

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.