

Event Report

**The EU-Central Asia Strategy:
Trade and Investment in Uzbekistan**

EIAS Conference

18th June 2019

Central Asia, Uzbekistan in particular, finds itself at a juncture in history. Since the EU has gradually increased its engagement in this fast-changing dynamic region, the recently released EU-Central Asia Strategy is a further step towards stronger relations between the EU and Central Asia. Together with the EU-Connectivity Strategy, which aims at connecting Europe with Asia, the EU-Central Asia Strategy has given rise to a renewed interest in the region and has led to Central Asia playing a bigger role in the EU's external relations. Since Shavkat Mirziyoyev took over the presidency of Uzbekistan, a wide range of economic reforms have been passed with the goal to liberalise and modernise the country's economic structures. This acted as catalyst for higher flows of Foreign Direct Investment (FDI), a more efficient and competitive economy, and an improvement of the business climate. The EIAS conference on the EU-Central Asia Strategy was directed at discussing the trade and investment opportunities in Uzbekistan with a panel of government officials from both the EU and Uzbekistan.

Welcome speech by

H.E. Mr Dilyor Khakimov, Ambassador of Uzbekistan to the EU

After welcoming the distinguished speakers, Mr Khakimov highlighted that this event is specifically dedicated to the current state of the development processes in Uzbekistan, as well as its cooperation with the EU.

Presentation of the EU-Central Asia Strategy

Mr Boris Iarochevitch, Head of Central Asia Division, EEAS

Mr Iarochevitch was assigned to provide an overview of the EU-Central Asia Strategy. He began his speech by stating that it is necessary to raise awareness when it comes to the potential of Central Asia in general and Uzbekistan in particular. The strategy on EU-Central Asia, which was endorsed by the EU member states on 17th June 2019, is a special moment for the EU. This shows both the EU's interest in Central Asia and its commitment to further enhance relations with the whole region. According to Mr Iarochevitch, this has arisen due to the positive changes that took place in the region, and especially in Uzbekistan over the last few years. Particularly, the reform process and the opening-up of Uzbekistan's economy were impressive. Both the improvement of regional cooperation, i.e. cooperation among the states in Central Asia, and the development of the EU-Asia Connectivity Strategy are key reasons for why Central Asia was able to dramatically strengthen its strategic significance. On the other side of the spectrum, Central Asian partners have high expectations of the EU. In fact, there are a number of topics where the EU would be able to support the region, e.g. in terms of quality investment, standards, innovation, and education.

While the EU-Central Asia Strategy forms only one pillar of the relations with Central Asia, bilateral agreements play as important of a part as the strategy itself. In this respect, special emphasis is put on the so-called "enhanced partnership and cooperation agreements" (EPCA), where one already exists between the EU and Kazakhstan. EPACs with Kyrgyzstan and Uzbekistan are still under negotiation. Mr Iarochevitch claimed that

bilateral agreements are so important because they confirm commitment to deepen cooperation, and to exchange experiences and best practices. The EU hopes to promote enhanced synergies between the education system and the labour market. Furthermore, it aims to promote a stronger and more competitive private sector through a number of programs. Here, emphasis shall be put on the inclusion of SMEs, and this shall improve the business climate and pave the way for increased FDI flows. Another goal is to foster business-to-business dialogues and to establish local business chambers in the region.

Mr Iarochevitch pointed out that the EEAS is currently working on setting up EU-Central Asia business conferences in the future. The first one will take place in Kyrgyzstan early next year. In addition, the use of partnership and cooperation agreements will be helpful in promoting compatibility with European technical standards, removing barriers to trade, improving market access for goods and services, and applying the Generalised System of Preferences (GSP) and GSP Plus schemes. Another major step forward that was mentioned with regard to EU-Central Asia relations is the enhancement of cooperation in terms of youth education, innovation, and culture. More specifically, this means that focus is put on regional cooperation in terms of higher education, mobility of students and researchers, and research and development. The creation of jobs and the transfer of technology stand at the forefront of the EU's objectives in Central Asia. Finally, Mr Iarochevitch stressed the importance of further elaboration on how to successfully implement the EU-Central Asia Strategy, and what could be done at the EU level as well as at the level of EU member states.

Keynote Address by

Mr Karsten Heinz, Deputy Minister, Ministry of Innovation of Uzbekistan

The next speaker, Mr Heinz, was invited to give a keynote address on innovation capabilities in Uzbekistan. In the past years, Mr Heinz worked as a civil servant in Germany before becoming a high-level adviser to the Ministry of Innovative Development of the Republic of Uzbekistan. He opened his speech by asking what the strategy of the EU related

to Uzbekistan is and why one should be interested in this country. He mentioned three points. Firstly, Uzbekistan has a rich culture and history. Secondly, Uzbekistan is a liberal and tolerant country in terms of ethnicity and religion. Thirdly, the country tries to avoid being single-dependent on any great power and instead, stays neutral in order to be able to cooperate with any country in the world. Moreover, the current president of Uzbekistan, Shavkat Mirziyoyev, has been pushing for a clear reform direction, which includes the ending of child labour, the decrease of cotton, and the opening of the country's administration and society. With regard to the latter point, the Uzbek government is currently trying to pick up, compare, and share the views of different administrations.

Mr Heinz moved on to provide some stylized facts on Uzbekistan's economy, including GDP, inflation rate, unemployment rate, etc. He pointed out that Uzbekistan has been characterised by strong population growth, and that Uzbeks tend to be a rather young population, with the median age being 26.7 years. Furthermore, Mr Heinz considers Uzbekistan as a melting pot along the Silk Road due to its more than 100 nationalities. Apart from that, the country has seen a simultaneous increase in its birth rate and life expectancy.

The Innovative Development Strategy 2019-2020 is an important step forward to bring Uzbekistan to the next level of innovation. Based on the Global Innovation Index of 2015, Uzbekistan only ranked 122nd compared to Switzerland which ranked first. The mission of the strategy is, hence, to strongly focus on its human capital development and innovative progress to pave the way for the entrance into the "Top 50 Countries" on the Global Innovation Index by 2030. Mr Heinz sees this as a big challenge though for the country and its sciences and business sector.

There are five main directions of Uzbekistan's Innovative Development Strategy: (i) improvement of the education system and development of human capital; (ii) development of science, ingenuity/inventiveness, and technology transfer; (iii) improvement of the financial system directed at innovation; (iv) development of competition and reduction of administrative barriers; and (v) development of infrastructure, and information and

communication technologies. However, Uzbekistan still faces major challenges concerning innovative development, and more needs to be done in terms of infrastructure, institutions, market sophistication, business sophistication, and human capital and research activities.

Mr Heinz announced the establishment of the first three economic zones, which he considered to be a challenging task. Although Uzbekistan is now a partner of globalisation, the country is only passively engaged. Hence, he encouraged Uzbekistan to learn from its competitors, such as Singapore or Malaysia, in terms of how to best attract FDI. It is important to put great emphasis on the needs of potential foreign investors and on how the country can best support them. In fact, local businesses should be set up in a way in which they are able to cooperate on an efficient basis with foreign investors.

For cooperation perspectives between the EU and Uzbekistan, Mr Heinz referred to three aspects that were suggested by the Ministry of Innovative Development of the Republic of Uzbekistan and that will be vital to aid in strengthening innovation development in the country. Firstly, Uzbek scientists shall be granted permission to participate in European research innovation programs. Secondly, Uzbek institutions shall get the chance to contribute to European technology platforms, clusters, as well as to technology transfers and innovation centres. Finally, the application of cooperation instruments of the EU-Central Asia Strategy, such as twinning, exchange, and training measures, shall bring the efficiency of the administration system in Uzbekistan to the next level.

On the matter of future perspective cooperation on science, technology, and innovation, Mr Heinz mentioned strengthening cooperation of research institutes and gaining experience from the EU related to innovation management and venture financing, amongst other things, as the main points.

Panel Discussion on Investment Opportunities in Uzbekistan with

Ms Feruza Khodjaeva, Head of Department & Mr Timur Khikmatullaev, Leading Specialist, Ministry of Innovative Development of the Republic of Uzbekistan

Ms Khodjaeva started off by inviting the audience to come and visit Uzbekistan. Mr Khikmatullaev joined in to invite all of the participants to take part in the international fair “InnWeek” in Tashkent in October 2019, since he sees this event as a great platform and opportunity to become acquainted with the latest innovative developments in Uzbekistan and to establish new business relations with EU countries.

Mr Khurshid Zafari, Deputy Director, DGP Research & Consulting, Uzbekistan

Mr Zafari was the last speaker of the panel discussion. He addressed the topic of how to do business in Uzbekistan. He began his presentation by saying that the mission of the private consulting company he works for is to provide resources for businesses that plan to set up their facilities in Uzbekistan. In his opinion, the EU-Central Asia Strategy is a good starting point for companies from both the EU and Central Asia to come together and cooperate more closely than in the past. Therefore, he encourages European companies to actively participate in the development processes in Uzbekistan because, according to him, the best development aid is business cooperation.

Uzbekistan is clearly a hub of Central Asia for a few reasons. Firstly, it shares borders with all other countries in the region. Secondly, Uzbekistan is the only country that is highly connected with all other Central Asian countries in terms of railway transport. Finally, China’s BRI passes through the country. Overall, the region of Central Asia has a population of more than 110 million people, with Uzbekistan showing the second-largest number of people.

Looking at the establishment of business activities in the region, Uzbekistan has several advantages to offer. Mr Zafari highlighted the opportunity of having easy access to the other markets of the region. In addition, human resources are a main attraction and

are key to competitive advantages, simply because Uzbekistan's labour is cheap. To compare, the average wage in regions accounts for USD 226, whereas in Tashkent it is more than double the amount, with an average of USD 560. The highest share of people in the labour force has a professional education, amounting to 45.6 per cent. In contrast, higher education is still considered very low. However, Mr Zafari believed that this weakness could be turned into an opportunity, especially for European universities that aim to establish their institutes in Uzbekistan.

Uzbekistan's market niches are divided into two parts: the stable markets (construction, mining, agriculture) and the prospective markets (tourism, textile, IT, energy). Mr Zafari emphasised that the competition in the stable market sectors was significantly high and that large investments flew towards infrastructure projects. The mining sector in Uzbekistan used to be stable in the past, but foreign companies have started to buy stocks from Uzbek mining companies in recent years.

Public-private partnerships (PPPs) play an increasingly important role in Uzbekistan and many ministries are currently on their way to incorporate PPPs into their reforms. Uzbekistan has already implemented two successful PPP models, namely in the education and health sector.

Finally, Mr Zafari presented the procedure on how to start a limited liability company in Uzbekistan. In total, one needs five days, including the opening of a bank account, stamp making, company registration, preparation of constituent documents, and brand name reservation. In 2015, the country only ranked 141st, based on the Ease of Doing Business Index. However, Uzbekistan was able to catch up over the last four years and is now positioned at 76th rank. The main reason behind this improvement is that many procedures, e.g. taxation and customs, are being digitized. There are still ongoing reforms with regard to taxation, with a new tax law being passed in September this year. In the end of his speech, Mr Zafari referred to the annual report on investment opportunities in Uzbekistan that his company is planning to release in mid-July.

Q & A

The panel discussion was followed by a question and answer session. The first question was related to Uzbekistan being the hub of Central Asia and Uzbekistan's strategy or position in China's New Silk Road. Mr Khakimov answered that the priorities of Uzbekistan's foreign policy consist of immediate neighbourhood and that Uzbekistan does not share borders with China, much rather with the other economies of Central Asia. Kyrgyzstan is one of the key countries that connects China with Uzbekistan through rail routes.

The second question that was posed concerned China and the BRI, particularly investment projects in the energy sector in Uzbekistan under the BRI. Mr Khodjaeva stated to this point that Uzbekistan would be interested in extending the North-South connectivity with Afghanistan where current projects focus on railway and road connectivity rather than on the energy sector. Mr Heinz added that Uzbekistan is fairly open to any partner that is interested in cooperating with Uzbekistan. He also referred to the accession of Uzbekistan to the WTO, and that it would be a challenge for the Uzbek economy to protect itself from competition. Hence, Mr Heinz pointed out that it is inevitable for the country to offer efficient products that are of good quality and to bring forward an innovative-driven industry.

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