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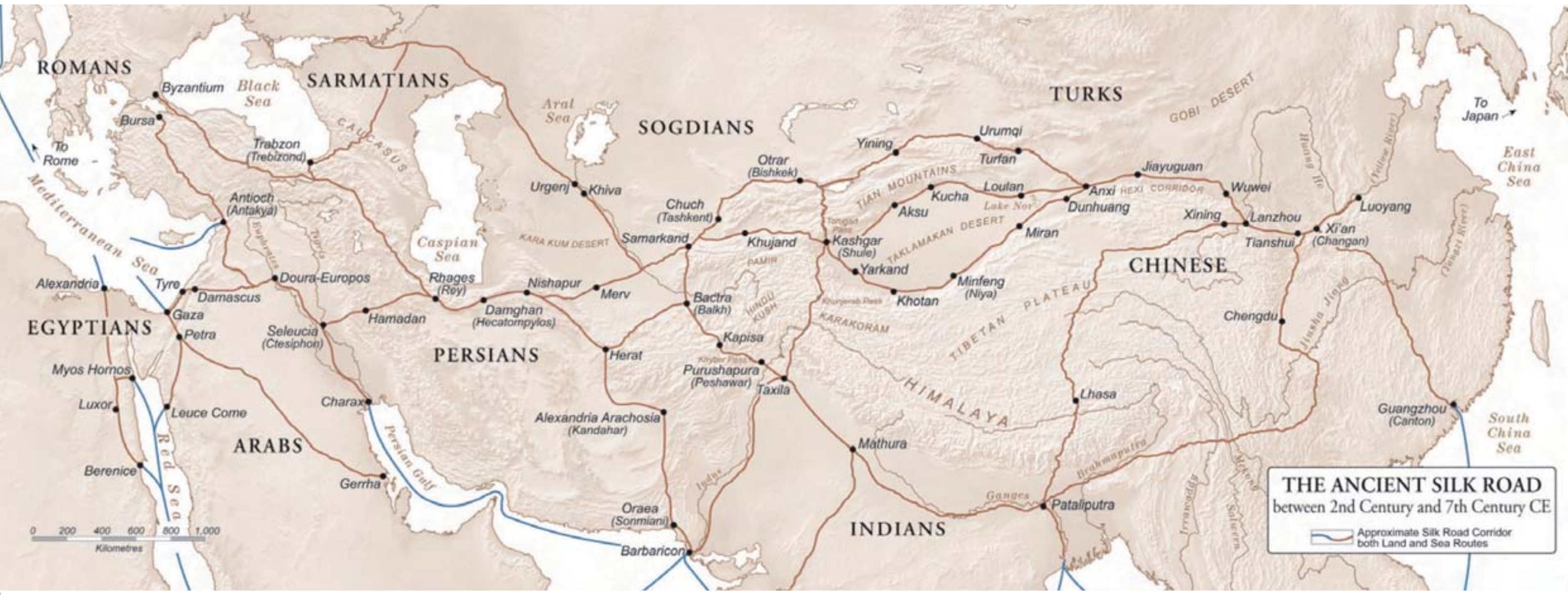
INVESTMENT GUIDE TO THE SILK ROAD

2014





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New York and Geneva, 2014

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Annual rates of growth or change, unless otherwise stated, refer to annual compound rates.

Because of rounding, details and percentages in tables do not necessarily add up to totals.

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PREFACE

The *Investment Guide to the Silk Road* is an integral part of UNCTAD's work in the Silk Road region, which comprises the States of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and the four western Chinese provinces of Gansu, Ningxia, Shaanxi and Xinjiang. The first edition of the publication was jointly prepared with UNDP China in 2006. The guide was updated and published by UNCTAD in 2009. This 2014 update includes for the first time Turkmenistan.

The publication has been produced under the direction of James Zhan and written by Yongfu Ouyang and Bradley Gordon, guided by Paul Wessendorp. Contributions came from Richard Bolwijn, Albert Kao, Estève Morel, Ian Richards and Mathabo le Roux. It was desktop published by Teresita Ventura. Sophie Combette designed the cover.

This publication has been made possible by donors' contributions to UNCTAD's technical cooperation programme on investment promotion.

It is hoped that the information presented in this publication will promote a constructive dialogue among key stakeholders and will help raise awareness about the Silk Road as an investment destination.

UNCTAD, Geneva, 2014

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ABBREVIATIONS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
BIT	bilateral investment treaty
BTA	bilateral trade agreement
CAREC	Central Asia Regional Economic Cooperation Programme
CIS	Commonwealth of Independent States
CISFTA	Commonwealth of Independent States Free Trade Agreement
CU	customs union
DTT	double taxation treaty
ECO	Economic Cooperation Organization
ECOTA	Economic Cooperation Organization Trade Agreement
EITI	Extractive Industries Transparency Initiative
EU	European Union
EurAsEC	Eurasia Economic Community
FDI	foreign direct investment
FEZ	free economic zone
FIE	foreign invested enterprises
FTA	free trade agreement
GSM	Global System for Mobile Communications
GDP	gross domestic product
ICSID	International Centre for Settlement of Investment Disputes
ICT	information and communication technology
IIA	international investment agreement
IPA	investment promotion agency
IT	information technology
LED	light-emitting diode
MFN	most-favoured nation
MIGA	Multilateral Investment Guarantee Agency
SEZ	special economic zone
SOE	state-owned enterprise
TNC	transnational corporation
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNWTO	United Nations World Tourism Organization
VAT	value-added tax
WTO	World Trade Organization

EXECUTIVE SUMMARY

Lying at the heart of the ancient Silk Road, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan and the four western Chinese provinces (Gansu, Ningxia, Shaanxi and Xinjiang) are part of a historic hub of exchange of goods, culture and technology between East and West, dating back more than 2 000 years. However, as a result of the fall of ancient empires, strife and the emergence of new forms of transport, the trade route of antiquity gradually fell into disuse for centuries. Its potential only revived after the dissolution of the former Soviet Union in the 1990s, when the Central Asian countries commenced their transformation to market economies and their reintegration into the world economy. During the same period, western China benefited from the rapid growth of China's economy. The Silk Road region as a whole has experienced strong economic growth and is emerging as an important foreign investment destination.

Among the numerous sectors offering investment opportunities, those that hold perhaps the greatest potential are transportation and energy. With the aim of leveraging its location at the heart of the Eurasian continent and strengthening links to the international market, governments in the Silk Road region have put in place ambitious plans to upgrade infrastructure and develop a strong regional transportation hub. Over the past 20 years the regional railway network has been revitalized, and allows access to landlocked countries such as Kyrgyzstan, Tajikistan and Uzbekistan. All countries in Central Asia have prioritized transportation improvements. In Kazakhstan, the government has put in place various programmes to upgrade its infrastructure to meet the objective of doubling its transit capacity by 2020 and increasing it tenfold by 2050. Similar programmes across the region indicate the urgency with which the region wishes to rejuvenate transportation, and major investment opportunities exist in infrastructure development and modernization, and the provision of transportation and logistics services in the region.

Central Asia has the potential to become a world leader in energy production, as Kazakhstan, Turkmenistan and Uzbekistan hold some of the world's largest oil and natural gas reserves. While state-run oil companies often dominate extraction, processing and transportation activities, the industry is open to private investors through partnerships. Major corporations such as Chevron, ConocoPhillips and ExxonMobil, have ventured into the region signaling growth and increased openness in the energy sector.

Other industries available to foreign investors are tourism, mining, agro-business, chemicals, equipment manufacturing and information technology (IT). Tourism is increasing. With its rich and fabled history, the Silk Road offers tourists a unique journey through ancient sites and rich cultures. Investors have the chance to further develop this unique tourist region. Mining is another promising sector, with all countries offering a variety of metal and non-metal mineral reserves. Mining laws have been updated throughout the region, creating a safer investment environment. Agro-business on the Silk Road is also an emerging sector, as the region contains highly fertile terrain. Kazakhstan is the world's sixth largest wheat exporter and Turkmenistan is one of the top 10 cotton producers. While the Silk Road region has the ability to establish a profitable agro-business sector, progress is impeded by a poor support infrastructure and outdated technology.

Chemicals and equipment manufacturing also offer new investment opportunities, spurred by growing local demand and import substitution strategies pursued by the Silk Road economies. The information technology and communication market is new to the region, but is developing quickly and governments have been supportive of it. For instance, Kazakhstan plans to build an IT park to develop its technological research and development capacity, and Turkmenistan partnered with India to build its IT infrastructure.

Various investment opportunities and an improved investment climate are attracting international investors to the region. Foreign direct investment (FDI) flows to the region have risen from $2 billion to over $19 billion a year in the last decade.

Notable investors in the region include Coca-Cola, General Motors, Toyota and Siemens. These international investors are attracted by economic growth, improved productivity and the availability of exceptional resources, including a skilled labour force. The enactment of laws and regulations protecting foreign investment also provides investors with a more secure investment environment. In 2013 the World Bank identified the Silk Road countries as one of the regions that has made the most progress in improving the ease of doing business. A network of investment treaties and double taxation agreements also signals the increasing openness of the region to international investment.

This guide provides potential investors with information on the Silk Road to illustrate the various investment opportunities in Central Asia, and familiarize themselves with the region. Chapter I introduces the region and individual economies, and summarizes the extensive history of the Silk Road, from its ancient prosperity to its current revival. Chapter II provides the reader with information about the economic conditions of each country and the region as a whole. Chapter III outlines investment opportunities in selected sectors in the Silk Road countries. The Appendices provide brief overviews of the investment regulatory framework in each of the Silk Road countries.

I. INTRODUCING THE SILK ROAD

Five Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) and four western Chinese provinces (Gansu, Ningxia, Shaanxi and Xinjiang) lie at the heart of the ancient commercial route of the Silk Road, which is emerging as an important investment and business destination.

In the last two decades, the Central Asian countries of the Silk Road have experienced a profound transformation towards a more market-based economy and integration into the global economy. The global commodity boom has further boosted the growth of the Central Asian economies – rich in oil, gas and mineral resources. There has also been significant development in the infrastructure of the region, specifically in regional rail, road and pipeline systems.

The Silk Road region has enjoyed healthy economic growth over the last decade, and has managed to restore social and political stability, offering many business opportunities.

A. The history of the Silk Road

German Baron Ferdinand von Richthofen coined the term "Silk Road" in the 1870s to describe the dynamic trade connections in the region, and the greatest trade route linking East to West. It was more than just a single route. Rather, it comprised a network of connections stretching from south to north, and from East Asia to as far west as Europe, Egypt and other countries in Africa.[1]

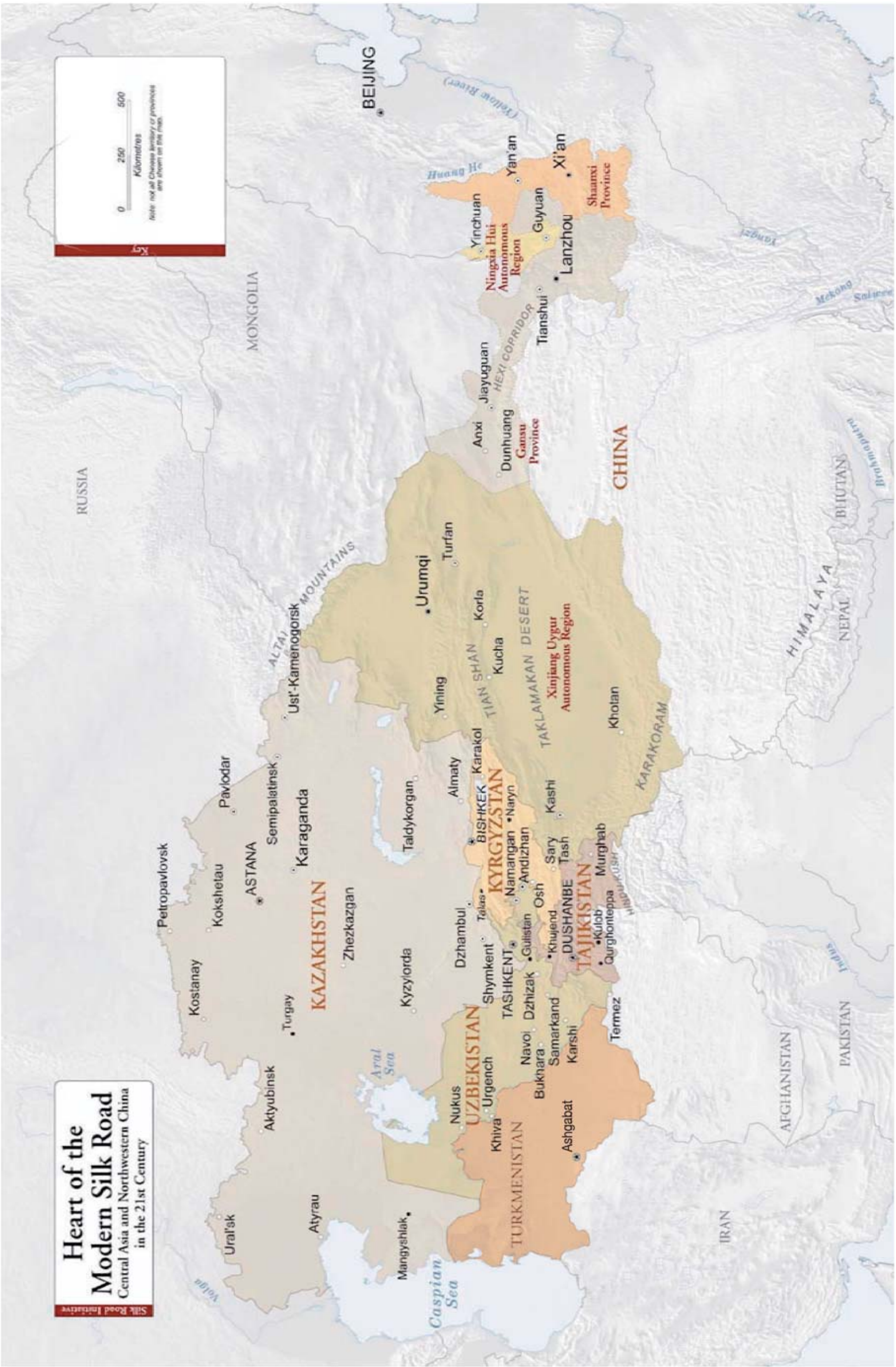
Early activities along the Silk Road are believed by Chinese scholars to have started during the Chinese Han Dynasty (206 B.C.–A.D. 220), but the Silk Road started to flourish during the time of the Chinese Tang Dynasty (A.D. 618–907). During this time Chang'an (present-day Xi'an) served as the starting point and final destination for travellers along the Silk Road, and was home to numerous religions and more than 5 000 foreigners. Caravans converged on Chang'an from all over the world, bringing exotic goods to China and taking Chinese products back along the extensive network of oases that developed along the Silk Road and around the Taklaman Desert. Kashgar served as the focal point through which these caravans journeyed to Central Asia and on to the West.

During the prosperous periods of the Silk Road, there is no doubt that trade stimulated high levels of economic development and encouraged scientific and technological exchange. Glass-making travelled from Europe to China in the 5th century and silk-making secrets made their way to Europe. Iron casting, particularly well known in China in Roman times, travelled west along the Silk Road. The open exchange of ideas, cultures and art created a vibrancy and growth in economic, social and cultural affairs along the Silk Road that was unparalleled at the time.

After the fall of the Tang Dynasty in A.D. 907, a number of factors conspired to erode the importance and the dynamism of the Silk Road. Political instability in China led to economic decline and blocked the import of luxury goods into the country. Eventually the Ming Dynasty (1368–1644) effectively closed China to the outside world. Merchants began to utilize new and cheaper forms of transport, such as shipping, and land caravans fell out of favour. Other countries also mastered the cultivation and production of silk, resulting in declining need for an exchange of ideas and technology. By the 15th and 16th centuries, the once lustrous trade route had turned into a dusty byway of meagre economic interest.

Today, as the economies of the Silk Road begin to revive and re-emerge as global players, the Silk Road region has the potential to become internationally important once again for trade and a leading destination for foreign investment.

Figure I.1. The modern Silk Road



B. The present-day Silk Road

1. Political and economic developments since 1991

The break up of the former Soviet Union in 1991 dramatically transformed the political and economic landscape of the modern Silk Road. In a short period, the various territories that made up the former Soviet Union became independent sovereign states. Under the former Soviet Union, the Central Asian territories were integrated into the Soviet economic system. Specialized production and trading of unique resources were often allocated to the various regions. However, the break up of the former Soviet Union left all of the newly independent Central Asian countries landlocked, with small markets, jigsaw puzzle-like borders and insignificant external markets. Not surprisingly, the Central Asian economies initially suffered severe economic contraction during their transition following independence. Trade within Central Asia collapsed after the dissolution of the former Soviet Union because trade links were broken and transit was impeded by new border restrictions. Newly erected border barriers and political turmoil in the region saw intraregional trade decline by almost 50% between 1992 and 2002.[2]

The Central Asian countries are currently at different stages of development in the transition to a market economy and privatization of state-owned enterprises (SOEs). While individual countries are moving at different speeds, the region as a whole is gradually progressing towards integration and market liberalization.

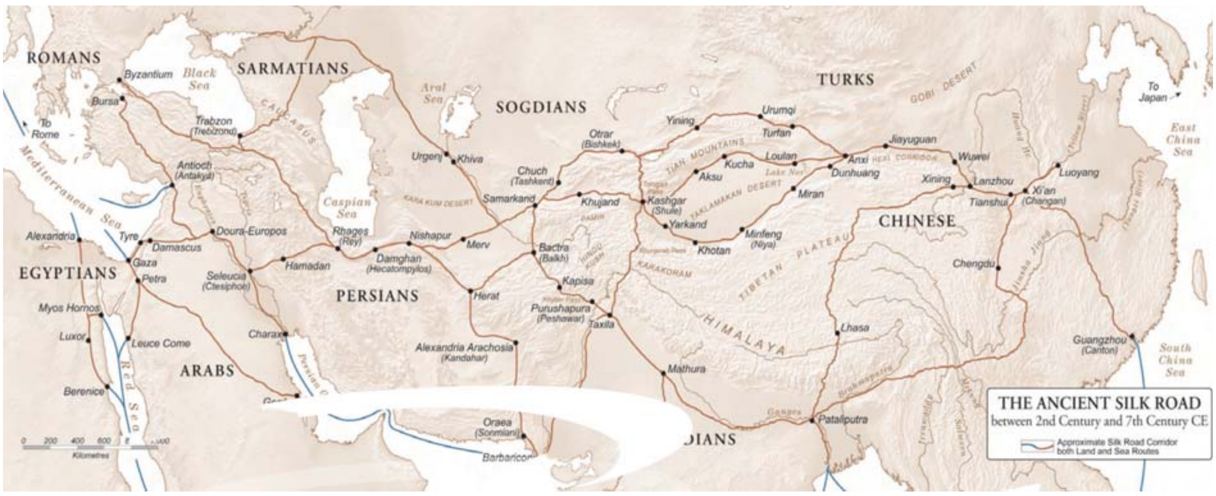
Many of the Central Asian economies have received a strong boost from the oil, gas and mining sectors. Most countries enjoyed healthy economic growth in the last decade, and have seen vibrant recovery from the world economic crisis. In 2011, all Central Asian economies recorded growth above 7% – the most dynamic among all sub-regions of Asia. Benefits from China's economic growth spurt have trickled down to western China, including the four provinces covered by this investment guide, with more resources and economic activities flowing to the region.

2. Increasing economic connection in the region

Despite the close historic relations and kinship in culture and language, in the past economic links between the five Central Asian countries were limited. This was true even when these countries were part of the former Soviet Union, as each maintained external economic connections oriented more towards Moscow than between themselves.

Central Asia and western China's geographic remoteness added to the isolation of the region,

Figure I.2. The ancient Silk Road



and has been considered a stumbling block in the quest to extend communications, develop new markets and attract foreign investment. Uzbekistan, for instance, is one of only two double-landlocked countries in the world (a landlocked country surrounded by other landlocked countries). Urumqi, the capital of China's Xinjiang Uyghur Autonomous Region, is the world's city farthest from a sea port. As a result, transport costs tend to be high into and out of the Silk Road countries because of the need to cross multiple land borders and the lack of ability to ship goods by sea.

However, with ongoing development in regional railways, roads and pipelines, this geographic seclusion can be turned to an advantage. With an aim to leverage the central position of the region between East and West to exploit trade and investment opportunities, efforts have been made to facilitate cross-border transport and increase trade (see pp.10–13; 20–26 for more details).

While intraregional trade only accounts for 10–20% of the total trade of the Central Asian region, it is increasingly important for a variety of sectors (except for major commodities, such as energy products, metals and ores). For example, trade in agricultural products (other than cotton fibre) and foodstuffs, machinery and equipment, construction materials, fertilizers and other chemicals accounts for over 40% of intraregional trade, while these same products account for less than 20% in trade with the rest of the world.[3]

Once movement of resources, goods and people becomes easier within the region, the new Silk Road will offer foreign investors an attractive market with approximately 155.3 million people and a total GDP of approximately $774 billion (tables I.1 and I.2).

Apart from their intraregional ties, the Central Asian countries are also firming up global trade links through bilateral or multilateral arrangements. The most significant is the Belarus-Kazakhstan-Russian Federation Customs Union, which came into force in 2010 and offers investors a market with a population of approximately 167 million and a GDP of approximately $2.1 trillion.

Table I.1. Silk Road GDP and GDP per capita, 2012

	GDP ($ millions)	**GDP per capita** ($)	**Income classification by the World Bank**
Silk Road	**773 974**	**4 984**	
Central Asian countries:[a]			
Kazakhstan	202 656	12 455	Upper middle income
Kyrgyzstan	6 475	1 183	Low income
Tajikistan	7 633	935	Low income
Turkmenistan	33 466	6 469	Upper middle income
Uzbekistan	51 414	1 801	Lower middle income
Chinese provinces:[b]			Upper middle income
Gansu	89 273	3 482	
Ningxia	36 761	5 753	
Shaanxi	228 329	6 100	
Xinjiang	117 968	5 340	

Source:
[a] UNCTADSTAT.
[b] National Bureau of Statistics of China (2012) (converted rate of 1 Chinese yuan = $0.1590).

The lure to transnational corporations (TNCs) lies in the promising regional market rather than modestly sized national markets. And some TNCs have indeed been prompted to set up regional headquarters in economic hubs, such as Almaty, from which they steer their operations in the region.

While the Silk Road region as a whole is making efforts to rejuvenate itself as a new commercial route connecting the West and the East, it is worth noting that the openness of individual economies remains varied, and countries take different approaches to regional economic cooperation. Turkmenistan, for example, cherishes its neutral statehood, and is not an active participant in most regional economic arrangements.

C. Geography and people of the region

The Silk Road region covers a land area of approximately 6.3 million square kilometres. Central Asia is home to a combined population of approximately 155 million people (table I.2). With an average population density of 24 people per square kilometre, the region is among the most sparsely populated in the world, yet, ethnically diverse with a mix of ethnic groups dominated by Kazakhs, Kyrgyz, Russians, Tajiks, Tatars, Turkmens, Ukrainians, Uyghurs and Uzbeks. The four western provinces of China with their combined 91 million inhabitants also comprise a varied ethnic mix.[4]

While each has a distinct ethnic and linguistic character, the Central Asian countries share historic and cultural kinships. Russian continues to be the dominant language for international commerce in the region, as well as in other CIS (Commonwealth of Independent States) countries. In Kazakhstan and Kyrgyzstan, Russian is the second official language in addition to Kazakh and Kyrgyz respectively. Tajikistan, Turkmenistan and Uzbekistan also use Russian for government and business communication. English is not widely spoken.

Table I.2. Silk Road land area and population

	Total land area (thousand square kilometres)	Population 2012 (millions)
Silk Road	**6 379.4**	**155.3**
Central Asian countries:[a]		
Kazakhstan	2 724.9	16.3
Kyrgyzstan	199.9	5.5
Tajikistan	142.6	8.0
Turkmenistan	488.1	5.2
Uzbekistan	447.4	28.5
Chinese provinces:[b]		
Gansu	453.7	25.5
Ningxia	51.8	6.5
Shaanxi	205.8	37.5
Xinjiang	1 664.9	22.3

Source:
[a] UNCTADSTAT.
[b] National Bureau of Statistics of China.

General information concerning the five Central Asia countries and the four provinces of China now follows.

Kazakhstan

- **Geography –** Kazakhstan is the world's ninth largest country by area, spanning 2 724 900 square kilometres. It is the second largest CIS country and located in the heart of Central Asia, sharing borders with China, Kyrgyzstan, the Russian Federation, Turkmenistan and Uzbekistan. The capital is Astana and the major commercial city is Almaty.
- **Climate –** Kazakhstan's is a climate of extremes, with stark fluctuations in temperature, ranging from steppe to desert. Average temperature varies between -19°C and 4°C in January and 19°C and 26°C in July.
- **Population –** The population stands at over 16 million people, with a density of 6 people per square kilometre (2012).[5]
- **Language –** The state language is Kazakh with Russian being widely used.
- **Religion –** Kazakhstan is religiously diverse. More than 3 000 religious associations representing 40 denominations are present, with Islam and Christianity the most prevalent.[6]

Kyrgyzstan

- **Geography –** Kyrgyzstan borders Kazakhstan to the north, Uzbekistan to the southwest, Tajikistan to the south, and China to the east and southeast. The country covers an area of 199 900 square kilometres. The country is mountainous and scenic with 94.2% of its territory 1 000 metres above sea level and 40.8% exceeding 3 000 metres. It counts among the world's top 20 richest countries in water resources, with many rivers and lakes. Its Issyk-Kul Lake is known as the "Pearl of Central Asia". The capital city is Bishkek.
- **Climate –** The climate in Kyrgyzstan is continental. The average temperature is -6°C in January and 27°C in July. The landscape includes all natural zones common to the northern hemisphere, except tropical.
- **Population –** The population is approximately 5.5 million in number,[7] with a sparse density of 28 people per square kilometre. The country is ethnically diverse and home to about 90 ethnicities. The Kyrgyz people represent 69.6%, Uzbeks 14.5% and Russians 8.33% of the population.
- **Language –** The national language of Kyrgyzstan is Kyrgyz, while the official language is Russian. Both languages are used for administrative purposes.
- **Religion –** The majority of the population (80%) is moderate Muslim (mainly Sunni).

Tajikistan

- **Geography –** Located in the southeast of Central Asia, Tajikistan shares borders with Afghanistan, China, Kyrgyzstan and Uzbekistan and covers a landmass of 142 600 square kilometres. Most of the country is mountainous, with the highest peak at 7 495 metres above sea level. Tajikistan's 947 rivers, with a total length of 28 500 kilometres, constitute 60% of the hydro resources in Central Asia. The capital city is Dushanbe.

- **Climate –** The weather is continental and dry. In January temperatures in lowland areas are around 0°C to 2°C while in highland areas they can plummet to -30°C. In July, temperatures in the valley areas range from a mild 23°C to 40°C while mountain temperatures are more temperate at between 4°C to 15°C.

- **Population –** Tajikistan with its 8.0 million people is relatively more densely populated than its neighbours with a density of 56 people per square kilometre (2012). The population constitutes over 80 ethnic groups with Tajiks (belonging to the Iranian group of the Indo-European family) in the majority at 80%; Uzbeks make up 15.3%; and Russians about 1.1% of the population. Tatars, Kyrgyz and other ethnic groups are also present.
- **Language –** The national language is Tajik, which is related to Persian and Dari – languages spoken in Iran (Islamic Republic of) and Afghanistan, respectively. Russian is widely used.
- **Religion –** The population of Tajikistan is 98% Muslim (mainly Sunni).

Turkmenistan

- **Geography –** Turkmenistan, located in the southwest of Central Asia, borders the Caspian Sea, Afghanistan, Iran (Islamic Republic of), Kazakhstan and Uzbekistan, The country is home to one of the world's earliest civilizations. Turkmenistan spans a territory of 488 100 square kilometres, of which the Karakum Desert takes up 80%. The capital city is Ashgabat.
- **Climate –** The weather is dry, with very hot summers (rarely below 35°C) and cold winters (temperatures can plumb -15°C). Rain can be expected between mid-November and early April, but the country enjoys an annual average of 250 days of sun.
- **Population –** The population numbers 5.2 million people,[8] sparsely distributed at 11 people per square kilometre.
- **Language –** The state language is Turkmen with Russian widely used.
- **Religion –** 87% of the Turkmen are Sunni Muslim and 7% belong to the Russian Orthodox Church.

Uzbekistan

- **Geography –** Uzbekistan is located at the very heart of Central Asia, bordering Afghanistan, Kazakhstan, the Kyrgyz Republic, Tajikistan and Turkmenistan. Along with Liechtenstein it is one of only two double landlocked countries in the world. Uzbekistan is 447 400 square kilometres in size. Its terrain is mostly flat to rolling, duned sandy desert and broad, flat, intensely irrigated river valleys along the Amu Darya, Syr Darya and Zarafshon. The Fergana Valley, in the east, is surrounded by the mountainous countries of Tajikistan and Kyrgyzstan. The capital city is Tashkent. Other major cities include Samarkand and Namangan.
- **Climate –** The climate is mostly a mid-latitude desert climate with long, hot summers and mild winters.
- **Population –** The population stands at 28.5 million with a population density of 64 people per square kilometre (2012).[9] The ethnic composition includes Uzbeks (80%), Russians (5.5%), Tajiks (5%), Kazakhs (3%), Krakalpaks (2.5%) and Tatars (1.5%).
- **Language –** The national language is Uzbek (74.3%) and Russian is widely used.
- **Religion –** Uzbekistan is 88% Muslim (mostly Sunni) and 9% Russian Orthodox.[10]

The Silk Road provinces of China

The four Silk Road provinces (Gansu, Ningxia, Shaanxi and Xinjiang) constitute a major part of northwest China. These provinces cover a vast area of 2 376 200 square kilometres or around 25% of the landmass of China, from Shaanxi at the middle reaches of the Yellow River in the east to Xinjiang bordering Afghanistan, India, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, the Russian Federation and Tajikistan in the west. Gansu is situated at the geographical centre of China, lying on the upper reaches of the Yellow River.

The landscape ranges from mountains, plateaus and river valleys to deserts (such as the Gobi Desert). The region is well known for its wealth of natural resources, and is the main producing region of a variety of minerals in China, including coal, oil and gas, oil shale, iron, bronze, gold, alum and plaster.

The four Chinese provinces have a population of approximately 91 million, including numerous ethnic groups: Gansu has 54 ethnic groups and the Ningxia Hui Autonomous Region 35; Shaanxi is home to Hui, Manchu and Mongolian minorities; while Xinjiang has 40 ethnic groups, including Han, Hui, Kazaks, Manchu, Mongols, Russians, Tatars, Uyghurs and Xibe.

Notes

1 For more extensive information on the history of the Silk Road, please see: Boulnois L (2004). *Silk Road: Monks and Warriors & Merchants on the Silk Road*. Odyssey Books and Guides, Hong Kong; and Bonavia J (2004). *The Silk Road: From Xi'an to Kashgar*. Revised by Baumer C. Odyssey Books and Guides, Hong Kong. This section draws from these books.

2 ADB (2004), Building Partnerships for Development: Regional Cooperation Strategy and Programme 2004–2006. Manila.

3 Roman Mogilevskii (2012), Trends and patterns in foreign trade of Central Asia countries.

4 For a description of the life and times of the Silk Road in the 250-year period following A.D. 730 through the eyes of merchants, soldiers, horsemen, princesses, courtesans, nuns and others, see Whitfield S (1999), *Life Along the Silk Road*. University of California Press.

5 World Bank Development Indicators 2012 (http://data.worldbank.org).

6 Website of Kaznex Invest (http://www.invest.gov.kz).

7 World Bank Development Indicators 2012 (http://data.worldbank.org).

8 World Bank Development Indicators 2012 (http://data.worldbank.org).

9 World Bank Development Indicators 2012 (http://data.worldbank.org).

10 http://www.uzbekistan.org.

Astana, Kazakhstan, at night

Tashkent, Uzbekistan, at night

II. THE SILK ROAD BUSINESS OPERATING ENVIRONMENT

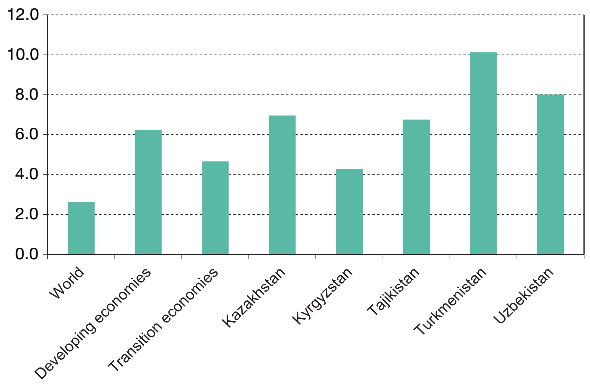
A. Macroeconomic conditions

1. Economic performance

Central Asia offers many opportunities for economic growth. It is a region with rich natural resources, an educated labour force and a location in close proximity to major emerging markets. Following the deep recessions associated with the transition after the collapse of the former Soviet Union in the 1990s, the first decade of the 21st century brought solid economic recovery across the region. Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan recorded average real GDP growth of over 6.5% from 2002 to 2012, despite the negative impact of the 2008 world economic crisis (figure II.1). On average, the economic growth of Central Asia was among the fastest in Asia, with a growth rate only marginally lower than that of East Asia. In 2011, the Turkmenistan economy expanded by 14.7%, the third highest growth rate in the world after Qatar (18.8%) and Mongolia (17.3%). Kazakhstan, by far the largest economy in the region, recorded an impressive economic growth with its nominal GDP increasing eight times, while real GDP doubled between 2000 and 2010.[11] The impressive growth in the region substantially expanded domestic demand, including for imported goods.

Other macroeconomic factors indicate economic improvements over the last decade (table II.1). Inflation rates have dropped below 10% in most countries in recent years, except for sporadic increases in Kyrgyzstan and Tajikistan due to the rising cost of imported energy. Foreign exchange rates of local currencies have remained largely stable, with moderate depreciation observed across the region. Benefiting from the booming commodities market, Central Asian countries, in particular major gas and oil exporters such as Kazakhstan, Turkmenistan and Uzbekistan, have enjoyed relatively healthy fiscal and current account balances, and accumulated significant amounts of international reserves, making large-scale investment possible.

Figure II.1. Average annual real GDP growth rate: 2002–2012 (%)



Source: UNCTADSTAT.

Table II.1. Selected macroeconomic indicators for Central Asian countries

Growth rate of real GDP (%), 2007–2012

Year	2007	2008	2009	2010	2011	2012
Kazakhstan	8.7	3.3	1.2	7.5	7.5	5.0
Kyrgyzstan	8.5	8.4	2.9	-0.5	5.7	-0.9
Tajikistan	7.8	7.6	4.0	6.5	7.4	7.5
Turkmenistan	11.8	14.7	6.1	9.2	14.7	11.1
Uzbekistan	9.5	9.0	8.1	8.5	8.3	8.2

Source: UNCTADSTAT.
Note: 2012 data estimated.

Inflation rate (based on consumer price index) (%), 2007–2012

Year	2007	2008	2009	2010	2011	2012
Kazakhstan	10.8	17.2	7.3	7.1	8.4	5.1
Kyrgyzstan	10.2	24.5	6.9	8.0	16.5	2.7
Tajikistan	13.2	20.5	6.5	6.4	12.4	5.8
Turkmenistan	6.3	14.5	-2.7	5	..	..
Uzbekistan	6.1	7.2	7.8	7.6	7.2	..

Source: UNCTADSTAT.
Note: 2012 data estimated.

Official exchange rate (per $), 2007–2012

Year	2007	2008	2009	2010	2011	2012
Kazakhstan (tenge)	122.55	120.30	147.50	147.36	146.62	149.11
Kyrgyzstan (som)	37.32	36.57	42.90	45.96	46.14	47.00
Tajikistan (somoni)	3.44	3.43	4.14	4.40	4.61	4.76
Turkmenistan (manat)	1.46	2.29	2.85	2.85	2.85	2.85
Uzbekistan (som)	1 260.83	1 314.17	1 458.75	1 578.42	1 706.61	1 889.30

Source: UNCTADSTAT.
Note: 2012 data estimated.

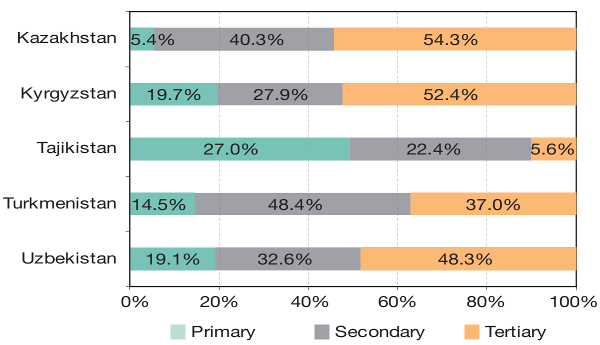
The four Chinese Silk Road provinces, namely Gansu, Ningxia, Shaanxi and Xinjiang, have benefited from eastern China's economic growth of the past decade. They all experienced double-digit growth rates in 2010 and 2011.

Individually, the economies of the Silk Road are not considered large by Asian standards. But in concert the Silk Road region, with a combined GDP of around $774 billion and a unique set of resources, holds great opportunity for investors to tap into a young, emerging and growing market. A regional approach can provide a more helpful perspective to investors, rather than a country-by-country analysis.

2. Structure of economies

The Central Asian economies are based largely on the service sector, which accounts for 41–53% of GDP in all five Central Asian countries (figure II.2). The industrial sector is also substantial. The sectoral compositions of the four Chinese Silk Road provinces' economies are remarkably similar, despite variations in their size and core industries.

Figure II.2. GDP composition by sector, Central Asian countries, 2011



Source: Based on data from ADB (2012) *Key Indicators for Asia and the Pacific 2012*.
Note: Turkmenistan is for 2010.

B. Trade

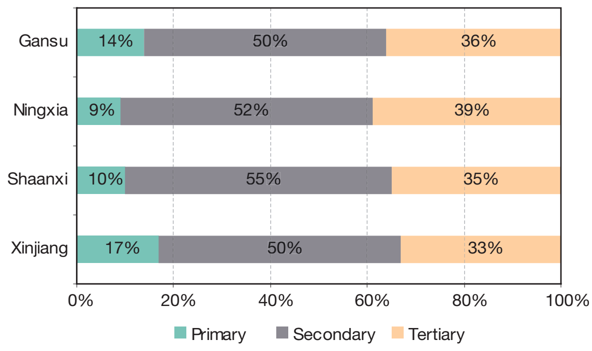
1. Intraregional trade

The openness of trade in the Central Asian economies is high by international standards, and is mainly driven by exports of oil, gas and mining products. In terms of the ratio of merchandise and service trade as a percentage of GDP, Turkmenistan ranks first in the region (78% in 2011), while Kyrgyzstan follows at 61%. Kazakhstan, Uzbekistan and Tajikistan's merchandise and service trade constitutes 52%, 27% and 34% of GDP, respectively.[12]

Compared with other developing regions, import tariffs are not high in the Central Asian countries (figure II.4). While Uzbekistan has the highest formal tariff, this is mainly as a result of high tariffs on a few commodities

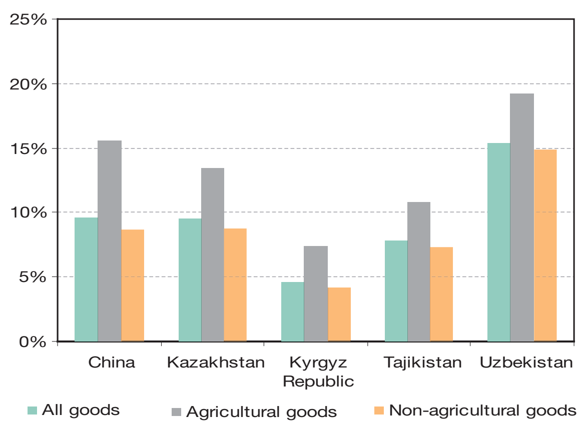
Despite relatively open trade, the potential of trade within the region is not fully exploited. For example, exports to the Silk Road region by Kazakhstan,

Figure II.3. GDP composition by sector, Chinese Silk Road provinces, 2011



Source: China Statistical Information Network (2011).

Figure II.4. Import tariffs in the Silk Road region (%), 2012



Source: WTO, Country Trade Profiles.
Notes: 1. Data for China are for 2011; data for other countries are for 2012.
2. Data for Turkmenistan are not available.

Tajikistan and imports from the Silk Road by Turkmenistan remain a small portion of their respective total exports and imports. In addition, despite multifold growth of imports and exports between Central Asian countries and China, trade with Central Asia only accounts for about 1% of China's total imports and exports, which also suggests an enormous potential for intraregional trade that has yet to be tapped.[13]

However, intraregional trade in the Silk Road region may be understated for the following reasons. Exports of the three net energy exporting countries (Kazakhstan, Turkmenistan and Uzbekistan) concentrate largely on oil and gas, most of which are exported to countries outside of the region, while trade in agricultural products (other than cotton fibre), foodstuffs and manufactured products (machinery and equipment, construction materials, fertilizers and other chemicals) occupies a much larger share of intraregional trade.[14] In addition, only a small portion of China's huge volume of exports is to the other five Silk Road countries. When trade with China is excluded, intraregional trade among the five Central Asian countries is much higher.

2. Main trading partners

A breakdown of major trading partners by country/province is informative because many of the top trading partners of each country are outside the region, an indication of the potential for expanding intraregional trade (see tables II.2–II.7).

Table II.2. Kazakhstan's top merchandise trade partners, 2012

Country	% of total export value	Country	% of total import value
European Union	50.2	Russian Federation	38.4
China	17.9	China	16.8
Russian Federation	7.3	European Union	16.8
Switzerland	5.4	Ukraine	6.6
Turkey	3.5	United States	4.8

***Source*:** Kazakhstan Country Profile, World Trade Organization online database.

It is also notable that, in addition to the European Union (EU), neighbouring emerging economies (China, the Russian Federation and Turkey) have become top trade partners for all Central Asian economies. Central Asia's growing economic connections with these emerging economies can be leveraged by foreign investors, particularly those who are export oriented.

Table II.3. Kyrgyzstan's top merchandise trade partners, 2012

Country	% of total export value	Country	% of total import value
Kazakhstan	26.1	China	54.9
Uzbekistan	26.0	Russian Federation	17.7
Russian Federation	15.4	Kazakhstan	7.9
China	6.9	European Union	5.6
United Arab Emirates	6.0	Turkey	2.8

Source: European Commission (http://ec.europa.eu/trade/).

Table II.4. Tajikistan's top merchandise trade partners, 2012

Country	% of total export value	Country	% of total import value
Turkey	29.8	China	41.0
China	9.4	Russian Federation	15.9
European Union	8.3	Kazakhstan	12.6
Iran (Islamic Republic of)	7.3	Turkey	5.5
Russian Federation	5.9	European Union	4.7

Source: European Commission (http://ec.europa.eu/trade/).

Table II.5. Turkmenistan's top merchandise trade partners, 2012

Country	% of total export value	Country	% of total import value
China	69.5	China	19.2
European Union	7.5	European Union	18.2
United Arab Emirates	3.1	Turkey	16.7
Turkey	2.6	Russian Federation	13.7
Afghanistan	2.4	United Arab Emirates	6.8

Source: European Commission (http://ec.europa.eu/trade/).

Table II.6. Uzbekistan's top merchandise trade partners, 2012

Country	% of total export value	Country	% of total import value
Russian Federation	24.1	Russian Federation	21.4
China	18.9	China	16.4
Kazakhstan	14.2	Republic of Korea	16.3
Turkey	14.1	European Union	14.1
Bangladesh	8.5	Kazakhstan	12.4

***Source*:** European Commission (http://ec.europa.eu/trade/).

Table II.7. Major trade partners of the Chinese Silk Road provinces, 2012

Province	Top trade markets
Gansu	Malaysia, Republic of Korea, United States, Japan
Ningxia	United States, Japan, Australia, India, Germany
Shaanxi	United States, European Union, ASEAN
Xinjiang	Kazakhstan, Kyrgyzstan, Tajikistan, United States, Uzbekistan

Source: Governments of the Silk Road provinces of China.

3. Trade arrangements

The Silk Road countries do not have a regional free trade agreement (FTA). However, China, Kyrgyzstan and Tajikistan are all members of the World Trade Organization (WTO), and Kazakhstan is expected to join in the near future. Meanwhile, Central Asian countries (except Turkmenistan) have bilateral trade agreements (BTAs) with each other, and also with most other CIS countries. China is vigorously pursuing BTAs with Central Asian countries as well. Table II.8 shows the trade agreements between CIS countries as of 2011.

One important development in regional trade arrangements in recent years is the formation of the customs union (CU) between Belarus, Kazakhstan and the Russian Federation in 2010.[15] The CU has implemented common tariffs, harmonized customs procedures and eliminated internal customs control. The CU allows the free flow of goods, capital and labour among the three countries.

In 2011, 18 CIS countries, including Armenia, Belarus, Kazakhstan, Kyrgyzstan, Moldova, the Russian Federation, Tajikistan and Ukraine signed the CIS Free Trade Agreement (CISFTA). Uzbekistan, Azerbaijan and Turkmenistan, although CIS members, are not signatories.

The Economic Cooperation Organization (ECO), which includes Afghanistan, Azerbaijan, Iran (Islamic Republic of), Kazakhstan, Kyrgyzstan, Pakistan, Tajikistan, Turkey, Turkmenistan and Uzbekistan, also has a trade agreement: the ECO Trade Agreement (ECOTA). ECOTA has had limited results to date, and has yet to be ratified by Azerbaijan, Turkmenistan and Uzbekistan. However, it does offer trade opportunities for Central Asian countries beyond the CIS, including the markets of Iran (Islamic Republic of), Pakistan and Turkey, all of which are members of ECO.

Another important set of trade arrangements is the Partnership and Cooperation Agreements (PCAs) that most CIS members, including Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan,[16] have with

Table II.8. Trade agreements between CIS countries

	Armenia	Azerbaijan	Belarus	Georgia	Kazakhstan	Kyrgyz Republic	Moldova	Russian Federation	Tajikistan	Turkmenistan	Ukraine	Uzbekistan
Armenia			BTA	BTA	BTA	BTA	BTA	BTA	BTA	BTA	BTA	
Azerbaijan				BTA	BTA	BTA	BTA	BTA	BTA	BTA	BTA	BTA
Belarus	BTA					BTA	BTA		BTA		BTA	
Georgia	BTA	BTA			BTA		BTA	BTA		BTA	BTA	BTA
Kazakhstan	BTA	BTA		BTA		BTA	BTA		BTA		BTA	BTA
Kyrgyz Republic	BTA	BTA	BTA		BTA		BTA	BTA	BTA		BTA	BTA
Moldova	BTA	BTA	BTA	BTA	BTA	BTA		BTA		BTA	BTA	BTA
Russian Federation	BTA	BTA		BTA		BTA	BTA		BTA	BTA	BTA	
Tajikistan	BTA	BTA	BTA		BTA	BTA		BTA			BTA	BTA
Turkmenistan	BTA	BTA		BTA			BTA	BTA			BTA	
Ukraine	BTA	BTA	BTA	BTA	BTA	BTA	BTA	BTA	BTA	BTA		BTA
Uzbekistan		BTA		BTA	BTA	BTA	BTA		BTA		BTA	
CISFTA	FTA		FTA	FTA	FTA	FTA	FTA	FTA	FTA		FTA	
EurAsEC			CU		CU	CU		CU	CU			
ECOTA		FTA			FTA	FTA			FTA	FTA		FTA

Source: UNCTAD.
CISFTA: CIS Free Trade Agreement, not yet in force, but signed by some member countries.
EurAsEC: Eurasia Economic Community, partially effective.
ECOTA: Economic Cooperation Organization Trade Agreement, not yet in force, but ratified by some countries.

the EU. Under these agreements, most-favoured nation (MFN) status is given to members with respect to tariffs and other measures, such as elimination of quantitative restrictions. These agreements serve as important gateways for Silk Road goods to enter more distant markets in Europe.

In 2004, the five Central Asian countries also signed a framework agreement with the United States to promote trade and investment relations.

China has free trade agreements with the Association of Southeast Asian Nations (ASEAN), Chile, Costa Rica, New Zealand, Pakistan, Peru and Singapore, and is negotiating FTAs with Australia, the Gulf Cooperation Council, Iceland, Norway and the South African Customs Union. China has also started the negotiation of a tripartite FTA with Japan and the Republic of Korea. This agreement may serve as a model for future FTAs with Central Asian Silk Road countries. Additionally, China has established BTAs with Chile and Pakistan, and is currently negotiating BTAs with several others.

C. Foreign direct investment

1. Foreign direct investment inflows

Helped by FDI inflows, the Silk Road region has been one of the most economically dynamic regions in Asia in recent years. With abundant resources such as oil, natural gas, minerals, growing intraregional and interregional links, and promising economic prospects, the Silk Road is emerging as an important foreign investment destination (table II.9).

From 2000 to 2012, FDI inflows to the five Central Asian countries rose from less than $2 billion to over $19 billion. The surge in FDI was spread across the region, driven by resource-seeking FDI during the commodity boom starting in 2003. The major oil and gas producers, including Kazakhstan, Turkmenistan and Uzbekistan, saw the largest increase. Inflows to Kyrgyzstan and Tajikistan were also significant relative to the size of their economies, and are contributing to their economic development.

The surge in FDI to Central Asia was still largely driven by resource-seeking FDI and downstream processing activities. However, international investors are increasingly attracted by the continued strong growth of the national and regional markets and affordable labour and energy costs, coupled with productivity gains. Recent years have witnessed market-seeking investment in the region, with notable growth in the automobile, food and beverage, chemical and health-care sectors. Examples include Coca-Cola's investment (beverage) in Kyrgyzstan; General Motor's investment (automobile assembly) in Uzbekistan; investment by Toyota (automobile assembly) and Siemens (health care and industrial equipment) in Kazakhstan; and several recently announced investments in the pharmaceutical industry in Kazakhstan.

Table II.9. FDI inflows to the Silk Road ($ millions)

Country/province	Average per annum 2000–2005	2006	2007	2008	2009	2010	2011	2012	2013
Central Asian countries (total):	2 978	7 704	13 248	19 560	19 995	13 161	19 574	18 102	14 743
Kazakhstan	2 488	6 278	11 119	16 819	14 276	7 456	13 760	13 785	9 739
Kyrgyzstan	45	182	208	377	189	438	694	293	758
Tajikistan	71	339	360	376	95	8	70	233	108
Turkmenistan	262	731	856	1 277	4 553	3 631	3 399	3 117	3 061
Uzbekistan	112	174	705	711	842	1 628	1 651	674	1 077
China provinces (total):		1 278	1 518	1 776	1 961	2 273	2 962	3 631	
Gansu	..	100	118	128	134	135	70	61	..
Ningxia	..	150	80	88	100	81	202	218	..
Shaanxi	..	925	1 195	1 370	1 511	1 820	2 355	2 936	..
Xinjiang	..	103	125	190	216	237	335	416	..

Source: UNCTAD; provincial governments of China.

Expanded access to a wider range of service sectors as a result of economic liberalization and privatization, in particular in Kazakhstan, Kyrgyzstan and Tajikistan as part of the process to join the World Trade Organization (WTO), has opened up new opportunities for international investors. Driven by FDI flows to trade, retail, real estate, transport, telecommunications, banking and the tourism sector, the tertiary sector accounted for around two thirds of total FDI inflows into these countries.

Transnational corporations investing in Silk Road economies vary greatly. In Kazakhstan FDI has been dominated by investors from developed countries – specifically the Netherlands (in financial services, oil and gas) and the United States and France (oil and gas). Chinese and Russian investors have also been active in recent years, especially as the oil and gas sector expanded. In Turkmenistan, Turkish investors are very active in energy, construction, tourism and the finance sector, while investors from developed countries, China and Malaysia have invested mainly in oil and gas. In Uzbekistan, China and the Russian Federation are currently the largest sources of foreign investment, with most foreign investors operating in the oil, gas and telecommunications sectors. Other large foreign investors in Uzbekistan include Malaysia's Petronas, Swiss-owned Nestlé and British American Tobacco. In Kyrgyzstan investors are much smaller. There have been investments by Canadian firms (mining and petroleum), Chinese firms (mining), German firms (agro-industry) and Russian firms (finance, telecommunications and tourism).

International investors have also increased their investment in the Silk Road provinces of China in recent years, attracted by their strong economic growth, improving productivity and relatively low cost of labour. In 2012, the four provinces attracted approximately $3.6 billion of FDI, an increase of 25% over 2011, while FDI flows to China as a whole dropped by 3.4% over the same period. As a high-tech centre in western China, Xi'an, the capital city of Shaanxi Province, attracted a number of high value-added projects by international investors such as Alstom (France), Bosch (Germany), 3M (USA) and Samsung (Republic of Korea). Xi'an Economic and Technological Development Zone has so far attracted about 40 projects by Fortune 500 companies. The Xinjiang Uyghur Autonomous Region continues to attract investment from Asian countries, including Central Asian countries, with significant growth in service sectors such as transportation, trade and retail.

2. The investment environment

The Silk Road countries have enacted various laws and decrees and implemented significant institutional and regulatory reforms pertaining to investment, which have led to significant improvement in the investment environment, although significant gaps remain in many areas compared with international best practice. According to the World Bank Doing Business 2013 report, Uzbekistan is ranked fourth and Kazakhstan tenth of countries with the most improved business environment as compared with 2012. Most visible progress has been made in areas such as the simplification of procedures for starting a new business, investor protection, property registration, contract implementation and corporate governance standards.

In response to changing circumstances and attempts to create more favourable investment conditions, the body of law related to investment is still evolving in Central Asian Countries. Gaps still exist in the legislation, and the interpretation of laws and regulations, which may cause uncertainties for foreign investors.

Local economic policies and regulations in the Chinese Silk Road provinces are in line with national economic reforms, such as Beijing's "Western Development Strategy". From 2000 to 2010, the Chinese Government invested more than $500 billion in infrastructure development in the ten western provinces covered by the strategy. A variety of incentives are also provided for foreign investments in these provinces, particularly in priority sectors.

Table II.10 provides some elements of the current investment framework in the region (for more details about the FDI regulatory frameworks of the Silk Road economies, see Appendices).

Table II.10. Highlights of investment frameworks in the Silk Road

	China	Kazakhstan[a]	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Allows 100% foreign ownership	Yes	Yes	Yes	Yes	Yes	Yes
Minimum investment for foreign enterprise	Variable depending on the sector and type of organization	None	None	None	100 times the minimum monthly wage (approximately $175 500)[b]	$150 000 ($75 000 in Karakalpakstan and Khorezm)
Minimum shareholding required for foreign investor in partnership with local enterprise	25% in joint ventures	None	None	None	20% of company's assets[c]	30%
Tax exemption periods (in years)	Two-year exemption and three-year reduction by half in certain sectors in western region	Up to 10 years for corporate income tax and land tax, up to five years for property tax	Variable depending on the sector and location	Up to five years	Variable depending on the sector and location (up to 15 years VAT and income tax exemption)[d]	Up to three years
Foreign ownership of land	No	Limited[17]	No	No	No	Limited

[a] Law on Investments of Kazakhstan, 8 January 2003; Land Code of Kazakhstan, 20 June 2003 and amendments.
[b] Gaukhar Iskakbayeva. Legislative and Taxation Framework: Petroleum Operations in Turkmenistan. Deloitte.
[c] Law on Investment of Turkmenistan, Article 3.
[d] United States Department of State (2012). Investment Climate Statement – Turkmenistan (http://www.state.gov/e/eb/rls/othr/ics/2012/).

3. Bilateral investment treaties and double taxation treaties

There is no regional investment arrangement in the region. However, at the bilateral level, each Silk Road country has concluded multiple bilateral investment treaties (BITs) and double taxation treaties (DDTs) with key trade and investment partners. As illustrated in table II.11, most Silk Road countries have concluded BITs between each other, although several of these are not in force.

4. Special economic zones

The Silk Road economies have established special economic zones (SEZs) rather sparingly but there have been economic activities and investment in these zones over the last few years.

Kazakhstan – Kazakhstan issued a 1999 decree entitled "About special economical zones in the Republic of Kazakhstan". Ten SEZs have been established, as illustrated by table II.12. Entities operating in SEZs enjoy corporate tax exemption,

Table II.11. BITs among Silk Road countries (as of June 2012)

	China	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
China		Effective	Effective	Effective	Effective	Effective
Kazakhstan	Effective		Signed, but not effective			Effective
Kyrgyzstan	Effective	Signed, but not effective		Signed, but not effective		Effective
Tajikistan	Effective		Signed, but not effective			
Turkmenistan	Effective					Effective
Uzbekistan	Effective	Effective	Effective		Effective	

Source: UNCTAD.

China-Kazakhstan Cross-border Cooperation Zone

VAT exemption for sales within the SEZ, zero land rent for up to five years and reduced land tax benefits.[18] Within the SEZs there is a "one-stop shop" principal, a central office where government representatives of different ministries and agencies perform regulatory and support functions for investors. Finally, land plots are provided with basic infrastructure services such as roads, electricity and water.

Kazakhstan has utilized SEZs as a policy instrument to attract foreign investment to diversify the economy and develop upstream value-added processing for the country's vast natural resource reserves, as illustrated by the targeted industries listed in table II.12 below. Each SEZ has been strategically placed in close proximity to key resources and facilities. For example, Aktau Port is focused on building warehousing, logistics and transport on account of its location near the sea port, while the Petrochemical Park is located near the country's hydrocarbon reserves.

The largest SEZ is Astana New City. This SEZ has zero VAT rates on goods that are used in construction and is aimed at establishing infrastructure to stimulate the development of the new city. Another SEZ, Khorgos Eastern Gate, is strategically positioned to facilitate cross-border trade and investment with China.

Kyrgyzstan – Kyrgyzstan has set up four free economic zones (FEZs) at Bishkek, Naryn, Karakol and Maimak.[19] FEZs are regulated by the Law on Free Economic Zones and the Regulation on Free Economic Zones. Goods entering and traded within the zones are duty free. Enterprises located in the FEZs receive accelerated registration, various tax exemptions and benefit from simplified customs

Table II.12. Kazakhstan SEZs

SEZ	Established	Location	Target industries
Astana New City	2001	Astana area	Construction and manufacturing industries
Aktau Port	2002	Mangistau region, Aktau	Logistics and transportation
Innovation Technology Park	2003	Medeu district, Almaty	IT industry
Ontustik	2005	South Kazakhstan region	Textile industry (conversion of local cotton)
Petrochemical Park	2007	Atyrau region	Oil and gas engineering, petrochemicals
Burabay	2008	Akmola region, Shuchinsk-Borovoe resort area	Tourism
Saryarka	2011	Karaganda City, Karaganda	Metallurgy and metal working, manufacture of rubber, plastics and building materials
Pavlodar	2011	Northern industrial region, Pavlodar	Chemicals and petrochemicals
Khorgos Eastern Gate	2011	Almaty region	Trade and logistics, manufacturing of various products (e.g. food, leather, textiles, minerals, machines, metal equipment)
Chemical Park Taraz	2012	Shu district, Zhambyl region	Chemicals and petrochemicals, rubber and plastics, machinery and equipment

Source: Kaznex Invest.

procedures and direct access to utility suppliers. Export goods manufactured in the FEZs qualify for exemptions in customs charges, quotas and licensing.

Tajikistan – Two of Tajikistan's four FEZs are currently active: Sughd and Panj. The other two, Dangara and Ishkashim, are still under development. Companies operating in the FEZs are exempt from taxes for the first seven years. The FEZs are regulated by the Law on Free Economic Zone (2008).

Sughd Free Economic Zone is the most developed zone in the country, located less than 15 kilometres from Khujand City with access to an international airport and rail. The zone has attracted foreign investment of $130 million in mining, aluminium alloy processing, solar panel manufacturing and agricultural product processing.[20]

Turkmenistan – Turkmenistan's Law on the Economic Zone of Free Enterprise (dated 8 October 1993) governs the establishment and operation of FEZs. There are ten FEZs in Turkmenistan, all created prior to 1998. Business operations in FEZs are entitled to preferential tax status, including exemption from profit tax if profits are reinvested in export-oriented, advanced technology enterprises; the repatriation of after-tax profits; exemption from customs duties; the unencumbered export of products; and setting product prices.21 In May 2007, Turkmenistan introduced the Awaza (or Avaza) Tourist Zone to promote the development of its Caspian Sea coast. The tax code exempts construction and installation of tourist facilities in the zone from value-added tax (VAT).

Uzbekistan – Uzbekistan's Law on Free Economic Zones (1996) allows for the parliament (under cabinet recommendation) to establish FEZs in a variety of forms, including free trade zones and industrial, science and technology zones. Companies operating in FEZs are granted special benefits on currency exchange and customs regimes, and enjoy simplified procedures for entry. Benefits also include extensive tax and customs preferences and preferences on a variety of other duties.

Navoi Free Industrial Economic zone is the only SEZ in operation in Uzbekistan. In January 2013, Uzbekistan and China announced they would establish a SEZ in the central Uzbek city of Jizzakh.

The Four Silk Road provinces of China – tend to use SEZs more intensively to attract investment. For example, Xinjiang has 19 SEZs, including four border economic cooperation zones (in Yining, Buole, Tacheng, Jimunai), one cross-border economic cooperation zone (China-Kazakhstan Horgos Cross-Border Cooperation Zone) and one duty-free zone (at Alataw Pass), aiming at cross-border trade and investment. Xi'an, the capital city of Shaanxi Province, is well known for its high-tech industrial parks (box II.1).

Box II.1. Xi'an High-tech Industrial Development Zone

Xi'an High-tech Industrial Development Zone, established in 1991 in Xi'an, the capital city of Shaanxi Province, is now the largest high-tech zone in western China. The zone has attracted a large number of TNC R&D and innovation centres and regional headquarters, and has emerged as an important high-tech manufacturing base and innovation centre in China.

The zone targets investment in four leading industries – electronics and telecommunications, advanced manufacturing, biomedical and advanced services, and has successfully developed clusters in eight high-tech sectors, i.e. telecommunications, photovoltaic and light-emitting diode (LED) technology, electronic components, electrical equipment, automotive, biomedical, software and outsourcing, as well as other services. In 2012 more than $60 billion in sales were generated by companies in the four priority industries.

Over 1 200 international companies have invested in the zone, including names such as Nortel Networks from Canada; Infineon and Siemens from Germany; Samsun Electronics from the Republic of Korea; NEC from Japan; Philips from the Netherlands; and ARC, Eaton, Honeywell, Micron, IBM, Intel and SPSS from the United States.

In 2012, Samsung Electronics decided to invest $7 billion in setting up a factory in the zone to produce the most sophisticated memory chip to date. This is the biggest FDI project that China has pulled in so far in the electronics industry. The project is expected to attract around 160 suppliers and create more than 10 000 jobs in the zone.

Source: Ministry of Commerce of China; website of Xi'an High-tech Industrial Development Zone and media reports.

5. Openness to FDI and investment promotion

While the Silk Road countries welcome foreign investment in natural resources, there have been significant policy changes to encourage economic diversification. Foreign investment is actively pursued by the governments of the Silk Road countries into selected priority sectors, ranging from value-added processing using local resources, the establishment of local manufacturing to service the growing consumer market, and investment in services such as finance and tourism.

Kazakhstan – Kazakhstan has adopted a national FDI promotion strategy. Kaznex Invest, the national investment promotion agency (IPA), plays a key role in facilitating foreign investment into a wide range of priority sectors (table II.13), providing "single window" support for foreign investors. The Foreign Investors' Council, which is chaired by the President of Kazakhstan, has created an advisory body to address key issues related to foreign investment and to improve the investment climate of Kazakhstan. Investors working in priority sectors can qualify for investment preferences listed in the May 2003 government decree No. 436. Benefits may include exemption from customs duties, provision for state grants and tax concessions.

Kyrgyzstan – Kyrgyzstan has established a relatively open foreign investment policy framework but has no IPA. The investment law of the country allows unrestricted foreign ownership. However, limited restrictions may be imposed on natural resource extraction, as is the case with one of the most significant gold mining operations under the company, Kumtor.

Tajikistan – Tajikistan's State Committee on Investments and State Property was created in 2006 to assist investors. The agency has contributed to the improvement of the investment climate in the country, in particular in areas such as enforcing contracts, protecting investors, starting businesses and registering property. However, lack of a national FDI promotion strategy and transparent investment policies hinders its capacity to attract foreign investment.

Priority industries listed in the investment promotion programme of the agency include: hydropower engineering, extraction and processing of precious metals, stones and polymetalic ores, telecommunication and infrastructure development, cotton processing and agriculture production.[24]

Turkmenistan – Turkmenistan has increased its openness to foreign investors, which has helped to increase FDI to the country from some $130 million in 2000 to more than $3 billion in 2011. The investment went mainly to oil and gas, construction and light industries.

Turkmenistan has no IPA, but is seeking diversification in FDI. The government promotes investment in agriculture, banking, chemicals, communications, infrastructure, manufacturing, power, textiles, tourism and transport.

Table II.13. Kazakhstan priority and restricted sectors

Priority sectors[22]	Restricted sectors[23]
• Oil refining and infrastructure development for the oil and gas sector • Mining and metallurgical sector • Chemical industry • Atomic industry • Machine industry • Pharmaceutical industry • Light industry • Agricultural sector • Information technologies • Construction industry and manufacture of construction materials • Tourism industry • Biotechnology • Space activities • Alternative energy industry	• Kazakhstan law does not close any sector of the economy to foreign investors. But foreign investment in the following sectors is subject to equity limits or other restrictions: o Restrictions in oil and gas are regulated by the Subsoil Law, which allows the government to amend contracts of "strategic significance" or terminate contracts that threaten economic security or national interests; o Foreign companies may not manage or operate trunk communication lines, nor own more than 49% of shares of long distance or international communications operators that own land communication lines; o Foreign investors' equity stakes in media companies are limited to 20% and in domestic and international air transportation services to 49%; and o Foreign individuals may only obtain 10-year leases for agriculture and forest service land.

Source: Kaznex Invest; Deloitte (2013).

Table II.14. Kyrgyzstan's priority and restricted sectors

Priority sectors	Restricted sector
• Fuel and energy • Mining industry • Transport and logistics • Light industry • Electronics and electro-technical industry • Processing of agriculture production • Tourism	• Foreign ownership of land is restricted, although land can be leased on a long-term basis; and • Natural resource extraction may require local ownership.

Source: State Committee of the Kyrgyz Republic on State Property and Direct Investments.

Uzbekistan – UZINFO INVEST, the national IPA, was established in 2007 and operates as a "one-stop shop" for information and other support to foreign investors. The agency targets investment in eight priority sectors (table II.15).

The Silk Road provinces of China – Investment promotion within the western provinces of China is consistent with the national policy agenda to continue economic development. The "Catalogue of Priority Industries for Foreign Investment in the Central and Western Regions", revised by the Central Government in 2013, identified encouraged sectors for foreign investors in the Central and Western provinces, with a focus on agricultural products processing, deep processing of local mineral and other resources, tourism, equipment manufacturing (including automobile and electrical equipment), value-added telecommunications and infrastructure. In addition, SEZs in each province provide incentives to FDI in target industries.

Table II.15. Uzbekistan priority and restricted sectors

Priority sectors	Restricted sectors
• Light industry • Construction materials production • Automobile industry • Agricultural processing • Chemical industry • Exploration of mineral deposits • Tourism • Electronics	• No limits on participation of foreign investors except in: o Cultural heritage sites; o Mining of strategic minerals; o Sectors related to national security (including aviation and railway transportation); o Export of gold and cotton; o Media (foreign stake less than 30%); o Tourism (foreign stake less than 50%); and o FDI in banking (limited to joint ventures).

Source: Uzinfoinvest.

D. Financial sector and taxation

1. Financial institutions and capital markets

Financial markets in the Central Asian countries are nascent and thus provide few services beyond banking. Although all of the banking sectors still have a great deal of government involvement, the banking sectors in Tajikistan, Turkmenistan and Uzbekistan are more government controlled than those in Kazakhstan and Kyrgyzstan. Kazakhstan has the most developed financial sector. Demand for credit and other forms of finance tend to exceed the available supply in most Central Asian countries. Most companies in Central Asia therefore rely on reinvested earnings for significant investment activities.

Securities markets in Central Asia have served primarily as a means for the privatization of SOEs. In addition, short-term government bonds tend to be the main product rather than equity and corporate bonds. Stock market capitalization throughout Central Asia is low and not all of the markets are active.

The Kazakhstan Stock Exchange was initially set up to focus on foreign investors and blue-chip stocks, but the exchange was subsequently re-focused towards domestic institutional investors. Currently, there are 119 companies listed on the exchange.[25] The corporate bond market in Kazakhstan is young but growing, and demonstrates the increasing sophistication of the country's financial services. Kyrgyzstan has a small stock exchange (Kyrgyz Stock Exchange) with 17 listed companies.[26] A few small investment funds are operating with stock exchange securities. Uzbekistan's Tashkent Republican Stock Exchange started in 1994. As of 2012, it had 112 listed companies.[27]

No securities markets exist in Tajikistan and Turkmenistan, where enabling legislation is in its infancy. In November 2011 the Turkmen Government approved the State Programme for Stock Market Development for 2012–2016, which indicates the government's plan to set up a stock market in the near future.[28]

In 2005 China started a process called "equitization" in which five of the previously state-owned banks have been transformed into joint-stock corporations, resulting in only three wholly state-owned banks in China – the Agricultural Development Bank of China, China Development Bank and China Exim Bank. A number of privately owned companies were also established after China's accession to the WTO in 2001. The financial sector in China's western provinces is far less developed than in the eastern part of the country. Xi'an City Commercial Bank is currently the largest bank in western China.

2. Taxes

The tax systems vary across the Silk Road region. Some of the basic business tax rates are presented in table II.16, but for further details and updates prospective investors are advised to consult with and obtain business and tax-related publications from major international tax and accounting firms, some of which have offices in all six Silk Road countries.

China's tax administration system has standard business taxes applied across the country, but investors should also inquire about any additional local taxes, which may vary according to locality.

E. Infrastructure

The infrastructure networks across the Silk Road lag behind the region's economic development, but there are plans for major upgrading. The Central Asian countries previously had a unified infrastructure system under the former Soviet Union, intended to transport commodities from the region to the former Soviet Union processing and production. However, following independence, these networks fell into disrepair, due largely to a lack of finance. The traditional networks also proved less strategically advantageous for the new realities of establishing a globally competitive export economy.

Central Asian infrastructure development plans are designed to accommodate regional integration. In 2012, under the coordination of the Central Asia Regional Economic Cooperation Programme (CAREC), participating countries, including the five Central Asian countries, have agreed to implement more than $23 billion in new regional transport infrastructure projects that will contribute to six major corridors linking ports in eastern China with the Caucasus, Kazakhstan to Karachi and Gwadar to Pakistan.[29]

Table II.16. Selected business tax rates in the Silk Road countries

Country	Value added tax	Corporate income tax	Land	Property
Kazakhstan	12%	20%	Taxed per hectare or square metre, depending on quality of land or type of settlement	1.5% of average book value
Kyrgyzstan	12%	10%	Local tax fixed by local authorities	Varies – tax rate for immovable property used in business activity is 0.8%
Tajikistan	18%	15%	Land tax rates varies depending on type and amount of land between 180–500 somoni per hectare	Varies depending on locality (10–50 times of the land tax rate)
Turkmenistan	15%	8% for domestic companies and 20% for foreign companies	Varies	1% of net book value
Uzbekistan	20%	9%	Variable (in Tashkent, UZS 7 852 606–85 747 070 per hectare depending on the zone)	3.5% for legal entities
China	17%	25%	0.9–30 yuan per square metre	1.2% on original value of buildings and houses or 12% on rental value

Source: Government websites of the Silk Road countries.

The infrastructure in the Chinese Silk Road provinces tends to be newer and more modern, but parts of the Chinese Silk Road, especially in Xinjiang, continue to be extremely remote.

1. Roads and highways

One of the key highway networks across the Silk Road region and throughout Asia is the Asian Highway, a project run by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) since 1959. The Asian Highway is a regional network of major international roads crossing the entire continent.

Figure II.5 illustrates the Silk Road countries' Asian Highway routes. Of the Silk Road countries, only China has a significant portion of its cross-country highway network still listed as "potential Asian Highway", mainly due to problems with the soft infrastructure, such as highway numbering, sign posting and common design standards. All of the other Silk Road countries have established Asian Highway routes crossing most of their countries.

The importance of road transportation is increasing. The most heavily used routes include the east-west routes connecting Kazakhstan and Kyrgyzstan with China, as well as the north-south corridors extending through Uzbekistan to the Russian Federation, Iran (Islamic Republic of) and Afghanistan. Kazakhstan, Kyrgyzstan and Uzbekistan have become important regional transit transportation centres. For example, 60% of international road transport in Uzbekistan is transit transport to neighbouring countries.

However, full realization of the potential of cross-border transport by road is hindered by: a lack of direct road connections to production centres and key markets in Central Asia; differing regulations, policies and standards; and inefficient border controls.

2. Railways

Railway remains the most important mode of transport for Central Asian countries (except for Kyrgyzstan), in particular for cross-border transportation. Most of the railway network in

Figure II.5. Asian Highway routes

Source: UNESCAP (http://www.unescap.org/ttdw/common/Maps/Maps.asp).

High-speed train at Samarkand Railway Station, Uzbekistan

Central Asia was built under the former Soviet Union as an integrated system. However, new lines have recently been constructed.

Railways are considered a priority for infrastructure construction in western China because of their important contribution to economic development. The existing railway network in the Silk Road provinces has been largely upgraded in recent years to allow for a higher speed, while a couple of express railways are under construction. One important difference in the rail infrastructure between China and the Central Asian countries is that China uses 1 435 mm gauge rails while Central Asia uses 1 520 mm. This results in breaks-of-gauge at cross-border linkages of the Silk Road rail systems linking Central Asia with China. Various techniques are used to overcome these discontinuities, but stoppages and delays occur frequently.

A noticeable development in recent years is the progress being made in the construction of a number of regional and transregional railway transportation corridors, in both east-west and north-south directions, connecting the Silk Road region to its major trading partners (see pp. 36–38).

3. Airports

The larger Central Asian Silk Road countries have several airports each. Kazakhstan has 20 (12 international airports) and Uzbekistan 25 (five international airports), allowing for relatively good coverage of the country by air transport. Kyrgyzstan has five airports (two international airports) and Tajikistan has three international and several local airports respectively. Turkmenistan has six airports (two of which are international).

The main airports in western China include Xi'an (Shaanxi), Lanzhou (Gansu) and Urumqi (Xinjiang). Shaanxi's Xi'an airport is the largest air hub in northwestern China. Xi'an is an important domestic air hub that bridges several cities from the western and central regions with the eastern region, and it has direct flights to Seoul, Bangkok, Hong Kong and Tokyo. Urumqi has several domestic air routes in the northwestern part of the country and with central and eastern China. In terms of international air routes, Urumqi has direct flights to Moscow, Ashgabat, Almaty, Bishkek, Tashkent and Islamabad. Gansu is connected by air to over 35 cities in the country and with Hong Kong (China), Japan and Singapore.

4. Energy

The oil and gas pipelines in Central Asia were primarily developed under the former Soviet Union. Most of the pipelines in the Silk Road region run through Kazakhstan, and were historically all connected to pipelines in the former Soviet Union. Figures II.6 and II.7 show the layout of oil and gas pipelines in Central Asia.

The major oil pipelines in Central Asia originate in the southern part of the region and run northward through Kazakhstan and into the Russian Federation. Other routes run in a more east-west direction through Tajikistan and into Kyrgyzstan and into southeastern Kazakhstan.

The 1 000-km pipeline between Atasu in Kazakhstan and Alashankou in Xinjiang is the first Kazakhstan export oil pipeline that does not cross the Russian Federation. The pipeline became operational in July 2006. In December 2009 a new pipeline that delivers gas from Turkmenistan to China was opened. Turkmenistan has also developed a plan to extend its gas pipeline to Afghanistan and Pakistan, and even beyond to India.

The electric energy generation and transmission systems of Central Asia were developed under the former Soviet Union as a regional grid. The energy transmission system brought together hydropower stations in Kyrgyzstan, Tajikistan, Kazakhstan and Uzbekistan, with thermal power plants located next to coal mines, and oil and gas fields in Turkmenistan, Kazakhstan and Uzbekistan. Despite the break up into several national systems, the electricity systems of Central Asia remain interdependent. The Central Asia Power System enables the exchange of power between the countries, with the dispatch centre located in Uzbekistan. However, energy supply arrangements, such as those between Tajikistan and Uzbekistan, can be interrupted sometimes by political and other bilateral issues.

5. Telecommunications

The Silk Road region has a relatively small population spread across a vast territory making hard infrastructure, such as telephone lines, uneconomical. Nevertheless, the region has seen rapid growth in the telecommunication market, mainly through a brisk penetration of mobile

Figure II.6. Oil pipelines in Central Asia

Source: International Energy Agency.

Figure II.7. Gas pipelines in Central Asia

Source: International Energy Agency.

telecommunications and Internet services. Private participation (including foreign participation) is allowed in almost all segments by Central Asian countries, except for fixed line services in Tajikistan and Turkmenistan.

Kazakhstan – Kazakhstan has established a sophisticated telecommunications network, and is rolling out the fourth generation network. The country has a mobile penetration of about 175% and 53 internet users per 100 people.[30] As of 2012, fixed-line subscribers counted 4.5 million and mobile subscribers 27.5 million.[31] Five mobile operators are active in Kazakhstan's market.

Kyrgyzstan – Kyrgyzstan has modernized much of its telecommunications network, including through digitization and fibre-optic lines. Fixed-line telephone communications services are provided by one partly government-owned operator and two private operators. The two main Global System for Mobile Communications (GSM) operators, Sky Mobile (Beeline) and MegaCom, continue to dominate the market, claiming approximately 85% of it. Since the first GSM network was launched in 1998, the number of mobile subscribers has grown rapidly from a few thousand in 1999, to around 6 million by early 2013, representing mobile penetration of approximately 124%.[32]

Tajikistan – The previously obsolete analogue network was recently upgraded with digital equipment (now 93.5% of the network equipment). Like many countries with a low penetration of fixed-line telephones, Tajikistan has reduced its attention to fixed lines and is focusing rather on advanced wireless technology. By 2012 the number of mobile subscribers increased to 9.2 million, with a mobile penetration rate of 92%.[33] Tajikistan has six mobile operators.

Turkmenistan – The telecommunications network in Turkmenistan remains underdeveloped and is subject to strict government control and censorship. The state-owned Turkmen Telecom is the primary provider of public telephone, email and internet services, and through a subsidiary, TM-Cell, it operates a GSM mobile network. A private mobile operator, MTS Turkmenistan, a subsidiary of the Russian-based MTS since 2005, recently returned to Turkmenistan after ceasing operations for some time in the country. As of 2012, the country had a mobile penetration of 77% and internet penetration of 7%.[34]

Uzbekistan – Uzbekistan's telecommunication network is based on fibre-optic and radio-relay communication lines. In 2012, the country had 72 mobile subscribers per 100 habitants, and 37 internet users per 100 people.[35]

The Silk Road provinces of China – The western region of China significantly expanded its telecommunications infrastructure and services in recent years, but the networks and services are not yet on par with the more developed parts of the country. Xinjiang's telecommunications network is considered well developed. Its digital

Nazarbayev University, Kazakhstan

Table II.17. Labour and employment in the Silk Road, 2011 (millions)

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Labour force	8.6	2.5	2.3	..	12.5
Employed	8.3	2.3	2.2	..	11.9
Agriculture	2.2	0.7	1.4	..	3.2
Industry	1.0	0.5	0.2	..	1.6
Other	5.1	1.1	0.6	..	7.1

	Gansu (2011)	Ningxia (2012)	Shaanxi (2011)	Xinjiang (2011)
Employed	15.0[a]	3.4[b]	4.3[c]	9.2[d]

Source: ADB, *Key Indicators for Asia and Pacific 2013*. UNECE, Statistical Database (http://w3.unece.org/pxweb/).

[a] http://221.7.38.115/doc/ShowArticle.asp?ArticleID=13255.
[b] Statistics of the provincial government.
[c] http://www.sn.stats.gov.cn/news/qsgb/201236125615.htm.
[d] http://www.xjtj.gov.cn/stats_info/tjgb/12391010502238.html.

network connects Urumqi with all other parts of China. Gansu is a major telecommunications hub in northwestern China through which a number of national trunk optical cable lines pass.

F. Human resources

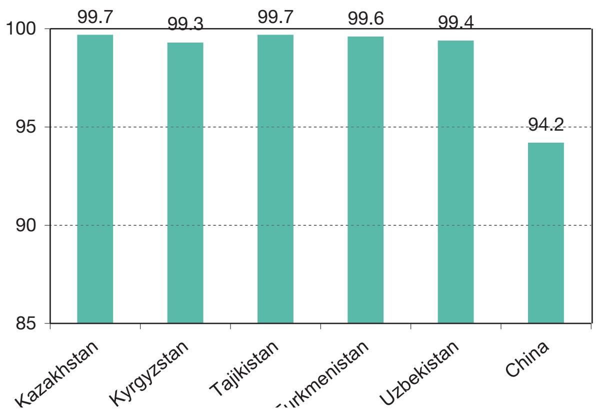
1. Working age population

Individually, several of the economies of the Silk Road have small labour forces, but the combined Silk Road region's labour force has good potential. The Silk Road had 51 million people employed between 2008 and 2011.

2. Levels of education

Literary rates in the region are high (figure II.8). The populations in the Silk Road have attained high levels of basic education, and in some of the Chinese Silk Road provinces the percentages of higher education graduates in science and technology fields surpass national averages. Shaanxi is one of China's leading provinces for science and technology.

Figure II.8. Literacy rates among people over age 15, 2011 (%)



Source: UNESCO Institute for Statistics (http://www.uis.unesco.org/profiles/selectCountry_en.aspx).

3. Labour costs

Monthly salaries in the Silk Road regions vary widely. In general, labour costs in the region are competitive compared with other CIS countries (table II.18).

Table II.18. Average nominal wages in the Silk Road economies, 2011

	Average nominal wages ($)
Silk Road economies	
China	450
Kazakhstan	614
Kyrgyzstan	203
Tajikistan	81
Turkmenistan	296
Uzbekistan	..
Other CIS countries	
Russian Federation	806
Ukraine	330

Source: Calculation based on data of the Global Wage Report 2012–2013, ILO.
Note: Figures for China and Tajikistan are for 2010.

Notes

[11] ADB (2012), *Key Indicators for Asia and the Pacific 2012*.

[12] UNCTADSTAT.

[13] UNCTADSTAT.

[14] Roman Mogilevskii (2012). Trends and patterns in foreign trade of Central Asia countries.

[15] Eurasian Economic Community website (http://www.evrazes.com/en/about/).

[16] Europa (2013) Summaries of EU Legislation website. Partnership and Cooperation Agreements (PCAs): Russia, Eastern Europe, the Southern Caucasus and Central Asia (http://europa.eu/legislation_summaries/index_en.htm).

[17] Amendments to the Labour Code in 2011 permit foreigners to own land to build industrial and non-industrial facilities, including dwellings. Foreigners may rent, but not own, agricultural land for up to 10 years. Foreigners may also own agricultural land through either a Kazakhstani-registered joint venture or a full subsidiary (http://www.state.gov/e/eb/rls/othr/ics/2012/191174.htm).

[18] Kaznex Invest.

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[20] Sughd Free Zone website (http://fezsughd.tj/en/); http://fezsughd.tj/en/for_the_investor/benefits/infrastructure_and_resources.php.

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[23] Deloitte, Doing Business in Kazakhstan 2013 (http://www.deloitte.com/assets/Dcom-Kazakhstan/Local%20Assets/Documents/T&L/En/Brochures/Doing%20business%20in%20KZ_2013.pdf).

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[26] www.kse.kg

[27] www.uzse.uz

[28] United States Department of State (2012). Investment Climate Statement – Turkmenistan (http://www.state.gov/e/eb/rls/othr/ics/2012/191255.htm).

[29] http://dawn.com/2012/10/31/transport-infrastructure-asian-nations-agree-on-23bn-projects/

[30] International Telecommunications Union (2012), Country Profile of Kazakhstan.

[31] BuddeComm (2012), Kazakhstan – Telecoms, Mobile, Broadband and Forecasts (http://www.budde.com.au/Research/Kazakhstan-Telecoms-Mobile-Broadband-and-Forecasts.html).

[32] International Telecommunication Union (2012), Country Profile of the Kyrgyz Republic; BuddeComm (2012), Kyrgyzstan –Telecoms, Mobile, Broadband and Forecasts (http://www.budde.com.au/Research/Kyrgyzstan-Telecoms-Mobile-Internet-and-Forecasts.html).

[33] International Telecommunication Union (2012), Country Profile of Tajikistan, 2012; BuddeComm (2012) Tajikistan – Telecoms, Mobile, Broadband and Forecasts (www.bisnis.doc.gov/bisnis/bisdoc/0601TJTelecom.htm).

[34] International Telecommunication Union (2012), Country Profile of the Turkmenistan.

[35] International Telecommunication Union (2012), Country Profile of Uzbekistan.

Tourists in Bukhara, Uzbekistan

Awaza Convention Center, Turkmenistan

III. SILK ROAD INVESTMENT PRIORITIES AND OPPORTUNITIES

The Silk Road is not a homogeneous investment destination. Huge differences exist across the region in terms of natural resources, created assets and industry composition. This offers investors a variety of opportunities. This chapter highlights a number of sectors attractive to international investors. It covers select pillar industries that are strategic to the Silk Road economies, as well as growth sectors, such as chemicals, machinery manufacturing and information technology and communications, which offer promising opportunities.

A. Tourism

Tourism is one of the world's largest growth industries, and the Silk Road economies are beginning to tap into it. International tourist arrivals are rising in the Silk Road as a whole, but the level of tourists remains low in some of the countries (see tables III.1 and III.2). As the biggest tourism destination in Central Asia, Kazakhstan has experienced a healthy growth although the financial crisis did have an impact. In Kyrgyzstan international tourists nearly doubled and revenues soared between 2007 and 2011. Uzbekistan also saw a steady growth in international tourism receipts. Meanwhile, the potential of the tourism markets of Turkmenistan and Tajikistan have barely been tapped, which indicate promising investment opportunities for foreign investors, in particular in light of the wealth of cultural and natural tourism resources of the two countries.

The Russian Federation remains an important tourism source country for the region. Meanwhile, tourists from other neighbouring countries, such as Turkey and China are increasing. To tap into these opportunities, Kazakhstan plans to sign a visa-free group travel agreement with China, and Turkmenistan is targeting Turkish tourists for its Avaza tourism zone, leveraging its ethnic and cultural relations with Turkey.

Table III.1. International tourist arrivals in the Silk Road countries (thousands)

Country	2007	2008	2009	2010	2011
China	54 720	53 049	50 875	55 664	57 581
Kazakhstan	3 876	3 447	3 118	3 393	4 093
Kyrgyz Republic	1 656	2 435	2 147	1 316	3 114
Tajikistan	..	..	..	..	..
Turkmenistan	8	..	..	..	..
Uzbekistan	903	1 069	1 215	975	..

Source: ADB (2012), Key Indicators for Asia and the Pacific 2012.

Table III.2 International tourism receipts in the Silk Road countries ($ millions)

Country	2007	2008	2009	2010	2011
Kazakhstan	1 213	1 255	1 185	1 236	1 524
Kyrgyzstan	392	569	506	336	689
Tajikistan	16.5	23.7	19.5	32.4	39.8
Turkmenistan	..	..	..	..	..
Uzbekistan	51	64	99	121	..
China	41 126	44 130	42 632	50 154	53 313
Gansu	70	16	13	15	..
Ningxia	3	3	4	6	..
Shaanxi	612	660	771	1 016	..
Xinjiang	162	136	137	368	..

Source: Figures for Central Asian countries, World Bank; figures for the Silk Road provinces of China from statistics of the governments of the Silk Road provinces.

All Central Asian countries have regular direct flights to other CIS countries, and a number of aviation hubs in Asia, Europe and the Middle East, such as Beijng, Frankfurt, Istanbul, Qatar and Vienna. Air passenger numbers in most Central Asian countries have experienced significant growth in recent years. The capital cities of the four Silk Road provinces of China also have direct international flights with their main tourist source countries, such as Japan and the Republic of Korea.

Along with increased tourism to the region, FDI flows to the tourism sector in Central Asia experienced growth in recent years. For example, in

Kazakhstan, annual average FDI flows to the hotel and restaurant sector increased from $10 million in 2002–2006 to around $40 million in 2007–2011.

At present, the Silk Road's greatest tourism potential lies in developing cultural and historical attractions and ecotourism. The ancient Silk Road left a legacy of fascinating places to visit. Ancient mosques, emperors' tombs and relics can be found throughout the region. For instance, Samarkand's Registan Square in Uzbekistan, a complex of three madrassahs (Islamic colleges), is considered one of the greatest Islamic monuments in the world. Xi'an (Shaanxi) has the world famous terracotta warriors. The Mogao Grottoes in Gansu Province have 491 caves preserved with 2 400 sculptures and 45 000 square metres of mural paintings, with the earliest dating back to A.D. 366.

The other high-potential regional tourism subsector is ecotourism. The Silk Road contains some of the most scenic landscapes in Asia, and the low population density in much of the region offers the potential for excellent nature and other outdoor tourism activities. Diverse landscapes featuring high mountains, glaciers, caves, lakes, rivers, hot springs and steppes can be found throughout the region.

The historical, cultural and natural attractions of the Silk Road are all in place. However, many of the tourist facilities in Central Asian countries were built during the former Soviet Union days, and need to be replaced or renovated to make provision for modern facilities. This is especially the case outside capital cities. Throughout much of the Silk Road, there is still insufficient transport infrastructure, tourist and business class hotels, communications systems, resorts, camping and other facilities.[36] For example, according to *Tourism Review*, the world's 10 largest hotel groups are still largely absent from the region. Affordable and well-run tourist class (medium-priced) hotels are also scarce. Hotel service and supporting infrastructure and tourism services therefore offer opportunities for prospective investors.

It should be noted that visa issue remains a barrier for the development of the tourism sector in the region. The World Tourism Organization (UNWTO) is working closely with the region under its Silk Road Tourism Initiative to foster intraregional cooperation on this issue. The initiative also aims to build marketing and human resource capacity in tourism across the region and to create a tourism brand for the Silk Road through cross-marketing and co-branding.[37]

Thanks to improved infrastructure, Shaanxi and Xinjiang have become top tourism destinations in China, for both domestic and foreign tourists. However, many tourism resources in the Silk Road provinces of China have not yet been developed. Large projects are being planned and implemented across the region, and the local government are looking to foreign investment for their development.

Box III.1 UNESCO World Heritage Sites in the Silk Road countries and provinces

Kazakhstan
Mausoleum of Khoja Ahmed Yasawi
Petroglyphs within the archaeological landscape of Tamgaly
Saryarka – steppes and lakes of northern Kazakhstan

Kyrgyzstan
Sulaiman – Too Sacred Mountain

Tajikistan
Proto-urban site of Sarazm
Tajik National Park (Mountains of the Pamirs)

Turkmenistan
State historical and cultural park “Ancient Merv”
Kunya-Urgench
Parthian fortresses of Nisa

Uzbekistan
Itchan Kala
Historic centre of Bukhara
Historic centre of Shakhrisyabz
Samarkand – crossroad of cultures

Four Provinces of China:
Mogao Caves (Gansu)
Mausoleum of the First Qin Emperor (Shaanxi)
Xinjiang Tianshan (Xinjing)

Source: UNESCO.

Box III.2 The tourism sector of China's Silk Road provinces and autonomous regions

The tourism and hospitality sector of the four Chinese Silk Road provinces benefits from the area's unique environmental, cultural and historical characteristics.

In **Shaanxi Province**, Xi'an, its capital, is one of the four great ancient capitals of China. The city is particularly famous for the terracotta warriors it houses, but it also offers other great attractions such as the Goose Pagodas of the Tang Civilization, the Bell and Drum Towers and the Ming city walls, in addition to excellent museums. It also serves as a good base from which to explore many outlying attractions such as the Famen Temple or the Xingjao Temple within a day's drive of the city. Other excursions in Shaanxi Province include Luoyang, home to the Baima Temple, once thought to be the centre of the universe, as well as to the nearby famous Longmen Caves, one of China's three most famous ancient sculptural sites. Shaolin Si, where Kung Fu began, and the isolated Yan-an, where the Long March led Mao in 1937, are other examples of the many historic and cultural attractions Shaanxi Province has to offer.

Gansu Province has a remarkable geography, including the Yellow River flowing through Lanzhou, the capital, and the mountains and deserts of the Hexi Corridor, which formed the main passageway for Silk Road caravans for over 1 000 years. It has fascinating desert oases, beautiful grasslands and the World Heritage Sites of Crescent Moon Lake and the Singing Sand Dunes. Gansu is also home to captivating historical sites such as the Mogao Caves at Dunhang and the country's largest reclining Buddha at Zhangye. Traces of many different civilizations and cultures can be found in the towns of Wuwei, Hezuo and others. New roads have been build in an attempt to make the tourism attractions more accessible and most cross-country train services to China's west pass through the Hexi Corridor, bringing tourists to some of the remoter attractions in Gansu.

Xinjiang Uyghur Autonomous Region is a vast and extraordinary part of China. Sparsely populated, it is an isolated region composed largely of desert and grassland surrounded by some of the highest mountains in the world. Touring highlights include the Tian Shan Mountain pastures where Heaven Lake is located and where one can stay with Kazakhs in their yurts, and the fascinating Silk Road oasis cities of Turpan and Kashgar. There are many other smaller towns of prominence in the days of the Silk Road, which could potentially be transformed into exciting tourism destinations in their own right, with proper investment and tourism development activities.

Ningxia Hui Autonomous Region provides rurual scenery of great charm as the Yellow River winds its way, creating a very green and hilly southern part of the province. The capital, Yinchuan, and, not far from it, Zhongwei and Shapotou, are pleasant and interesting towns to visit. Ningxia has been promoting investment in ecotourism, rural and cultural tourism.

The four provinces all have ambitious plans to develop a variety of historical sites and recreation facilities throughout the region and are actively seeking the participation of foreign investors in these projects.

Source: UNCTAD, *Investment Promotion Strategy for the Tourism Sector of China's Silk Road Provinces and Autonomous Regions*.

B. Energy

The Silk Road has the potential to become a significant supplier to help meet the world's energy needs. Kazakhstan, Turkmenistan and Uzbekistan are among the leading countries in the world in terms of oil reserves and natural gas. Kyrgyzstan and Tajikistan harbour vast hydropower potential, while Xinjiang has the largest reserves of oil, natural gas and coal in China.

Oil and gas

Kazakhstan has proven oil reserves of 30 billion barrels, about 1.8% of the world's total proven reserves. Turkmenistan and Uzbekistan have an estimated reserve of 600 million barrels each.[38] Xinjiang's oil reserves are estimated at 75 billion barrels.

In natural gas, Turkmenistan has proven reserves of 13.4 trillion cubic metres, about 11.7% of the world total; Kazakhstan holds 1.9 trillion cubic metres; and Uzbekistan 1.6 trillion cubic metres.[39] Xinjiang is believed to possess 8 trillion cubic metres,[40] and Shaanxi Province 1.7 trillion cubic metres.

The importance of the region as an oil and gas producer is supported by ambitious investments undertaken by the governments in the region and

Construction of China-Central Asia Gas Pipeline

positive external factors such as the availability of attractive new energy markets in eastern and southern China, India, Iran (Islamic Republic of), Pakistan and Turkey, coupled with strong interest in the region from Chinese, Russian and other investors.

Recent production figures for crude oil and natural gas in Kazakhstan, Turkmenistan and Uzbekistan are shown in tables III.3 and III.4. The production of oil and gas is projected to rise substantially in the coming years. According to the United States Energy Information Administration, Central Asian gas output will increase from 165 billion cubic metres in 2008 to 196 billion cubic metres in 2025 and to 221 billion cubic metres in 2035, which will require huge investment.[41]

One of the biggest challenges to the oil and gas industry in Central Asia is its outdated equipment and technology. Investment in technological upgrading is much needed, in particular in areas such as software, environmental services and offshore production and operations.

Seismological and prospecting works, and geological and exploration surveys of prospective oil and gas deposits are also much needed in the region, in particular in the Caspian region and in countries such as Tajikistan. Preliminary exploration shows that the Bokhtar region of Tajikistan has potential reserves of 3.2 trillion cubic metres of gas and 8.5 billion barrels of oil. The Tajikistani Government is proactively seeking foreign investment to tap into this potential. In 2013, a production sharing agreement has been signed with international investors to speed up the exploration in the Tethys region.[42] Meanwhile, Central Asian countries rely largely on multinational players to explore offshore oil and gas reserves in

Table III.3 Oil production in the Central Asian countries of the Silk Road
(thousand barrels daily)

	2006	2007	2008	2009	2010	2011	Share of the world 2011
Kazakhstan	1 475	1 534	1 607	1 746	1 818	1 841	2.10%
Turkmenistan	186	198	207	210	216	216	0.30%
Uzbekistan	125	114	114	107	87	86	0.10%

Source: BP Statistical Review of World Energy 2012.

Table III.4. Natural gas production
(billion cubic metres)

	2006	2007	2008	2009	2010	2011	Share of the world 2011
Kazakhstan	13.9	16.7	18.7	17.8	17.6	19.3	0.6%
Turkmenistan	60.4	65.4	66.1	36.4	42.4	59.5	1.8%
Uzbekistan	54.5	59.1	62.2	60	59.6	57	1.7%

Source: BP Statistical Review of World Energy 2012.

the Caspian Sea, due to technical and financial restraints on domestic players.

In addition, due to the central location of the region, export routes for oil and gas from these countries require complex pipelines that cross borders. Countries in the region therefore welcome foreign investors with strong capacities in coordinating cross-border oil and gas transport infrastructure development.

It should also be noted that the investment climate in hydrocarbon sectors varies considerably in the region. While Kazakhstan opened up its oil fields to foreign investors after independence in the early 1990s, it was only in the first decade of the new century that international investors started committing serious money to the development of gas fields in Turkmenistan and elsewhere in the region. Turkmenistan's current policy is to offer international companies production sharing agreements (PSAs) for offshore reserves in its section of the Caspian Sea, and foreign companies are usually allowed to only participate as service providers in the development of onshore gas reserves.

Power production and consumption

Most Central Asian countries show a general trend of increased power production, while China's electricity production increased more dramatically, driven by the country's demand for energy (table III.5).

Box III.3. Tethys Petroleum in Central Asia

Canadian energy firm, Tethys Petroleum has operations in three Central Asian countries, Kazakhstan, Tajikistan and Uzbekistan. With a focus on gas and oil exploration in Central Asia, the Toronto-listed firm is actively drilling in the three countries. Part of Tethys' strategy in doing business in Central Asia is to build a workforce comprised of local employees, introduce corporate social responsibility, and implement international technical and management expertise.

In May 2012, Tethys signed an agreement with the Uzbek Government for the development of the southwestern Uzbek oil field of Chegara, with potential investment of $24.4 million. In partnership with NHC UZbekneftegas, Tethys is also applying modern technology to increase production in the North Urtabulak oil field in Uzbekistan.

In June 2013, Tethys signed an agreement with Total (France) and a subsidiary of the China National Petroleum Corporation for the joint development of the Bokhtar oil and gas field in Tajikistan, with investment in the exploration phase estimated at between $80–100 million.

Source: Website of Tethys Petroleum; NewsWire, Economist Intelligence Unit

Table III.5 Electricity production in the Silk Road countries
(billion kilowatt hours)

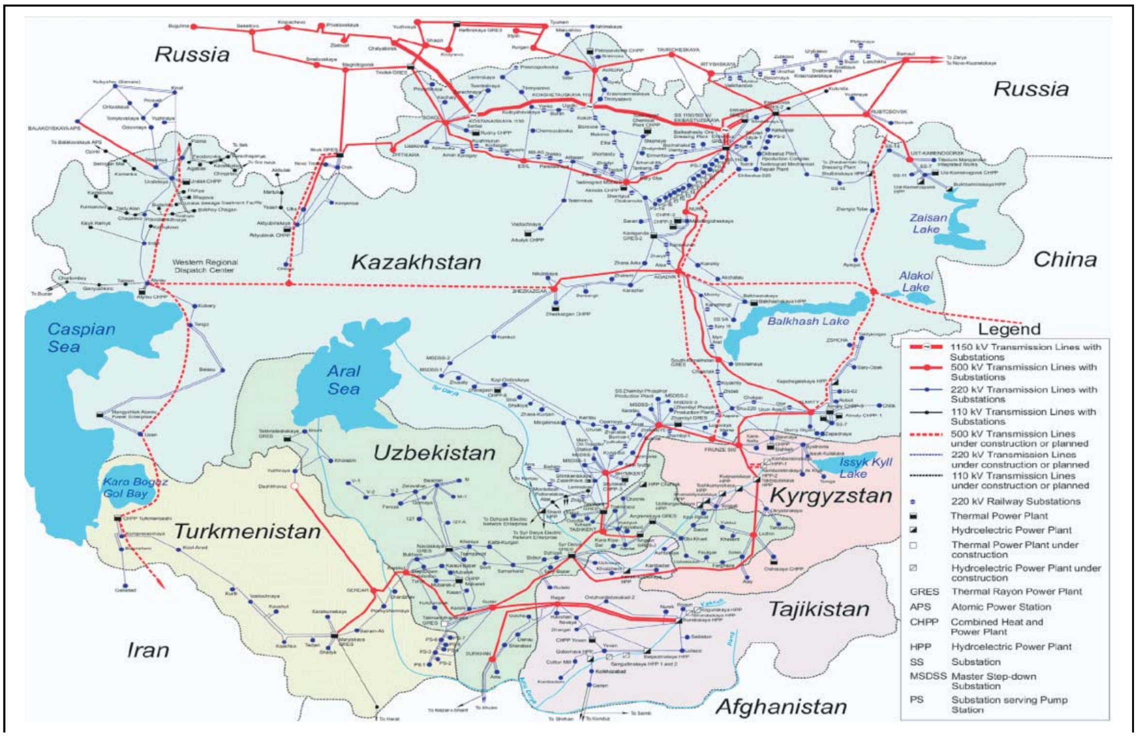
	2005	2006	2007	2008	2009	2010	2011
China	2 475	2 834	3 278	3 467	3 714	4 206	4 700
Kazakhstan	67.9	71.6	76.6	80.3	78.7	82.6	86.4
Kyrgyzstan	14.9	14.5	14.8	11.7	11.0	12.1	15.2
Tajikistan	17.0	16.9	17.4	16.1	16.1	16.4	16.2
Uzbekistan	47.7	49.3	49.0	50.2	50.0	51.9	52.7
Silk Road total	2 623	2 986	3 436	3 625	3 870	4 369	4 871

Source: ADB (2012), *Key Indicators for Asia and the Pacific 2012*; figures for Turkmenistan not available.

However, the increase in power generation is barely keeping pace with rising demand across the region. Most of the generation and transmission equipment in Central Asia was installed during the Soviet era, and many power plants have reached the end of their techno-economic life or will do so in a few years. Due to underinvestment in the rehabilitation of generation and transmission assets and construction of new power plants, countries in the region all have difficulty meeting power demands at national or sub-national levels, and power shortages in winter are widespread across the region. According to ADB, power sector investment requirements to meet increasing power demands in South Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan will reach $36 billion during the period 2011 to 2022.[43]

The opportunities for investors in both power generation and transmission are abundant, in particular for the rehabilitation of existing power plants; construction of new power plants to replace retiring capacity and to meet higher demand;

Figure III.1 Central Asia energy grid



Source: Global Energy Institute (http://www.geni.org/globalenergy).

rehabilitation of transmission lines and substations; the construction of new transmission lines and substations to remove bottlenecks; and projects to strengthen power exchange between the Silk Road countries (through bilateral arrangements).

Other potential investments may be in hydropower. Tajikistan and Kyrgyzstan have significant hydropower potential, which could lessen their dependence on fossil fuel produced electricity.

All five Central Asia countries are members of the Energy Charter Treaty, which provides safeguards for private investment against nationalization and other restrictive measures.

C. Mining

The Silk Road countries hold some of the world's largest shares of several minerals. For example, Kazakhstan holds one third of the world's chromium and manganese deposits and has among the world's largest reserves of iron ore (eighth), coal (eighth), uranium (second), gold (eighth) and copper (fourth). Kyrgyzstan is most noted for its gold reserves, which also constitute about one third of its exports. Uzbekistan is among the world's largest uranium and gold reserve countries. Tajikistan has rich reserves of silver, gold and other precious metals.

Governments in Central Asia have updated their respective mining laws over the years to attract greater levels of investment. In addition, privatization continues to progress in mining and the region's governments are making more use of joint ventures with foreign partners.

The major investment opportunities in the Silk Road mining sector include exploration for new deposits, extraction, and the processing and supply of modern mining equipment and technology. Investment in downstream activities (such as refining and smelting), in which foreign involvement is relatively low, is particularly encouraged by countries in the region. In addition, advanced environmental and production technology is greatly needed throughout the region.

Countries in the region have made progress in improving the investment climate in the mining sector. Special mention should be made of the Extractive Industries Transparency Initiative (EITI), which Kazakhstan and Tajikistan are implementing, and with which Kyrgyzstan complies. The initiative encourages the disclosure of deals in, and revenues from, mining and other resource production. Meanwhile, it should be noted that despite continuous progress, reporting of reserves and resources, access to geological data and the bidding process of exploration rights still falls short of international standards, thus imposing barriers to mining investors.

Box III.4. FDI in the Central Asian mining sector

Thanks to their rich mineral resources and relatively open environment to foreign investment, most Central Asian countries have attracted significant amounts of FDI in mining and metallurgy. For example, Kazakhstan attracted $3.5 billion of FDI in mining (including oil and gas), and $2.5 billion in non-ferrous and ferrous metallurgy in 2011. FDI participation is also significant in other Silk Road economies, in particular in Kyrgyzstan, Tajikistan and Uzbekistan.

International investors in the region include: Aktyubinsk of the Russian Federation (copper mining in Kazakhstan); Aubert & Duval S.A. of France (titanium processing in Kazakhstan); Centerra Gold Inc. of Canada (gold mining in Kyrgyzstan); Glencore of Switzerland (copper, gold, lead, zinc mining and processing in Kazakhstan; silver mining and processing in Tajikistan); POSCO of the Republic of Korea (titanium processing in Kazakhstan); Rio Tinto of the UK (copper exploration in Uzbekistan) and Sumitomo Corporation and Toshiba Corporation of Japan (rare earth elements production in Kazakhstan). Companies from China and Kazakhstan also invest in mining in the region.

Source: United States Geological Survey, Minerals Yearbook 2012; Geological Survey of Japan, Explanatory Notes for the Mineral Resources Map of Central Asia.

Box III.5. Key minerals of the Silk Road countries and provinces

Central Asian countries

Kazakhstan
bauxite, chromium, coal, copper, gold, iron, lead, manganese, titanium, zinc, uranium

Kyrgyzstan
antimony, coal, gold, mercury, tin, tungsten, uranium

Tajikistan
antimony, coal, copper, gold, lead, mercury, silver, tin, tungsten, zinc

Turkmenistan
bentonite, bischofite, bromine, gypsum, iodine, nitrogen, sodium sulfate

Uzbekistan
coal, copper, fluorspar, gold, kaolin, lead, molybdenum, nitrogen, rhenium, silver, sulphuric acid, uranium, zinc

Chinese provinces

Gansu
antimony, chrome, fluorite, gold, gypsum, lead, nickel, platinum, silver, zinc

Ningxia
coal, gypsum, magnesium, rare earth

Shaanxi
bauxite, coal, gold, lead, limestone, molybdenum, phosphorus, zinc

Xinjiang
chrome, coal, copper, gold, iron, lead, nickel, zinc, uranium

Source: United States Geographical Survey; websites of the governments of the four provinces.

The Chinese Silk Road provinces and autonomous regions contain a variety of minerals. Xinjiang has large deposits of coal, iron and copper. Gansu, Ningxia and Shaanxi contain a variety of minerals, such as cobalt, iron, limestone, nickel, platinum, rare earth elements and titanium. Processing industries for ferrous and non-ferrous metals have been established in Baiyin, Jinchang (both in Gansu), Qingtongxia (in Ningxia), Xi'an (Shaanxi). The participation of foreign investment is encouraged in certain areas or activities, for example, in services or downstream processing activities where sophisticated technologies are required (for more information, refer to the "Catalogue of Priority Industries for Foreign Investment in the Central and Western Regions").

D. Transportation and logistics

Landlocked, but located at the heart of the Eurasian continent, governments in the Silk Road region have all prioritized the transport sector in their development strategies, and have laid out ambitious plans to develop their transport infrastructure and institutions across the region.

Attracted by its strategic location, improved infrastructure and commitments by regional governments to build strong links to the international market, multinationals have started to tap into the opportunities offered by the resurgence of the Silk Road as an international transport route (box III.6). Major investment opportunities exist in infrastructure development and modernization, and provision of transportation and logistics services in the region.

Box III.6. Modern-day Silk Road optimizes Hewlett-Packard's supply chain

Two to three times every week, freight trains carrying thousands of Hewlett-Packard (HP) notebooks and displays make their way from Chongqing, China, to distributors and customers in Duisburg, Germany, along the newly established Chongqing-Xinjiang-Europe railway. This modern-day Silk Road covers two continents, six countries and more than 11 000 kilometres. The journey takes approximately three weeks.

HP's rail solution is more cost effective and environmentally friendly than air transport and faster than ocean shipping: shipment by rail costs one third of the price, results in one tenth of the carbon footprint of air transport and takes approximately three weeks (compared with 35 days by sea). According to HP, the route has constituted a competitive advantage for the company.

The Chongqing-Xinjiang-Europe railway, which became operational in July 2011, is run by an international trans-Eurasia rail logistics company co-established by Chongqing (China), Germany, Kazakhstan, Russia and other partners.

According to reports, a number of other companies are also evaluating the potential to use the rail route to optimize their supply chains.

Source: HP website (http://www8.hp.com/hpnext/posts/modern-day-silk-road-optimizes-hp-s-supply-chain#.U3yOBRavsUt); New York Times (http://www.nytimes.com/2013/07/21/business/global/hauling-new-treasure-along-the-silk-road.html?pagewanted=all&_r=2&).

Taking advantage of new infrastructure projects

In land transport, the railways hold the most promise for moving goods and passengers across the region. Among the priorities for railway development plans in the region are a number of international railway transportation corridor programmes, in which various Central Asian countries are involved. These programmes include the building of new rail transport corridors connecting China to Europe and connecting the Caspian region and Central Asia to the Gulf region. In May 2013, a new rail link between Ozen in southeast Kazakhstan and Etrek in southwest Turkmenistan was opened on a route that will extend to Iran (Islamic Republic of), opening access to the Middle East from the Caspian region.

In addition to new railway routes, the modernization of rail transport systems is also high on the agenda of Central Asia governments, which are targeting foreign investors to secure advanced technologies and management skills. For example, Uzbekistan is electrifying its railway network and building high-speed rail routes. Kazakhstan has set up joint ventures with Russian companies to produce new locomotives with designs licensed by General Electric. In 2013, construction will begin on six high-speed railway lines in Kazakhstan.

In road transportation, instead of constructing new roads, the biggest priority, and thus an opportunity for investors, is the upgrading of existing roads to meet future economic growth and activity. Road conditions in much of the Silk Road have deteriorated over the years due to a lack of maintenance and heavy traffic. The governments of the region have identified various road improvement projects, particularly for highways, but financing is in short supply.

Strong demand for transportation services

In other investment opportunities, a major void to fill in the Silk Road is the shortage of professional and integrated transportation and logistics services. It is not surprising that Central Asian countries lag behind not only developed countries, but also countries in Eastern Europe and East Asia in the World Bank's Logistics Performance Index ranking. Despite its strategic location, the region as a whole is held back by a lack of truly integrated logistics providers, the unpredictability of railway freight delivery, the limited ability to trace goods in transit, dispersed terminal and rail yard layout, and poor domestic trucking and other services.

Currently, very few multimodal transportation hubs exist in the Silk Road region, but they could significantly help to reduce transport distances and time. Addressing this gap will be vital for the Silk Road's future competitiveness and will likely determine if the Eurasian "land bridge" becomes a viable alternative for transporting goods and people between East Asia and Europe.

With the objective to tap into one of the most promising international transit transportation routes, countries such as Kazakhstan and Uzbekistan are proactively targeting integrated transport and logistics service providers for investment. For example, the President of Kazakhstan called for the construction of transport and logistics outside the country with foreign partners to meet the objective of doubling transit capacity by 2020 and increasing it tenfold by 2050.[44] Uzbekistan also has an ambitious plan to build the country into a transit transport hub in the region (box III.7).[45] 7To meet the growing demands for professional transportation and logistics service, international investors have started to expand in this market. Prominent investment projects in recent years include: DHL's (Germany) investment in cargo terminals in Kazakhstan; Unico Logistics' (Republic of Korea) investment in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan; and Rhenus Logistics' (Germany) investment in Kazakhstan and Uzbekistan.

Box III.7. Logistics centres under construction in Uzbekistan

In March 2013, the Uzbek Government announced a $10.4 million investment to build a new logistics centre in the Surkhandarya region. The centre will meet international standards to increase the trade and commodity turnover, in particular with Afghanistan.

Another multimodal logistics centre is also under construction in the Namangan region in eastern Uzbekistan, with the objective to improve transport logistics infrastructure in the Ferghana Valley. The centre is expected to process up to 4 million tons of railway cargo per year.

Plans to build these centres are spurred by the government's goal to become a major hub for trade and transportation in Central Asia. Geographically, the country is located at the nexus of several trading routes, which means Uzbekistan is strategically situated for exports to the Russian Federation, China and India.

Source: Various media reports.

E. Agro-business

The Silk Road contains highly fertile soil suitable for growing cash crops and speciality crops. Agro-business is therefore historically important for all economies in the region.

Huge and sparsely populated territory and diverse climatic conditions make **Kazakhstan** ideal for developing agro-business. Kazakhstan is the six biggest wheat exporter in the world. The country produces approximately 13 million tons of wheat on average annually, of which between 2 and 8 million tons is exported, mainly to destinations in Europe (including the Russian Federation and Ukraine), northern Africa and Central Asia. In addition, Kazakhstan produces approximately 2 million tons of barley and lesser amount of oats, corn and rice.[46] Availability of vast pastures also makes Kazakhstan an important livestock producer. In 2010, the country had 6 million head of cattle, 19 million head of sheep and 33 million head of poultry. The rich endowment of arable land and grassland is not fully tapped. Out of 90 million hectares of agricultural land, 3 million hectares remain idle.[47]

In **Kyrgyzstan** the main agricultural products are grain (wheat and barley), vegetables, cotton and tobacco. Vegetables, especially onions, are a major export product. The country grows a large amount of potatoes, but only 1% of the harvest is actually processed because of lack of appropriate facilities. Fruits and nuts are another speciality, but the volumes processed are low. The subsector is especially in need of affordable mobile processing plants for drying, processing and packing.

Tajikistan was traditionally a major regional producer of fruits and vegetables, including melons, watermelons, apples, apricots, grapes, pears, onions, tomatoes and lemons. Other main agricultural products are cotton, grain and silk.

Turkmenistan's strongest industry is cotton. In 2012, the country announced a plan seeking foreign investment to help finance a $1 billion expansion programme for its cotton industry up until 2016. Among the top 10 producers of cotton in the world, Turkmenistan produces high quality, fine fibre "white gold" which is used for the local production of jeans exported to dozens of countries. Jeans with the label "Made in Turkmenistan" are sold in a variety of international supermarket chains, including Walmart.[48]

Cotton is also important for neighbouring **Uzbekistan**, which is one of the world's largest cotton producers. Other important agricultural products include raw silk, fruits and vegetables, significant quantities of which are exported to its neighbouring countries.[49]

Central Asian countries are important producers and exporters of a variety of agricultural products, ranging from fruit and cotton to edible oils and vegetables. However, only small portions of these products are processed before they are consumed or exported. Investment opportunities abound in agricultural product processing, as well as in storage, logistics and packaging. Examples of FDI projects in agro-business include the investment of Nestlé (Switzerland) in Kazakhstan and Uzbekistan (dairy products and beverage) and Russian firm Wimm-Bill-Dann's investment in Kazakhstan, Kyrgyzstan and Uzbekistan (dairy products and fruit juice). Kazakhstan has also attracted FDI into the farming sector.

It should be noted that foreign ownership of agricultural land is not allowed in Silk Road countries. The lease of agricultural land is also heavily regulated in the region. In countries where leasing of agricultural land is permitted, the length of leases varies greatly, for example, up to 10 years in Kazakhstan and Uzbekistan and as much as 50 years in Tajikistan.

China's Silk Road provinces and regions are well suited to various types of agriculture and livestock rearing. Good quality farmland is located in the Guanzhong Plain (Shaanxi), Hetao Plain (partly in Ningxia), the Hexi Corridor (Gansu), the rim of the Tarim Basin and the northern slope of the Tianshan Mountains (both in Xinjiang). The Hexi Corridor and Hetao Plain are major grain-producing regions in China. Xinjiang and Gansu have extensive grasslands that make them ideal for animal husbandry, particularly cattle and sheep. Meanwhile, Xinjiang is the largest cotton producing region in China and an important tomato juice exporter in the world. FDI in the processing of agricultural products is encouraged in the Silk Road provinces.

Modern freight locomotives built for Kazakhstan

F. Chemicals

Given the vast potential of oil, gas and other mineral resources across Central Asia, the chemical – especially petrochemical – industry provides good opportunities for investors.

Kazakhstan's potential for the expansion of the chemical industry is found in the country's vast reserve of raw materials, such as phosphorites, oil and gas, potash and other mineral resources. The Government of Kazakhstan has prioritized the sector for foreign investment for the purpose of import substitution as well as export. The leading sectors include mineral fertilizer, inorganic basic chemicals, plastics and rubbers, paints and varnishes, consumer chemicals and pharmaceuticals. In 2011, the total production of basic chemicals and fertilizers amounted to 1.8 million tons, of which 1.5 million tons were exported. The main exports include petrochemical products (such as distillates, coke, coal tar and light oil) and basic inorganic chemicals (such as yellow phosphorus, sodium tripolyphosphate, thermal phosphoric acid, fertilizers and chromic salts). Kazakhstan is becoming an important supplier of these products in the regional market, in particular in CIS countries.[50] LG Chem, one of the largest chemical companies in the Republic of Korea, has partnered with Kazakhstan Petrochemical Industries (KPI) to build a $4.2-billion petrochemical complex in Atyrau, with production capacity of 800 000 tons per annum of polyethylene, a raw material in the making of plastics.[51]

Uzbekistan's national programme for the development of the chemical industry features 30 projects of a total value of $2.8 billion, in which foreign investment is encouraged. Target sectors include mineral fertilizers, organic and inorganic substances, artificial fibres, polymer materials, as well as chemicals for the agricultural sector. These sectors boast an abundant availability of basic resources, including cheap natural gas and electricity.[52]

As part of its efforts to reduce its dependency on gas exports through pipelines, **Turkmenistan** is actively developing its petrochemical industry. Recent examples include the signature of a $10-billion framework agreement with Japanese companies to build a large-scale gas chemical complex to manufacture polyethylene, polypropylene, natrium sulphate and washing detergent, and to

Atyrau Refinery, Kazakhstan

refine natural gas into petrol. The Turkmenistan Government has also announced plans to set up joint ventures with foreign companies to produce various types of chemicals based on other local raw materials. The main sectors targeted are for the production of nitrogen, potash and phosphorous fertilizers, sulphuric and nitric acids, mineral salts, and other petrochemical products.[53]

Among **Silk Road provinces of China**, Xinjiang and Gansu have prioritized coal and petrol chemical industries for FDI. Xinjiang plans to construct four new petrochemical industrial bases, focusing on production of ethylene, aromatics, fertilizers, rubber products and fine chemicals. Gansu promotes FDI in a wide range of oil and gas downstream activities, covering production of synthetic rubber, organic and inorganic chemical raw materials, chemical cleaners and other fine chemical products.

G. Machinery

There is a growing trend to manufacture machinery in Central Asia for the major industries such as oil and gas, mining and agri-business. There have also been developments in the automotive parts and automobile manufacturing industry in Kazakhstan and Uzbekistan. Shaanxi Province and Xinjiang Autonomous Region of China also attracted automobile producers such as Volkswagen to set up manufacturing facilities in their respective provinces.

Kazakhstan is a major importer of a variety of machinery. In 2012, its import of machinery and parts amounted to $17.8 billion or 40% of the country's total imports. Demand for machinery for the oil and gas, mining and metals, energy and agricultural sectors is expected to remain strong in the long term.[54]

Kazakhstan has identified 13 sub-sectors of the machinery industry for expansion, on the basis of their capability to meet the demands of strategic industries as well as their export potential. Among these sub-sectors are machinery and equipment manufacturing for the railway, oil and gas, mining and metallurgy, automobile construction, agriculture, and electrical sectors.

Demand for machinery by Kazakhstan's oil and gas and mining industries is huge and includes a wide range of equipment for drilling, extraction, transport and processing. From 2008 to 2012, manufacturing of mining equipment and machinery in segments of the oil and gas sectors has more than doubled in terms of value.

Given the vast planted area in Kazakhstan, the market for agricultural equipment also offers attractive opportunities. Currently, this market segment is essentially occupied by imported products. However, local production has experienced notable growth in recent years, and opportunities are envisioned for segments such as agricultural processing, dairy, ploughing, harvesting and transport equipment, and component and spare parts manufacturing.

Other segments that offer considerable growth opportunities include railway machinery and car manufacturing, which are mainly driven by domestic demand. Sales of passenger and commercial vehicles will benefit from the recovery of credit, a rise in real incomes, the current low rate of car penetration (about 170 per 1 000 people) and high potential replacement rates (about two thirds of cars in Kazakhstan are more than ten years old). However, the car market is dominated by imports of both new and used cars. Domestic production is limited and consists of car assembly, which generally uses imported parts from the Russian Federation. The authorities are seeking new investment in greenfield sites by foreign manufacturers in order to reduce the reliance on imports. Sollers and AuvoVAZ from the Russian Federation have both partnered with local companies to manufacture cars in Kazakhstan in the coming years. The local manufacture of automobile components is extremely limited, which also provides opportunities for foreign investors.[55]

In **Uzbekistan,** there are joint ventures to manufacture garment equipment, agricultural machinery, and automotive parts (e.g. with General Motors, Man Auto and Isuzu for input into the manufacture of engines, power trains and other components).

Equipment manufacturing is also targeted by the Silk Road provinces of China. SEZs in Xi'an

Box III.8. FDI in diesel engine facility in Kazakhstan

In December 2012, GE Transportation, a leading global provider of rail, mining and transportation-related equipment, announced an agreement with Transmashdiesel and JSC Remlokomotiv, a subsidiary of JSC National Company Kazakhstan Temir Zholy (KTZ), to create a joint venture to produce diesel engines in Kazakhstan.

In order to serve rail, marine and stationary power customers in Central Asia, the joint venture is expected to produce approximately 400 Evolution Series diesel engines a year.

The joint venture partners plan to invest approximately $90 million to build a new, 9 000-square metre diesel engine facility in Kazakhstan. The plant will not only manufacture, but also sell, service and provide spare parts for Evolution Series diesel engines in the Kazakhstan market. Production is scheduled to come on stream by the end of 2014.

JSC Lokomotiv Kurastyru Zauyty (LKZ), KTZ's wholly-owned subsidiary, already operates a 43 000-square metre locomotive assembly facility in Kazakhstan.

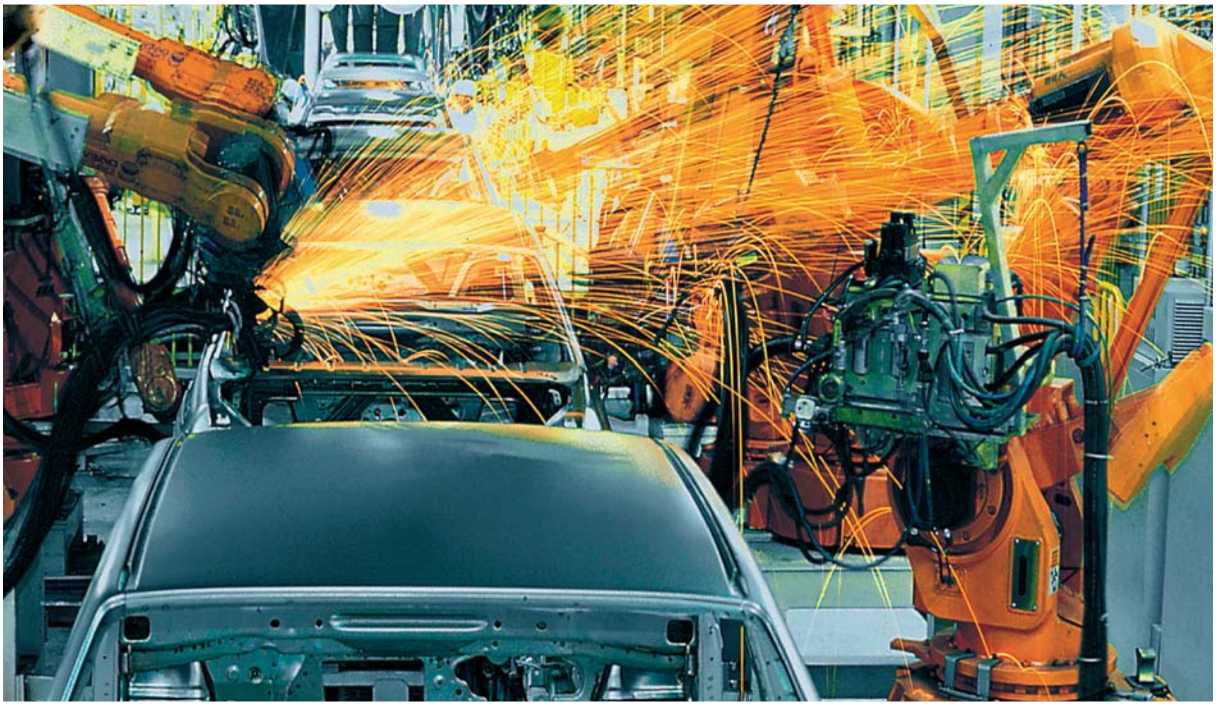
Source: Bloomberg (2012). GE, KTZ and Transmashdiesel Create a Joint Venture to Produce Diesel Engines in Kazakhstan (http://www.bloomberg.com/article/2012-12-04/aOIVUzKVAI5E.html).

have attracted significant foreign investment in automobile, wind power and electrical equipment manufacturing. Investors include ABB (Switzerland), Alstom (France), Eaton (United States), Mitsubishi (Japan), and Rolls-Royce (United Kingdom). Xinjiang promotes FDI in agricultural, engineering equipment and automobile manufacturing. Volkswagen plans to investment about $800 million in an automobile manufacturing facility in Xinjiang, with an annual production capacity of 300 000 vehicles. Gansu has two equipment production bases in Lanzhou and Tianshui, manufacturing equipment for oil refinery, mining, solar and wind energy sectors.

H. Information and communication technology

The region offers good opportunities for the sale of telecommunication and other information technology equipment, software and services. There are also opportunities for establishing initiatives such as distance learning and e-government projects.

Kazakhstan's information and communications sector has experienced considerable growth in recent years, with the take up of new technology



Daewoo automobile plant in Asaka, Uzbekistan

Table III.6 Key ICT indicators in Central Asian countries, 2012

	Kazakhstan	Kyrgyzstan	Tajikistan	Turkmenistan	Uzbekistan
Fixed-telephone subscriptions per 100 inhabitants	26.5	9	5.6	11.1	7
Mobile-cellular subscriptions per 100 inhabitants	175.4	124.8	92.2	76.5	72.2
Fixed (wired)-broadband subscriptions per 100 inhabitants	9.7	2.6	0.1	0	0.7
Mobile-broadband subscriptions per 100 inhabitants	42	0	..	0	20.7
Household with a computer (%)	63	6.9	4.1	13.7	8
Household with internet access at home (%)	52.6	6.3	3.6	6.7	9.6
Individual using the internet (%)	53.3	21.7	14.5	7.2	36.5

Source: International Telecommunications Union, country profiles of the Silk Road countries.

expected to remain high. The country was the first in the CIS to roll out a next generation network, aimed at improving long-distance communications. The introduction of third generation (3G) technology and the launch of fourth generation (4G) in 2012 in the capital, Astana, and the main financial hub, Almaty, and a further roll out to other parts of the country, will open up growth prospects for the sector. Mobile telecommunications will continue to attract foreign interest as it is relatively liberalized.

Internet penetration in the country is increasing rapidly – from 11% in 2008 to 49% in 2012. Rising incomes, tariff reductions and the spread of broadband services will keep spurring the use of internet. With population density in Kazakhstan as low as 16 people per square kilometre – compared with 136 in Asia and 45 in the world – wireless internet is another opportunity area.

Growth in the market for computer, software and related services is also expected to remain robust in Kazakhstan, albeit from a low base. In 2010, 7.3 people per 100 owned computers, while 65% of enterprises used computers. Multinational players, including HP and IBM, have operations in Kazakhstan. In 2010, IBM opened a Linux innovation centre in Astana in partnership with the government, which aims to promote the development of open standards and open-source software for businesses.[56]

Kazakhstan is currently promoting the development of the SEZ Alatau Innovation Technology Park to develop ICT technologies.

Despite promising opportunities in this sector, it should be noted that barriers exist for foreign investors in certain segments. For example, foreign ownership of telecommunications companies providing long-distance or international communications is restricted to 49%. However, some liberalization in the sector may be on the cards in the context of Kazakhstan's anticipated accession to the WTO in the near future.

Similar opportunities exist in other Central Asian countries. For example, **Turkmenistan** is making efforts to integrate information technologies into the society. Its government emphasizes "classrooms with computers" and is introducing high-end educational software, particularly in universities and secondary schools. Another project is to provide and expand internet access, which is scarce in the country. In 2010, the President of Turkmenistan signed a decree instructing the introduction of an e-government system. In addition, many sectors and industries of Turkmenistan, such as health, textile and manufacturing sectors, continue to function using paper-based systems. The demand for computer hardware and software by government and the business sector offers a range of opportunities for investors.[57] Despite promising opportunities in Turkmenistan, foreign investors should keep in mind that the internet is still controlled and operated by the government, and access to the market will be limited until regulations are significantly relaxed.

The Silk Road provinces of China promote investment in value-added telecommunication services (e.g. e-commerce), software development and telecommunication equipment manufacturing. Xi'an, the capital city of Shaanxi Province, has attracted investment from leading telecommunication and software companies, such as IBM, Infineon, Intel, Microsoft, NEC, Nortel, Samsung and SPSS.

I. SUMMARY

The Silk Road economies' exceptionally rich resource endowment, educated labour force and strategic location connecting East and West, present a great attraction to resource and strategic assetseeking investors. Meanwhile, thanks to robust economic growth, which has been among the fastest in the world in recent years, the region is turning its huge potential into profitable opportunities, and has become a substantial market for investors. With 155 million people living in the region, the Silk Road not only offers investors a promising regional market, but also access to a vast market within its proximity, including China, the Russian Federation and Turkey. Other attractions for international investors include its continuously improving investment environment, strengthened infrastructure, relative political and social stability across the region, and ongoing efforts to boost intraregional and interregional economic integration.

However, a number of barriers and weaknesses also hamper the potential of the region. Its landlocked status and the limited market size of each individual economy mean a regional approach is often the only viable option for further economic development. Despite increased economic collaboration, excessive regulations and border controls still constitute a formidable obstacle to trade and investment. Investment policy uncertainties and governance issues, in particular those related to market access and investor protection, also pose a challenge to investors. In addition, the lack of readily available information on investment opportunities and relevant laws and regulations also pose considerable challenges for potential foreign investors. National and provincial governments, sometimes through their IPAs, together with international organizations try to fill that information gap. This guide is part of that effort.

Notes

36 Other obstacles include the visa requirements for most nationalities, limited air routes between cities in the region and time-consuming border procedures.

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47 Ministry of Agriculture of Kazakhstan (2011), Kazakhstan Agribusiness Guide-book for Investors.

48 Reuters (2012), Turkmenistan plans $1 billion expansion of cotton industry (http://www.reuters.com/article/2012/10/17/turkmenistan-cotton-idUSL5E8LHONL20121017).

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52 Uzinfoinvest website.

53 United States Department of State (2012), Doing Business in Turkmenistan.

54 Kaznex Invest website.

55 EIU (2013) Industry report: Kazakhstan Automotive (http://www.eiu.com/FileHandler.ashx?issue_id=300090014&mode=pdf).

56 EIU (2013) Industry report: Kazakhstan Telecommunications (http://www.eiu.com/FileHandler.ashx?issue_id=1390089723&mode=pdf).

57 United States Department of State (2012), Doing Business in Turkmenistan.

APPENDICES: THE REGULATORY FRAMEWORK FOR FOREIGN INVESTMENT IN THE SILK ROAD COUNTRIES*

China

1. Legal framework

All foreign investments in the People's Republic of China require some form of government approval or screening.

Relevant laws and regulations[58]

- Law on Chinese Foreign Equity Joint Ventures
- Law on Chinese Foreign Contractual Joint Ventures
- Law on Chinese Foreign Cooperative Joint Ventures
- Law on Wholly Foreign Owned Enterprise
- Catalogue for the Guidance of Foreign Investment Industries
- Provisions on Mergers and Acquisitions of Domestic Enterprises by Foreign Investors
- Interim Provisions on Utilization by State-owned Enterprises of Foreign Investment for Restructuring
- Anti-Monopoly Law
- Regulations on Foreign Exchange Administration

Institutional forms

- Wholly foreign owned enterprise
- Equity joint venture
- Cooperative joint venture
- Foreign investment company limited by shares
- China holding company
- Regional headquarters
- Representative offices

2. Authorization and registration

The Ministry of Commerce (MOFCOM) and the National Development and Reform Commission (NDRC) are the main approval authorities. Except for certain large projects, most approval powers are exercised by local and provincial Commissions of Foreign Trade and Economic Cooperation (COFTECs).

Industry specific approvals are also required in various sectors. For example, a telecommunications joint venture requires the approval of the Ministry of Industry and Information Technology.

Generally, local COFTECs can approve foreign invested enterprises (FIEs) in encouraged sectors with a total investment of less than $300 million and restricted FIEs with a total investment of less than $50 million.

3. Restrictions on foreign investment

China restricts and prohibits foreign investments into sectors that are deemed to be sensitive, deal with national security or that are not in line with China's economic development plan. Foreign investors can find the full list of sectors in which foreign investment is encouraged, restricted and prohibited in the Catalogue for the Guidance of Foreign Investment Industries

4. Investment incentives

China provides various tax incentives and concessions to investors, depending on the total amount invested, technical output, potential for export, types of technology used and other determinants.

General tax incentives for foreign invested companies are no longer available, and incentives granted before are being phased out. The following incentives may be available depending on the sector and location of investment.

- Key high-tech companies taxed at 15%
- Certain tax reductions or exemptions for agriculture and forestry projects, as well as environmental protection and infrastructure projects
- Certain tax offsets for venture capital enterprises which invest in key and encouraged industries (small and medium sized high-technology in particular)
- Continued tax preferences for other encouraged enterprises (such as encouraged enterprises set up in central and western China)

Local authorities have some discretion to offer additional tax incentives.

5. Investment protection

Chinese legislation provides foreign investors with investment protection. China is a signatory country of the Multilateral Investment Guarantee Agency (MIGA) Convention.

Intellectual property "IP" rights

China's various IP registration regimes are generally consistent with international standards. Main laws and regulations include: copyright law, patent law, trademark law and the law against unfair competition.

Dispute settlement

Parties to a dispute have the right to search for dispute resolution institutions or methods including: court, arbitration, mediation, negotiation and international tribunal.

China is a member state of the International Centre for Settlement of Investment Disputes (ICSID).

6. Conversion and transfer policies

Foreign invested enterprises may open foreign exchange accounts and retain income as foreign exchange or convert it to the local currency (yuan) without restrictions. They are required to report their foreign exchange balance annually. The yuan is fully convertible under the current account.

7. Visa requirements

Foreign nationals are required to have a valid passport and a visa to enter China. For visitor/business “F” visas, an invitation letter from China is required. For a work “Z” visa, the working permit from the Chinese Ministry of Labour and an official visa notice from authorized Chinese organizations as well as a health certificate are required.

8. Foreign employee work permits

Foreign nationals may only commence working in China after they have received the employment permit for foreigners and the foreigner residence certificate. The Ministry of Human Resources and Social Security is the authority responsible for issuing employment licences and permits.

9. Real estate and land ownership

Land in China is either state owned or owned by collectives. Neither domestic companies nor foreign invested enterprises may own land, although they may hold land use rights. There is a limitation of the term of granted land use rights according to the usage of land:

- Residential: 70 years
- Industrial, education, scientific and technology, cultural, public health and sport, combined or other purposes: 50 years
- Commercial, tourism and entertainment: 40 years

Leasing: only granted land use rights can be transferred.

Renewal: only residential land is automatically renewed upon expiration. Non-residential land renewal is subject to specific laws and regulation.

10. List of taxes

The principal taxes in China include:

- Corporate income tax (25%) including withholding income tax
- Individual income tax (3–45%)
- Value-added tax (17%)
- Business tax (3–20%)
- Consumption tax (covering eight categories of consumer goods, with tax rates ranging from 3–45%)
- Real estate tax (1.2% on original value of buildings and houses or 12% on rental value)

11. National Investment Promotion Agency:

China Council for International Investment Promotion
Address: 4th Floor, Jing Guang Center Office Building, Hujialou, Chaoyang District
Mailbox No.8806
Beijing 100020
China
Tel: + 86 10 6597 8801
Fax: +86 10 6597 8210
Email: msc@cciip.org.cn
Website: http://en.cciip.org.cn/

Investment Promotion Agency of the Ministry of Commerce
Address: No. 82 Donganmen Street
Beijing 100747
China
Tel: + 86 10 6451 5307
Fax: +86 10 6451 5304
Website: http://tzswj.mofcom.gov.cn/

Kazakhstan

1. Legal framework

The legal framework for regulating investment in Kazakhstan is set by the Law on Investment. This legislation establishes stability and transparency in the legal system and encourages investment by providing for: state guarantees of investors' rights, state support of investment activities, and dispute resolution mechanism. Domestic and foreign investors receive equal treatment under the law.

Relevant laws and regulations[59]

- Law of the Republic of Kazakhstan on Investment
- Law of the Republic of Kazakhstan on Government Support for Industrial and Innovative Activities
- Law of the Republic of Kazakhstan on Licensing
- Law of the Republic of Kazakhstan on Special Economic Zones
- Law of the Republic of Kazakhstan on Currency Regulation and Currency Control
- Law of the Republic of Kazakhstan on Joint Stock Companies
- Law of the Republic of Kazakhstan on State Registration of Legal Entities and Registration of Branches and Representative Offices
- Law of the Republic of Kazakhstan on Bankruptcy
- Law of the Republic of Kazakhstan on Limited Liability Companies and Additional Liability Companies
- Law of the Republic of Kazakhstan on Entrepreneurship
- Land Code of the Republic of Kazakhstan
- Customs Code of the Republic of Kazakhstan
- Customs Code of the Customs Union
- Ecological Code of the Republic of Kazakhstan
- Tax Code of the Republic of Kazakhstan

Institutional forms

Foreign companies may choose to register a:

- Representative office
- Branch
- Legal entity
- Simple partnership

The different forms of legal entities are subject to their unique legal and tax regulations.

2. Authorization and registration

The Ministry of Justice and its territorial offices are the authorities that govern the registration of foreign companies. Kazakhstan has a "one window registration" system where new businesses can perform all necessary registrations in one step. Foreign companies are required to register with the State Registration Department, State Statistic Agency, and tax authorities.

The registration process generally takes four to five weeks.

3. Restrictions on foreign investment

Though Kazakh legislation does not require a minimum size of investment, there are certain industries that are subject to foreign ownership restrictions.

Foreign companies may not:
- Own more than 20% of shares in Kazakh mass media companies
- Own more than 49% of shares in local telecommunications companies that operate long distance and trunk communication lines

4. Investment incentives

Foreign investment into Kazakhstan's priority sectors enjoys the following incentives:
- Exemption from customs duties on imported parts and equipment
- Provision of state grants for land and capital goods
- Tax concessions

5. Investment protection

Kazakhstan's legislation offers guarantees to foreign investors, ranging from statutory protection for investments to the right to compensation for damages caused by the state. Private property is also protected by the legal system. Kazakhstan is a member state of MIGA.

Intellectual property rights

The State Patent Agency (Kazpatent) is the authority for the protection of intellectual property. Additionally, Kazakhstan is party to a number of international treaties on intellectual property.

Dispute settlement

There are several channels available to foreign investors for dispute settlement in Kazakhstan, including:
- The Inter-Departmental Commission to Consider Applications by Foreign Investors
- International treaties
- Kazakhstan's courts

Kazakhstan is a member of ICSID and is a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

6. Conversion and transfer policies

Foreign investors may open foreign currency accounts in Kazakh banks.

Kazakhstan does not restrict currency conversions or the repatriation of profits. There are no restrictions regarding bank accounts for investment or for trade. Foreign investors are unrestricted in making money transfers, and are allowed to convert and repatriate earnings in the local currency (tenge).

7. Visa requirements

A valid passport and visa are required for entry into Kazakhstan. Nationals of most North American and Western European countries no longer need an invitation letter as a prerequisite to apply for a Kazakh visa.

With the exception of citizens from around 25 developed countries, foreigners must register with the migration police within five business days of arrival or face fines and possible deportation.

8. Foreign employee work permits

Foreign companies are required to obtain a permit when inviting foreigners to work in Kazakhstan. The companies must prove that there are no comparably qualified local candidates and must pay a deposit guaranteeing the departure of the foreign worker.

9. Real estate and land ownership

Foreign investors are required to register leases that are longer than 12 months. The laws of Kazakhstan allows for the expropriation and confiscation of private property with compensation. Land can be owned by foreigners if land plots are developed for commercial or residential purposes.

10. List of taxes

The principal taxes in Kazakhstan include:
- Corporate income tax (20%)
- Individual income tax (10%)
- Value added tax (12%)
- Land tax (variable)
- Property tax (1.5% of average book value)

11. National Investment Promotion Agency:

Kaznex Invest
Address: 2nd floor, Ansar Business Center
25 Syganak Street, Astana 010000
Kazakhstan
Tel: + 7 7172 91 90 40
Fax: +7 7172 91 90 50
Email: info@kaznexinvest.kz
Website: http://www.kaznexinvest.kz/en

Kyrgyzstan

1. Legal framework

The Foreign Investment Law[60] and the Investment Law provide the legislative framework for foreign investment into Kyrgyzstan.

The Foreign Investment Law provides for: guarantees of national treatment, non-expropriation, free repatriation of funds, freedom of monetary transactions, protection of intellectual property rights, and rights to international arbitration. The Investment Law provides for national treatment and non-discrimination among foreign investors.

Other relevant laws and regulations include: Law on State Registration of Legal Entities, Branches and Subsidiaries, the Labour Code and the Tax Code.

The primary types of business organizations in Kyrgyzstan are:
- Open and closed joint stock companies
- Limited liability companies
- Partnerships
- Sole proprietorships
- Branches and representative offices of foreign companies

Foreign investors may operate wholly foreign owned enterprises.

2. Authorization and registration

Kyrgyzstan has a one-stop registration system for foreign investors establishing a legal business entity.

3. Restrictions on foreign investments

Kyrgyzstan does not restrict foreign investment into any sector. The Investment Law guarantees national treatment and non-discrimination among foreign investors.

4. Investment incentives

Kyrgyzstan has established free economic zones to encourage foreign investment.

5. Investment protection

Kyrgyzstan is a member state of MIGA.

Intellectual property rights

Kyrgyz legislation provides for the protection of intellectual property. The main intellectual property laws of Kyrgyzstan include:
- Law on Copyright and Related Rights
- Law on Secret Inventions
- Law on Patents
- Law on Firm Names
- Law on Legal Protection of Software and Databases
- Law on Employee's Inventions, Utility Models and Industrial Designs

Dispute settlement

Under the Investment Law, foreign investors involved in disputes with the state may bring their cases to international arbitration with ICSID or arbitration tribunals established under the guidelines of the United Nations Commission for International Trade Law.

Kyrgyzstan also has a Law on Commercial Arbitration that allows for both international and domestic arbitration of disputes.

6. Conversion and transfer policies

The local currency (som) is freely convertible. Kyrgyzstan does not impose restrictions on the transfer of funds. Furthermore, foreign investors are allowed to repatriate profits as dividends, interest and other forms of income.

7. Visa requirements

Generally, citizens of developed North American and European countries do not need a visa to enter Kyrgyzstan for a period of up to 60 days. Depending on nationality, Kyrgyzstan's visa application process may or may not require an invitation letter.

8. Foreign employee work permits

Kyrgyzstan has immigration and labour laws for the regulation of foreign employees. Employers are required to obtain a permit to hire foreign workers and to obtain individual work permits for foreign employees. The country imposes an annual quota for the hiring of foreign workers. Employers seeking to employ foreigners must prove to the government that no Kyrgyz nationals are qualified for the position.

9. Real estate and land ownership

Foreign entities are allowed to lease property for up to 99 years but are not permitted to own land or property. Kyrgyzstan's legislation protects foreign investment from nationalization and expropriation.

10. List of taxes

The principal taxes in Kyrgyzstan include:[61]

- Corporate income tax (10%)
- Value added tax (12%)
- Property tax immovable (0.8%)
- Sales tax (2%)
- Land tax (fixed by local authorities). Tax rates depend on the location and function of land.

Tajikistan

1. Legal framework

Tajikistan's Law on Investments and the Law Concerning Foreign Investments provides the legal framework for the governance of foreign investment in the country. The law guarantees national treatment and non-discrimination against foreign investors.

Laws and regulations[62]

- Law on Foreign Investments
- Law on Investments
- Law on Joint Stock Companies
- Law Concerning Limited Liability Companies
- Civil Code
- Law on Free Economic Zones
- Law on State Registration of Legal Entity
- Tax Code

Institutional forms

Foreign companies may:
- Own shares in an existing company with other Tajik entities
- Create a company that is fully foreign owned
- Purchase shares, securities, and other forms of assets
- Enter an agreement with a Tajik legal entity to create other forms of business

2. Authorization and registration

Tajikistan has a "single-window" business registration system. To register, foreign investors are required to pay a flat fee with the Tax Committee and will receive permission to commence operations within five business days.

3. Restrictions on foreign investment

There are no legal restrictions on foreign investment in Tajikistan.

4. Investment incentives

Foreign investors may be eligible for investment incentives in Tajikistan depending on the structure of the investment or the type of business operation.
- Joint-stock companies enjoy tax breaks unavailable to other private companies
- Investors of new production companies may be granted a profit tax holiday ranging between two to five years
- SEZs offer reduced tax rates, reduced fees on land and natural resources, special customs regimes, and easier entry and exit procedures to foreign investors
- Foreign and local investors enjoy the same tax and customs incentives
- Investors are eligible for a waiver on taxation on initial investment on certain conditions
- Investors may import some industrial equipment free of VAT

5. Investment protection

Tajikistan's legislation provides a framework for the protection of foreign investment. Tajikistan is a member of MIGA.

Intellectual property rights

The relevant laws for the protection of intellectual property in Tajikistan include:
- Law on Secret Inventions
- Law on Copyright and Related Rights
- Law on Commercial Secrets
- Law on Trademarks and Service Marks
- Law on Industrial Design
- Law on Inventions

Dispute settlement

Tajikistan is a party to ICSID.

6. Conversion and transfer policies

Article 7 of the Law on Investments guarantees investors and foreign employees the right to transfer their incomes and salary in foreign currency.

Investors have the right to convert the local currency (somoni) into other currencies.

7. Visa requirements

Foreign nationals may enter Tajikistan only with a valid passport and entry visa. Nationals of countries that do not have a consular representation of Tajikistan may apply for an entry visa upon arrival in Tajikistan.

8. Foreign employee work permits

Foreign nationals seeking to work in Tajikistan must apply for a work visa.

9. Real estate and land ownership

All land in Tajikistan belongs to the state. Foreign nationals are not permitted to own land.

10. List of taxes

Under Tajikistan's legislation, there are 18 different types of national taxes and three local taxes. The calculation of some taxes is complex.

The principal taxes of Tajikistan include:
- Profit tax (15%)
- Value added tax (18%)
- Social tax (25%)
- Sales tax (3%)
- Land tax (variable depending on the land registry zones)
- Property tax (variable)

11. National Investment Promotion Agency:

State Committee on Investments and State Property Management
Address: 27 Shotemur Street, Dushanbe
Tajikistan, 734025
Tel: + 992 372) 227 59 09
Email: amcu@gki.tj
Website: http://amcu.gki.tj/eng/

Turkmenistan

1. Legal framework

The legal framework for foreign investment in Turkmenistan is set by the Law on Foreign Investment, the Law on Investments, the Law on Corporations and the Law on Business Activities.

Other laws and regulations include: the Land Code, the Petroleum Law, the Law on Hard Currency Control and Regulation in Foreign Economic Relations, the Civil Code and the Bankruptcy Law.

Institutional forms

Foreign companies and nationals are permitted to own real estate and shares in local enterprises. They are also permitted to form joint enterprise and to form subsidiaries.

Businesses may be established in the following forms:
- State enterprise
- Sole proprietorship
- Cooperative
- Partnership
- Corporation
- Non-government organization
- Representative and branch offices of foreign company

2. Authorization and registration

The Law on Foreign Investment establishes that all foreign companies and investments must be registered with the Ministry of Economy.

Furthermore, new business entities are required to perform legal, tax and statistics registration.

3. Restrictions on foreign investment

Turkmenistan requires foreign investors to employ at least 70% Turkmen nationals.

Although its laws and regulations do not prohibit foreign investment in any specific sectors, and there are no limits on foreign ownership or control of legislation, in practice, the government allows fully owned foreign operations only in the oil sector and, in one case, in cellular communications.[63]

4. Investment incentives

The Government of Turkmenistan provides foreign investors in the oil and gas industry, as well as in the Avaza tourism zone with a preferential tax, customs and licensing regime. Foreign investment in FEZs also receives incentives. Competent government agencies usually have discretion to grant incentives on a case-by-case basis.

5. Investment protection

Turkmenistan's legislation establishes that foreign investment is not subject to nationalization or requisition unless permitted by a court decision. Turkmenistan is a member of MIGA.

Intellectual property rights

The relevant laws for the protection of intellectual property in Turkmenistan include:
- Law on Foreign Investment
- Law on Copyright and Related Materials
- Law on Inventions and Industrial Designs
- Law on Trademarks, Service Marks and Appellations of Origin
- Law on Commercial Secrets
- Legal Protection of Algorithms and Programmes for Electronic Computers, Databases, and Topographies of Integrated Circuits

Dispute settlement

The Arbitration Court of Turkmenistan enforces the country's commercial laws. This court deals with both pre- and post-contractual disputes related to taxation, legal foundations and bankruptcy.

Turkmenistan is member of ICSID.

6. Conversion and transfer policies

The government of Turkmenistan maintains tight control of its main foreign exchange flows, and maintains a fixed exchange rate for its currency (manat). Foreign investors generating revenue in foreign currency face no restrictions on the repatriation of profits.

7. Visa requirements

Foreign nationals are required to hold a valid passport and visa to enter Turkmenistan. Typically, foreigners applying for visas to Turkmenistan are also required to obtain a letter of invitation from the Turkmen national or company to be visited, certified by the State Foreign Citizens Registration Service of Turkmenistan.

8. Foreign employee work permits

Employers are required to apply for a work permit for foreign employees. The Cabinet of Ministers and the district or city municipalities are the authorities that are responsible for the issuance of work permits. The government limits the employment of foreign workers to 30% of the total amount of workers.

9. Real estate and land ownership

Turkmenistan does not permit private ownership of land but permits private ownership of real estate. Under the 2004 Land Code, foreign entities may lease land for non-agricultural purposes with presidential permission.

10. List of taxes

The principal taxes in Turkmenistan include:
- Profits tax (8% for domestic companies and 20% for foreign companies)
- Value added tax (15%)
- Social security contributions (20%)
- Excise tax (10–40%)
- Property tax (1%)
- Special purpose funds contributions (1%)
- Land tax (variable)

Uzbekistan

1. Legal framework

The legal framework for foreign investment in Uzbekistan is set by the Laws on Foreign Investments and on Guarantees and Measures for the Protection of the Rights of Foreign Investors. The legislation establishes the different institutional forms, regulations on the repatriation of profits, and guarantees of protection for foreign investors. Uzbek law defines a foreign investment enterprise as an entity that has 30% foreign capital.

Laws and regulations[64]

- Law on Foreign Investments
- Law on Investment Activity
- Law on Guarantees and Measures for Protection of Foreign Investors' Rights
- Law on Protection of the Foreign Investors' Rights on the Securities Market

Institutional forms

In Uzbekistan, businesses may be established as a:
- Limited liability company
- Joint stock company
- Partnership
- Subsidiary
- Branch or representative office of foreign companies

2. Authorization and registration

Businesses with foreign investment are required to register with the Uzbek Ministry of Justice and the regional governor's office.

Businesses are required to first make a statutory registration with the state. Then they are required to register with the Tax and Statistics Authorities, the Road Fund, Labour, Employee and Social Security Departments, and the Ministry of Internal Affairs.

Foreign financial institutions establishing a business presence in Uzbekistan are required to register with the Central Bank.

3. Restrictions on foreign investment

Uzbekistan's government implements policies that protect strategic sectors. Foreigners are restricted from owning airlines, railways, and power generation. Foreigners also face restrictions when investing in the media, banking and tourism.

In the banking industry, foreign investors are required to operate as joint venture partners with local firms.

4. Investment incentives

Uzbekistan has incentives for all foreign investment. Incentives may take the form of: tax holidays, exemptions from custom duties, special benefits, government guarantees and co-financing.

Uzbek legislation provides specific incentives for oil and gas companies.

5. Investment protection

Uzbek legislation provides foreign investors with investment protection. Uzbekistan is a member of MIGA.

Intellectual property rights

Uzbekistan has the following laws for the protection of intellectual property:
- Law on Trademarks, Service Marks and Appellations of Origin
- Law on Inventions, Utility Models and Industrial Designs
- Law on Trade Names
- Law on Copyright and Related Rights
- Law on the Protection of Topographies of Integrated Microcircuits
- Law on the Legal Protection of Computer Programmes and Databases

Dispute settlement

Uzbek legislation allows foreign enterprises the use of an international tribunal or arbitration for the settlement of disputes. Decisions resulting from international dispute settlements are honoured by the Uzbek Government and enforced by the Ministry of Justice.

Uzbekistan is a member state of ICSID.

6. Conversion and transfer policies

The Uzbek currency (som) is fully convertible. Non-resident legal entities may repatriate income generated from investments.

7. Visa requirements

Foreign nationals are required to have a valid passport and visa to enter Uzbekistan. Depending on nationality, Uzbekistan may require a letter of invitation for the visa application process.

8. Foreign employee work permits

Foreigners are required to posses a valid entry visa and work permit in order to work for private sector enterprises in Uzbekistan. The Agency on Foreign Labour Migration under the Ministry of Labour is the authority that issues work permits.

9. Real estate and land ownership

Uzbek law requires that investors be compensated when the government confiscates their property. All lands in Uzbekistan are owned by the State. Foreign Entities may own buildings, but not the underlying land.

10. List of taxes

Uzbekistan's current tax code provides foreign investors with numerous tax exemptions.

The principal taxes in Uzbekistan include:
- Corporate income tax (9%)
- Value added tax (20%)
- Personal income tax (20%)

- Excise tax (variable depending on products)
- Net profits tax (9%)
- Excess profits tax (50% of the taxable base)
- Land tax (variable depending on zone)
- Property tax (3.5%)

11. National Investment Promotion Agency:

UZINFO INVEST

Address: 1 Taras Shevchenko Street
Tashkent, Uzbekistan 100029
Tel: + 998 71 238 9100
Fax: + 998 71 238 9200
Email: uzinfoinvest@mfer.uz
Website: http://uzinfoinvest.uz/

Notes

* The information contained in this chapter has been gathered from the government websites of China, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan; "Doing Business Guides" of PWC; Country "International Tax Highlights" of Deloitte; "Investment Guides" of KPMG; United States Department of State Investment Climate Reports; and the World Bank Group's "Doing Business" report.

58 Various laws and regulations can be found on the official website of the Chinese Government, China.org.cn (http://www.china.org.cn/business/laws_regulations/node_1214470.htm) and China Hand: the Complete Guide to Doing Business in China of the EIU, (http://www.eiu.com/index.asp?layout=displayIssue&publication_id=870003687).

59 Various laws and regulations can be found on the website of Invest in Kazakhstan at http://invest.gov.kz/?option=content&itemid=123

60 The text of the law can be found on the website of the Consulate General of the Kyrgyz Republic in Karachi, Pakistan (http://kyrgyzconsulate.com/index.php/investment-in-kyrgyzstan/law-on-investments). Information on various laws and regulations of the Kyrgyz Republic can be found on the website of the European Institute (http://www.libertas-institut.com/uk/Mittel-Osteuropa/Kyrgyztan.htm).

61 World Bank, Doing Business 2012 (http://www.doingbusiness.org/data/exploretopics/paying-taxes).

62 Various laws and regulations can be found on the website of the State Committee on Investments and State Property Management of Tajikistan.

63 United States Department of State, Doing Business in Turkmenistan 2012 .

64 See http://www.uzbekembassy.org/e/legislation/; http://www.uzinfoinvest.uz/eng/investment_guide/investment_policy_of_the_republic_of_uzbekistan/

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