in Central Asia compared to output growth in Russia
Source: Authors' estimations based on World Bank, 2017



These findings are based on the following four observations:

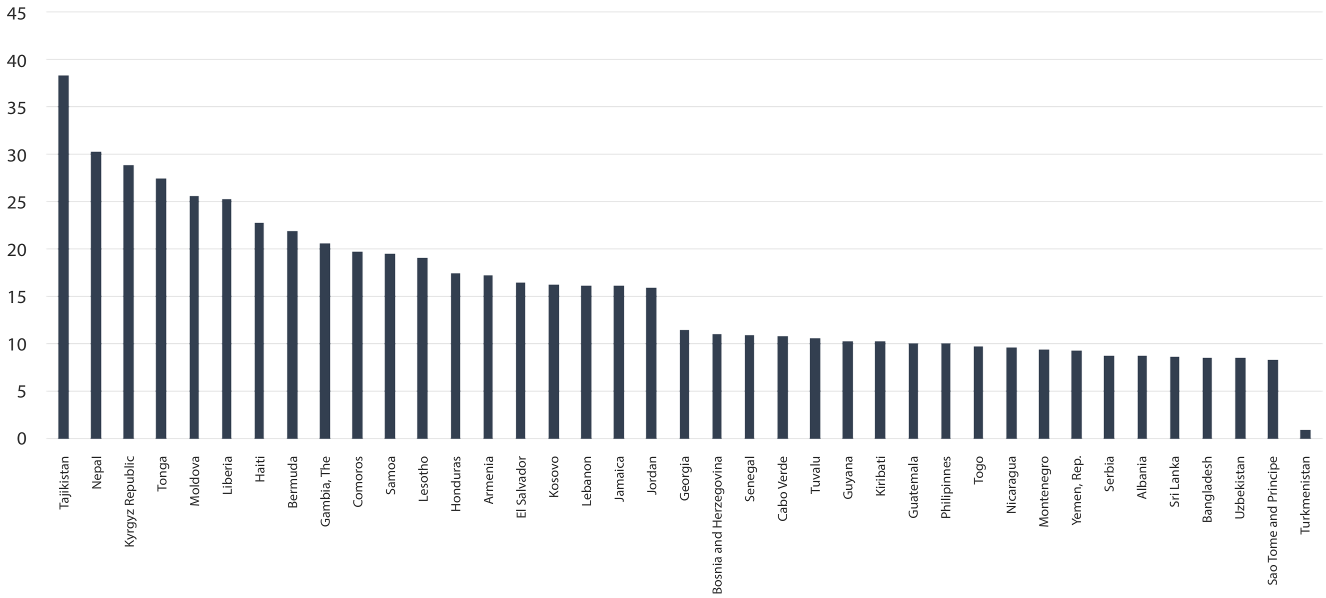
1. Throughout the period analysed, remittances were one of the key sources of foreign exchange earnings, economic growth, and poverty reduction across the whole of Central Asia. For example, in Tajikistan and the Kyrgyz Republic almost 30% and 20%, respectively, of household income is obtained through remittances[3,4]. Perhaps more interesting is the fact that between 1998-2015 in the Kyrgyz Republic, a 10-percentage point increase in the share of remittances in GDP was associated with a 6% decrease in income inequality.

   On the other hand, across Central Asia the contribution of remittances to GDP is very variable, ranging from less than 1% in Turkmenistan to nearly 40% in Tajikistan (figure 3). As is apparent, these remittances are transferred officially (though financial institutions) and informally (up to 30% of total inflows in some countries), mainly from Russia.

[3] ILO (2010a, b)

[4] WB (2013)

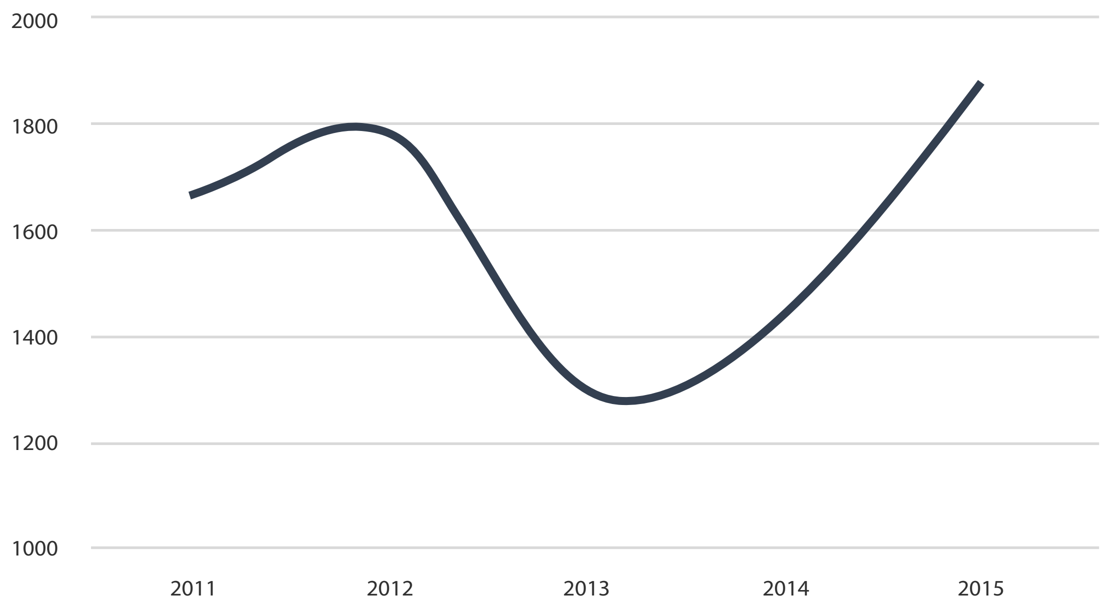
Figure 3. Share of remittances in GDP, in %
Source: World Bank, 2017



2. The potential suspension and/or withdrawal of Russian investment projects in Central Asia, especially associated with infrastructure. For example, in 2015 foreign direct investment (FDI) from Russia into the region amounted to USD 1.8 billion and exceeded the 2014 volume by nearly 31% (figure 4). However, Russian FDI trends differed remarkably across the region's countries, with Tajikistan and Uzbekistan experiencing a decline over the past years, whilst Turkmenistan has experienced more than a 4-fold increase in 2015 compared to 20135. Similarly, Russian FDI flows into the Kyrgyz Republic have rapidly increased since 2010 (figure 5).

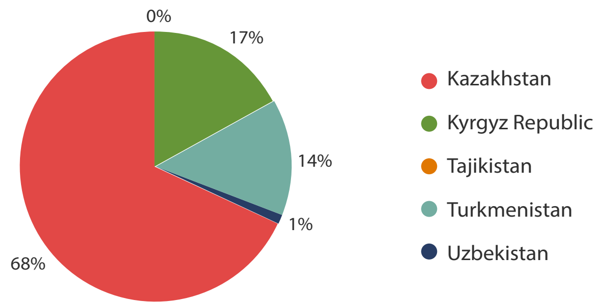
   Despite Central Asia being considered an important geopolitical region for Russia, the share of FDI to this region accounts for only 2-3% of total Russia's total outgoing FDI.

Figure 4. Russian FDI to Central Asia, in USD millions
Source: National Statistics Committee of Russia, 2017



[5] The increase in foreign direct investment to Turkmenistan is explained by the ongoing boom in the construction sector, preparations for the Asian Games and establishment of Avaza national tourism zone. Furthermore, Turkmenistan has been attracting significant volumes of foreign investment in the resource sector. For example, nearly 50% of oil and 20% of gas is extracted by foreign companies and joint ventures, and in 2014 foreign direct investment into the oil and gas sector surpassed USD 10 billion. See: http://www.turkmenistan.gov.tm/?id=8081

Figure 5. Distribution of Russian FDI to Central Asia in 2015, in %
Source: National Statistics Committee of Russia, 2017



Therefore, considering the volatility of the direction of Russian FDI to Central Asia, it may well be the case that the government of Russia is shuffling its political cards to highlight its major political ally in the region. For example, the decrease in FDI to Tajikistan over the past few years may indicate that Russia is using this channel as a tool to urge Tajikistan to enter the Eurasian Economic Union.

3. Central Asian currencies are closely related to both the ruble and the dollar. Thus, they have been experiencing depreciation in line with the weakening of the ruble. These tendencies have affected domestic buying power and threaten defaults on dollar-denominated debt, and increases in value against the ruble may hurt bilateral trade positions with Russia. In addition, a large share of the labour force from Central Asia resides abroad. The economic contractions in Russia and weakening of the ruble against the US dollar have, therefore, become a major source of concern to households in remittance-receiving countries.

Macroeconomic prospects

This section provides a discussion of our expectations of selected economic indicators that are likely to affect the business environments in Central Asia.

Despite all counties in the region sharing a common Soviet legacy, in view of unevenly distributed natural resources and the countries' chosen paths for development, the respective performances of these economies differ significantly. Overall, owing to disintegrated economic and trade relations after the break-up of the Soviet Union, the economic performance of these countries were well below the world average until 1999 (Figure 6). Between 2000 and 2014, however, growth rates within Central Asia gradually recovered and exceeded the global average by a high margin thanks to favourable international prices for key exported commodities, improving business and macroeconomic environments, as well as government-driven investment in modern infrastructure. Within the same period, certain economies improved their performance and increased their share in Central Asian output (Figure 7).

Figure 6. GDP growth rates in Central Asian countries
Source: World Bank, Asian Development Bank, 2017

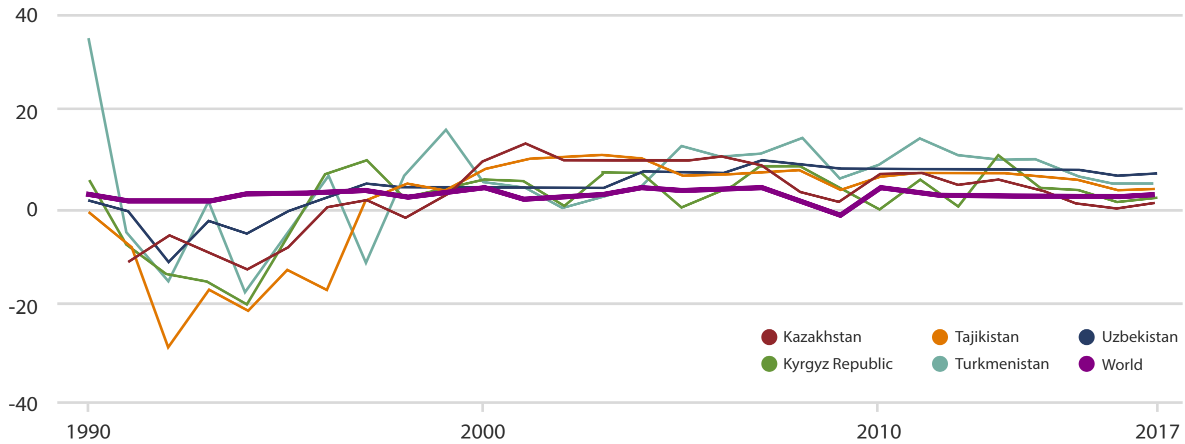
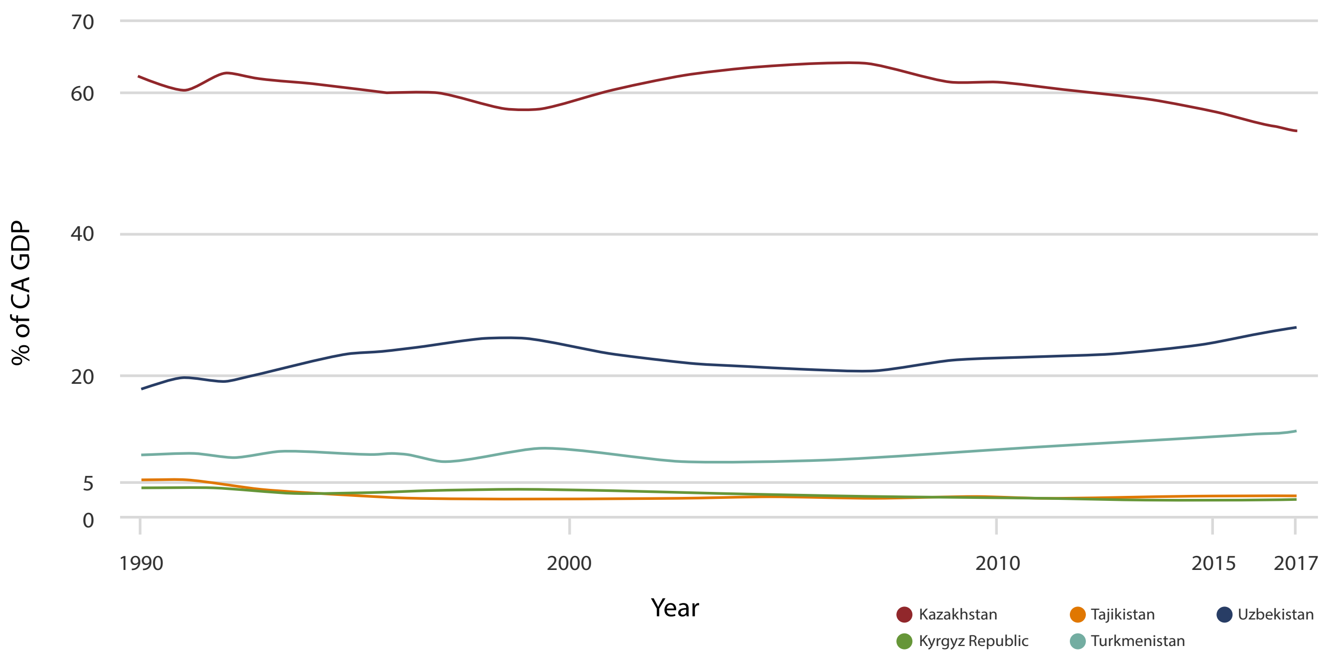


Figure 7. Relative GDP weights of Central Asian countries
Source: World Bank, Asian Development Bank, 2017



Since 2014, rates of output growth have declined in nearly all Central Asian countries. On average, GDP growth in the region fell from 5.9% in 2014 to around 3% in 2016. This slowdown in growth rates was the result of:

- a fall in international prices for key exported commodities, such as oil, gas, cotton and metals;
- the regional economic downturn caused by the recession and a slowdown in major trading partners' economies (notably Russia and China) that weakened external demand for Central Asian goods;
- reduced remittances from Russia and Kazakhstan to remittance-dependent countries such as the Kyrgyz Republic, Tajikistan and Uzbekistan.

However, we believe that 2017 is set to bring slightly more promising scenarios for growth in Central Asia due to the following two factors:

1. Central Asian oil-exporting countries may expect a recovery in energy prices following OPEC's endeavours to cut back on oil production for the first time since its surge in 2014 (World Bank, 2016).
2. Improvements in the oil-exporting countries Kazakhstan and Russia may have positive repercussions on the other Central Asian countries in terms of higher demand for exporting commodities and an increased flow of remittances.

Whilst the political sanctions imposed on Russia are in force until mid-2017, the EU is divided about imposing further sanctions. Coupled with perceptions of open US policy towards Russia, this might result in partially-lifted sanctions after mid-2017.

Finally, in order to offset the economic downturn of previous years, 2017 will still be the year for Central Asian economies to further diversify their economies, adjust to external shocks and increase public spending on infrastructure, healthcare and education. Considering these factors in 2017, we expect a somewhat recovered average growth rate of 3.4% for the Central Asian region (Table 1).

At the same time, in 2017 we expect moderately high inflation rates in Central Asian countries compared to the rest of the world (Table 1). These projections are justified by the following factors:

1. Relatively high growth rates throughout the 2000s, fuelling high inflation. Yet inflation rates have been historically high in Central Asia since the 1990s, making the US dollar the major store of wealth, with its link to

the Central Asian currencies becoming stronger. Furthermore, the high dollarization of the Central Asian economies will exert further pressure on monetary policy transmission mechanisms, thereby complicating the task of managing the upward pressure on price levels.

2. As a response to external shocks in terms of low global hydrocarbon prices and the regional economic downturn since 2014, certain Central Asian countries have depreciated their respective currencies by 20% to 50% in nominal terms against the US dollar. For example, Turkmenistan and Kazakhstan applied a step devaluation of 25% and 20%, respectively, against the US dollar in 2015. Additionally, since August 2015, Kazakhstan's tenge has further depreciated by 45% against the US dollar due to the adoption of a floating exchange rate regime and the subsequent removal of administrative controls. Similarly, throughout its history Uzbekistan has implemented the policy of constant currency depreciation in order to stimulate its exports. In view of a recent 2016 IMF study indicating high exchange rate pass-through to inflation in all Central Asian countries, we believe that imported inflation is going to continue.
3. Finally, high inflation in Central Asian countries is also due to cost-push measures, such as constant wage, pension and utilities hikes, along with elevated import tariffs. Considering the mostly equitable nature of socio-economic development, we believe that such increases in production costs will be sustained.

In terms of the business climate, we believe that local and foreign entrepreneurs can expect several important policy reforms across the whole of the Central Asian region in 2017. Generally, these reforms are associated with improvements in the regulatory and institutional frameworks in order to intensify and encourage the private sector's participation in sustainable socio-economic development. Apparently, these reforms are articulated in national medium- to long-term development programmes adopted in all the Central Asian countries observed. Considering the higher pressure on fiscal and trade balances faced by all Central Asian countries since 2014, it seems that from 2017 the governments will be more active in implementing large-scale privatisation programmes. For example, Kazakhstan's Samruk-Kazyna Sovereign Wealth Fund is expected to launch an extensive privatisation programme that will transfer the assets of 180 public enterprises, including the railway operator Kazakhstan Temir Zholy, KazPost and Air Astana, through electronic auction deals6. Similarly, Uzbekistan is using fiscal measures7 to welcome foreign investors into areas such as banking, insurance, energy, transport and chemicals.8 Additionally, we believe that the recent decentralisation initiatives of electing Uzbekistan's municipal mayors by the people rather than by assigning them to the posts may strengthen private sector participation in regional development.

Moreover, in order to accelerate economic growth, attract FDI and boost their production capacities, the Central Asian countries are actively creating specialised economic zones that provide favourable investment climates for investors in terms of land property, customs duties and international trade, labour and immigration, taxes and foreign exchange. Whilst the Kyrgyz Republic was a pioneer in the creation of these economic zones, other Central Asian countries are quickly catching up: there are currently 10 free economic zones in Kazakhstan, 7 in Uzbekistan (3 already exist and 4 will be created by mid-2017), 10 in the Kyrgyz Republic, 4 in Tajikistan and 4 in Turkmenistan. The types of goods produced in these special zones depend on the country in question. Generally, they account for high-value-added production that includes electrical cables, plastic pipes, aluminium and PVC profiles, construction materials, paint and varnishes, plastic packages, the assembly and installation of solar collectors and subsurface pumps, and the recycling of metals.

Additionally, we expect a significant improvement and strengthening of the laws on the protection of property. For example, in the Kyrgyz Republic there are efforts to bolster property rights and reduce bureaucracy for opening and running a private business; however, there is opposition from some concerned parties. In Tajikistan, 2017 will mark the year of an action plan developed to bolster reforms in banking (abolishing capital controls for foreign investors) and taxation (tax administration) for small and medium-sized enterprises. Other efforts of Central Asian governments include providing universal conditions for both foreign and domestic investors, developing a

[6] Interview with Berik Beysengaliev, Managing Director at Samruk-Kazyna, on the implementation of the Privatisation Programme in Kazakhstan, 7-kun, 21.11.2016

[7] In accordance with Presidential resolution ##PP-2454 as of 21 December 2015, corporations with foreign ownership of 15-33% are exempt from dividend tax, property tax and other payments into the social infrastructure and road fund until 2020.

[8] The complete list of projects with specific areas can be found in Presidential resolution #PP-2454 as of 21 December 2015

well-functioning financial market and fighting corruption.

Finally, 2016 seems to have been marked by a thaw in relations between the Central Asian economies, especially between Uzbekistan, Kyrgyzstan and Tajikistan. Therefore, we expect that intra-regional trade, exchange and economic cooperation will be further intensified.

Major legal changes in the business environment

To provide a better picture of how the business climate in Central Asia has evolved over the past five years, below we highlight a number of key changes in the legal frameworks governing entrepreneurial activity in the two most populous countries of Central Asia: Kazakhstan and Uzbekistan.

Kazakhstan

The most notable changes in the legal framework regulating entrepreneurial activity include:

1. Legislation changes following Kazakhstan's accession to the World Trade Organization ("WTO");
2. Amendments to the Law on Subsoil and Subsoil use;
3. The adoption of new Civil Procedure Code ("CPC") and Law on Arbitration;
4. The adoption of a Law on the Astana International Financial Centre ("AIFC")
5. The adoption of a new Law on Public-Private Partnerships ("PPP")
6. The unification of the Laws on Investments, Competition, State Control and Supervision, State Support of Industrial and Innovative Activity, Private Entrepreneurship, and Peasant Farm Enterprise in a new Entrepreneurial Code, without substantial changes to the legislation.

Accession to WTO

Kazakhstan's accession to the WTO entailed several legal amendments in the spheres of intellectual property, labour relations, and subsoil and subsoil use. These amendments are further broken down below.

In the sphere of intellectual property:

- The liability for the illegal use of trademarks was tightened. Thus, a person illegally using a trademark or a designation similar to a trademark to the point of confusion must destroy both the packaging of an item containing the trademark and the item itself (previously, the law required the destruction only of the packaging);
- Any person or entity may apply to a court with a request to obtain a compulsory non-exclusive license for a piece of industrial property that has not been used continuously over the 3 years preceding the date of publication upon the issuance of a protection document;
- Compulsory non-exclusive licenses may now be issued based on two additional grounds: (1) the need to ensure national security and public health and (2) abuse of exclusive rights by the patent holder.

In the sphere of labour relations:

- The concept of intra-corporate transfers was introduced. An intra-corporate transfer is a temporary (for the period of a specific employment contract, but no more than three years, with an option to extend for one more year) transfer of a foreigner occupying the role of a head, manager or specialist in a legal entity established in a WTO member-state (other than Kazakhstan) to its branches, subsidiaries and representative offices established in Kazakhstan;
- Foreign labour in the framework of intra-corporate transfers was attracted with the permission of the competent body, but outside the quota for the attraction of foreign workers determined by the government for the respective year.

[6] These changes do not apply to contracts concluded prior to January 1, 2015.

In the sphere of subsoil and subsoil use[9]:

- The definition of "Kazakh producer of works and services" was changed, and now refers to an individual entrepreneur and/or legal entity established in accordance with the legislation of Kazakhstan, located in Kazakhstan and employing nationals of Kazakhstan constituting no less than 95% of the overall workforce (not including managers and specialists, seconded and working in Kazakhstan under intra-corporate transfers);
- The requirement for "local content" in goods was excluded for newly concluded contracts, while such requirements remain in place for works, services and human resources.
- The requirement for the mandatory use and acquisition of equipment, materials and end-products manufactured in Kazakhstan and from a Kazakh producer was removed;
- The requirement to give an absolute preference to Kazakh personnel was changed. Now the subsoil user is obliged to give preference to Kazakh personnel, except for in the cases of managers and specialists attracted in the framework of intra-corporate transfers. Intra-corporate transfers may only be made if at least 50% of the total numbers of employees in each respective category are Kazakh nationals.

Law on subsoil and subsoil use

Amendments to the Law on Subsoil and Subsoil Use include a number of substantial simplifications made by introducing the following changes:

- Reduction in the number of examinations required to obtain contracts for geological exploration;
- Considerable amendments to the "model contract";
- Investors are granted free access to geological information from existing field databases, with the timeframes for obtaining this information substantially reduced;
- Exclusion of the feasibility study from the list of mandatory project documents;
- Subsoil use rights are to be granted through a competitive bidding process aimed at simplifying the existing procedures in the subsoil use industry. Costs relating to the infrastructure development of a region will be set by the competent authorities in the form of fixed rates, which will ensure that potential subsoil users are fully aware of this before competitive bidding begins. The subsoil use right will be granted to the party who offers the state the greatest amount of subscription bonuses during bidding, thus ensuring bidding transparency and excluding corrupt practices;
- The introduction of simplified procedures for granting subsoil use rights will be based on the principle of "first come-first received", with an annual increase in the rate for subsoil use. Based on the opinions of those developing the law, the introduction of such practices into Kazakh legislation will speed up and improve the efficiency of mineral exploration works.

New CPC and law on arbitration.

The new Civil Procedure Code ("CPC"):

- abolished the supervisory instance: there are now three instances of civil process: the courts of first instance, the appellate courts and the courts of cassation;
- established special jurisdiction for investment disputes: all investment disputes are considered by the city court of Astana, except for investment disputes that include the participation of a 'large investor', which will be considered by the Supreme Court of Kazakhstan;
- established new rules for the submission of evidence: the right to submit evidence during the first instance proceeding is limited to the preparatory stage of the first instance proceedings;
- extended conciliation procedures: it introduced the concept of participatory procedure and the possibility of dispute settlement by mediation in the courts.

[10] Note that certain provisions of the new law on Arbitration are contradictory and may be interpreted ambiguously.

The new Law in Arbitration[10]:

- integrated the concepts of local and foreign arbitration: the jurisdictional rules are now the same for both residents and non-residents;
- allows parties to unilaterally refuse an arbitration agreement before the dispute arises by giving notice to the other party within a reasonable timeframe;
- provides for the establishment of the Arbitration Chamber of Kazakhstan, which aims to support arbitration activities in Kazakhstan.

Law on AIFC

The Kazakh constitutional law on the Astana International Arbitration Centre (AIFC)[11]:

- provides for the establishment of the Astana International Arbitration Centre, which is a precisely defined territory with a special legal regime within the Kazakh capital city of Astana. The AIFC has special jurisdiction based on the principles of English law and is detached from the judicial system of Kazakhstan;
- provides for the establishment of AIFC Courts and the International Arbitration Centre, where the AIFC Court will have exclusive jurisdiction over disputes (1) arising between AIFC's participants, bodies and/or their foreign employees; (2) concerning any operations carried out in and subordinated to the jurisdiction of the AIFC; (3) involving parties that accepted its jurisdiction by mutual agreement. The AIFC Court is not entitled to consider and decide on administrative and criminal cases.

Law on PPP

The Kazakh Law on PPP enacted in 2015 represents an umbrella document allowing for multiple types of PPP, including concessions under the separate pre-existing Law on Concessions, and provides for the more detailed regulation of public-private partnerships. Inter alia, it provides for the regulation of:

1. The rights and obligations of PPP participants,
2. Sources of finance for PPP projects,
3. Means of state support, etc.

Uzbekistan

The most notable changes in the legal frameworks regulating entrepreneurial activity in Uzbekistan include:

1. The implementation of remote court hearing procedures
2. The implementation of electronic case management
3. The mitigation of punishments
4. The enhancement of anticorruption efforts
5. The new version of the Law on Joint Stock Companies
6. Several presidential decrees and resolutions

Remote court hearings.

In accordance with the Uzbek Law "On the introduction of amendments, and invalidation of certain legal acts of the Republic of Uzbekistan" (-372 dated 14.05.2014), court hearings can now be conducted using video conference facilities.

[11] Full launch of AIFC is expected by January 1st and it is difficult to predict how it will work in practice.

For the purposes of the implementation of this norm, the economic courts of the Republic of Uzbekistan have been equipped with the required hardware.

This measure has settled an issue relating to the efficiency of court proceedings. Previously, when parties to the dispute were in different regions of the country, the claimant had to travel to the location of the defendant under Uzbek legislation.

In cases where the dispute was complicated, the claimant could incur significant expenses just to participate in court hearings, especially when the claimant engaged legal advisors or attorneys.

Electronic case management system

In accordance with the Uzbek Law "On the introduction of amendments of certain legal acts of the Republic of Uzbekistan" (-352 dated 30.04.2013), claims can be submitted to the courts via a special electronic system.

Until the electronic submission process was implemented, claimants had to submit all documents, including claims, applications and other paperwork, either personally or by post. Submitting documents personally was a very unpleasant procedure, as there were always lines of people waiting to submit documents. As for the postal method, this option was unsuitable when documents needed to be submitted urgently.

Mitigation of punishment

In accordance with the Uzbek Law "On the introduction of amendments of certain legal acts of the Republic of Uzbekistan" (No.389 dated 10.08.2015), punishment for certain criminal offences can be mitigated by paying compensation for damage inflicted.

In cases of full compensation, mitigation is imposed by limiting a potential sentence to the imposition of a fine, whilst imprisonment or custodial restraint may not be imposed.

Anticorruption efforts

On 4 January 2017, Uzbek Law -419 "On anti-corruption" was enacted. The law should become a milestone in Uzbekistan's anticorruption policy, as it is the only comprehensive law on anticorruption and contains all the measures that should be implemented and guaranteed by the government of Uzbekistan.

In addition to the introduction of a special anticorruption commission and the new anticorruption expertise of legal acts and state authorities, the law provides certain social guarantees and incentives for state officials and officers.

Attorney at inspection

In accordance with the Regulation of the Ministry of Justice, National Security Service, General Prosecutor Office, Ministry of Internal Affairs, State Tax Committee and State Customs Committee of the Republic of Uzbekistan "On the order of arrangement for obligatory participation of attorneys-at-law in inspection of business activity of business units under initiated criminal cases" (2757 dated 28.01.2016).

This regulation prescribes that in order to conduct an inspection under an initiated criminal case, when a business entity is presented with the resolution ordering the completion of an inspection, this business entity has the right to have an attorney-at-law present to participate in the inspection and other stages of the criminal proceedings. The entity may refuse to exercise this right; however, it shall retain the right to engage an attorney-at-law during the following stages of the inspection.

The regulation is a clear example of the reinforcement of state policy on the protection of the interests and rights of businesses in Uzbekistan.

New Law "On joint-stock companies"

The new version of the "Law on Joint Stock companies" (370, dated 6 May 2014) saw the following amendments:

- The concept of open and closed joint-stock companies was eliminated. Instead, the law now provides for listed and unlisted joint-stock companies. This demonstrates the government's intention to adjust the national legislation in terms of the regulation of joint-stock companies to the western concept of a corporation.

- Transactions on the secondary market for the sale of shares of joint-stock companies will be undertaken exclusively on the stock exchange and organised off-exchanges securities market, except for transactions in which businesses repurchase their own shares at the request of shareholders, as well as the sale at "zero" redemption value of state shares of unprofitable enterprises with a state share in the charter capital of more than 50%.

- To protect the legitimate rights and interests of minority shareholders, the establishment of a committee for minority shareholders is provided for. The structure of the committee may not include the director, board members, or individuals elected to the Supervisory Board and Audit Commission.

Presidential Decrees and Resolutions

Of all the decrees and resolutions adopted in Uzbekistan over the past 5 years, the following appear to have the largest impact on the business environment:

- Presidential Resolution No. 2454 dated 21 December 2015 "On additional measures for attracting foreign investors to joint-stock companies", under which:
    - o Joint-stock companies in Uzbekistan must have at least 15% of foreign shareholding in their charter capitals. The exceptions to this rule are joint-stock companies engaged in the production and primary conversion of strategic raw materials, natural monopolies, and suppliers of socially-oriented goods and services listed in the Resolution of the Cabinet of Ministers of Uzbekistan No. 33 dated 10 February 2016 (as amended on 24 May 2016).
    - o Until 1 January 2020, foreign investors are exempt from income tax on dividends derived from their shareholding in local joint-stock companies.

- Presidential Decree No. 4848 dated 5 October 2016 "On additional measures for ensuring the fast development of entrepreneurship activity, all possible protection of private property and quality improvement of business climate", under which:
    - o Uzbekistan is to establish an Institute of Business Ombudsperson, a commission for the protection of the rights and interests of business entities under the Oliy Majlis (Parliament) of Uzbekistan.
    - o The Highest Economic Court is to implement systems for the audio- and video-recording of court hearings, and will publish court decisions on its official website (these were previously not publicly available).
    - o Uzbekistan is to adopt a special law for combatting corruption in the country (the law has now been signed by the president and is in force).
    - o The State Committee of Architecture and Construction, the State Committee for Environmental Protection, the Ministry for Healthcare, the Ministry for Internal Affairs, and the Agency "Uzstandart" are to make an inventory of and publish normative documents relating to the technical regulation of industries on their official websites, which will be accessible free of charge to the public. This step will organise many technical standards and eliminate excessive and outdated standards.
    - o Uzbekistan is to ban any unscheduled inspections of commercial entities, with minor exceptions. Uzbekistan is to cease any counter-inspections, including those conducted for criminal cases.
    - o Uzbekistan is to liberalise sanctions for administrative and criminal offences in the domain of financial or economic crimes.

- Presidential Decree No. 4853 dated 26 October 2016 "On additional measures for the activation and expansion of activities of free economic zones", under which:
    - o Uzbekistan is to establish a unified legal regime for the operating free economic zones, for example in relation to the provision of tax and customs privileges.
    - o Administrations of the zones will be exempt from taxes and compulsory payments to the state budget and state funds.
    - o The Joint Administrative Board for free economic zones will take on administrative, coordinating, regulatory and assistive functions in relation to the zones, whilst the existing administrative boards of Navoi, Angren and Djizak will be dissolved.
    - o The free economic zones will become more comprehensive for investors.

- Presidential Decree No. 2646 dated 28 October 2016 "On the development of the system of the state registration of commercial entities", under which:
    - o Starting from 1 April 2017, Uzbekistan will begin registering commercial entities online, which will make the process of incorporating a legal entity significantly easier.

Central Asia in facts and figures

Table 1: Economy
Source: Authors' estimations based on World Bank, Asian Development Bank, 2017

Country	2010	2011	2012	2013	2014	2015	2016	2017	2010	2011	2012	2013	2014	2015
Economic growth, %									**Unemployment rate, % of total labor force**					
Uzbekistan	8.5	8.3	8.2	8	8.1	8	6.9	7.3	10.9	10.9	10.8	10.8	10.6	10.6
Kazakhstan	7.3	7.4	4.8	6.0	4.2	1.2	0.1	1	5.8	5.4	5.3	5.2	4.1	5.0
Kyrgyz Republic	-0.5	6.0	-0.1	10.9	4	3.5	1	2	8.6	8.5	8.4	8.3	8.1	7.5
Tajikistan	6.5	7.4	7.5	7.5	6.7	6	3.8	4	11.6	11.4	11.1	11.2	10.9	10.9
Turkmenistan	9.2	14.7	11.1	10.2	10.3	6.5	5.5	5.5	10.9	11.0	10.8	10.7	10.5	11.0
Inflation, CPI									**Government budget, % of GDP**					
Uzbekistan	9.4	12.8	12.1	12.1	11	9.0	10.0	11.0	2	0.43	0.1	0.2	0.2	0.1
Kazakhstan	7.1	8.3	5.1	5.8	5.8	1.8	14.7	6.0	-2.4	-2.1	-2.9	-2.1	-1.2	
Kyrgyz Republic	8.0	16.5	2.7	6.6	8.4	2.2	5.0	8.0	-4.9	-4.7	-6.5	-0.7	-0.5	-1.5
Tajikistan	6.5	12.4	5.8	5	5.5	0.1	8.5	7.5	-7.1	-5.8	1.2	0.3	0.3	0.8
Turkmenistan	4.4	5.3	4.9	5.6	0.6	-5.0	5.0	4.4	1.7	3.6	6.8	1.5	0.8	-1
Current Account, % of GDP														
Uzbekistan	6.1	5.7	1.2	-1.7	0.4	0.0	0.2	0.8						
Kazakhstan	0.9	5.3	0.5	0.5	2.7	-3.0	-5.5	-4.9						
Kyrgyz Republic	-9.3	-7.7	-15.5	-13.8	-17.4	-11.0	-17.0	-15.0						
Tajikistan	-9.6	-7.3	-9.2	7.7	-2.8	-6.0	-4.8	-5.5						
Turkmenistan	3.6	18.4	18.7	16.5	-2.9	-9.9	-13.3	-10.0						

Figure 8: Output structure, value added (% of GDP)
Source: World Bank, 2017

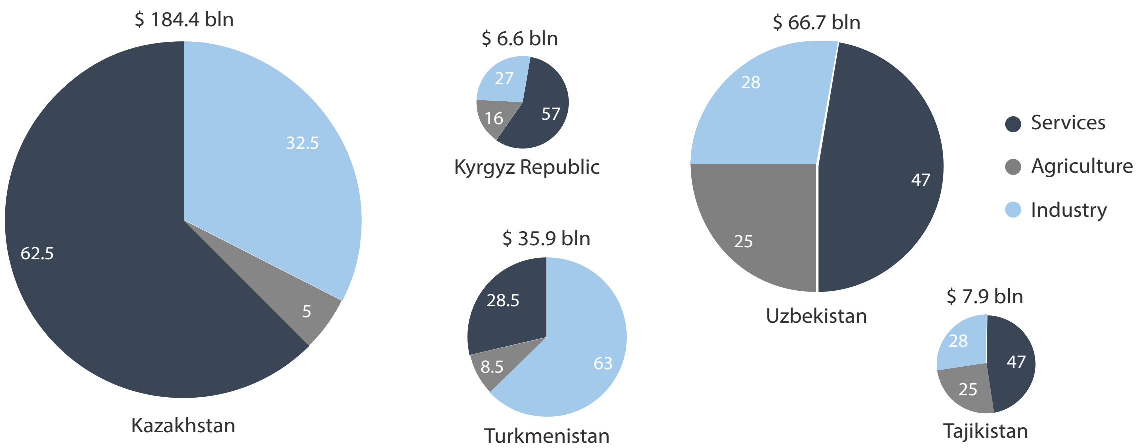


Figure 9: Consumption structure
Source: World Bank, 2017

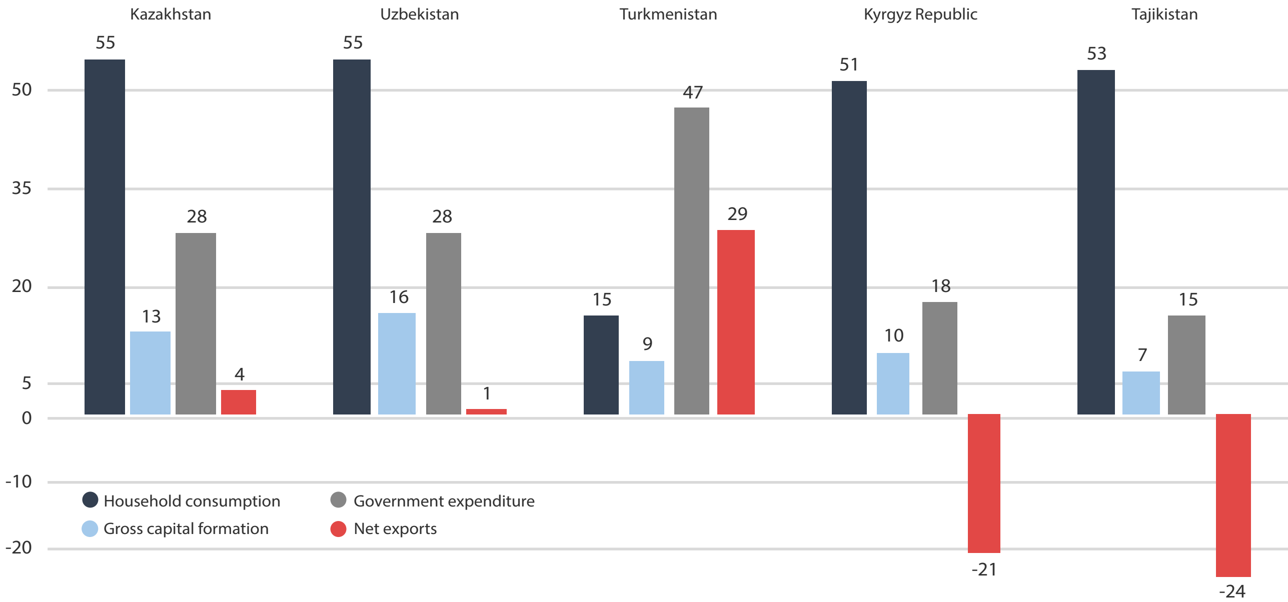


Table 2: Business climate

Country	2010	2011	2012	2013	2014	2015	2016[e]	2017[f]	2010	2011	2012	2013	2014	2015	2016[e]	2017[f]
	Economic freedom index[14]								Loans to GDP, %[12]							
Uzbekistan	47.5	45.8	45.8	46	46.5	47	46									
Kazakhstan	61	62.1	63.6	63	63.7	63.3	63.6		39.3	35.1	35.9	34.9	33.5	34.0		
Kyrgyz Republic	61.3	61.1	60.2	59.6	61.1	61.3	59.6		12.5	11.3	13.2	15.5	19.9	22.8		
Tajikistan	53	53.5	53.4	53.4	52	52.7	51.3		12.1	14.2	12.1	16.7	19.9	21.0		
Turkmenistan	42.5	43.6	43.8	42.6	42.2	41.4	41.9									
	Ease of Doing Business (Distance to Frontier)								Government Effectiveness, (-2.5 to +2.5)[13]							
Uzbekistan	39.4	41.2	43.6	46.4	48.5	59.2	62.7		-0.74	-0.72	-0.93	-0.94	-0.63	-0.68		
Kazakhstan	56.8	59.7	62.6	62.6	63.3	68.8	70.4		-0.43	-0.43	-0.43	-0.53	-0.02	-0.05		
Kyrgyz Republic	60.8	62.8	61.4	63.3	64.9	65.1	65		-0.63	-0.63	-0.64	-0.64	-0.84	-0.9		
Tajikistan	41.1	43.4	43.6	44.5	45	51.2	54		-0.9	-0.94	-0.92	-1.07	-0.74	-0.82		
Turkmenistan									-1.58	-1.62	-1.29	-1.31	-0.86	-0.87		
	Business Freedom Index[14]															
Uzbekistan	67.8	66.8	67.6	71.2	75.7	73.1	67.1									
Kazakhstan	73.5	74.3	72.9	71.8	74.4	73.7	72.3									
Kyrgyz Republic	76.6	75.4	74.1	73.2	74.2	73.7	65.3									
Tajikistan	57.4	60.7	61.6	61.7	58.4	65.4	61.1									
Turkmenistan	30	30	30	30	30	30	30									

[12] Domestic credit to private sector by banks (% of GDP), WDI and Central Banks of countries

[13] Worldwide Governance Indicators, World Bank 2017

[14] A scale of 0 to 100, 100 is free. The Heritage Foundation, 2016

Figure 10: Private sector's share in GDP, in %
Source: Respective National Statistics Committees, 2017

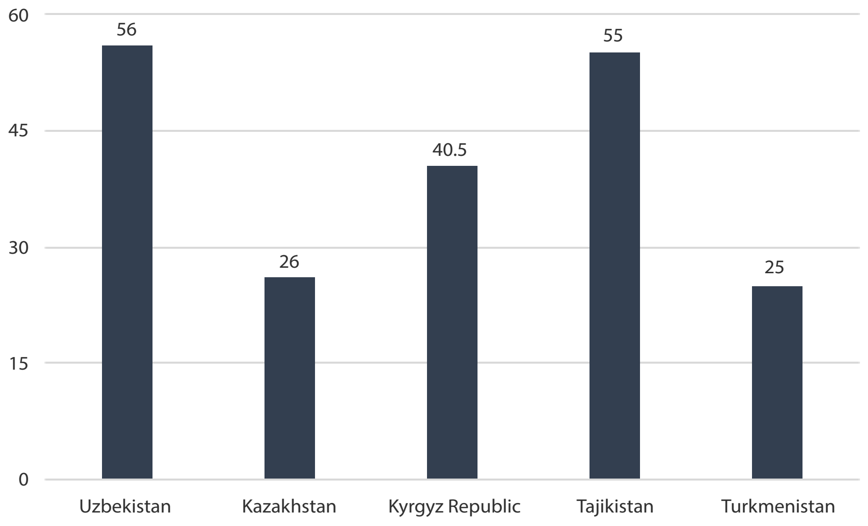


Figure 11: Taxation, in %
Source: PWC Tax Services, 2017

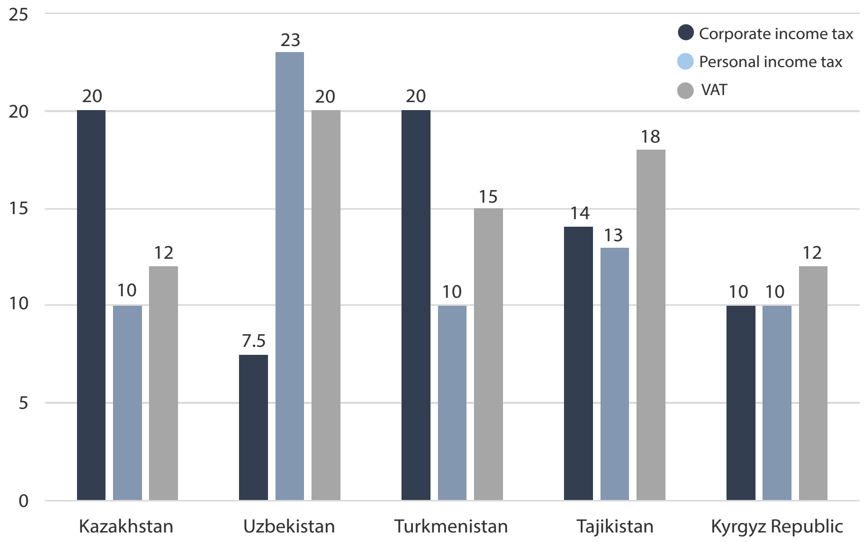


Figure 12: Corruption perception index, 0 - 100 (highy corrupt - very clean)
Source: World Bank, 2017

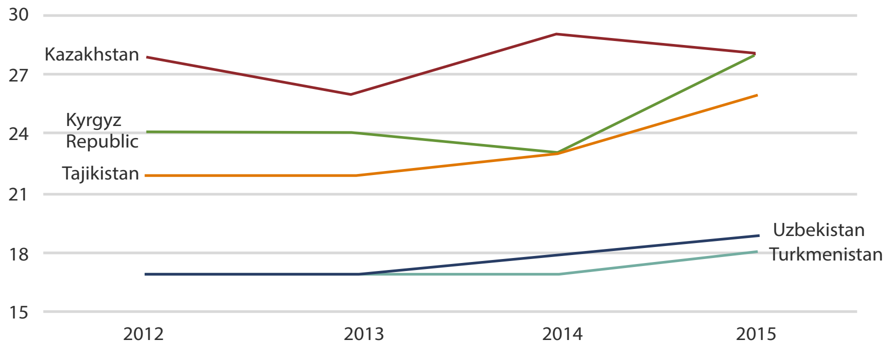


Table 3: Socio-economic Development
Source: World Bank, 2017

Country	2010	2011	2012	2013	2014	2015	2016[e]	2017[f]	2010	2011	2012	2013	2014	2015	2016[e]	2017[f]
Population, mln									**Labor force, % of population ages 15+ (ILO estimate)**							
Uzbekistan	28.6	29.3	29.8	30.2	30.8	31.3			60.8	61.1	61.4	61.6	61.9			
Kazakhstan	16.3	16.6	16.8	17.0	17.3	17.5			71.5	71.9	72.2	72.5	72.7			
Kyrgyz Republic	5.4	5.5	5.6	5.7	5.8	6.0			66.4	66.7	67.1	67.5	67.8			
Tajikistan	7.6	7.8	7.9	8.1	8.3	8.5			67.3	67.5	67.7	67.9	68.1			
Turkmenistan	5.0	5.1	5.2	5.2	5.3	5.4			60.6	60.9	61.2	61.5	61.8			
Income per capita, USD[15]									**Life expectancy at birth, years**							
Uzbekistan	4153	4470	4853	5244	5673	6086			67.9	68.0	68.1	68.2	68.3	68.4		
Kazakhstan	19690	21277	22392	23773	24845	25044			68.3	69.0	69.6	70.5	71.6	71.7		
Kyrgyz Republic	2733	2920	2922	3229	3351	3433			69.3	69.6	70.0	70.2	70.4	70.9		
Tajikistan	2080	2229	2386	2546	2704	2833			68.6	68.9	69.2	69.4	69.6	70.3		
Turkmenistan	9828	11360	12689	14027	15550	16532			65.0	65.2	65.3	65.5	65.6	65.7		
Population density, people per sq. km of land area									**Death rate, crude (per 1000 people)**							
Uzbekistan	67.1	69.0	70.0	71.1	72.3	73.6			4.9	4.9	4.9	4.8	4.9			
Kazakhstan	6.0	6.1	6.2	6.3	6.4	6.5			9.0	8.8	8.5	8.0	7.6			
Kyrgyz Republic	28.4	28.8	29.2	29.8	30.4	31.1			6.6	6.5	6.5	6.1	6.1			
Tajikistan	54.2	55.4	56.7	58.0	59.3	60.6			5.8	5.8	5.7	5.7	5.6			
Turkmenistan	10.7	10.9	11.0	11.2	11.3	11.4			7.8	7.8	7.8	7.8	7.8			

Figure 13: Population by gender, in %
Source: World Bank, 2017

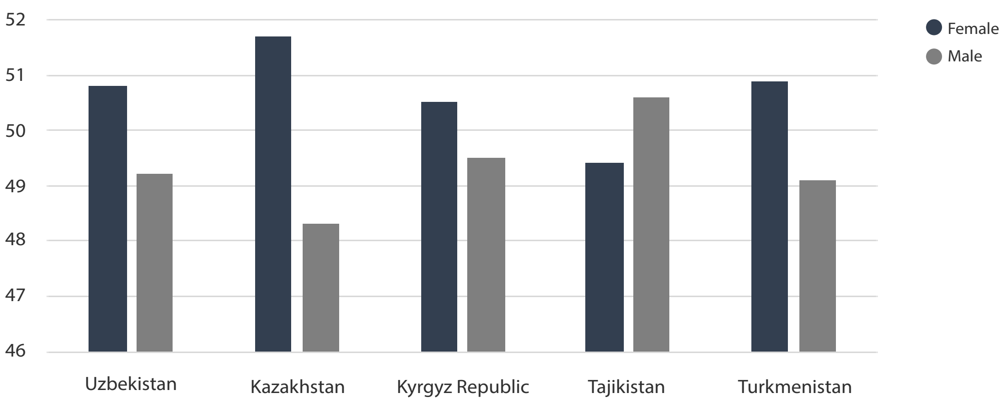
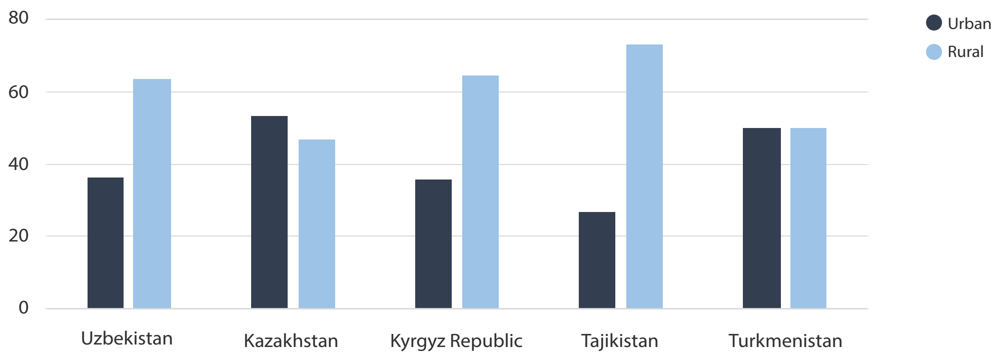


Figure 14: Urban vs rural population, in %
Source: World Bank, 2017



[15] GDP per capita, PPP (current international $), WDI

Figure 15: Human development index, the latest
Source: UNDP, 2017

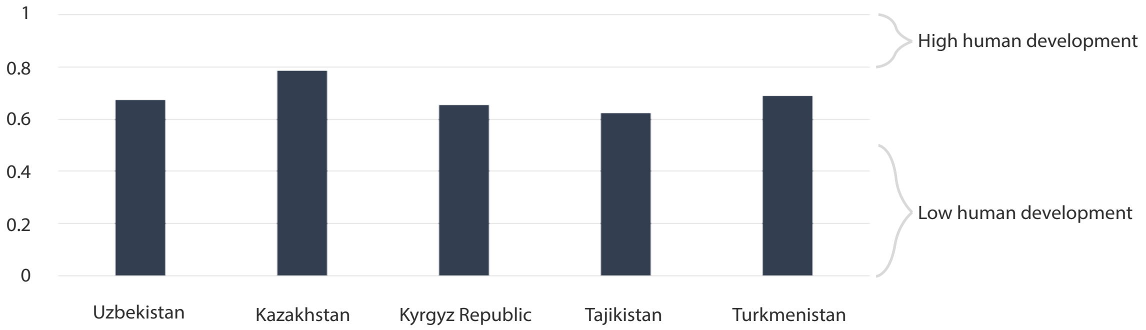


Figure 16: Share of population living below poverty line, in %
Source: World Bank, 2017

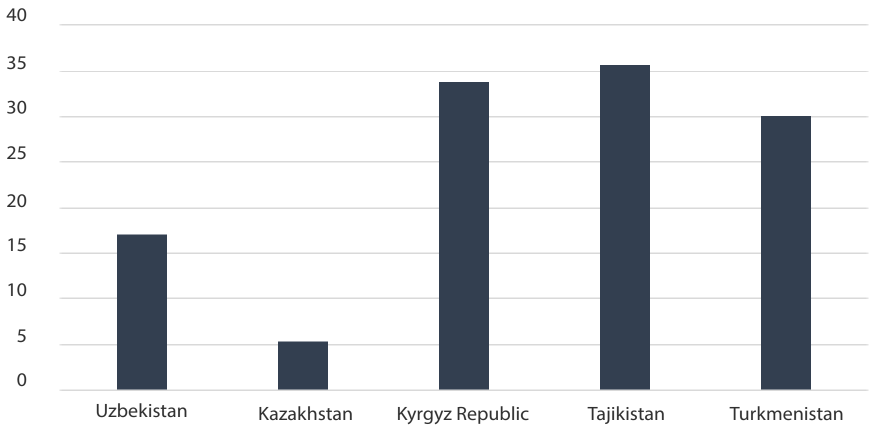


Table 4: Energy, Infrastructure and ICT

Country	2010	2011	2012	2013	2010	2011	2012	2013	2014	
	Electricity production from hydrocarbons[16]				Rail lines (total route-km)					Free Economic Zones
Uzbekistan	79.0	80.5	78.6	78.7	4227	4258	4192	4192	4192	3
Kazakhstan	90.3	90.9	91.8	91.9	14202	14184	14319	14319	14329	10
Kyrgyz Republic	8.2	6.7	6.5	6.5	417	417	417	417	417	10
Tajikistan	0.2	0.2	0.4	0.3	621	621	621	621	621	4
Turkmenistan	100.0	100.0	100.0	100.0	3115	3115	3115	3115	3115	4
	Electricity from renewable sources[17]				Annual fresh water withdrawal (bln cubic meters)					International Airports
Uzbekistan	21.0	19.5	21.4		56.0*				56.0[18]	11
Kazakhstan	9.7	9.1	8.4		20.7*				21.1	14
Kyrgyz Republic	91.8	93.3	93.5		8.0*				8.0	4
Tajikistan	99.8	99.8	99.6		11.5*				11.5	2
Turkmenistan					28.0*				28.0	4
	Electricity (bln.kWh 2014)[19] Consumption		Production		Arable land, as % of total land					
Uzbekistan	48		53		10.2	10.1	10.3	10.3		
Kazakhstan	91		99		10.6	10.8	10.9	10.9		
Kyrgyz Republic	11		14		6.7	6.7	6.7	6.7		
Tajikistan	12		16		6.0	6.1	6.1	6.1		
Turkmenistan	13		22.3		4.1	4.1	4.1	4.1		

[16] Electricity production from oil, gas and coal sources (% of total), WDI

[17] Electricity from renewable sources (% of total electricity output), WDI

[18] Annual freshwater withdrawals, total (billion cubic meters), WDI (available for years 2007 (*) and 2014)

[19] CIA World Factbook 2014-2015

Figure 17: ICT indicators, per 100
Source: World Bank, 2017

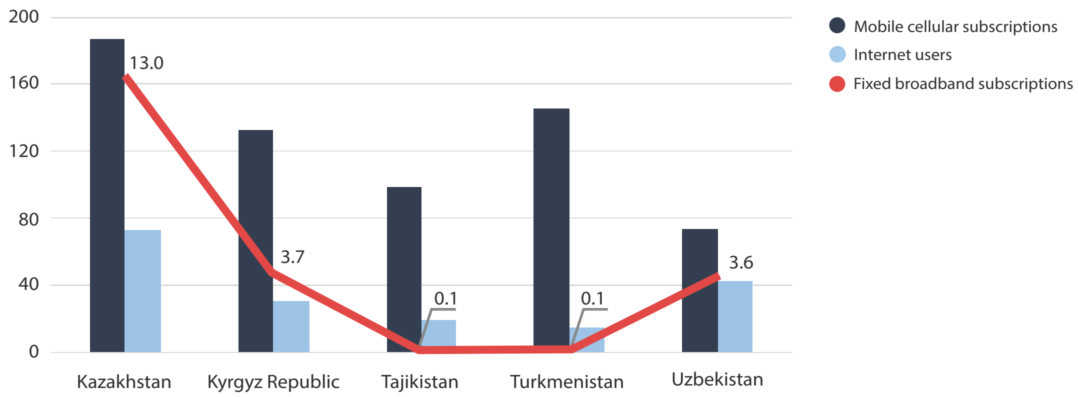


Figure 18: Energy intensity, MJ/$2011 PPP GDP
Source: World Bank, 2017

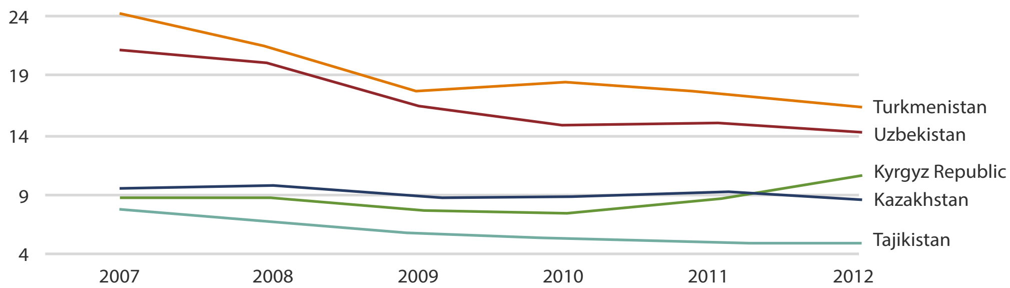


Table 5. Exports and imports in CA countries
Source: World Bank, 2017

Countries	Main exporting commodities	Main export partners	Main importing commodities	Main import partners
Uzbekistan	gas, ferrous and non-ferrous metals, cotton	China, Russia, Switzerland, Kazakhstan, Turkey	machinery and equipment, foodstuffs, chemicals, ferrous and nonferrous metals	China, Russia, South Korea, Kazakhstan, Turkey, Germany
Kazakhstan	oil and oil products, coal, uranium, chemicals, machinery, wheat, livestock	China, Russia, France, Germany, Italy, Greece	machinery and equipment, metal products, foodstuffs	China, Russia, France, Germany, Italy, Greece
Kyrgyz Republic	gold, cotton, livestock, textile, tobacco, mercury, uranium, electricity, machinery; shoes	Switzerland, Uzbekistan, Kazakhstan, Russia, China, Turkey	oil and gas, machinery and equipment, chemicals, foodstuffs	China, Russia, Kazakhstan, Turkey, South Korea
Tajikistan	aluminum, gold, zinc, lead ores, cotton	Turkey, Kazakhstan, Switzerland, Iran, Afghanistan, Russia, China, Italy	oil and gas, wheat, consumer and capital goods, grain and flour	Russia, Kazakhstan, the European Union, China, Ukraine
Turkmenistan	gas, crude oil petrochemicals, textiles, cotton fiber	China, Russia, Turkey	iron and steel pipes, machinery and equipment, chemicals, foodstuff	Turkey, Russia, China, UAE, Germany, Iran, Uzbekistan

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CENTIL'S CENTRAL ASIA RESEARCH GROUP (CARG)

CARG provides consultancy and analytical support on a broad array of issues, including market and sector-specific analyses, impact assessment and policy design, capacity building, and, business consulting for entities operating in or considering entry into the Central Asian region and Iran. Our consultancy and recommendations are grounded not only in international and regional best practices, but also in our expertise in data modeling and analysis.

Our network of consultants includes professionals with rich and diverse backgrounds, from private sector companies, international organisations, government institutions and the academic sphere. Importantly, all members of our team have either lived or currently live in the Central Asian region. They therefore bring unique and relevant perspectives and experiences to analysing and understanding the complex relationships and processes that underpin publicly available data and observations.

AUTHORS

Dinara Jarmukhanova
Dilshad Khabibullaev
Oybek Yuldashev
Rauf Salahodjaev
Jahongir Negmatov
Bekhzod Omanbayev