



With the global economy at a crossroads, which way will Central Asia go?

Central Asia Attractiveness Report
November 2022



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FOREWORD



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We are excited to present our first Central Asian Attractiveness report in a while. It is a particularly poignant time to be publishing a report, given the circumstances of recent times. Despite the last few years having been characterized by a pandemic, and followed soon thereafter by heightened geopolitical tensions in Europe, the region's FDI outlook appears promising.

Through the report you will see how a strong economic reform agenda is being driven across the region, with governments strongly focused on positioning their economies for sustainable growth. That entails, amongst other things, a recognition that the growth driving sectors of the future will require an enabling environment if they are going to help in the economic transformation process.

As the world becomes more digital and more focused on ESG, so national programs are needed to support the associated skills development needs, the legislative reforms required, along with a mindset that places foreign investment at the forefront of growth. After all, FDI attracts large capital inflows into the region, and in the process creates new jobs. In the three years to 2021, Central Asia attracted 192 projects, bringing in nearly \$18b, and creating close on 38,000 jobs in the process.

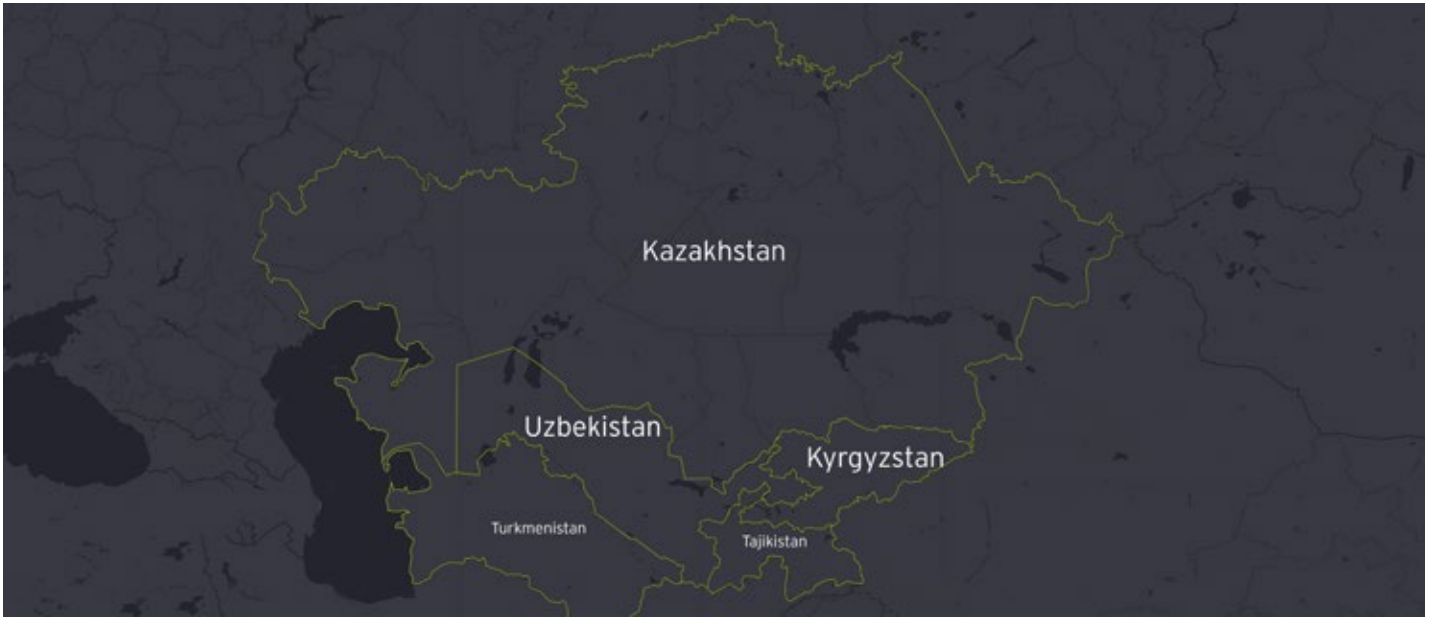
The opportunity is there for the region to tap into new growth sectors, as that can only enhance the region's overall ability to attract its share of global investment flows.

Despite the global geopolitical tensions currently playing out, we believe that Central Asia's geographic position places it in a unique spot. The region could tap into opportunities both in the western and the eastern blocks, as it has indeed done so up until now. Underlying all of this potential is confidence. With governments committing to further economic liberalization to minimize red tape and speed up decision making, confidence across the region rises, and as it does so, it unleashes sustainable growth which benefits the entire region.

1

The Central Asia region





Kazakhstan

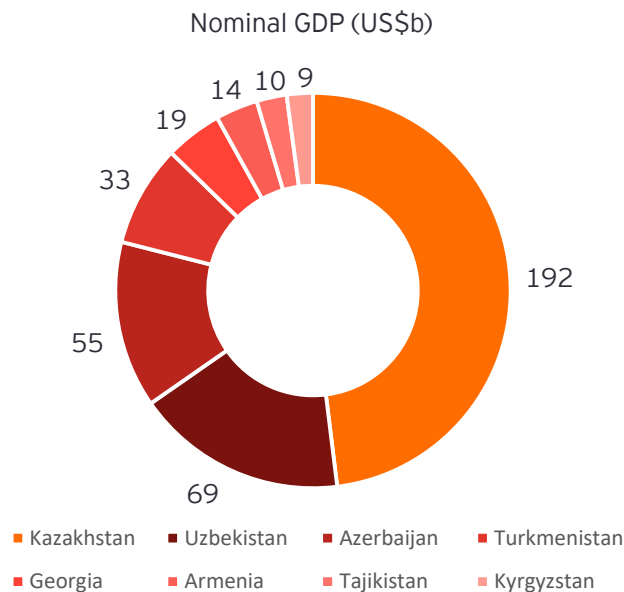
Population: 19 million
 Gross Domestic Product (GDP): US\$192.4b
 GDP growth (real): 4.0%
 GDP per capita: US\$10,801
 Central bank rate: 14.5%
 Exchange rate: 425.9 KZT/US\$
 Consumer Price Inflation (CPI): 8.0%
 Foreign Direct Investment (FDI) as% of GDP: 3.4%;

Uzbekistan

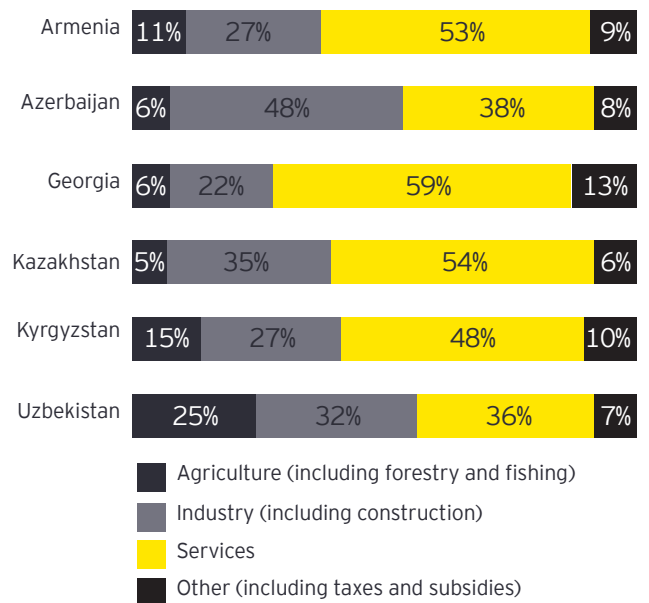
Population: 34.1 million
 GDP (nominal): US\$69.2b
 GDP growth (real): 7.4%
 GDP per capita: US\$3,408
 Central bank rate: 15.0%
 Exchange rate: 10,611 UZS/US\$
 Inflation (CPI): 10.7%
 FDI (as % of GDP)**: 8.3%

Kyrgyzstan

Population: 6.6 million
 GDP (nominal): US\$8.5b
 GDP growth (real): 3.6%
 GDP per capita: US\$1,134
 Central bank rate: 14%
 Exchange rate: 84.6 KGS/US\$
 Inflation (CPI): 11.9%
 FDI (as % of GDP)**: 2.7%



GDP by sector value-added contribution 2021



Source: Oxford Economics August 2022; the World Bank Data (for value-added by sector); Financial Times (for FDI data), EY analysis
 *all data for Kazakhstan, Uzbekistan and Kyrgyzstan is for 2021; exchanges rate is the period average; central bank interest rates are the current benchmark rates;
 **calculated as % of nominal GDP and based on FDI capital investment in 2019 (from Financial Times data);
 #Turkmenistan and Tajikistan data not available from the World Bank

2

Economic overview

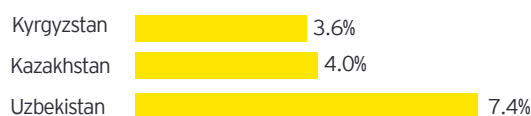
Geopolitical conflict, high inflation and rising interest rates are clouding the region's growth outlook



Central Asia, in line with the rest of the globe, is struggling to contain high inflation, which along with rising interest rates, exacerbated by its strong links to Russia in a time of heightened regional conflict, is clouding the region's growth outlook. While the largest economy Kazakhstan is more cushioned, given its favorable commodity exports and lower reliance on inbound remittances, it too will feel some of the strain of a weaker Russian economy as the latter feels the strain from the Ukraine conflict.

What the region's individual countries largely have in common is a realization that fundamental reforms are key to driving

Recovery in GDP growth in 2021 from COVID-19 will be disrupted by the Ukraine conflict. Real GDP growth 2021 (y-o-y, %)



Central banks are tightening monetary policy to protect the currency's value and curb inflation. Central bank interest rates 2021 (%)



Source: Oxford Economics August 2022

growth and recovering from the fallout of the conflict close to its borders. The three countries we cover in this report all illustrate a strong need and desire to drive economic reform, from privatization to incentivizing much-needed diversification efforts. They have prioritized sectors, which relying only they see as critical to growth, and understand that relying only on extractives and commodities will not suffice. Some are adopting more prudent macro-economic policies, by, for example, limiting national debt. With that in mind, they are shifting gears as they strive toward a future-fit economy.

Inflationary pressures follow higher global food, fuel and other commodity prices. Consumer prices inflation 2021 (y-o-y, %)



The Russia-Ukraine conflict will strain employment levels. Unemployment rate 2021 (%)



The Russia-Ukraine conflict has severely impacted Central Asia's critical inbound remittances and is straining growth prospects.

Country	Remittances inflows in US\$b (2020)	Remittances as a percentage share of GDP (2020)	Remittances as a percentage of exports and services (2020)	Russia's share of inbound remittances (1Q-3Q 2021)	Projected remittances growth (2022)
Armenia	1.3	10.5%	35.3%	59%	-19%
Azerbaijan	1.4	3.3%	9.2%	62%	-23%
Georgia	2.1	13.3%	35.6%	18%	-5%
Kazakhstan	0.4	0.2%	0.7%	51%	-17%
Kyrgyzstan	2.4	31.3%	99.5%	83%	-33%
Tajikistan	2.2	26.7%	155.2%	58%	-22%
Uzbekistan	7.0	11.6%	48.0%	55%	-21%

Source: "Russia-Ukraine Conflict: Implications for Remittance flows to Ukraine and Central Asia," KNOMAD Policy Brief 17, 4 March 2022, © 2022 The World Bank Group

2.1 Kazakhstan

Growth will slow on the back of high interest rates and weaker remittances, but trade remains robust

Kazakhstan's economy was recovering from the impact of the COVID-19 pandemic, aided by strong recovery buffers and a quick vaccination uptake. Its real GDP grew by 4% in 2021, after contracting by 2.5% in 2020. But the Russia-Ukraine conflict has likely hurt investor confidence across the region.

Geopolitical tensions pose some uncertainty for Kazakhstan's growth outlook, with GDP expected to slow to 2.6% in 2022 and further down to 0.9% in 2023, before recovering to 5.3% in 2024, assuming the Ukraine conflict is resolved. So far, government data indicates that growth in the first five months – January to May 2022 – was a robust 4.6%¹, supported by higher fixed investment in the education and social support sector, as well as strong trade and services activity, indicating that thus far, the country has proved somewhat resilient to the conflict.

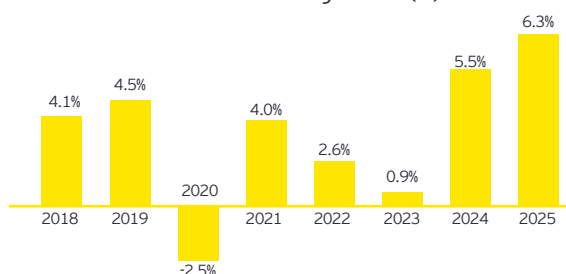
¹"Kazakh Economy Grows 4.6 Percent in Five Months," The Astana Times, <https://astanatimes.com/2022/06/kazakh-economy-grows-4-6-percent-in-five-months/>, accessed 23 June 2022





The government's recently implemented pro-business reforms to facilitate economic diversification are designed to boost growth over the medium term. The Astana International Finance Center (AIFC)² was established in 2018, aimed at supporting Kazakhstan's growth and modernization, attracting capital, providing companies with secure investment instruments, and improving business environment. It aims to develop Kazakhstan's nonbanking financial sector to become a financial hub for Central Asia, the Eurasian Economic Union, the Caucasus, West China, Mongolia and Eastern Europe. AIFC's strategic pillars include capital markets, asset management, financial technology, Islamic finance, private banking and green finance. The center today has more than 1,500 companies registered³ and had amassed a market capitalization of more than US\$25b by 2021.⁴

GDP real annual growth (%)

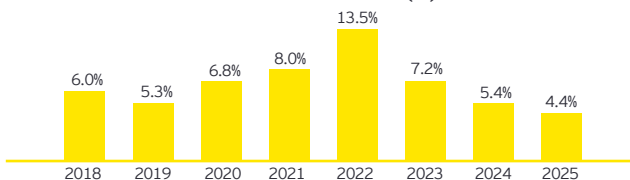


Source: Oxford Economics August 2022

Inflationary pressures follow the global trend, with sharp rises in food and fuel prices

Inflationary pressures continue to build in Kazakhstan. The disruptions caused in the aftermath of COVID-19 pushed inflation from 5.2% in 2019 to 8% in 2021. Inflation in Kazakhstan already hit 14% in May 2022, with food inflation reaching 19%.⁶ It is forecast to peak at 13.5% in 2022, fueled by the Ukraine crisis – which has already seen a significantly weaker currency, higher transport costs due to regional logistics disruptions and rising world food prices owing to recent geopolitical developments.

Inflation CPI (%)



Source: Oxford Economics August 2022

National bank maintains tight monetary policy to curb inflation and stabilize the currency

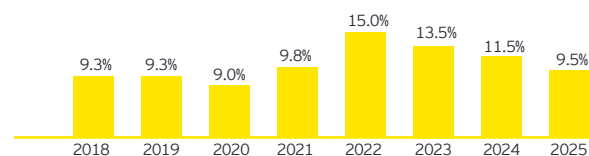
As a result of rising inflationary pressures and currency depreciation, the National Bank of Kazakhstan (NBK) has adopted a hawkish monetary policy. In February it hiked interest rate by 325 basis points (bps) from 10.25% to 13.5%⁷ after the conflict commenced, to limit fallout from Russia's ruble depreciation.

By March, the tenge had already depreciated by 15% to the US dollar. The National bank also launched the Tenge Deposit Protection Program to support household tenge savings by offering a premium rate, funded through national finances.⁸ These measures helped maintain tenge assets attractiveness, aided confidence and helped the currency to rebound to pre-conflict levels.

In response to continued rising inflation, the National bank further tightened monetary policy, raising the benchmark interest rate by additional 50 bps each in April 2022⁹ and July 2022 to reach 14.5%.¹⁰

The bank has signaled further interest rate hikes in 2022, with monetary policy expected to remain

National bank interest rate (%)



Source: Oxford Economics August 2022

A falling budget deficit will support greater social spending

Kazakhstan's 3.1% budget deficit in 2021 was lower than 2020's 4.0%, driven by significant pandemic relief spend. The deficit is expected to fall below 3% this year, assuming the economy proves more resilient to the Ukraine conflict than initially feared. It is projected to fall even further to about 2.3% of GDP until 2025, comfortably in line with International Monetary Fund (IMF) recommendations. This will provide fiscal space for greater social spending initiatives in line with government's reform agenda.

² "Objectives," Astana International Financial Centre, <https://aifc.kz/tseli/>, accessed 8 August 2022

³ "Welcome to AIFC," Astana International Financial Centre, <https://aifc.kz/>, accessed 8 August 2022

⁴ "Nur-Sultan: Financial Heart of Central Asia," The Astana Times, <https://astanatimes.com/2021/09/nur-sultan-financial-heart-of-central-asia/>, accessed 24 June 2022

⁵ "Kazakhstan's Economic Growth Accelerates in First Quarter," The Astana Times, <https://astanatimes.com/2022/04/kazakhstan-economic-growth-accelerates-in-first-quarter/>, accessed 23 June 2022

⁶ "Kazakhstan PM urges to step up work to curb inflation," Kazinform, https://www.inform.kz/en/2-3-years-required-to-complete-kazakh-russian-border-demarcation-process-fm_a3992648, accessed 24 June 2022

⁷ "Kazakhstan orders unscheduled 325bp hike," Central Banking, <https://www.centralbanking.com/central-banks/monetary-policy/7933616/kazakhstan-orders-unscheduled-325bp-hike>, accessed 24 June 2022

⁸ "Kazakh Government, National Bank Prepare Anti-Crisis Plan to Address Negative Impact on Economy," The Astana Times, <https://astanatimes.com/2022/02/kazakh-government-national-bank-prepare-anti-crisis-plan-to-address-negative-impact-on-economy/#:~:text=To%20ensure%20financial%20market%20stability,the%20expense%20of%20the%20budget>, accessed 27 June 2022

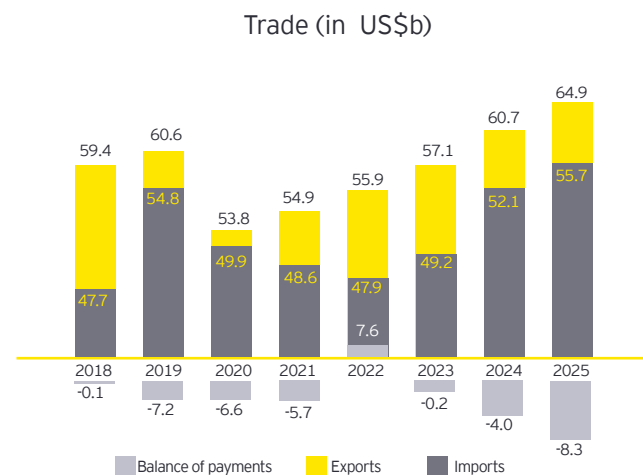
⁹ "Kazakhstan central bank hikes main rate, sees room for more tightening," Reuters, <https://www.reuters.com/world/middle-east/kazakhstan-central-bank-says-raises-policy-rate-140-2022-04-25/>, accessed 27 June 2022

¹⁰ "Central bank maintains policy," Focus-Economics, <https://www.focus-economics.com/country-indicator/kazakhstan/interest-rate#:~:text=September%205%2C%202022%20at%20its%20latest%20meeting%20on,to%2018-month%20low%20in%20July%20August%2015%2C%202022>, accessed 27 June 2022

Despite the conflict and Russian sanctions, Kazakhstan's trade is booming

Russia and Belarus are crucial trade and investment partners for Kazakhstan, the three-forming part of the Eurasian Economic Union (EaEU) trade bloc. Russia supplies 40% of Kazakhstan's imports (worth US\$14b), while its exports to Russia amount to US\$6b per annum.¹¹ While the spillover from sanctions imposed on Russia and Belarus over the Ukraine conflict will hurt Kazakhstan's trade, the country will benefit from higher oil, metals, wheat and other raw material prices. This has already helped the current account deficit to fall to -3.0% of GDP in 2021, from -3.9% in 2020. Thus far, Kazakh Bureau of National Statistics data shows that foreign trade grew by 41% to US\$51b in the first five months of 2022,¹² despite disruption to the Caspian Pipeline consortium (CPC) pipeline and the Ukraine conflict.

In the longer term, Kazakhstan could also benefit from Russian companies importing via Kazakhstan to avoid trade blockades, while some multinationals consider establishing headquarters in Kazakhstan to continue doing business with Russia and Belarus.



Source: Oxford Economics August 2022

Stable government and new economic reforms aim to aid growth

After government lifted price caps on liquefied gas prices in January 2022, nation-wide mass protests and social unrest followed, which led President Kassym-Jomart Tokayev to announce crucial institutional reforms and launch the "New Kazakhstan: The Path of Renewal and Modernization" development plan to restructure the economy.¹³

The plan included several key priorities, including raising economic growth and inclusion by:

- ▶ Promoting economic diversification
- ▶ Developing the private sector
- ▶ Reducing corruption
- ▶ Improving governance

Some of the key structural socioeconomic reforms are listed below:

- a. Reversal and postponement by one year of the liberalization of liquefied petroleum gas (LPG) prices
- b. Implementation of 180-day price controls for liquefied petroleum gas LPG, gasoline, diesel and basic food products; moratorium on home utility price increases and rent subsidies for low-income residents; freeze of natural gas prices until 2024
- c. Increased excise taxes on wholesale fuel sales (except for aviation) and mining tax (metals sector)
- d. Stepped up efforts to reduce tax evasion and repatriate funds transferred abroad illegally
- e. New fund to support social programs financed by private contributions
- f. Anti-inflation measures to reduce the role of intermediaries, stimulate production, improve storage and logistics, regulate foreign trade, and enhance competition
- g. Preparation of new laws for individual bankruptcy and public-private partnerships
- h. Privatizations and state-owned enterprise (SOE) reforms, including new public procurement procedures
- i. Adoption of an anti-corruption policy concept and action plan

Source: Republic of Kazakhstan: 2021 Article IV Consultation-Press Release; Staff Report; Staff Statement; and Statement by the Executive Director for Kazakhstan," International Monetary Fund, © 2022 INTERNATIONAL MONETARY FUND"

Sustainability and climate change are crucial to long-term growth

Kazakhstan faces climate energy challenges due to its large dependence on extractive and hydrocarbon inputs, and high per-capita greenhouse gas emissions.¹⁴ According to the World Bank, Kazakhstan ranks 17th globally in terms of per-capita CO₂ emissions. Coal accounts for almost 70%¹⁵ of the country's electricity generation, while the share of renewable sources stands at a mere 3%.¹⁶ The government has announced measures to promote sustainable and inclusive growth, committing to reduce greenhouse gas emissions by 15% in 2030 (from 1990 levels) and achieve carbon neutrality by 2060. The National Economy Ministry is implementing the Investment Policy 2026, which prioritizes, among others, the strategy for achieving carbon neutrality by 2060.

¹¹ "New Kazakhstan Action Plan," Eurasia Briefing: Kazakhstan, Macro-Advisory Eurasia Strategic Consulting, May 2022, © 2022 Macro-Advisory Ltd
¹² "Kazakhstan's Foreign Trade Demonstrates Steady Growth, Reaches \$51 Billion in Five Months," The Astana Times, <https://astanatimes.com/2022/07/kazakhstan-foreign-trade-demonstrates-steady-growth-reaches-51-billion-in-five-months/>, accessed 27 June 2022
¹³ "New Kazakhstan Action Plan," Eurasia Briefing: Kazakhstan, Macro-Advisory Eurasia Strategic Consulting, May 2022, © 2022 Macro-Advisory Ltd
¹⁴ "CO₂ emissions (metric tons per capita) - Kazakhstan," The World Bank, <https://data.worldbank.org/indicator/EN.ATM.CO2E.PC?locations=KZ>, accessed 25 June 2022
¹⁵ "Kazakhstan has set out ambitious and welcome clean energy transition plans but must overcome historical reliance on fossil fuels, IEA review says," The International Energy Agency, <https://www.iea.org/news/kazakhstan-has-set-out-ambitious-and-welcome-clean-energy-transition-plans-but-must-overcome-historical-reliance-on-fossil-fuels-iaea-review-says>, accessed 28 June 2022
¹⁶ "Kazakhstan: 3% of all energy generated by renewable sources in 2020," Energy Central, <https://energycentral.com/news/kazakhstan-3-all-energy-generated-renewable-sources-2020>, accessed 28 June 2022



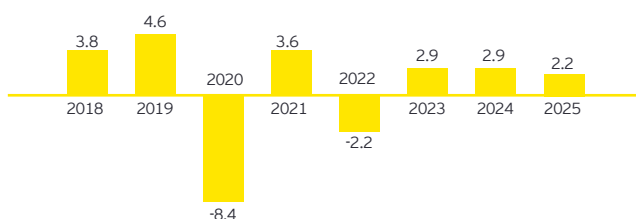
2.2 Kyrgyzstan

Central banks hike interest rates to tame inflation and stabilize currencies

Kyrgyzstan's GDP contracted by 8.4% in 2020 due to COVID-19. Growth recovered in 2021, up by 3.6%. However, the recovery is expected to be short-lived as the impact of sanctions hit Russia, Kyrgyzstan's main trading partner. GDP should shrink by 2.2% in 2022 due to sharp declines in payment flows from Russia. According to Oxford Economics, remittances from Russia account for one-third of Kyrgyzstan's GDP, so sharply falling remittances will have a severe knock-on effect.

Recovery in the medium term will largely depend on how geopolitical events unfold. Growth is forecast to remain in the 2% to 3% range between 2023 and 2025, low by recent standards. Trade could provide some upside to growth as gold exports rise, while a pickup in stalled infrastructure projects will lead to higher import demand.

GDP real annual growth (%)

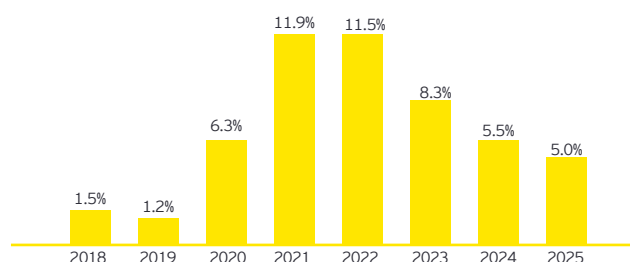


Source: Oxford Economics May 2022

Rising prices National bank leads hike interest rates to tame inflation and support currency stability

Inflationary pressures are rising, driven by a 20% increase in fuel and gas prices, which have knock-on impacts on food and other essential commodity prices.¹⁷ Inflation was expected to peak at 11.9% in 2021 (from 6.3% in 2020), but rising global food and energy prices will keep inflation elevated in 2022. Current projections are that price rises will fall in 2023, but much depends on global growth and geopolitical uncertainty.

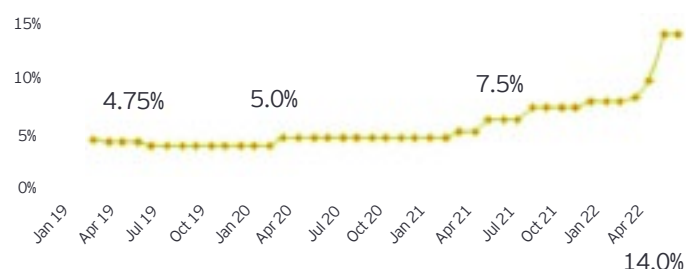
Inflation (%)



Source: Oxford Economics May 2022

Kyrgyzstan's currency – the som – is tightly linked to the Russian ruble. As the Ukraine conflict broke, Kyrgyzstan's som depreciated sharply in tandem with the ruble. To counter the steep currency depreciation and rising inflation, the central bank raised benchmark interest rates twice – to an all-time high of 14%.¹⁸ The spike in interest rates, along with the strengthening Russian ruble, reversed some of the losses incurred by Kyrgyzstan's som, but the currency remains highly volatile to any further fluctuations in the ruble.

Central bank policy rate (%)



Source: The National Bank of the Kyrgyz Republic

An anti-crisis action plan aims to stimulate the private sector investment

In March 2022, Kyrgyzstan launched an anti-crisis action plan, with expected expenditure of KGS126b (approximately US\$1.5b).¹⁹ This includes a stimulus for the private sector and diversifying essential goods import sources. The plan will improve food security and social support, increase employment, support the private sector, attract foreign investment, and boost trade.

¹⁷ "Kyrgyz Republic Economy to Slow in 2022, Recover Slightly in 2023 Despite Risks – ADB," Asian Development Bank, <https://www.adb.org/news/kyrgyz-republic-economy-slow-2022-recover-slightly-2023-despite-risks>, accessed 4 July 2022

¹⁸ "NBKR policy rate," National Bank of the Kyrgyz Republic, https://www.nbkr.kg/index1.jsp?item=123&lang=ENG&begin_day=01&begin_month=01&begin_year=2020&end_day=20&end_month=07&end_year=2022, accessed 4 July 2022

¹⁹ "Anti-crisis plan of Cabinet estimated at 126 billion soms," 24.kg, https://24.kg/english/228466_Anti-crisis_plan_of_Cabinet_estimated_at_126_billion_soms/, accessed 4 July 2022



2.3 Uzbekistan

GDP growth to slow in 2022, as remittances and exports slow

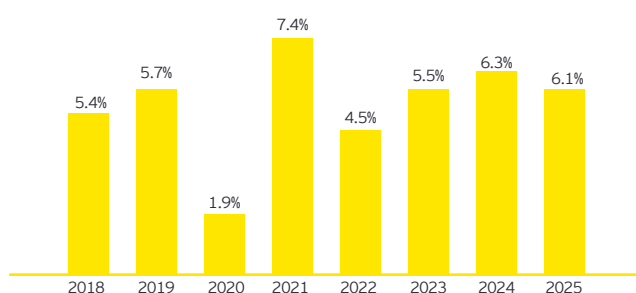
Uzbekistan's economy grew strongly in 2021 fueled by a surge in private consumption and strong investment. Making up a large share of GDP, both the services (39%) and industrial (27%) sectors rebounded, rising by 9.2% and 8.7% respectively in 2021, after a tepid 0.7% and 0.9% rise in 2020.²⁰

But in the first quarter of 2022, Uzbekistan's growth slowed to 5.8% after the Russia-Ukraine conflict commenced, and sanctions were imposed on Russia, hurting Uzbekistan's trade, investment and financial flows.²¹ In addition, inflationary pressures due to supply chain disruption hurt real-income levels, resulting in weaker private consumption.

Russia was the country's largest trade partner in 2021 and Ukraine was the ninth largest. Remittances constituted 12% of Uzbekistan's GDP in 2021, with 70% of these originating in Russia.²² Uzbekistan faces both weaker exports and lower remittances.

The country's medium-term outlook is based on a diversification strategy to reduce dependence on external remittances and boost investment by incorporating business-friendly policies. Ensuring macroeconomic stability and implementing structural reforms aims to accelerate growth to between 5% and 6% per year.

GDP real annual growth (%)



Source: Oxford Economics August 2022

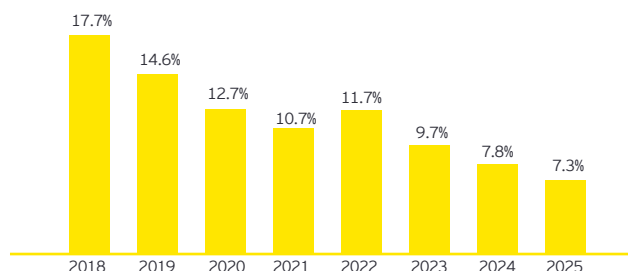
Inflation will escalate in 2022, led by spiraling food and housing prices

Inflation has hovered in double-digit territory through the last few years, falling to 10.7% in 2021. In February, inflation fell to 9.7%, the first single-digit reading since 2017²³. But this proved to be short-lived. By May, inflation sat at 11%, despite being cushioned from rising energy prices, as the country is energy self-sufficient.²⁴

Trade and logistics disruptions, coupled with the return of laborers from Russia will pressure prices upward. Inflation is expected to average at 11.7% in 2022, before slowing to 9.7% in 2023.

Despite inflation still rising, the central bank cut its policy rate from 17% to 16% in June 2022 and further to 15% in July 2022, aided by a relatively stable exchange rate.²⁵ To stabilize prices, government aims to increase the supply of products via alternative import sources.²⁵

Inflation CPI (%)



Source: Oxford Economics August 2022

External trade is highly dependent on the geopolitical outlook

Russia accounts for over 20% of imports and 12% of Uzbekistan's exports. Due to disruption in supply chains, logistical challenges have multiplied, as a large share of Uzbekistan's trade with the world passes through Russia. Alternative trade routes are few and costly²⁶.

A prolonged Russian recession could further pressure Uzbekistan's exports and remittances, posing a risk of slower growth and weaker employment. The food sector is particularly vulnerable, as 30% of food imports are Russian and 40% of food exports head to Russia.²⁷

²⁰ "Uzbekistan," ADB Asia Regional Integration Center, <https://aric.adb.org/uzbekistan#:~:text=GDP%20grew%20by%207.4%25%20in,growth%20in%20construction%20and%20agriculture>, accessed 2 July 2022; "Country Economic Forecast - Uzbekistan," Oxford Economics, accessed 2 July 2022

²¹ "Development of the economy of Uzbekistan in the first quarter of 2022," UZ Daily, <https://www.uzdaily.uz/en/post/72579>, accessed 2 July 2022

²² Uzbekistan - Country Commercial Guide," International Trade Administration, <https://www.trade.gov/country-commercial-guides/uzbekistan-market-overview>, accessed 2 July 2022

²³ "Inflation Trend," Eurasia Briefing: Uzbekistan, Macro-Advisory Eurasia Strategic Consulting, April 2022, © 2022 Macro-Advisory Ltd

²⁴ "Central Bank: Annual inflation rate amounted to 11% in May," KUN.uz, <https://kun.uz/en/news/2022/06/09/central-bank-annual-inflation-rate-amounted-to-11-in-may>, accessed 2 July 2022

²⁵ "At a meeting on June 9, 2022, the Board of the Central bank decided to cut the policy rate by 1 percentage point, to 16 percent per annum," The Central Bank of the Republic of Uzbekistan, https://cbu.uz/en/press_center/releases/656053/, accessed 3 July 2022

²⁶ "Republic of Uzbekistan: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Uzbekistan," IMF, <https://www.imf.org/en/Publications/CR/Issues/2022/06/22/Republic-of-Uzbekistan-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-519919>, accessed 3 July 2022

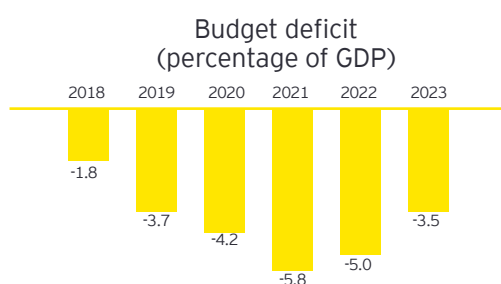
²⁷ Trade disruption," Eurasia Briefing: Uzbekistan, Macro-Advisory Eurasia Strategic Consulting, April 2022, © 2022 Macro-Advisory Ltd





New structural reforms aim to limit fiscal deficits and cap public debt

The budget deficit widened to 5.8% of GDP in 2021, after government's sizable support during the pandemic to health care, education, expansion of the social safety net and public investment.²⁸ Authorities are now implementing fiscal consolidation. But this may prove difficult to achieve, as higher revenues from gold sales offset weaker revenue growth, as GDP growth slows. In addition, vulnerable households still require additional support amid falling remittances and rising food prices.



Source: State Committee of the Republic of Uzbekistan Statistics, Bank of Uzbekistan, Macro-Advisory estimates

Reform plans include liberalizing the economy, privatizing state-owned assets and transforming leading industries.

Uzbekistan will begin withdrawing state subsidies on gas and electricity, as part of broader energy reforms to encourage competition and stimulate private-sector participation. This, in turn, will enable market efficiencies by reducing operating costs, and improving generation, transmission and distribution efficiency.²⁹

The introduction of a mandatory and transparent, online public procurement platform will aid the privatization process. Over time, reducing state control in major industries, like energy and banking, will attract private investment and boost revenues, allowing for lower budget deficits.

A new law will limit public and publicly guaranteed debt to 60% of GDP, while authorities are planning new fiscal rules to cap budget deficits, new state guarantees and commitments in public-private partnerships.³⁰

Government also plans to raise the renewable energy share of total power supply from 10% in 2020 to 25% in 2030.³¹

Some of the key structural socioeconomic reforms are listed below:

- ▶ Cotton and wheat prices were liberalized. Reduction in crop placement requirements is helping to boost and diversify agricultural production.
- ▶ Public procurement was strengthened with the introduction of a mandatory and transparent online public procurement platform.
- ▶ The social safety net was greatly expanded during the pandemic, more than doubling the number of recipients, with its targeting improved.
- ▶ A start was made with privatization, with the sale of three midsize SOEs, as well as many smaller assets.
- ▶ Corporate governance at SOEs and state-owned banks was improved with the appointment of independent members to their supervisory boards.
- ▶ The state-owned gas and electricity companies were unbundled into separate production, transmission and distribution companies, to pave the way for further energy sector reforms.
- ▶ A new insolvency law was enacted, regulating insolvency of both legal entities and individuals, and enhancing creditor rights.

Source: Republic of Uzbekistan: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Uzbekistan," IMF, <https://www.elibrary.imf.org/view/journals/002/2022/189/article-A001-en.xml#A001bx02>, accessed 3 July 2022

Creation of the Tashkent International Financial Center

Uzbekistan has announced the creation of the Tashkent International Financial Center, which will contribute to solving two national development objectives:

- ▶ Become a key instrument of investment policy;
- ▶ Become a "positive coefficient" for implementing a large-scale program of economic and social reforms in Uzbekistan.

²⁸ "Republic of Uzbekistan: 2022 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Uzbekistan," IMF, <https://www.elibrary.imf.org/view/journals/002/2022/189/article-A001-en.xml#A001bx02>, accessed 3 July 2022

²⁹ "Uzbekistan 2022 Energy Policy Review," The International Energy Agency, <https://iea.blob.core.windows.net/assets/0d00581c-dc3c-466f-b0c8-97d25112a6e0/Uzbekistan2022.pdf>, accessed 3 July 2022

³⁰ "IMF Staff Concludes Visit to Uzbekistan," IMF, <https://www.imf.org/en/News/Articles/2021/12/10/pr21369-imf-staff-concludes-visit-to-uzbekistan>, accessed 3 July 2022

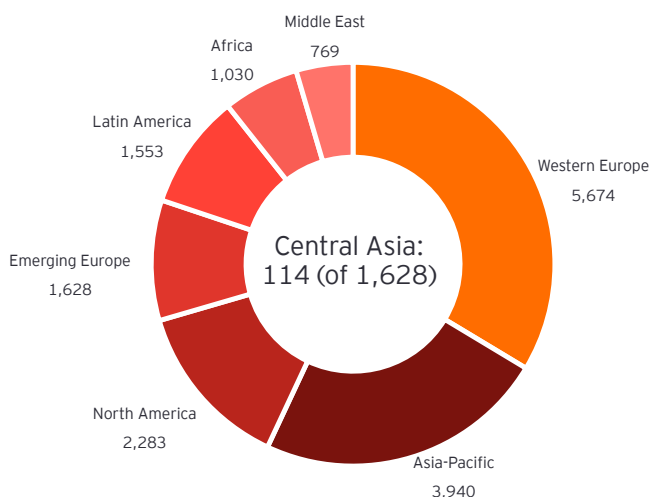
³¹ "Share of renewable energy sources in Uzbekistan's total electricity to reach 25% by 2030," KUN.uz, <https://kun.uz/en/news/2020/12/07/share-of-renewable-energy-sources-in-uzbekistans-total-electricity-to-reach-25-by-2030#:~:text=Uzbekistan%20plans%20to%20increase%20the,Energy%20said%20in%20a%20statement.&text=It%20is%20noted%20that%20today,is%20generated%20from%20traditional%20sources>, accessed 8 August 2022

3

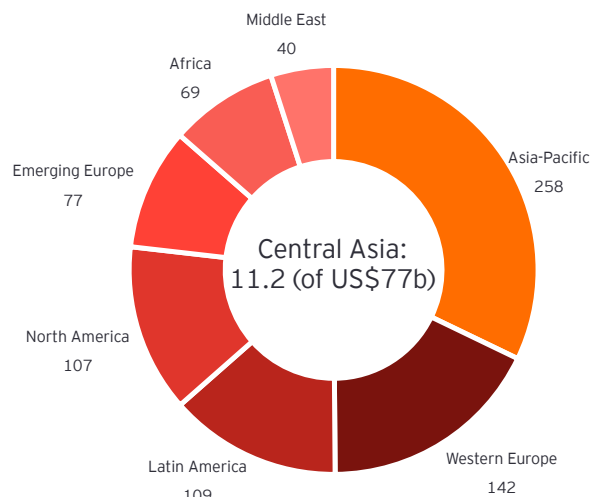
FDI highlights

Central Asian FDI has slowed sharply since 2019, hurt initially by COVID-19 and more recently by geopolitical conflict

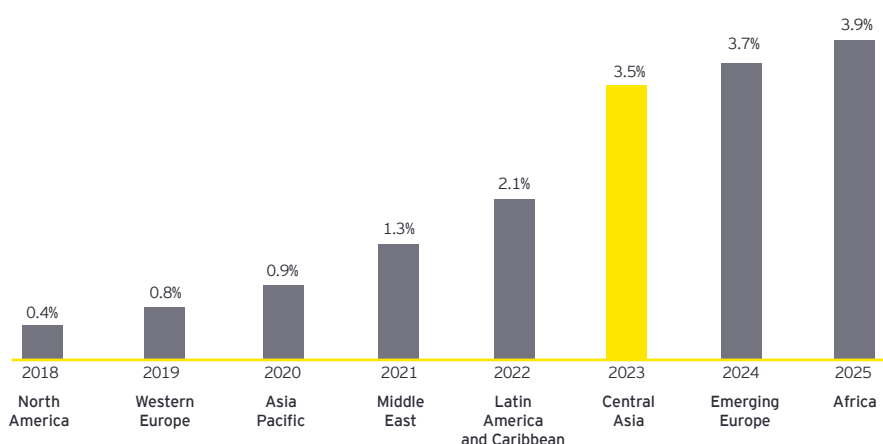
FDI: number of projects 2019*



FDI: capital investments – 2019 (US\$b)



FDI as a share of GDP in 2019** (%)



Source: FDi Markets (Financial Times), Oxford Economics, EY analysis

*2019 was used to compare the global FDI as it was the most complete dataset prior to the outbreak of COVID-19

**GDP mentioned is nominal gross domestic product measures in US\$ terms

FDI in Central Asia slowed significantly in 2021, impacted by the COVID-19 pandemic.

Central Asian FDI:

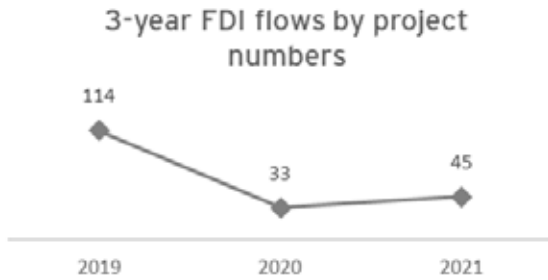
There were 45 projects in 2021, creating 4,779 jobs and attracting US\$2.6b in new projects*

Year	Projects	Jobs created (thousands)	Capital investment (US\$b)*	FDI score**
2019	114	27.2	11.2	43.0
2020	33	5.7	4.1	12.2
2021	45	4.8	2.6	15.9
Average	64	12.6	6.0	23.7

Source: FDI Markets (Financial Times), EY analysis

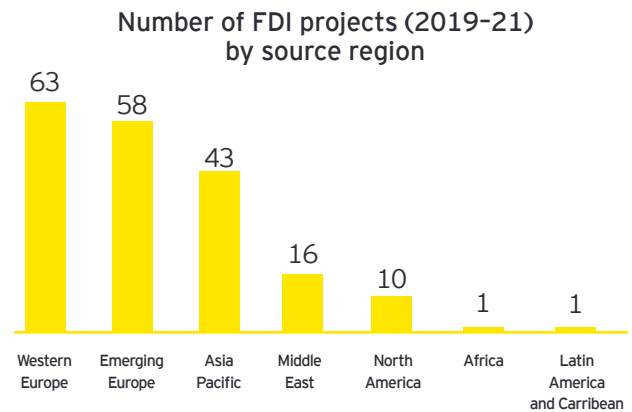
* FDI definition described on p.60

**FDI based on weighted average of three criteria: number of projects, jobs created and capital invested

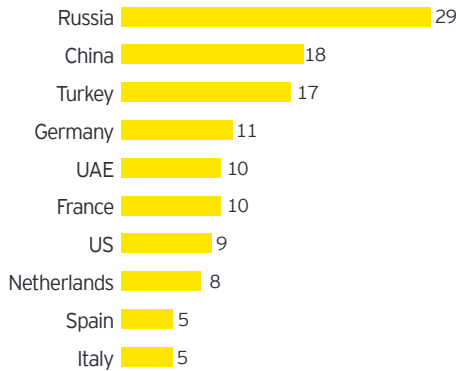


Between 2019 and 2021, Russia was the largest investor in Central Asia, followed by China – measured by project numbers.

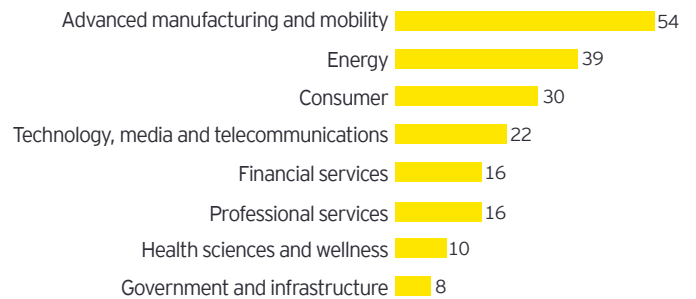
Although Russia was the largest investor by project numbers, Turkey invested the most capital in Kyrgyzstan, while projects from China generated the most jobs during the three-year period.



Number of FDI projects (2019-21) by source country



Number of FDI projects (2019-21) by industry



Source: FDI Markets (Financial Times)

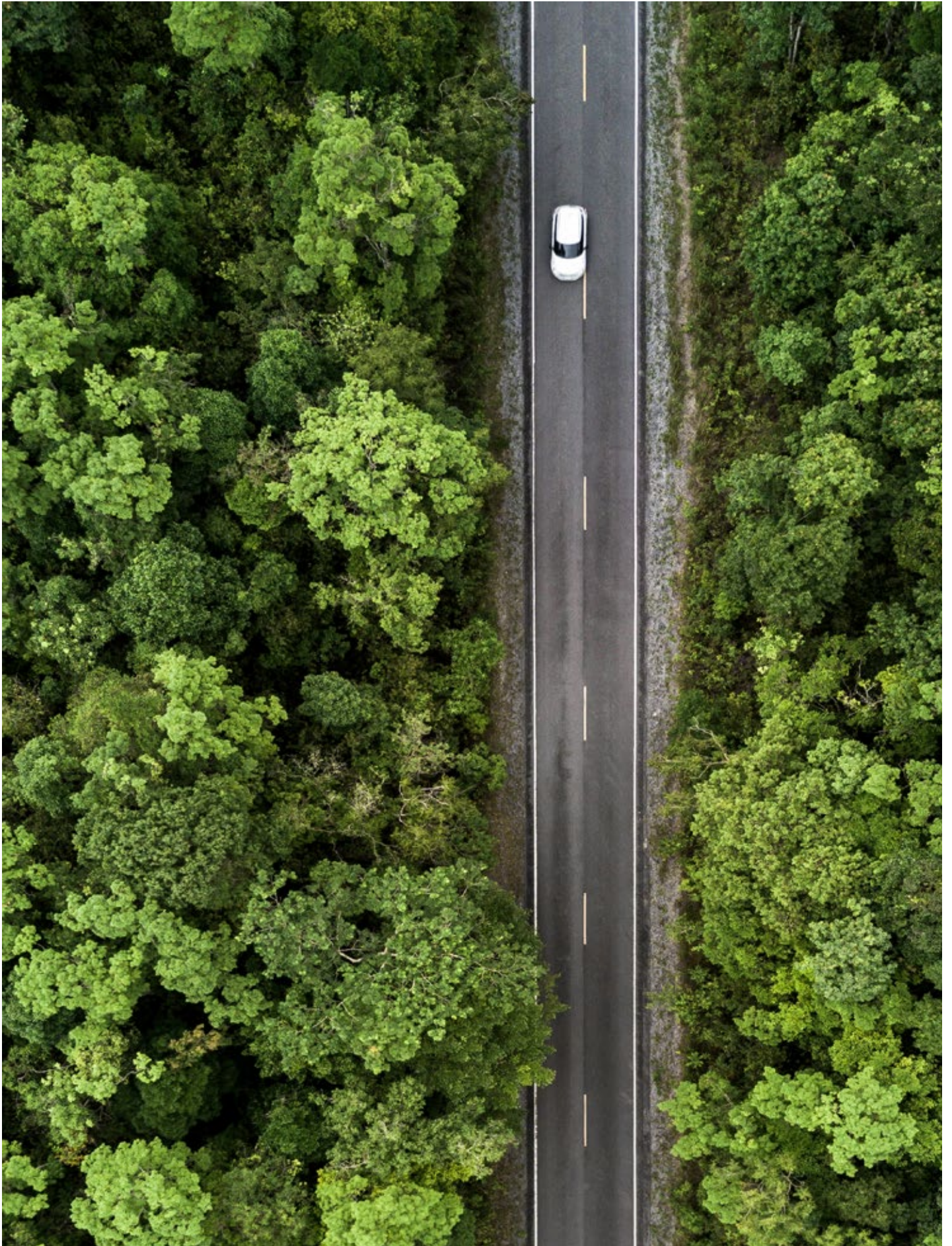
FDI definition described on p.60

Services FDI makes up 54% of the total

The share of extractives' FDI is declining, supported by regional diversification initiatives

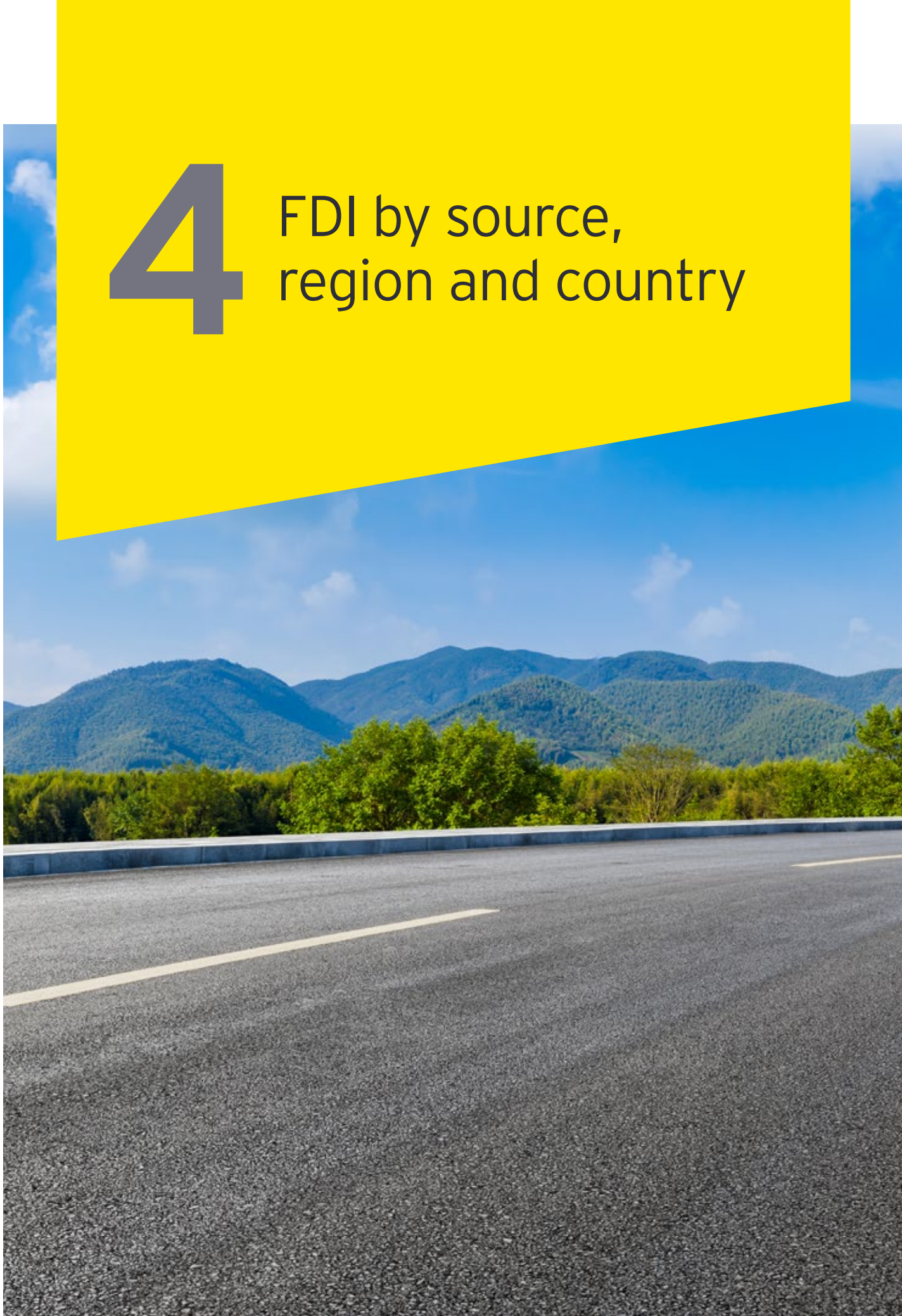
Industry makes up 39%

with the balance in extractives 7%



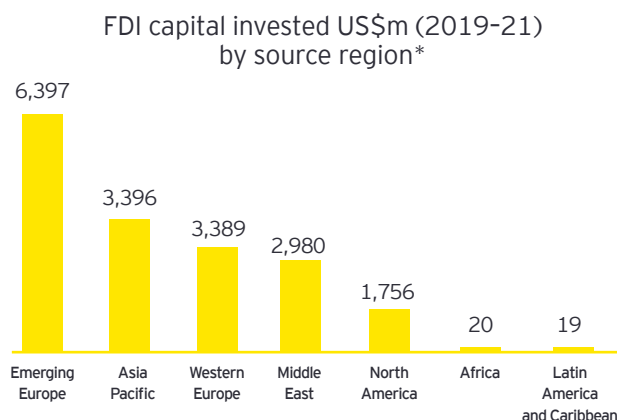
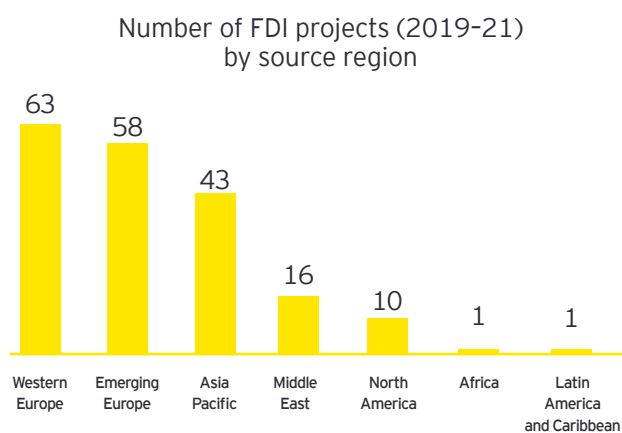
4

FDI by source, region and country



4.1 FDI by source region from 2019-21

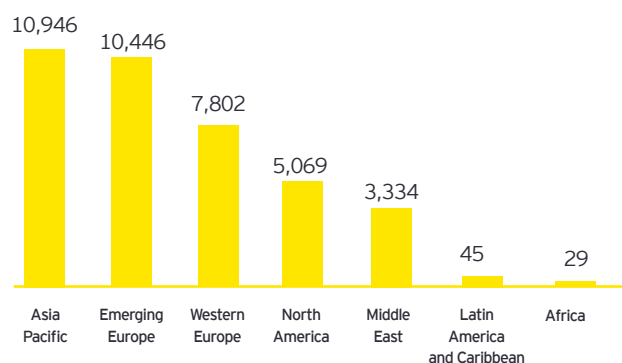
Europe is a key investor in Central Asia



Source: *Fdi Markets (Financial Times)*

*FDI definition described on p.60

FDI jobs created (2019-21) by source region



Europe has been an important investor in Central Asia. Kazakhstan and the European Union (EU) signed an Enhanced Partnership and Cooperation Agreement (EPCA) in March 2020, which has helped in boosting bilateral trade.³²

4.2 Central Asian FDI by source country from 2019-21

10 largest investors by project count

Country	Projects	Jobs created	Capital investment (US\$m)*	FDI score
Russia	29	4 307	1 464	10.5
China	18	5 219	1 920	7.1
Turkey	17	3 997	3 404	6.7
Germany	11	2 322	608	3.7
UAE	10	2 709	1 513	4.0
France	10	1 371	723	3.7
US	9	4 974	1 726	3.8
Netherlands	8	1 387	601	3.0
Spain	5	687	121	1.8
South Korea	5	2 086	684	1.7

Source: *Fdi Markets (Financial Times); EY analysis*

*FDI definition described on p.60

³² "Kazakhstan, EU Intensify Dialog on Bilateral Cooperation, Effects of Geopolitical Tensions," *The Astana Times*, <https://astanatimes.com/2022/04/kazakhstan-eu-intensify-dialog-on-bilateral-cooperation-effects-of-geopolitical-tensions/>, accessed 18 July 2022

In 2019, Russia and Turkey were the largest investors, although this changed after 2020 when Chinese investment became more prominent. China is emerging as one of the region's most influential investors. Over the three-year period, Chinese investments generated more jobs than any other country.

Turkey invested in several capital-intensive projects and was the largest investor in Central Asia during the three-year period by capital, but only third in terms of project numbers, announcing large investments in both Kazakhstan and Uzbekistan.

Russia was the largest investor by project numbers, but fourth in terms of capital investment after Turkey, China and the UAE. Central Asia's historical ties with Russia and economic ties via the EaEU remain strong and could be further strengthened, if Russian manufacturers look to relocate into Kazakhstan and Uzbekistan for better global connectivity.

In Kazakhstan, Russia was the largest investor in terms of projects, while the US was the largest job creator, putting in the most capital.

In Uzbekistan, Russia and China shared the top spot by projects, with China generating the most jobs, while Turkey was the largest investor by capital.

In Kyrgyzstan, Russia is the largest investor by projects, with Kazakhstan bringing the most job-intensive projects, while Germany brought the most capital-intensive projects.

Uzbekistan

Over the five-year period from 2015 to 2020, Uzbekistan rose 72 notches in the World Bank's ease of doing business rankings and is now placed at 69th position globally.³³

"Uzbekistan's market-oriented economic reforms have laid the groundwork for attracting foreign investment, with the digital, clean energy and agriculture sectors providing opportunities for Japanese investors," the country's deputy prime minister Sardor Umurzakov told Nikkei.³⁴

Most of its projects and capital investment between 2019 and 2021 were in the advanced manufacturing, automotive, consumer products and renewables sectors. China is expanding its influence in Uzbekistan in recent years via the Belt and Road Initiative, especially in infrastructure projects.

During 2019-21, most investment activity in Uzbekistan went to the Tashkent region, which contributed 39% of the country's FDI projects. The region also received the largest job created in the country (more than 25%). In terms of capital invested, Surkhondaryo Viloyati and Sirdaryo Viloyati regions outpaced Tashkent, due to large capital projects in the extractive industry.

In 2021, renewables received the largest share of FDI capital, at US\$1.2b, making up 64% of the total. Recently, several regulatory and policy changes were introduced in the renewable energy sector, which has attracted international players to develop the electric power industry. The law on special economic zones (SEZs) adopted in February 2020³⁵, for example, facilitated new investment projects in the energy sector, as well as in the telecommunications industry.

One example is UAE-based Masdar Abu Dhabi Future Energy Company, whose projects will generate 1.5GW in solar and wind energy, having signed a PPA and an investment agreement for a planned 500MW wind energy project – the largest in Central Asia – and the 200MW Sherabad photovoltaic (PV) solar projects.³⁶

Saudi Arabia's Acwa Power has signed strategic agreements worth more than US\$2b with Uzbekistan's Ministry of Energy. The agreements will include the construction and operation of a 1,500MW combined cycle gas turbine (CCGT) power plant and a 1,000MW wind power plant.³⁷

UAE-based Phanes Group has signed a project agreement with Uzbekistan to develop a 200MW PV solar plant, which will be developed in the Navoi region of Uzbekistan.³⁸

Total Eren, meanwhile, has an entirely solar PV project named Tutly (100MW) located in the Samarkand region. The Chinese corporation Liaoning Leader has begun construction of a US\$1.8b wind farm in the Gijduvan district of the Bukhara region.³⁹

³³ "Doing Business 2022 - Comparing Business Regulations in 190 Economies, The World Bank, December 2020, © 2020 International Bank for Reconstruction and Development / The World Bank

³⁴ "Uzbekistan primed for foreign investment after reforms: deputy PM," Nikkei Asia, <https://asia.nikkei.com/Editor-s-Picks/Interview/Uzbekistan-primed-for-foreign-investment-after-reforms-deputy-PM>, accessed 21 July 2022

³⁵ "Law on Special Economic Zones adopted," Investment Policy Hub, <https://investmentpolicy.unctad.org/investment-policy-monitor/monitor/3492/uzbekistan-law-on-special-economic-zones-adopted>, accessed 21 July 2022

³⁶ "Masdar upscales Uzbek wind ambitions to 1.5 GW," Renewables Now, <https://renewablesnow.com/news/masdar-upscales-uzbek-wind-ambitions-to-15-gw-736844/>, accessed 21 July 2022

³⁷ "Acwa power signs milestone agreements with ministry of energy of Uzbekistan," ACWA Power, <https://www.acwapower.com/news/acwa-power-signs-milestone-agreements-with-ministry-of-energy-of-uzbekistan/>, accessed 21 July 2022

³⁸ "Phanes Group signs PPA for 200MW solar plant in Uzbekistan, Energy Digital, <https://energydigital.com/renewable-energy/phanes-group-signs-ppa-200mw-solar-plant-uzbekistan>, accessed 21 July 2022

³⁹ "Spotlight: renewable energy project development in Uzbekistan," Lexology, <https://www.lexology.com/library/detail.aspx?l=13eea89b-0e46-40bc-8d41-47650b90093e>, accessed 21 July 2022



Kazakhstan

Russia, Turkey, China and US are the key investors.

The renewables sector gets the most projects, the food and beverages sector generates the most jobs, while chemicals projects bring more capital.

In 2021, renewables accounted for 44% of FDI capital, followed by:

- ▶ Rubber (13%)
- ▶ Food and beverages (10%)
- ▶ Software and IT services (10%)

Almaty attracted more investment than any other region between 2019 and 2021. These two regions also raised the highest capital and generated the most jobs during the period. Almaty's investments flowed mostly into the consumer products sector, while Aqmola had only one FDI project in advanced manufacturing, but it generates the most capital. Both regions also raised significant capital from investment in tourism.

In international project finance deals, the Kazakhstan QazTechna bus manufacturing plant project – involving Chinese capital – became operational at the end of 2020. China also invested in the construction of the DoubleStar rubber and tire factory, which started in 2020.⁴⁰

In telecommunications, the Netherlands-based VEOL (VimpelCom) launched a new project.⁴¹

Tengiz megaproject, a huge hydrocarbon project that Kazakhstan is implementing with US major Chevron has been pushed back. The project is now expected to become operational by the end of 2023, with expanded production facilities expected to be up and running only in the first half of 2024.⁴²

Turkey is one of the largest investors in Kazakhstan. Nearly 4,000 Turkish companies operate in Kazakhstan, including Yildirim Group, Tiryaki Holding and TAV Havalimanlari Holding, which purchased the airport in Almaty in 2020. At the press conference in May 2022 between Kazakhstan President Kassym-Jomart Tokayev and Turkish President Recep Tayyip Erdoğan, they agreed to grow bilateral trade.

To create a more investor lucrative environment, government introduced legislation, improving the country's licensing system, along with simplified business setup procedures, and

optimised state oversight functions.

"We are witnessing a global struggle for investment capital," Tokayev said. "Every second large foreign company of almost 1,400 curtailed its operations or completely withdrew from the Russian market. The government should create favorable conditions for their relocation to Kazakhstan." – Kazakh President Kassym-Jomart Tokayev.⁴³

Doing business in Kazakhstan has become easier, according to the World Bank's "Doing Business 2020" ratings. The country ranked 25th, ahead of Russia (28th) and China (31st), and some of the world's developed economies, such as Italy (58th), as well as major developing countries like Brazil (124th).⁴⁴

Kyrgyzstan

Most of Kyrgyzstan's FDI capital in 2019-21 came from Germany (36.6%), followed by Turkey (21%), Kazakhstan (18%) and Russia (14%). It has four large sectors that attract the bulk of FDI, namely transportation and warehousing, financial services, consumer, and metals sectors.

Attracting FDI into the country is a key priority for government. However, improvements have been slow, and the business, legal and regulatory frameworks require more reform, while its infrastructure is also lagging. Environmental disputes over mining activities have risen in recent years.

In the latest Doing Business report published by the World Bank, the country ranked 80th out of 190 countries, a decline of 10 spots since 2021. This was despite the country making significant progress in payment of taxes (the government has reduced the tax burden on repatriation of profits by foreign investors in line with that of domestic investors) and access to credit.⁴⁵

Green investment is a promising area for potential investors as government increased its commitment to fighting climate change and sustainable development. In 2021, it joined the Global Methane Pledge and unveiled revised Nationally Determined Contributions (NDCs), which opens opportunities for foreign firms seeking to invest in hydropower, energy efficiency and methane abatement.⁴⁶

⁴⁰ "Foreign Direct Investment in Kazakhstan in 2020: Structure and Dynamics," CABAR, <https://cabar.asia/en/foreign-direct-investment-in-kazakhstan-in-2020-structure-and-dynamics>, accessed 23 July 2022

⁴¹ "Foreign direct investment (FDI) in Kazakhstan," Lloyds Bank, <https://www.lloydsbanktrade.com/en/market-potential/kazakhstan/investment>, accessed 23 July 2022

⁴² "Chevron revises Tengiz upgrade deadlines," Upstream, <https://www.upstreamonline.com/field-development/chevron-revises-tengiz-upgrade-deadlines/2-1-1211811>, accessed 23 July 2022

⁴³ "Kazakhstan Seeks to Attract Foreign Companies Relocating from Russia," Caspian News, <https://caspiannews.com/news-detail/kazakhstan-seeks-to-attract-foreign-companies-relocating-from-russia-2022-7-15-52/>, accessed July 2022

⁴⁴ "Doing Business 2022 - Comparing Business Regulations in 190 Economies, The World Bank, December 2020, © 2020 International Bank for Reconstruction and Development / The World Bank

⁴⁵ "Doing Business 2022 - Comparing Business Regulations in 190 Economies, The World Bank, December 2020, © 2020 International Bank for Reconstruction and Development / The World Bank

⁴⁶ "Kyrgyz Republic - Country Commercial Guide," The International Trade Administration, <https://www.trade.gov/country-commercial-guides/kyrgyz-republic-investment-climate-statement>, accessed 27 July 2022



5

FDI by sector and industry segment



5.1 FDI by sector

FDI is concentrated in the manufacturing and consumer sectors, with more investment shifting from hydrocarbons to renewables

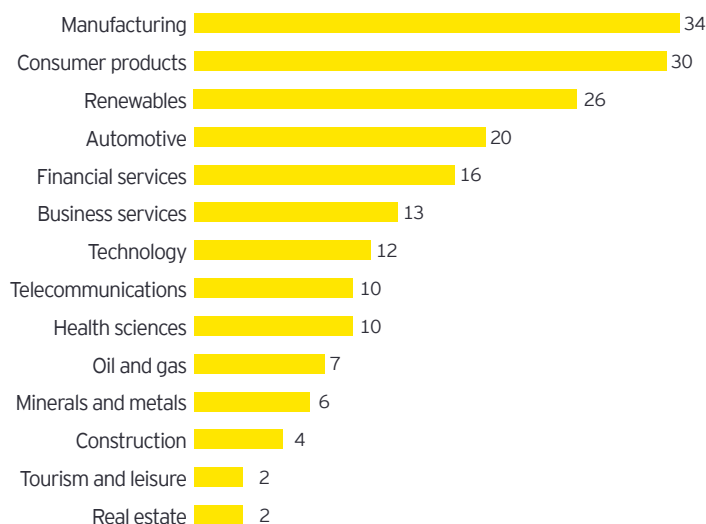
Key sectors

Between 2019 and 2021, advanced manufacturing was the largest recipient of FDI when measured by projects, largely driven by investments in the chemicals and industrial equipment segments. The sector also ranked second largest, in terms of capital invested and jobs created. Consumer products and retail was the second largest sector, generating the most jobs (13,000). However, capital investment in the sector is low compared with the more capital-intensive industrial and extractive sectors.

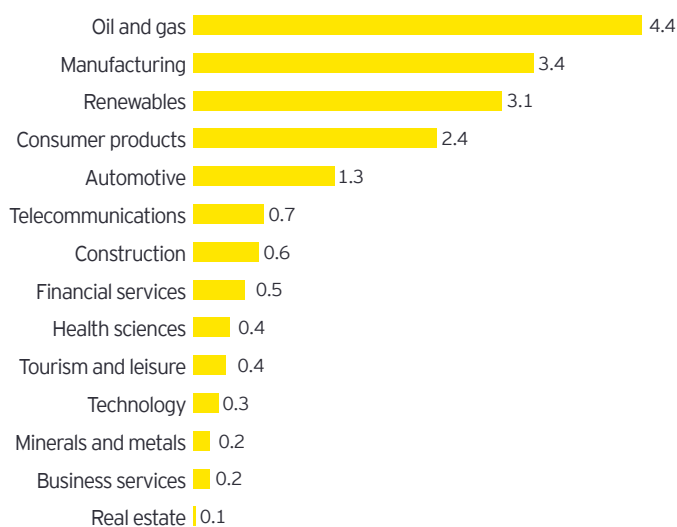
The oil and gas sector attracts the largest share of capital investment, necessary to set up power plants and for oil and gas exploration, that explains considerably fewer projects across the extractive sectors.

The renewable sector is gaining traction across the region, as more countries look to diversify their energy mix, reduce dependence on hydrocarbons and use cleaner energy sources for electricity generation. The abundance of natural and cleaner resources, along with government regulations to reduce carbon emissions in some countries, helped drive foreign investment into the sector, placing it third when measured by FDI projects and capital investment, totaling US\$2.4b during the period. However, the number of jobs generated in the sector is somewhat lower.

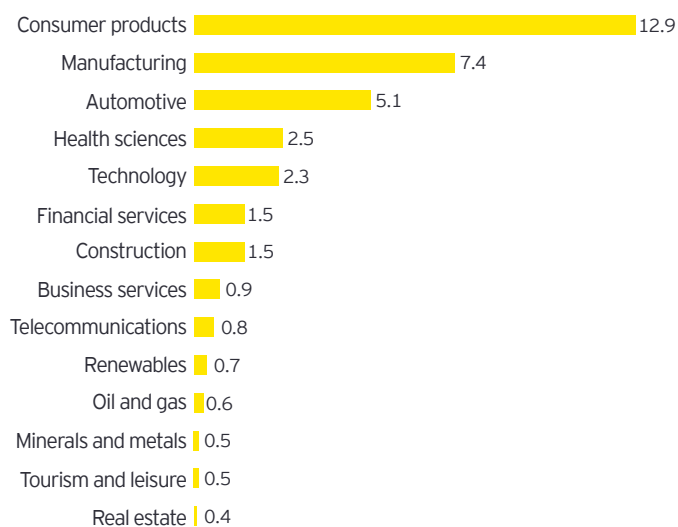
FDI projects by sector 2019-21
Total projects: 192



FDI investment by sector 2019-21
Total capital (US\$18b)



Jobs created by sector 2019-21
Total jobs created ('000): 37.7K



Source: Fdi Markets (Financial Times)
FDI definition described on p.60

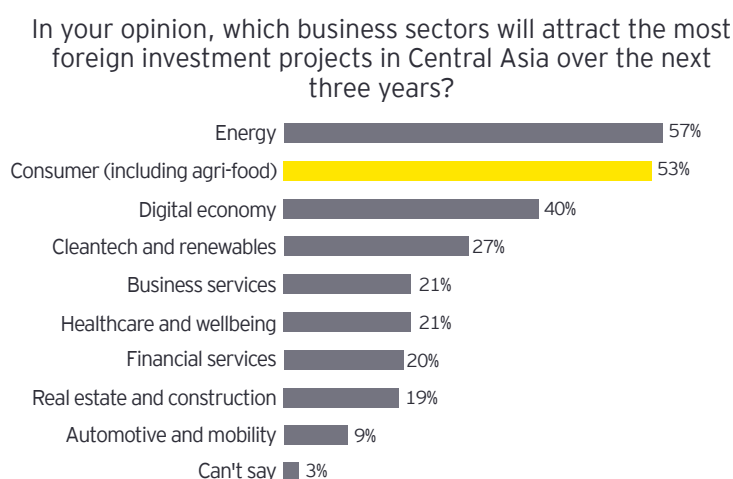
The consumer sector attracts significant foreign investment driven by the rise of organized retail and increased government focus on agri-foods

The region's consumer sector is in a very nascent stage of development, still dominated by small businesses. With a rising population, higher disposable incomes, a changing shopping culture and rise of e-retail, the consumer sector is attracting significant investment in supermarket chains, food-processing units, agri-foods and consumer electronics. Russia, China and US were the key investors in the region's consumer segment between 2019 and 2021.

Kazakhstan plans to offer investment incentives to investors to set up food processing operations. In May 2022, US food manufacturer Champion Foods announced plans to invest US\$100m in Kazakhstan to process fruit and vegetable exports.⁴⁷ Government has also pledged to invest €1.2b to improve profitability in its grain industry by 30% to 40%, and expand its agricultural exports from wheat toward oilseeds and pulses.⁴⁸

Newly established organized retail in Uzbekistan has resulted in a strongly growing supermarket sector. The share of supermarkets in the retail sector is expected to triple to 30% within five years. In 2020, French grocery giant Carrefour became the first international retailer to enter the supermarket space in Uzbekistan, with plans to invest US\$100m. Other international retailers to establish operations in the country include Russian discounter FixPrice and Belarus' Baraka Market.⁴⁹

"Almost 53% of the survey respondents believe that consumer products (including agri-food) will drive foreign investments in the region by 2025, only behind energy and utilities."



Source: EY Attractiveness Survey Central Asia 2022

⁴⁷ "U.S. Company Champion Foods Intends to Invest in Agricultural Product Processing in Kazakhstan," *The Astana Times*, <https://astanatimes.com/2022/05/u-s-company-champion-foods-intends-to-invest-in-agricultural-product-processing-in-kazakhstan/>, accessed 29 July 2022

⁴⁸ "Investor Opportunities - Agriculture," *Eurasi a Briefing: Kazakhstan*, Macro-Advisory Eurasia Strategic Consulting, May 2022, © 2022 Macro-Advisory Ltd

⁴⁹ "Uzbekistan's grocery sector set for boom time," *Financial Times*, <https://www.ft.com/content/10d4bfe0-9fe0-478b-9bb4-83924ea735b6>, accessed 1 August 2022

⁵⁰ "Key factors of investment attractiveness of the agro-industrial complex," *Kazakh Invest*, <https://invest.gov.kz/doing-business-here/regulated-sectors/agro/>, accessed 2 August 2022

⁵¹ "Six MOUs signed in Dutch horticulture mission to Kazakhstan," *Koppert*, <https://www.koppert.com/news/2021/six-mous-signed-in-dutch-horticulture-mission-to-kazakhstan/>, accessed 2 August 2022

⁵² "Foreign Companies to Invest More Than \$500 Million in Kazakhstan's Agro-industrial Sector, Chemical Industry," *The Astana Times*, <https://astanatimes.com/2021/06/foreign-companies-to-invest-more-than-500-million-in-kazakhstan-agro-industrial-sector-chemical-industry/>, accessed 2 August 2022

⁵³ "The Emirati holding plans to invest in the agro-industrial complex of Kazakhstan," *Kazakh Invest*, <https://invest.gov.kz/media-center/press-releases/arabskiy-kholding-planiruet-investirovat-v-agropromyshlennyy-kompleks-kazakhstana/>, accessed 2 August 2022

⁵⁴ "Kazakhstan inks agreements with agribusiness giants Tyson Foods, Valmont Industries," *The Astana Times*, <https://astanatimes.com/2019/12/kazakhstan-inks-agreements-with-agribusiness-giants-tyson-foods-valmont-industries/>, accessed 2 August 2022

Case study:

Foreign companies invest heavily in Kazakhstan's growing agribusiness sector

Agribusiness is one of the key priority sectors in Kazakhstan driven by more than 200 million hectares of agricultural land, over 25 million hectares of arable land, and employing a sizeable portion of its population.⁵⁰ These factors attract significant foreign investments in the booming industry, from across the globe, including the US, Russia, Turkey and the UAE. In 2021, the Dutch government signed six memoranda of understanding (MOUs) with Kazakhstan to develop modern agro-industrial complexes and sustainable greenhouse facilities in Kazakhstan.⁵¹ The Dutch company Van Der Hoeven also announced plans to invest US\$35m in the construction of greenhouse facilities in the West Kazakhstan region.⁵² In 2021, Al Dahra, a UAE-based company, also flagged its plans to explore investment opportunities in the country's agro-industrial sector and to possibly create an agricultural fund.⁵³ In 2019, the Kazakhstan government also signed agreements with US agribusiness companies Tyson Foods and Valmont Industries for the creation of a meat processing plant and a plant to produce irrigation systems.⁵⁴ Kusto Group is another key investor.

Investment in the renewables sector is critical to achieving much-needed energy diversification

Prolonged overdependence on high-carbon energy sources has resulted in several adverse climate conditions in the region and a high per-capital carbon footprint. As a result, governments across the region have set ambitious targets to significantly increase the share of renewables in the energy-mix to achieve carbon neutrality. Uzbekistan plans to increase the share of renewable energy sources in electricity generation to 25% (from its current 10%) by 2030⁵⁵, while Kazakhstan has a target of 15% (from its current 3%). To achieve these targets, Kazakhstan will need to commission 7GW of renewable energy, which could attract up to US\$7b in investments into the sector. According to the Ministry of Energy, Kazakhstan has attracted US\$1.8b into renewable energy since 2014, of which US\$350m was invested in the first nine months of 2021.⁵⁶

Foreign investors from the Middle East, Russia, China and Europe are actively investing in these regional large-scale renewable energy projects. It is estimated that the Central Asia region holds 5% of the world's natural wind and solar energy capture capacity, creating significant opportunities for foreign energy companies to explore. Investors have also flocked to the region to explore its untapped reserves of critical minerals and resources needed to develop clean-energy technologies. In June 2022, the US Agency for International Development (USAID) and the European Bank for Reconstruction and Development (EBRD) formed a strategic partnership to increase cooperation in renewable energy, energy efficiency, energy storage and other areas to support decarbonization of the electricity sectors across Central Asia.⁵⁷

Case study:

Middle East investors attracted to the booming renewables energy sector in Uzbekistan

The government of Uzbekistan is actively undertaking large infrastructure projects in renewable energy, supported by investment from international companies and collaborating with international partners. The country has set a target to increase the share of renewables in electricity generation to at least 25% by 2030 and has joined the hydrocarbon neutrality program to achieve complete carbon neutrality by 2050.

To achieve these targets, the Ministry of Energy has announced plans to increase total wind power plant capacity to at least 5,000MW and total solar photovoltaic power plants' capacity of 7,000MW by 2030.⁵⁸ The government plans to build 15 new hydroelectric power plants, with total capacity of 868MW by 2026 and 25 new solar power plants by 2030. In 2023, the government also plans to put into operation four photovoltaic power plants with total capacity of 1,097MW in the Samarkand, Jizzakh, Navoi and Surkhandarya regions, and four wind farms with total capacity of 1,600MW in the Karakalpakstan, Bukhara and Navoi regions. Uzbekistan also plans to invest US\$9m by 2025 in the development of hydrogen energy, including its production, storage and transportation.⁵⁹

These projects are developed through tenders announced for foreign investors, as well as with assistance provided by international institutions, such as the World Bank, the Asian Development Bank (ADB) and the EBRD. The Middle East has been a crucial investor in the country's renewable energy development. Some of its recent investments include:

- ▶ Three agreements valued at US\$2.5b, signed with Saudi Arabia's energy company ACWA Power, to construct a 500MW to 1,000MW wind power plant and a 1,500MW combined cycle gas turbine power plant⁶⁰
- ▶ Agreements with UAE-based clean energy company Masdar for the construction of a 500MW wind power plant in the Navoiy region, and two photovoltaic power projects for a combined capacity of 440MW in the Samarkand and Jizzakh regions⁶¹.

⁵⁵ "Share of renewable energy sources in Uzbekistan's total electricity to reach 25% by 2030," KUN.uz, <https://kun.uz/en/news/2020/12/07/share-of-renewable-energy-sources-in-uzbekistans-total-electricity-to-reach-25-by-2030#:~:text=Uzbekistan%20plans%20to%20increase%20the,Energy%20said%20in%20a%20statement.&text=It%20is%20noted%20that%20today,is%20generated%20from%20traditional%20sources>, accessed 8 August 2022

⁵⁶ "Kazakhstan Attracts \$1.8 Billion in Renewable Energy Development Investment Since 2014," The Astana Times, <https://astanatimes.com/2021/11/kazakhstan-attracts-1-8-billion-in-renewable-energy-development-investment-since-2014/>, accessed 9 August 2022

⁵⁷ "European Union promotes development of renewable energy sector in Central Asia," European Union, https://www.eeas.europa.eu/delegations/kazakhstan/european-union-promotes-development-renewable-energy-sector-central-asia_en?sr=222, accessed 9 August 2022

⁵⁸ "Foreign Investors Flocking to Uzbekistan Renewable Energy Projects," PR Newswire, <https://www.prnewswire.com/news-releases/foreign-investors-flocking-to-uzbekistan-renewable-energy-projects-301025484.html>, accessed 10 August 2022

⁵⁹ "Energy, Environment and Emissions," Eurasia Briefing: Uzbekistan, Macro-Advisory Eurasia Strategic Consulting, April 2022, © 2022 Macro-Advisory Ltd

⁶⁰ "The Ministry of Energy and Acwa Power achieve momentous milestones as Uzbekistan enhances its clean energy capacity," ACWA Power, <https://www.acwapower.com/news/the-ministry-of-energy-and-acwa-power-achieve-momentous-milestones-as-uzbekistan-enhances-its-clean-energy-capacity/>, accessed 10 August 2022

⁶¹ "UAE's Masdar to develop 440 MW solar projects in Uzbekistan," S&P Global, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/electric-power/071321-uaes-masdar-to-develop-440-mw-solar-projects-in-uzbekistan>, accessed 10 August 2022

The resource-rich region draws investors to its booming chemical sector that supplies raw materials to other key industries like agriculture, metallurgy and petrochemicals

The chemicals sector draws considerable interest, aided by abundant natural resources and raw materials. Kazakhstan has almost 90% of the world's reserves of phosphorus, and produces caustic soda, plastics, tires, chemical fibers and calcium carbide. Chemicals extracted from these raw materials are used in the domestic agriculture and petrochemical industries, as well as catered to rising demand in neighboring countries, including China and Russia. In 2021, chemicals constituted more than 5% of Kazakhstan's total exports. There are currently several projects being developed in the country, which are estimated to be worth US\$12b, including a polypropylene plant with a capacity of 500,000t per year, valued at US\$2.6b. Other investment projects aim to increase the production of polyethylene terephthalate, methanol, olefins, polyethylene, butadiene and base oils. In 2021, Kazakh Invest had drafted investment proposals for nine new projects worth US\$600m to potential investors in the chemical industry. Turkish company Brimstone Sulfur Provider had also announced plans to invest US\$10m into sulfur bentonite production in the West Kazakhstan region.

Uzbekistan, though a net importer of chemicals, is also investing significantly to boost its domestic chemical production capabilities. Under its Development Program for 2019-30, the government plans to implement 31 new projects in the chemical sector, amounting to US\$12b, including US\$1.7b in FDI and US\$9.2b in loans from financial institutions. These investments will be aimed at creating and expanding production of various chemicals in the country, including nitrogen, phosphorus, potash, complex mineral fertilizers and polymer products. In June 2021, the government signed an agreement with the International Finance Corporation (IFC) to support modernization of the chemical industry and attract foreign investment. In June 2022, the State Assets Management Agency also announced privatization of JSC Fargonaazot, one of the country's largest producers of nitrogen fertilizers, defoliant and cellulose acetates.

Central Asia's strategic location on several international trade routes is facilitating foreign investment in the transport and logistics sector

Central Asia benefits from its strategic location at the crossroads of key international trade corridors, which enables connectivity via key transportation and logistics routes. Given the ongoing geopolitical conflict in Russia and Ukraine and the resultant sanctions, trade routes through Central Asia and the Caspian have gained significant prominence. The region is also expected to be a crucial transport junction on China's Belt and Road initiative (BRI), currently being developed to facilitate transcontinental trade in Eurasia.⁶²

There are 11 international transit corridors passing through Kazakhstan, of which five are railroad and six are automobile corridors. The volume of freight traffic through the country is growing significantly, with rail transport accounting for almost 90% of cargo traffic.⁶³ In 2021, the volume of rail cargo transported via Kazakhstan increased by 10% to 70.8 million tons.⁶⁴ The government is taking major efforts to build new transportation infrastructure and terminals, and upgrade existing ones, along with strengthening of the Aktau and Kuryk ports and the Trans-Caspian international transport route (TITR).⁶⁵

Uzbekistan is making large investments in developing its transport infrastructure, especially in rail networks to elevate its access to global markets via seaports in the gulf. The country has announced several new economic zones (FEZ), which will create investment opportunities in warehousing, haulage, distribution systems and specialist equipment.

⁶² "Logistics and Transport Competitiveness in Kazakhstan, UNECE, 2019, © 2019 United Nations; "Transport & Logistics Expansion," Eurasia Briefing: Kazakhstan, Macro-Advisory Eurasia Strategic Consulting, May 2022, © 2022 Macro-Advisory Ltd

⁶³ "Kazakhstan transit cargo to double in volume by 2025 from 2010," Nikkei Asia, <https://asia.nikkei.com/Editor-s-Picks/Interview/Kazakhstan-transit-cargo-to-double-in-volume-by-2025-from-2010>, accessed 14 August 2022

⁶⁴ "Volume of rail cargo transportation increased by 10% since the beginning of the year," KazTag, <https://kaztag.kz/en/news/volume-of-rail-cargo-transportation-increased-by-10-since-the-beginning-of-the-year>, accessed 14 August 2022

⁶⁵ "Kazakhstan and Infrastructure," Kazakh Invest, <https://invest.gov.kz/doing-business-here/regulated-sectors/infra/>, accessed 15 August 2022; "Kazakhstan - Country Commercial Guide - Transport and Logistics," International Trade Administration, <https://www.trade.gov/country-commercial-guides/kazakhstan-transport-and-logistics>, accessed 15 August 2022



5.2 FDI by industry segment

Economic diversification is crucial for long-term sustainable growth, and inbound FDI illustrates that this is happening

FDI by industry segment (2019-2021)

Year	Projects	Jobs created (thousands)	Capital investment (US\$b)*	Weighted FDI score
Services	103	22.6	5.5	37.6
Industry	76	13.9	7.8	28.1
Extractives	13	1.2	4.7	5.4
Total	192	37.7	18.0	71.1

Source: FDI Markets (Financial Times), EY analysis

*FDI definition described on p.60

Between 2019 and 2021, services recorded the highest FDI project numbers, followed by industry. Historically, the resource-rich region has attracted significant foreign investment in mining and hydrocarbon sectors. But in recent years, FDI is shifting away from these extractive industries and into “new-age” services sectors, such as consumer and financial services, as the region diversifies its economy and moves up the value chain.

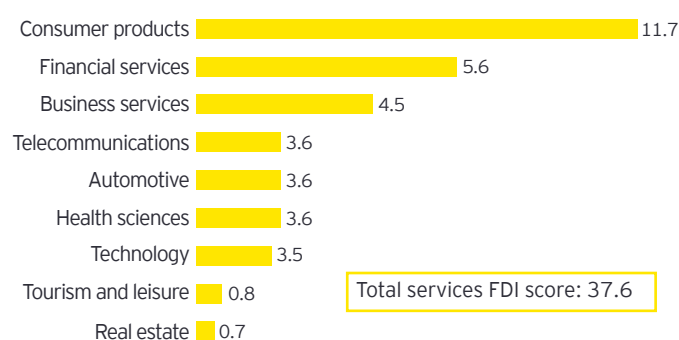
A rising focus on sustainability in the neighboring EU, along with stringent government targets to reduce carbon emissions, has seen the share of extractives FDI projects fall to 6.7% between 2019 and 2021. Through the same period, services accounted for 54% of total FDI projects, generating US\$5.5b in capital and generating more jobs than any other segment. However, industry raised more capital (43% of the total, reaching US\$7.8b) due to the capital-intensive nature of industrial projects.

FDI into the services segment was largely driven by increasing investments by fast-moving consumer goods (FMCG) firms into both Kazakhstan and Uzbekistan, accounting for 17% of total projects (grossing over US\$2b in capital investment). The region is still lucrative for investors in durable goods, consumer electronics and premium food offerings. Foreign investors are also attracted to the region’s growing financial services and business services sectors, especially with the modernizing and privatizing of the region’s banking and capital markets.

Industry FDI is dominated by advanced manufacturing, especially in the chemicals and industrial equipment sectors. FDI in advanced manufacturing accounted for 45% of industrial FDI projects between 2019 and 2021, valued at US\$3.3b. Chemicals is one of the priority sectors for Kazakhstan, aided by both domestic and export demand for petrochemical products.

The renewables sector is the second-largest component in the industry cluster, attracting 34% of FDI projects (totaling US\$3.1b in capital investment), boosted by regional economic diversification and sustainability initiatives.

FDI score: services sectors (2019-21), based on a weighted average of projects, jobs and capital*



Source: FDI Markets (Financial Times), EY analysis

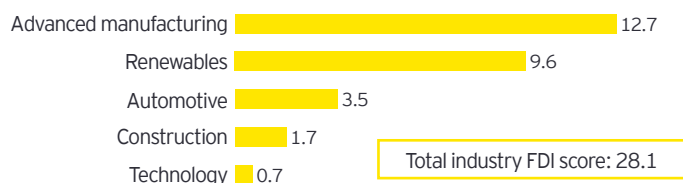
*FDI definition described on p.60

FDI into the services sector is critical to driving regional economic diversification efforts and boosting growth. The FDI scoring methodology illustrates that the consumer products segment ranks higher than any other in Central Asia, receiving more projects and capital investment, and accounting for more than 50% of jobs created in the services segment. With rising urbanization and household incomes, demand for consumer products is increasing sharply across the region. Government initiatives to boost food processing, supermarket retail and the agriculture sectors will further drive foreign investment into consumer products.

Financial and business services received fewer projects, and generated far less capital investment and jobs across the region. Even so, with privatization of financial markets in Uzbekistan and the rising presence of FinTech firms in Kazakhstan, this sector is likely to attract more and larger investments over the next few years. Given the central and strategic location of Central Asia connecting Russian, Chinese (via the BRI route), Middle Eastern and European markets, transportation and logistics services will also likely benefit from foreign investments over the next few years, especially with blockades on Russian and Belarus trade routes.



FDI scores: industry segment (2019-21), based on weighted average of projects, jobs and capital

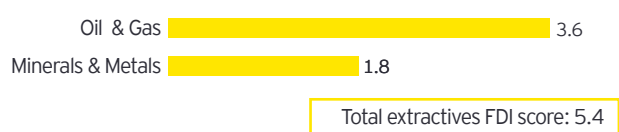


Source: FDI Markets (Financial Times), EY analysis

In the industry segment, advanced manufacturing is the largest FDI recipient, driven by a booming metallurgy and chemicals sector. Asia-Pacific investors are key players in this space, contributing to almost half of total capital investment (US\$1.2b) in the chemicals sector. The region has been investing heavily in upgrading its refineries and petrochemicals plants to meet the rising global demand for chemical products, especially from China and Russia.

The renewable energy segment attracted major investment across the region, supported by government measures to reduce the region's high dependence on hydrocarbons. The 10 largest sector projects by capital investment (out of a total 26 projects during 2019-21) were in Uzbekistan. The Middle East is the largest investor in developing clean-energy projects in the country. Uzbekistan's ambitious plans to generate a quarter of all its electricity from renewable sources by 2030 will make renewables an attractive sector to invest in over the next decade.

FDI: extractive segment scores (2019-21), based on a weighted average of projects, jobs and capital



Source: FDI Markets (Financial Times), EY analysis

Between 2019 and 2021, the extractives sector scored 5.4 using our FDI scoring method, placing it significantly behind services (37.6) and industry (28.1). FDI into Uzbekistan's oil and gas sector from the Middle East and Turkey were the key investments, followed by investments into Kazakhstan's metals and mining sector.

Despite the low share of extractives in the total FDI mix, Central Asia's hydrocarbon sector remains of key importance to investors due to its huge reserves of gas, minerals and other natural resources. Hydrocarbons are still a key source of domestic electricity generation, with large-scale cheap coal deposits available. Many of these oil and mineral fields face depletion in the next few years and governments are

taking measures to ensure exploration of new reserves, while simultaneously upgrading existing sites. Between 2019 and 2021, Kazakhstan invested US\$7m in geological exploration, and upgraded three of its major petrochemical refineries to process more of its raw materials and diversify exports.⁶⁶ Uzbekistan also approved 30 new projects amounting to US\$33b in its oil and gas sector between 2019 and 2025.⁶⁷ These activities to boost domestic petrochemicals will attract more foreign investment into the mining and petrochemicals sectors.

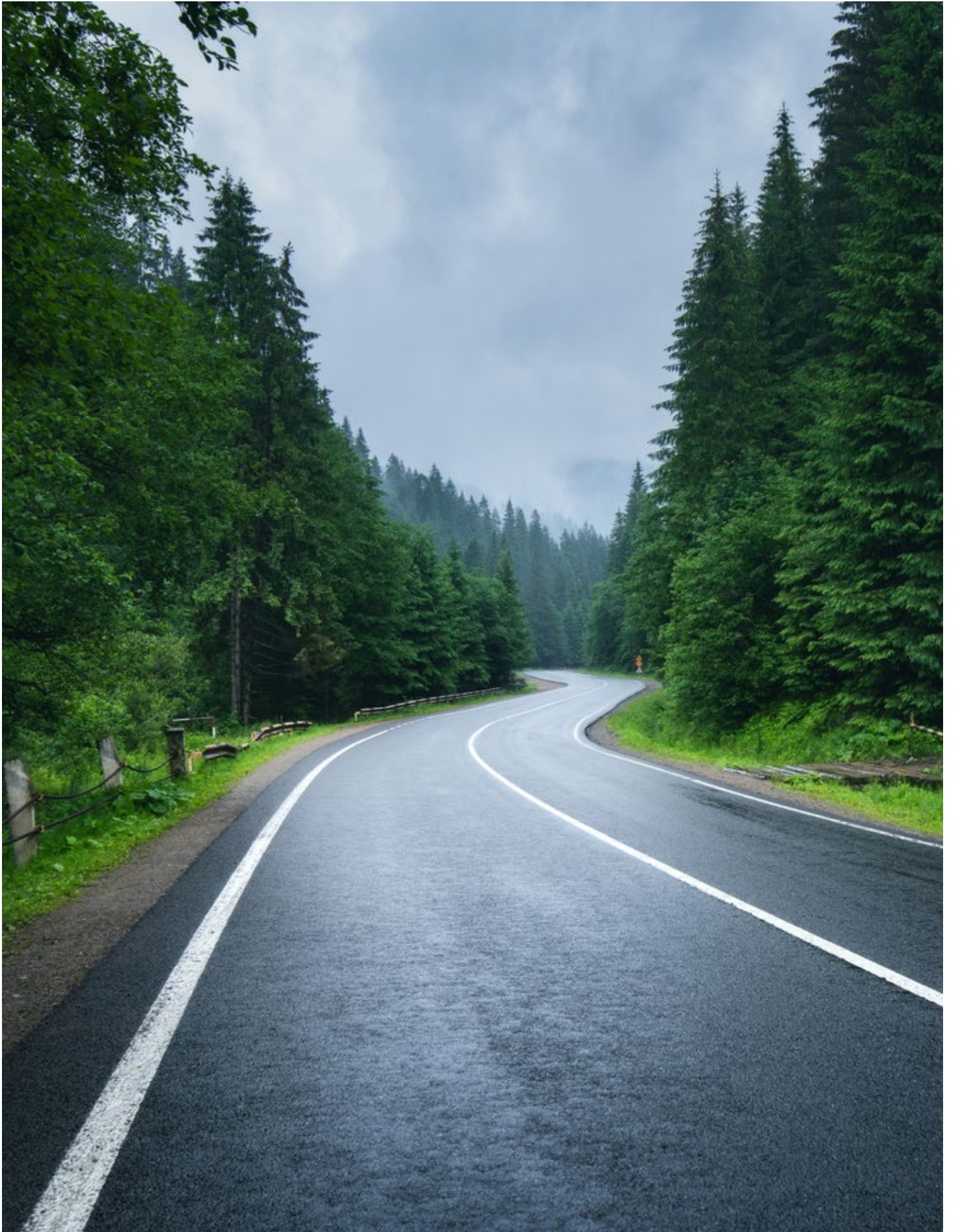
Case study: Increased investment from Turkey in Uzbekistan's oil and gas sector

Over the years, Turkey has increased its economic ties with Uzbekistan, and expanded trade and investment into the country. By 2021, annual trade between Turkey and Uzbekistan reached US\$3.6b, a 57% increase from pre-COVID-19 levels. In 2021, 407 new Turkish companies established operations in Uzbekistan, higher than that of its Russian and Chinese counterparts. The level of cooperation is seen across various sectors, but specifically in the oil and gas sector. In June 2022, the two countries also elevated their cooperation to a "Comprehensive Strategic Partnership" level.⁶⁸

During 2019-21, Turkey was one of the key investors in Central Asia's energy sector, pouring in more than US\$2b mainly into Uzbekistan's oil and gas segment. In September 2020, Turkey's Cengiz Energy announced it will establish a natural gas combined cycle power plant with a capacity of 240MW in Uzbekistan, investing US\$150m. The plant is built in Tashkent under an investment agreement between Uzbekistan's investment and foreign trade ministry, the country's National Electric Networks (JSC) and Cengiz Energy. The power plant will be operated by Cengiz Energy for 25 years and will produce 2 billion KW hours of electricity per year, sufficient to meet the energy needs of 120,000 households.⁶⁹

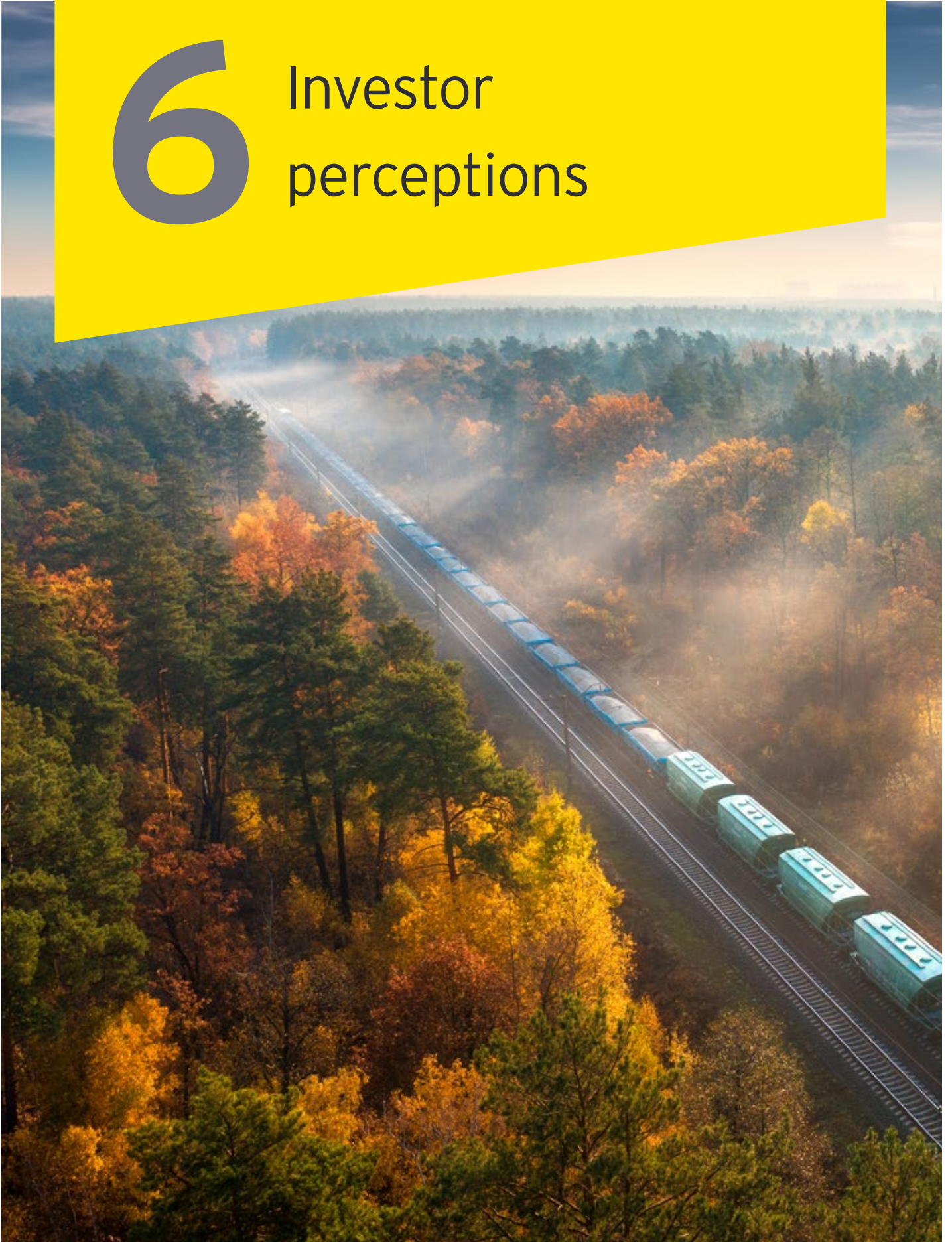
In 2019, Turkey's Yıldırım Energy also signed a preliminary agreement to construct a 900MW natural gas combined-cycle power plant worth US\$1.2b, to be built in the Surxondaryo region of Uzbekistan.⁷⁰

⁶⁶ "Investor Opportunities - Petrochemicals," Eurasia Briefing: Kazakhstan, Macro-Advisory Eurasia Strategic Consulting, May 2022, © 2022 Macro-Advisory Ltd;
⁶⁷ "Uzbekistan to invest \$33 billion in oil and gas sector," Anadolu Agency, <https://www.aa.com.tr/en/energy/general/uzbekistan-to-invest-33-billion-in-oil-and-gas-sector/25514>, accessed 7 August 2022
⁶⁸ "New Turkey-Uzbekistan Strategic Partnership Accelerates Turkey's Rise as a Eurasian Agenda-Setter," The Turkey Analyst, <https://www.turkeyanalyst.org/publications/turkey-analyst-articles/item/688-new-turkey-uzbekistan-strategic-partnership-accelerates-turkey%E2%80%99s-rise-as-a-eurasian-agenda-setter.html>, accessed 3 August 2022
⁶⁹ "Cengiz Energy invests \$150M in Uzbekistan power plant," Anadolu Agency, <https://www.aa.com.tr/en/energy/energy-diplomacy/cengiz-energy-invests-150m-in-uzbekistan-power-plant/30573>, accessed 3 August 2022
⁷⁰ "Yıldırım Holding to build a power station in Uzbekistan," UZ Daily, <http://www.uzdaily.com/en/post/49429>, accessed 3 August 2022



6

Investor perceptions



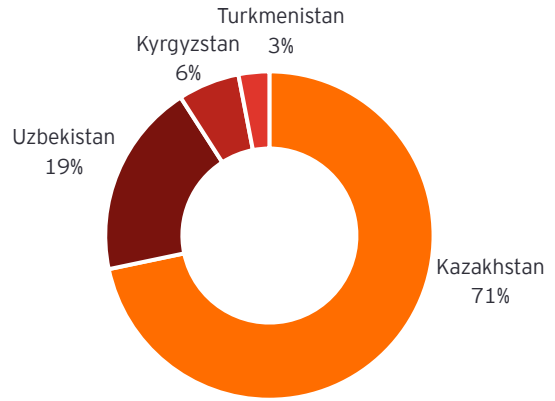
6.1 Kazakhstan ranks as the region's preferred investment destination

Most investors participating in the Central Asia Attractiveness survey have exposure to Kazakhstan

Kazakhstan and Uzbekistan are the two most favorable investment destinations in the region, given their stable macroeconomic environment, significant business opportunities, and strategic market location between Europe and Asia. Abundance of natural resources, rising urbanization and modernisation, and availability of a young workforce make these countries attractive to investors.

Kazakhstan leads as the most popular country for investment in Central Asia. More than two-third of investors participating in our survey already have established operations in Kazakhstan. But their exposure to the rest of the region remains low.

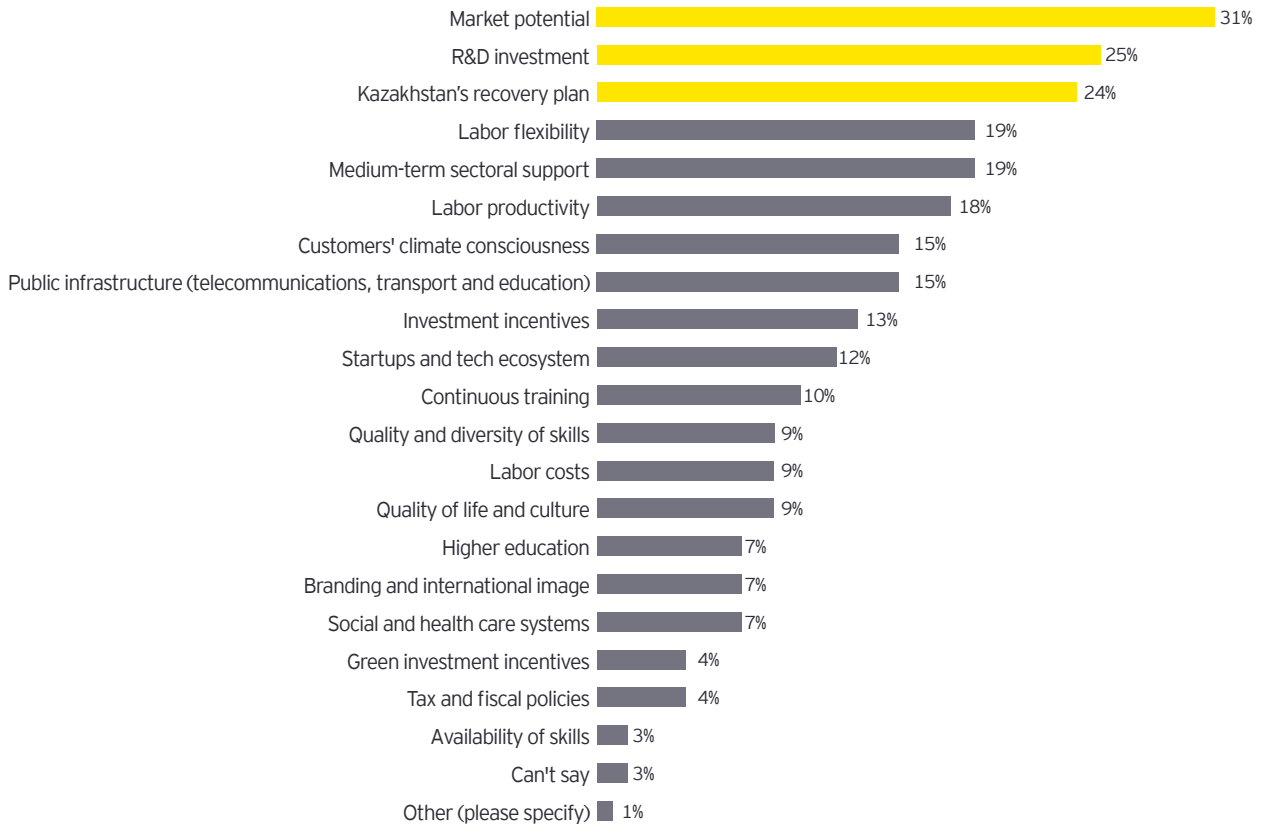
Q: In which of the following countries does your company have the largest established operations by revenue?



Source: EY Attractiveness Survey Central Asia 2022

A resilient COVID-19 recovery plan, coupled with the market potential, makes Kazakhstan the region's first choice for investors

Q: Over the past three years, if you have invested in the region, what positively influenced your decision?



Source: EY Attractiveness Survey Central Asia 2022

According to the survey, market potential, socioeconomic plans, COVID-19 recovery plans, investment in research and development (R&D) and a strong labor workforce are the key attractions for investors across the region over the last three years.

Kazakhstan offers vast opportunities across many sectors, including petrochemicals, metallurgy, agri-food and consumer. Government has undertaken many reforms over the past few years to liberalize and diversify the economy to new-age sectors, including financial services and consumer.

The country has established 12 SEZs, offering tax incentives, created KAZAKH INVEST as a one-stop means to supporting investment projects, as well as set up the AIFC to develop financial and capital markets in the region. These initiatives

have helped the country improve the business climate, open its market to foreign investors and present significant investment opportunities.

The country's comprehensive resilience and recovery plan helped the economy rebound from the impact of the COVID-19 pandemic. Government allocated approximately US\$14b (8.6% of its GDP) – the highest among all the EAEU member countries– to anti-crisis measures.⁷¹ The recovery plan targets most sectors of the economy and specifically supports for small and medium enterprises (SMEs) and aims to achieve self-sufficiency and a green transition.

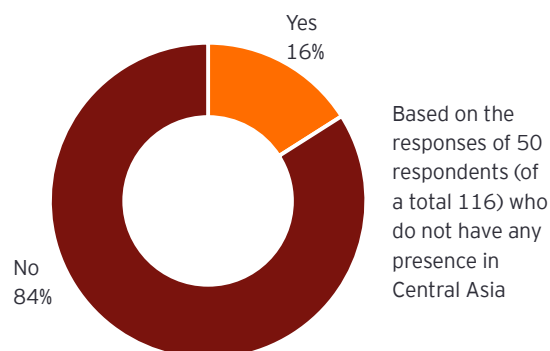
6.2 Investment to remain subdued over the year, but only marginally impacted by the war

Of the investors with no regional presence, few plan on investing this year

Only 16% of the respondents who do not have any presence in the region plan to invest in the region this year. At first glance, this appears low, but it is based on a small sample size of investors with no current presence in the region. This is not dissimilar to other regions, where those companies without an established presence are less likely to invest than those already present.

In addition, the spillovers from the COVID-19 pandemic, as well as the outbreak of conflict between Russia and Ukraine, fluctuations in global financial and oil markets, have curtailed investors' appetite.

Q: Does your company have plans to establish operations in Central Asia over the next year?



Source: EY Attractiveness Survey Central Asia 2022 (total respondents: 50)

⁷¹ "Prime Minister Presents Recovery Plan For Economy Focused on Construction, Building Self-Sufficiency," The Astana Times, <https://astanatimes.com/2020/05/prime-minister-presents-recovery-plan-for-economy-focused-on-construction-building-self-sufficiency/>, accessed 22 September 2022



Those planning to invest this year aim to strengthen supply chain and logistics linkages

Q: What type of investment project does your company want to establish in Central Asia?



Source: EY Attractiveness Survey Central Asia 2022

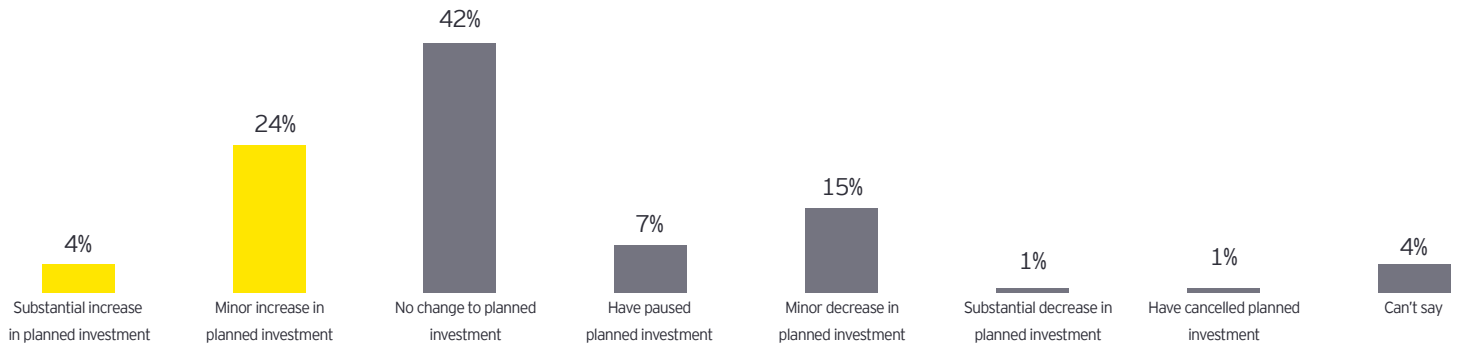
Of the small share of investors (16%) who plan to invest this year, more than one third will target supply chain and logistics functions. This intuitively follows disruptions caused across global value chains by the pandemic and the nearby conflict. Businesses are focusing on strengthening their local or near-shore supply chains to avoid these disruptions in the future. According to the Government, there are many companies currently in the process of relocating to Kazakhstan, with 51 (of a targeted 310 companies) in advanced talks on localizing production in the country. These include Youngsan, EMAG,

Carlsberg and Fortescue. Other companies in preliminary negotiations are Canon, Kronospan, Alstom and Haier.

Focus on business services and business support services remains weak, in sync with global trend, as companies are determining what hybrid work models will mean for them in a post-COVID-19 world. As a result, demand for commercial office space has fallen, in some instances dramatically, as less office space is required than what was needed prior to the pandemic.

The Russia-Ukraine geopolitical crisis has only had a limited impact on FDI in Central Asia thus far

Q: Have you changed your plans for investment as a result of the geopolitical situation in the CIS Region?



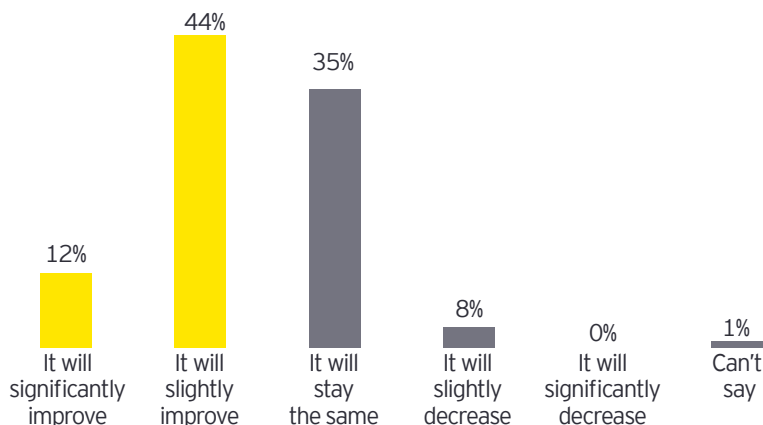
Source: EY Attractiveness Survey Central Asia 2022 (total respondents: 64)

The region has close economic ties with Russia, and the geopolitical conflict between Russia and Ukraine has disrupted trade flows across its borders. The crisis has caused severe volatility in local currency markets, interrupted the flow of remittances from Russia and has made it difficult for Central Asian countries to export to EU markets. However, investors don't seem to be significantly influenced by the geopolitical

situation as 42% of the survey respondents see no change in their investment plan in the region. Only a small proportion of investors (16%) have canceled their investment plans completely or expect a minor decline in investment due to the headwinds caused by the war. In fact, 28% of the respondents see it as an opportunity to establish operations in the region, including to bypass trade sanctions on Russia.

6.3 Attractiveness looks positive despite looming risks, and requires ongoing reforms across the legislative, tax and capital markets environments

Q: How do you expect Central Asia's attractiveness to evolve over the next three years?



Source: EY Attractiveness Survey Central Asia 2022 (total respondents: 72)

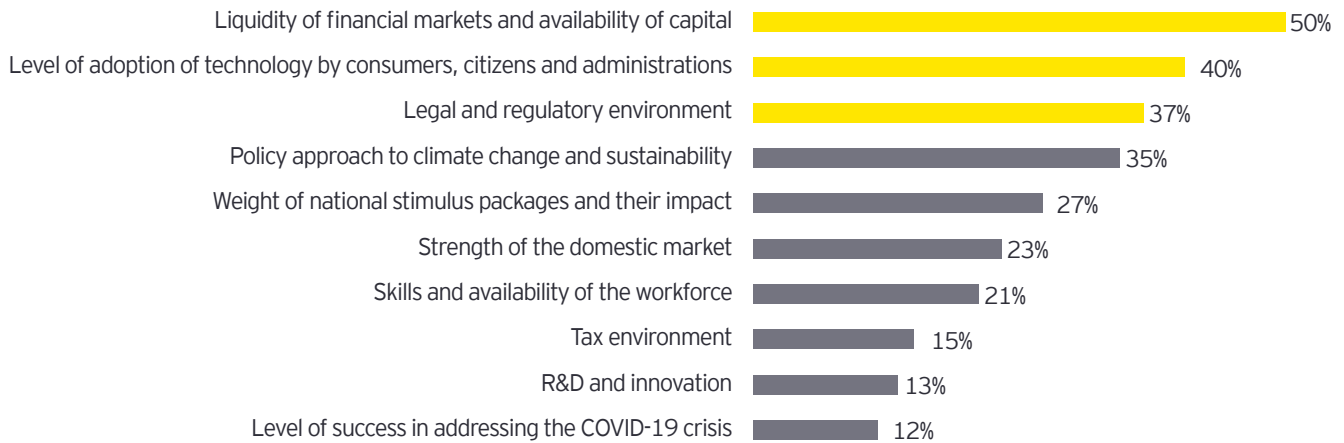
Although businesses remain conservative on their current investment plans, they are still positive on the medium-term prospects for investment in Central Asia. According to our survey, 56% of survey respondents believe the region's attractiveness will improve over the next three years, while only 8% believe it will decrease. Investors believe regional investment will pick up to pre-COVID-19 levels, once the geopolitical situation improves and reforms fully come into effect.

While choosing a destination to invest in, one of the most crucial factors a business looks at is the health of its financial markets and availability of capital to raise money. The financial services sector in Central Asian countries have for long been state-owned. The recent reforms to liberalize and privatize financial and capital markets in these countries have opened many opportunities for investors to access capital. The AIFC launched by Kazakhstan provide access to liquidity to foreign and regional investors, as well as support business projects ranging from small IT startups to large-scale initiatives such as the BRI. In May 2022, Uzbekistan received a US\$15m concessional credit from the World Bank to finance a five-year project to support government efforts to reform the financial sector.⁷² Uzbekistan also recently signed a decree on the reorganization of the "Direct Investment Fund of the Republic of Uzbekistan" in the form of the LLC, which aims to attract US\$200m in additional investments by the end of 2023. The country is also in the process of creating the Tashkent International Financial Center. These measures, among others, will help the region's governments to attract more foreign investors over the next few years.



⁷² "Uzbekistan to Reform its Financial Sector, with World Bank Support," The World Bank, <https://www.worldbank.org/en/news/press-release/2022/05/31/uzbekistan-to-reform-its-financial-sector-with-world-bank-support>, accessed 23 September 2022

Q: Of the following factors, which three are most important when choosing a country to invest in?



Source: EY Attractiveness Survey Central Asia 2022

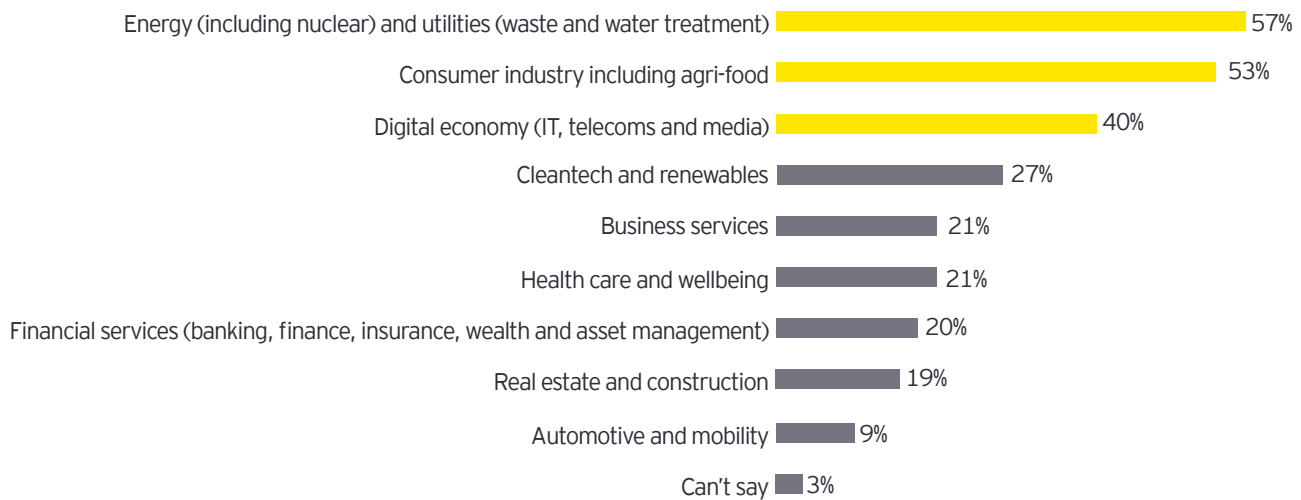
Other factors determining investors' decisions include:

- How far along the country is in its digital transformation journey
- Transparency in its legal and regulatory frameworks
- The approach to sustainability and climate change
- Strength of the country's stimulus and recovery packages
- Availability of skilled and flexible workforce

Some of these factors are discussed in detail later in the report.

Energy and consumer will be the key sectors driving investment in the coming years, while renewables gain prominently

Q: In your opinion, which business sectors will attract the most foreign investment projects in Central Asia over the next three years?



Source: EY Attractiveness Survey Central Asia 2022 (total respondents: 72)

Investors believe that most of the foreign investment that Central Asia attracts over the next three years will be directed to the energy and consumer industries. Historically, the region has attracted significant investments from foreign energy companies, such as Chevron, ExxonMobil and TotalEnergies, due to its abundance of oil, natural gas and minerals. These petrochemical and metallurgy industries remain of most interest and 57% of the survey respondents believe they will continue to receive the bulk of investment in the medium run. However, there is a transition seen toward cleaner energy sources, as local authorities diversify their energy sources and reduce their dependence on carbon. There has been a significant uptick in investment in cleantech and renewable energies, given the region's potential to harness wind and solar energy. More than one-quarter of respondents see the sector being attractive to foreign investors.

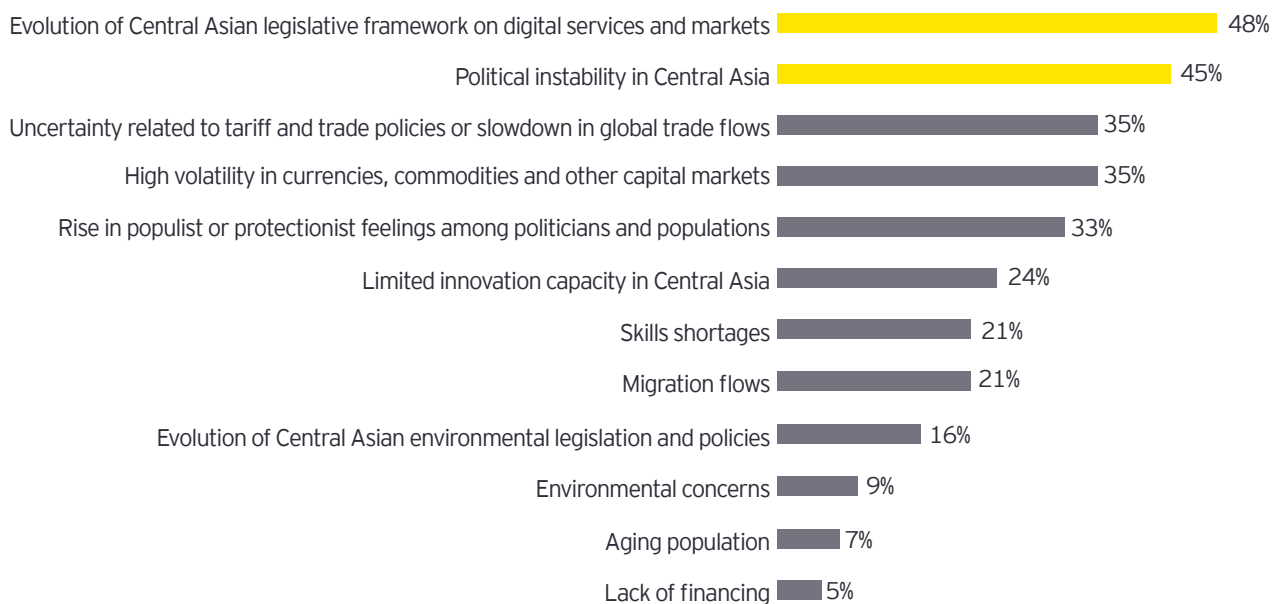
Another booming sector in the region is consumer products, including retail and agri-food. Consumer sector is perceived to be almost at par with energy, in terms of driving growth, with 53% respondents seeing substantial investment in the sector in the next three years. Rising urbanization, a growing middle class and changing consumer behavior have driven interest in both formal and online retailing. Foreign supermarket chains are also eyeing a first-mover advantage in the region to compete in an otherwise fragmented sector. The region also has a large agricultural base, which has prompted business to invest in its agri-food and food processing industries.

The digital economy has not been a major regional growth driver, but it is anticipated that this will change as the economy diversifies and governments take measures to enhance connectivity, improve access to digital services and build on digital skills. Many Central Asian countries have also launched or are developing their national digital plans, including "Digital Kazakhstan" and "Digital Uzbekistan," which run through to 2030, and aim to boost information and communications technology (ICT) infrastructure in the region and drive investment.



6.4 However, headwinds remain!

Q: What are the three main risks affecting Central Asia's attractiveness over the next three years?



Source: EY Attractiveness Survey Central Asia 2022 (total respondents: 72)

Despite the optimism, businesses are conscious of several short- and long-term risks to Central Asia's attractiveness. The conflict in Ukraine has undoubtedly played a role as a pressing risk to the region, even if investors have not yet made significant withdrawals in their investment plans just yet. However, in a worst-case scenario leading to an escalation of war across other countries, most economies and businesses across Europe will likely experience wartime distress resulting in sharply falling FDI across borders. Continued geopolitical uncertainty and other second-order impacts, such as commodity price inflation, uncertainty related to western sanctions on Russia, slowdown in global trade flows, and fluctuations in global currencies, commodities and capital markets, also add to investor concerns.

According to our survey, 48% of investors rank the legislative framework for digital services and markets as the greatest risk to Central Asia's attractiveness. These digital regulations and data protection laws are quite nascent in these countries, and foreign investors are skeptical about their effectiveness to protect users from misinformation, cyber threats and market dominance. In 2020, Kazakhstan announced amendments to 35 legislative acts of its digital technology regulations, including the Law on Informatization, which relates to the use of digital innovations in public services and other sectors.⁷³ Meanwhile, Uzbekistan passed its first digital protection and

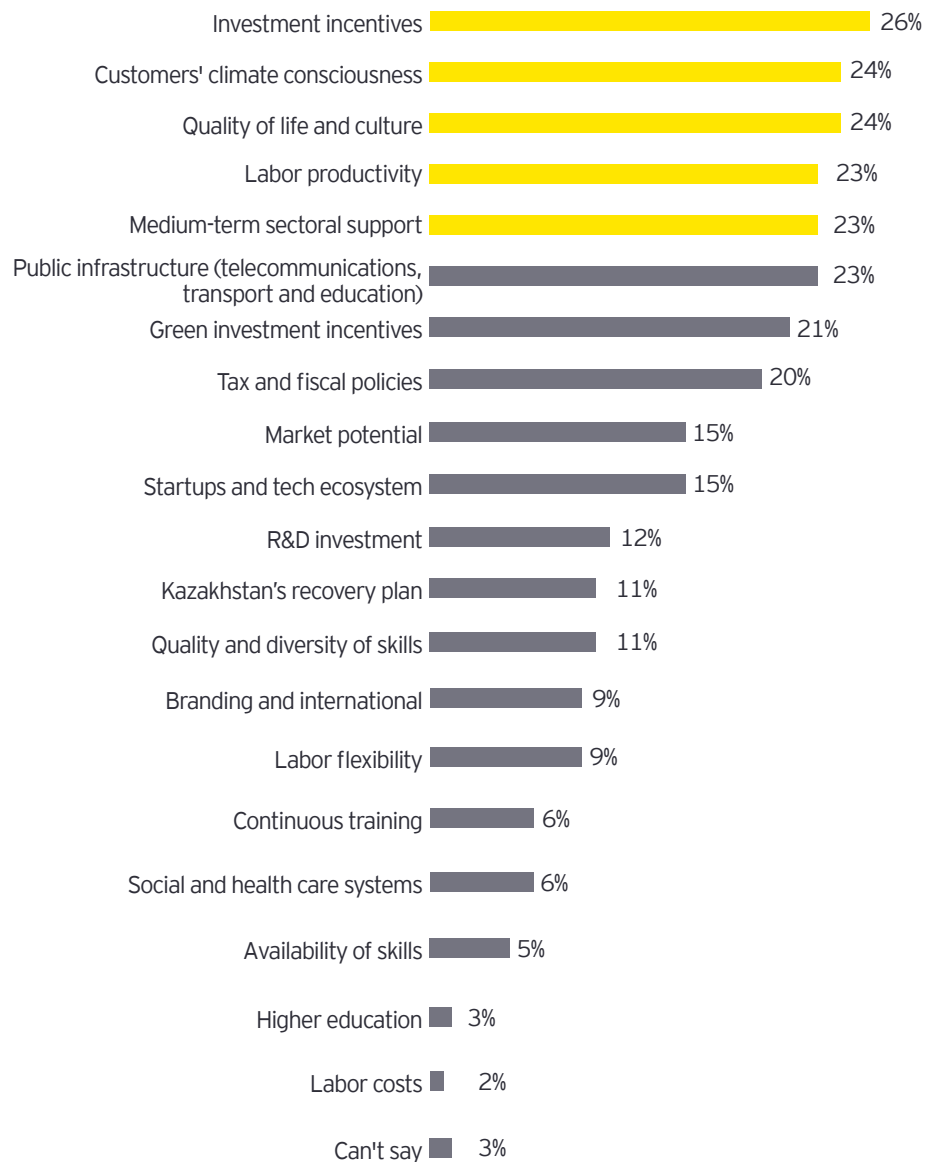
cybersecurity laws three years ago, which will go some way to providing investor certainty.

Frequent political unrest in the region is another common risk cited by 45% of survey respondents. In January 2022, a nation-wide protest over fuel price hikes was the biggest political crisis in Kazakhstan in the last three decades. The country has seen a growing discontent over rising income inequality, corruption and the lack of democracy. In July 2022, Uzbekistan imposed a state of emergency after political unrest erupted in the Karakalpakstan province over plans to curtail its autonomy. Kyrgyzstan has seen similar political turmoil in recent years between its opposing political parties over power. These recurrent unrest events severely dent investor confidence in the region.

⁷³ "Kazakhstan Amends Digital Technology Regulations," Lexology, <https://www.lexology.com/library/detail.aspx?g=a75119ff-4715-4049-82ec-c5518702718d>, accessed 21 September 2022

6.5 Investors seek policy consistency, investment (tax) incentives, focus on sustainable growth and a skilled workforce

Q: Over the next three years, what factors may positively influence your decision to invest in the region?



Source: EY Attractiveness Survey Central Asia 2022 (total respondents: 64)

Executives seek a range of incentives, policies and reforms to invest in the region. These include tax policies and incentives, focus on sustainable practices, a better standard of living, availability of productive and skilled labor force, sectoral support, accessibility to capital (especially to SMEs), and an upgraded public infrastructure. Overall, we can categorize these factors into five major pillars that all the stakeholders, including governments, businesses and consumers need to work toward. They are digital, tax, labor, policy and sustainability.

Policy approach and consumer readiness to climate change and sustainability high on investors' agenda*

Climate change has become a significant concern for Central Asia, as the region is extremely prone to natural disasters, including droughts, floods, earthquakes and mudslides. The World Bank estimates that in the past three decades alone the region has experienced 500 floods and earthquakes – impacting 25 million people and causing US\$80b in damages. The region has one of the highest per-capita carbon footprints in the world, with Kyrgyzstan's capital Bishkek named as one of the most polluted cities globally.

These issues pose a major question over the region's long-term growth prospects, as well as its ability to attract investors. Businesses are becoming increasingly climate-conscious about their investments and rank the "policy approach to climate change and sustainability," as well as customer's climate consciousness as one of the most important factors that determines where they invest. Businesses now wish to be situated in countries where funding for sustainability initiatives are available, and where the regulatory landscape supports sustainability practices.

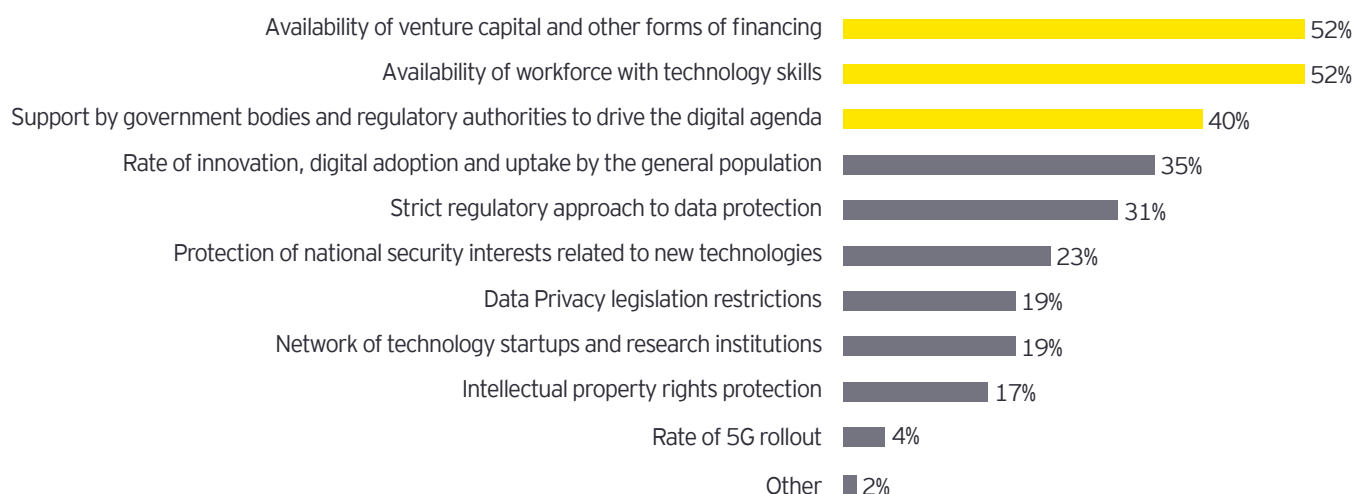
Spillovers from COVID-19 as well as investors' rising interest in sustainability have encouraged Central Asian economies to strive for a greener recovery. Governments across the region have announced ambitious net-zero targets to reduce carbon dependence, driven major expansion plans in renewables, encouraging green financing as part of their development plans, promoting sustainable agriculture, restoring natural capital, as well as making public infrastructure cleaner. Kazakhstan became the first country in Central Asia to establish an emissions trading scheme. These countries are taking steps toward a more resilient, greener and include growth model to gain investor confidence.



*"Envisioning Central Asia's Green Recovery," The World Bank, <https://www.worldbank.org/en/news/opinion/2021/07/01/envisioning-central-asia-s-green-recovery>, accessed 22 September 2022

6.6 Availability of digital skills and technology sector finance are key to attracting investors

Q: Of the following factors, which three are most important when choosing a country to invest in?



Source: EY Attractiveness Survey Central Asia 2022

When asked which technology-related factors are most important when choosing a country to invest in, the availability of venture capitalists and other sources of financing the digital journey ranked first. This is understandable – venture capital is a crucial part of the digital economy. Prior to investing in technology startups, businesses need to ensure that these ventures are backed by strong funding and other resources to thrive. Kazakhstan has the Kazakhstan Digital Accelerator (KDA) program⁷⁴ to support technology startups with the skills, network and funding needed to grow. The KDA is jointly developed by Quest Ventures and QazTech Ventures, the venture arm of the Kazakhstan sovereign wealth fund, which provides seed funding of up to US\$50,000.

Businesses also need employees with sound technology skill sets to sustain their increasingly digitalized operations. Availability of a workforce with technology skills (including scientists, data analysts and engineers) is the second-most important technology-related factor that influences location decisions. Skills aside, businesses also consider this important because it eases the process of interacting with tax authorities, regulators and other government agencies.

Digital literacy is one of the key focus areas of “Digital Kazakhstan” program, which had planned to gradually increase the level of digital literacy of the population to 83% by 2022.⁷⁵ As part of the program, Kazakhstan launched digital literacy courses in all regions across schools, colleges and libraries.

Throughout Kazakhstan, 2,729 institutions participated in the courses to increase its population’s competency in four skillsets:

- ▶ Basic digital skills
- ▶ E-government and e-government services
- ▶ Open government
- ▶ Electronic commerce

Digital adoption and rate of innovation is another crucial factor for executives to invest in a country. Central Asian countries rank relatively low on global technology adoption indices due to a slow rate of innovation and uptake by the masses. Lack of ICT infrastructure also adds to the slow digital adoption rate. According to the United Nations Conference on Trade and Development (UNCTAD) Technology and Innovation Report 2021, most Central Asian countries rank in the lower-middle bracket on digital adoption. Kazakhstan fares best, ranked 62nd, scoring well on digital skills availability and R&D investment. Because investors require a more digitalized economy with a technology savvy population, there is an urgent need for governments to accelerate general technology uptake across their economies.

⁷⁴ “Kazakhstan Digital Accelerator,” Quest Ventures, <https://www.questventures.com/businesses/accelerate/kazakhstan-digital-accelerator/>, accessed 23 September 2022

⁷⁵ “Digital Literacy in Kazakhstan,” Electronic government of the Republic of Kazakhstan (egov.kz), https://egov.kz/cms/en/articles/digital_literacy#:~:text=Digital%20literacy%20courses%20have%20been,population%20to%2083%25%20by%202022, accessed 23 September 2022

6.7 Availability of a skilled workforce is critical for investors

Q: Of the following HR-related factors, which three are the most important when choosing a country to invest in?



Source: EY Attractiveness Survey Central Asia 2022

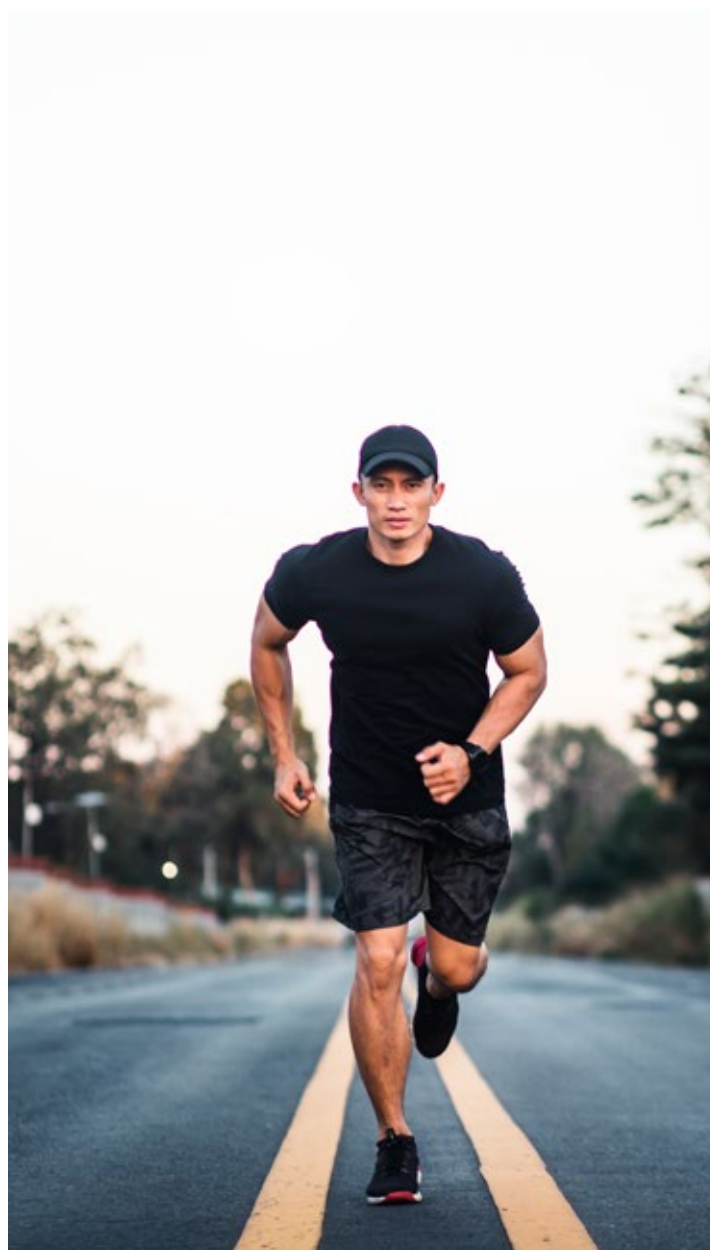
Business places great importance on the strength of a location's education system and skilled workforce. Availability of a young, educated workforce with specialized skills has become a key benchmark of competitiveness in a knowledge-driven economy. The COVID-19 pandemic has altered the way we work, requiring businesses to reimagine workforce flexibility, productivity and agility.

Not surprisingly, when asked what the most important HR factors for location decisions, technology and digital skills ranked as the most important factor for investment. We have discussed in detail in the technology section how digital literacy has become a key part of national digital agendas and how these Central Asian economies are working toward bridging the digital divide by providing access to digital skills at the most grassroots level.

Executives also seek a workforce that can easily be upskilled and reskilled as per the evolving business requirements. In an increasingly complex business environment, countries with strong training programs can improve employee engagement, increase retention and collaboration and help firms speed up the adoption of new and agile trends to ensure sustained growth.

Availability of technical and industrial skills is ranked third for location decisions. The region's large dependence on extractive industries demands businesses employ people who have an understanding and technical knowledge of these sectors. Training employees in industrial skills significantly adds on to costs.

Ability to work from home, which was one of the crucial factors for business executives during the COVID-19 pandemic, has been ranked down the list as organizations adopt to the new business environment and implement hybrid work models across the globe.



6.8 Investors rank pragmatism and flexibility from tax authorities as their most critical tax factor

Q: Of the following tax-related factors, which three are the most important when choosing a country to invest in?



Source: EY Attractiveness Survey Central Asia 2022

Tax forms one of the main factors for raising a country's ease of doing business ranking. Businesses want the tax compliance process to be as simple as possible, and for tax authorities to be pragmatic and flexible when complex issues arise. Therefore, the degree of pragmatism and flexibility of tax authorities is the most important tax-related factor that determines where businesses make location investment decisions. Investors want the tax authorities to be pragmatic and respond to their specific issues in the form of open dialogue. Investors also seek a level of fairness and reasonableness when authorities consider tax deductions (ranked second by absolute numbers). Digitalization is also crucial. Digital channels enable tax authorities to communicate more frequently and directly with companies, while also helping businesses to be tax-compliant simply and efficiently via e-portal tax submissions.

Far fewer respondents see the rate of corporate tax to be of utmost importance from investing. This could well be because Central Asian statutory tax rates are among the lowest globally, with the region's average corporate tax rate below the global rate of 23.5% (as per the World Tax Foundation IFT 2021).⁷⁶ According to the Foundation, Uzbekistan (15%) and Turkmenistan (8%) have the world's second and third lowest corporate tax, respectively, only behind Barbados (5.5%). Kazakhstan has a relatively high corporate tax rates of 20%. Kyrgyzstan's corporate tax rate stands at 10%. Kazakhstan doesn't feature on the ITF's Lowest Statutory Corporate Income Tax Rates in the World 2021 list. Many investors also view the rate of social security contributions as an important factor. These contributions could add significant fixed costs to employers, and a high social security tax rate could prove to be a deterrence for investment.

Country	Statutory corporate tax rate	Employer social security tax rate
Kazakhstan	20.0%	9.5%
Uzbekistan	15.0%	12.0%
Kyrgyzstan	10.0%	17.25%
Tajikistan	23.0%	20.0%
Turkmenistan	8.0%	20.0%*
Azerbaijan	20.0%	22.0%
Georgia	15.0%	6.2%

Source: The World Tax Foundation; *Pension insurance

In Central Asia, Kazakhstan has one of the lowest social security contribution rates, but Uzbekistan and Kyrgyzstan's social security rates are somewhat higher. Even so, these rates are still moderate and mostly below the global average. Governments will need to ensure these levels remain competitive in future to continue attracting new investment.

Another factor executives cite is the scope and rate of environmental taxes. This likely reflects concerns that governments will introduce new taxes or raise existing taxes to fund a transition to the green economy. This is due to global initiatives, with more nations and NGO's demanding carbon taxes to limit carbon footprints. This includes the EU which will impose carbon taxes on inbound goods and services that includes carbon footprint costs of production.

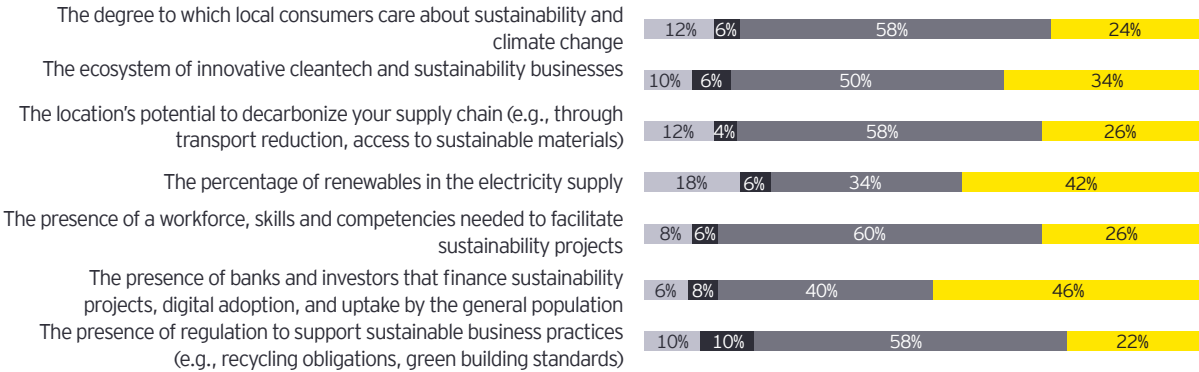
⁷⁶ "Corporate Tax Rates around the World, 2021," The World Tax Foundation, <https://taxfoundation.org/publications/corporate-tax-rates-around-the-world/#:::text=Regional%20Variation%20in%20Corporate%20Tax%20Rates,Corporate%20tax%20rates&text=Asia%20has%20the%20lowest%20average,all%20regions%2C%20at%2019.62%20percent,accessed%2026%20September%202022>

6.9 Investors rate Kazakhstan and Uzbekistan favorably on sustainability initiatives

Sustainability factors influencing country selection:

In your view, how does Kazakhstan, Kyrgyzstan or Uzbekistan perform with regard to the following sustainability-related factors?

Kazakhstan

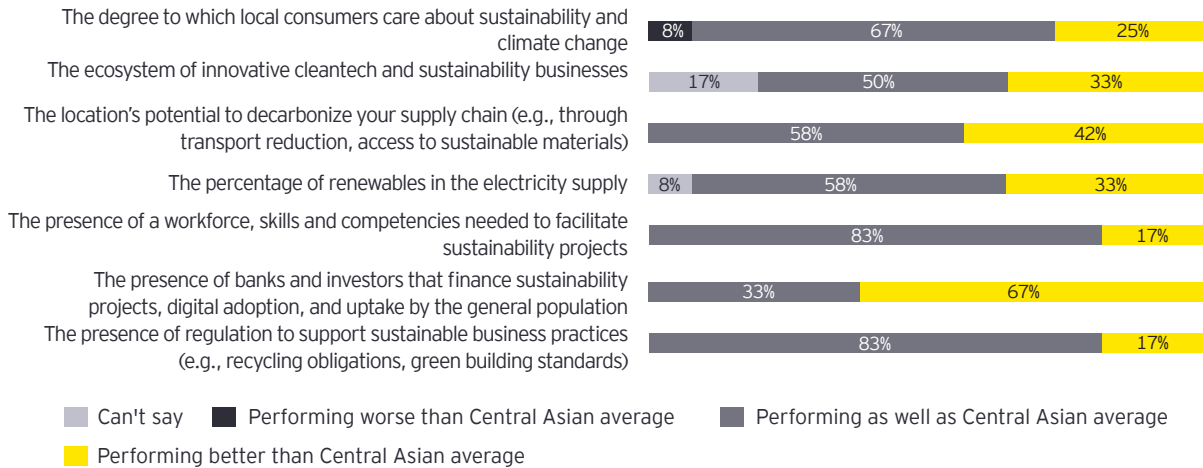


Can't say
 Performing worse than Central Asian average
 Performing as well as Central Asian average
 Performing better than Central Asian average

Source: EY Attractiveness Survey Central Asia 2022

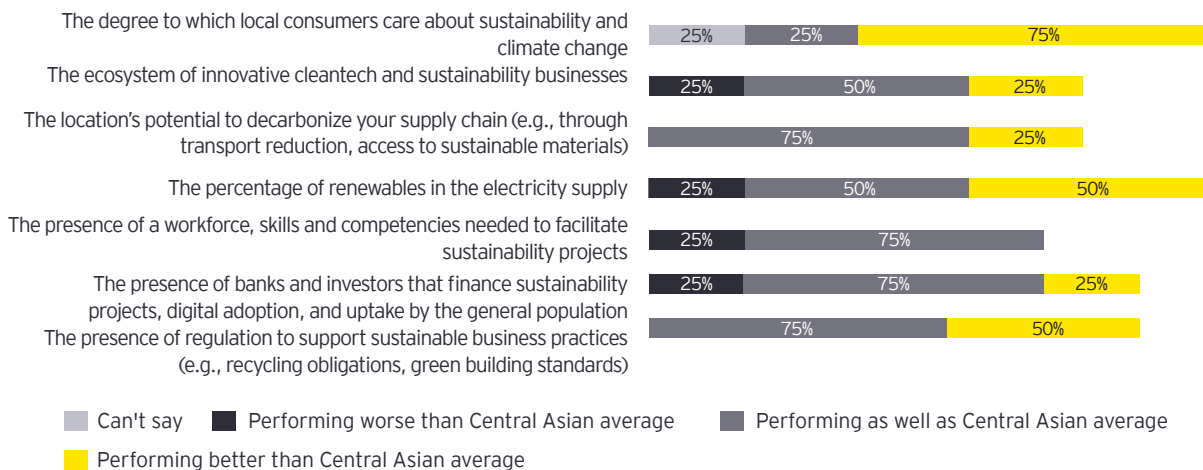


Uzbekistan



Source: EY Attractiveness Survey Central Asia 2022

Kyrgyzstan



Source: EY Attractiveness Survey Central Asia 2022

As sustainability concerns become more critical across the world, its reach extends to all corners of the globe, with commodity-dependent economies not being exempt. It could even be argued that energy exporters may find themselves more pressured over time to comply with carbon taxes, which are likely to compound both in value and in areas they will apply. In this regard, there is already a strong indication that investors expect Central Asia's growth in cleantech and renewables to become more of a critical growth driver, with 27% of investors in the region expecting that to be the case. In order to achieve the need to balance, traditional energy products with a shift toward more sustainable energy sources will require a combination of different factors, if it is going to succeed. This means developing a supportive policy framework, building sustainability skill sets, and encouraging citizens to shift toward greener energy among others. Overall, investors believe there to be slight variances between the three economies mentioned in terms of how they perform against the overall region, and overall the impression is quite favorable in how investors perceive these countries to be faring. These efforts will no doubt intensify, even as the Ukraine conflict sees stronger demand for oil and at more lucrative prices for energy exporters.

7

Policy recommendations



7. A step change is needed to broaden economic diversity and attract new investment across more sectors to the region

To build on Central Asia's attractiveness, policymakers need to focus on four key areas:

Ensure a supportive policy and regulatory environment

Accelerate the digital economy

Create a skilled future-fit workforce

Promote tax flexibility and pragmatism

Each of the three countries covered in this report may emphasize different aspects of the four pillars that our investors tell us are critical to building investment levels. Much will depend on the structure of the economy, its dependence on extractives, for example, its level of urbanization and its citizen's skills base. Those lagging in skills development may well place more importance on upskilling as a first step toward readying for a more digital society. Those countries that have already commenced more along the path of digitalization may need to create a more enabling policy framework and would therefore focus their efforts there. Below we flag what investors have told us their main requirements, in sequential order.

7.1 Create a fair, certain and transparent legal system supported by policy reforms

Political regime change across Central Asia has over the last few decades often resulted in a shift toward resource nationalism, accompanied by sudden changes to the terms and conditions of extractive licenses, along with arbitrary fines and additional measures taken against companies with already existing licenses in place.

Across all three countries covered in this report, extractives companies face potential contract renegotiation, which can substantially alter the profitability and even viability of an investment.

The United Nations Commission on International Law (UNCITRAL), for instance, names Kyrgyzstan as lacking in dispute resolution mechanisms.

This has created investor uncertainty and needs to be addressed if new investors are going to be attracted to the region or consider additional investment, and its courts are deemed to be too partial to government and political stakeholders. While the legal system has undergone considerable reforms already, it is seen to be subject to political interference. A less piecemeal approach to legislative reform is required, if investors are to invest with certainty and confidence.

Kazakhstan provides an example of an explicit intention to create a fairer disagreement mechanism, albeit with limited success to date. The establishment of AIFC, which took effect in July 2018, has its own arbitration center and court based on British Common Law, independent of the Kazakh judiciary.

7.2 Invest in technology, innovation and digital skills to raise regional competitiveness

The level of technology adoption by consumers, corporates and governments is one of the most important factors determining where investors locate. Central Asia has only recently commenced its digitalization journey and still has much to do to build basic digital connectivity, enabling its citizens to benefit. The World Bank cites almost half of Central Asia's citizens as not digitally connected, especially in rural and remote areas. The World Bank adds that three Central Asian countries lie below the global average in terms of the number of individuals using the internet.⁷⁷

UNCTAD Readiness for Frontier Technologies Index*

Country	Percentage of individuals using the internet	Fixed broadband subscriptions per 100 inhabitants
Kazakhstan	79%	13.4%
Uzbekistan	55%	12.7%
Kyrgyzstan	38%	5.6%
Tajikistan	22%	0.1%
Turkmenistan	21%	0.1%
Global average	54%	13.3%

Source: "Catching technological waves," UNCTAD Technology and Innovation Report 2021, United Nations, 2021

*The index yielded results for 158 countries on a scale of 0 to 1. Based on their rankings, countries are placed within one of four 25-percentile score groups: low, lower-middle, upper-middle and high values of the index. Uzbekistan and Turkmenistan do not feature on the list.

It is estimated that these Central Asian countries need at least US\$6b to connect the remaining half of its population to the internet by 2030. This requires a collective effort, including foreign and local private investment for infrastructure build, as well as policy reforms aimed at developing digital skills.

Accelerate digitalization to create a future-fit economy

According to the World Bank, Uzbekistan has almost doubled its fiber-optic infrastructure from 36,600km in 2019 to 68,600km in 2020, and simplified permits for the construction and launch of cell towers.⁷⁸ The country is also collaborating with the World Bank to develop its ICT infrastructure.

Kazakhstan launched a national "Digital Kazakhstan (2018-2022)" program aimed at elevating the standards of living of its residents using digital technology, as well as supporting technological entrepreneurship development. According to the Kazakh Minister of Digital Development, Innovation and Aerospace Industry Bagdat Mussin, in 2018 and 2019, Kazakhstan's digitization efforts generated US\$2b, created 120,000 jobs and attracted US\$81ms in foreign investment.⁷⁹ It also launched the "eGov.kz" e-government portal to provide citizens with quick access to government services.

In collaboration with the World Bank, Kyrgyzstan also launched the "Digital CASA" program in 2018 that aims to increase access to more affordable internet and crowd-in private investment in the ICT sector, and improve the government's capacity to deliver digital government services in the country⁸⁰. Between 2020 and 2024, Uzbekistan also plans to establish 14 technology parks across the country, set up regional digital competency training centers to promote digital literacy and increase three-fold the number of residents of the technopark. This is expected to help the country increase exports of computer services and programming, as well as accelerate the penetration of ICT skills among its population⁸¹.

These initiatives and policies are the first steps taken by these Central Asia economies toward creating inclusive and meaningful digital access for all, and attracting foreign investment into the technology sector.

Kyrgyzstan has also collaborated with international bodies, such as the United Nations Development Programme (UNDP)⁸² and the EU⁸³, through various projects aimed at decreasing the digital divide, by developing and introducing e-learning materials and by increasing the availability of digital competences and literacy. Uzbekistan is proactively developing the country's ICT literacy via its "Five initiatives of the President of the Republic of Uzbekistan." This includes new regional digital competency training centers (IT centers) to teach youth skills in computing and communications devices, and disseminate IT culture.⁸⁴

⁷⁷ "How Central Asia can ensure it doesn't miss out on a digital future," The World Bank Blogs, <https://blogs.worldbank.org/europeandcentralasia/how-central-asia-can-ensure-it-doesnt-miss-out-digital-future>, accessed 26 September 2022

⁷⁸ "How Central Asia can ensure it doesn't miss out on a digital future," The World Bank Blogs, <https://blogs.worldbank.org/europeandcentralasia/how-central-asia-can-ensure-it-doesnt-miss-out-digital-future>, accessed 26 September 2022

⁷⁹ "Kazakhstan's Digitization Program Brings Additional \$2 billion Into the Economy," The Astana Times, <https://astanatimes.com/2020/06/kazakhstans-digitization-program-brings-additional-2-billion-into-the-economy/>, accessed 27 September 2022

⁸⁰ "Digital CASA - Kyrgyz Republic," The World Bank, <https://projects.worldbank.org/en/projects-operations/project-detail/P160230>, accessed 27 September 2022

⁸¹ "How Uzbekistan is transforming into a digital society in the time of COVID19," Observer Research Foundation (ORF), <https://www.orfonline.org/expert-speak/how-uzbekistan-is-transforming-into-a-digital-society-in-the-time-of-covid19-68640/>, accessed 27 September 2022

⁸² "Digital skills and entrepreneurship in Kyrgyzstan," VOCED Plus, <https://www.voced.edu.au/content/ngv%3A87548>, accessed 27 September 2022

⁸³ "Twinning Project: Support to Digitalisation Agenda in Kyrgyzstan," e-Governance Academy (eGA), <https://ega.ee/project/kyrgyzstan-twinning/>, accessed 27 September 2022

⁸⁴ "How Uzbekistan is transforming into a digital society in the time of COVID19," Observer Research Foundation (ORF), <https://www.orfonline.org/expert-speak/how-uzbekistan-is-transforming-into-a-digital-society-in-the-time-of-covid19-68640/>, accessed 27 September 2022

7.3 Build skills and invest in human capital for economic diversification

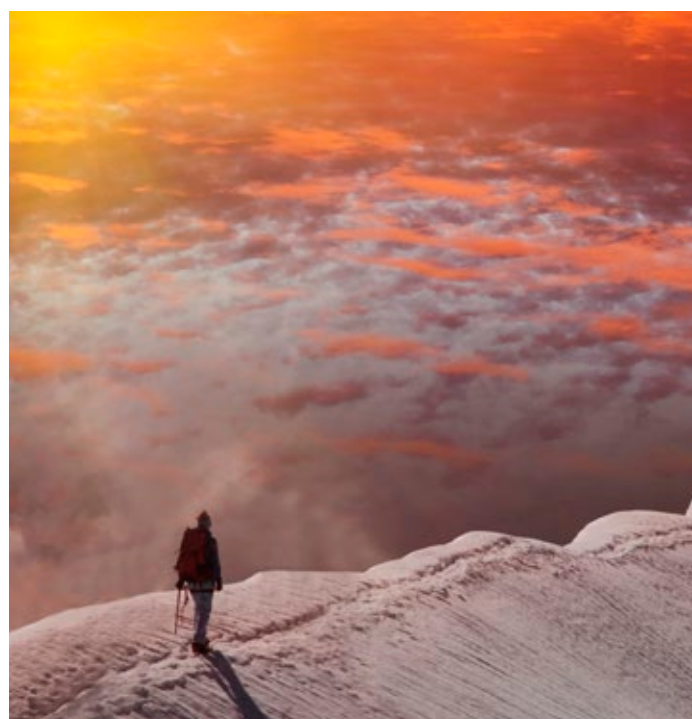
Central Asia boasts high literacy rates of close on 100% as per the recent data by World Population Review.⁸⁵ However, the countries are at very different stages of developing their higher education systems, with significant difference in enrolment rates, completion rates, public expenditure on education and levels of employability. A sound skilled workforce with high tertiary education enrolment rates is essential for moving away from natural resources-based economies to information and knowledge-driven societies, according to the Sustainable Development Goals set up by the United Nations Educational, Scientific and Cultural Organization (UNESCO).⁸⁶

Country	Number of higher education institutions	Gross enrolment rates for higher education	Percentage of graduates from science, technology, engineering, mathematics programs in tertiary education, both sexes (2020)	Government expenditure on education as a percentage of GDP (2020)
Kazakhstan	125	62%	24.0%	4.5%
Uzbekistan	85	10%	36.9%	4.9%
Kyrgyzstan	68	41%	19.2%	6.2%
Tajikistan	39	31%	39.9%	5.9%

Source: the United Nations Educational, Scientific and Cultural Organization (UNESCO) *Institute for Statistics (UIS) database*

According to Coursera’s Global Skills Report 2022, Kazakhstan jumped 54 places to rank 24th globally on the skills index. The country fell in technology-related skills, while it was only emerging in business and data science skill sets. Uzbekistan, on the other hand, ranked quite low at 84th position, lagging in digital. It is important to invest in skills and human capital to pave a path toward economic diversification.

Central Asia has seen increasing demand for higher education in recent years and its governments are taking measures to ensure a globally competitive education system takes root. In June 2021, the education ministries of four Central Asian countries, Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan, created a unified higher education arena to facilitate exchanges of knowledge, students and academic staff among higher education institutions.⁸⁷ Individually as well, the countries are working hard to raise the competitiveness of their workforce. Kazakhstan’s 2050 Strategy aims to expand labor opportunities in the country, while Kyrgyzstan’s National Development Strategy focuses on human development. Uzbekistan launched the 2017-2021 National Development Strategy that aimed at directing 90% of learners toward technical and vocational education and training (TVET) to increase employment levels across a more diverse economy.⁸⁸



⁸⁵ <https://worldpopulationreview.com/country-rankings/literacy-rate-by-country>
⁸⁶ "Policy brief: higher education in Central Asia," UNESCO Digital Library, <https://unesdoc.unesco.org/ark:/48223/pf0000377911>, accessed 28 September 2022
⁸⁷ "Central Asian Countries to Create Unified Higher Education Zone, The Astana Times, <https://astanatimes.com/2021/06/central-asian-countries-to-create-unified-higher-education-zone/>, accessed 28 September 2022
⁸⁸ "Policy brief: higher education in Central Asia," UNESCO Digital Library, <https://unesdoc.unesco.org/ark:/48223/pf0000377911>, accessed 28 September 2022

7.4 Facilitate a fair and transparent approach to tax using digitalization as an enabler

Central Asia must work toward simplification of their tax regulations, make them as transparent as possible for investors, be pragmatic and flexible in addressing their challenges, and communicate planned changes to existing tax laws or new laws to businesses directly. This would significantly help the region boost its competitiveness and attract foreign investors.

They will also need to navigate the era of looming environmental taxes carefully. Central Asian countries, like countries across the globe, will need to raise carbon levies on polluters as they seek to transition to a greener economy. This could be of a worry to foreign investors, especially when environmental tax legislation is relatively new and likely to change over time. Central Asia is likely to establish a framework for environmental taxes in accordance with EU legislations.

Q: In your opinion where should countries in the region concentrate their efforts to improve the investment climate?



Source: EY Attractiveness Survey Central Asia 2022





***The attractiveness of Central Asia for foreign investors**

The evaluation of FDI in Central Asia is based on FDI Market Intelligence's proprietary database. This database tracks the FDI projects that have resulted in new facilities and new jobs. By excluding portfolio investments and M&A, it shows actual investment in manufacturing and services by foreign companies into the region.

An investment in a company is normally included in FDI data if the foreign investor acquires more than 10% of the company's equity and takes a role in its management. FDI includes equity capital, reinvested earnings and intracompany loans.

The perceived attractiveness of Central Asia by foreign investors

We define the attractiveness of a location as a combination of image, investor confidence, and the perceptions of a country's or area's ability to provide the most competitive benefits for FDI.

Field research was conducted by Euromoney in August 2022 via online interviews, with 119 international investors participating.

The views of the third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

Thanks

EY Attractiveness surveys are widely recognized by clients, media, governments and major public stakeholders as a key source of insight into FDI. Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses make investment decisions and governments remove barriers to growth. A two-step methodology analyzes both the reality and perception of FDI in the country or region.

Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

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