Inflows of foreign direct investments in Central Asian countries between 1991 and 2020

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Inflows of foreign direct investments in Central Asian countries between 1991 and 2020

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Abstract

This report aims at identifying common causes, patterns, and effects of changing foreign investments across the countries of Central Asia. Experience of neighboring countries in Central Asia as a distinct region of the world attracting foreign investment is particularly relevant for each country in the area. Therefore, the comparative analysis of the Central Asian countries presented in this report for their first three decades after gaining independence is particularly relevant given the global shifts in 2020. Growth in direct foreign investments was fueled and attracted by extractive industries in entire Central Asia until 2009. The development has been highly volatile during the whole studied period. Foreign investments overall declined between 2009 and 2020. Substantial progress in liberalization, human capital, the rule of law, and democratization is needed for Central Asian countries to attract foreign investment beneficial for local populations in the long term.

Keywords

Central Asia, transition economies, foreign direct investment, greenfield project.

Introduction

Long-term consequences of the new industrial revolution, economic nationalism, a global push for supply chain resilience, and sustainability all bring challenges for attracting FDI in developing and transition countries that plan to industrialize and upgrade along the global value chains (UNCTAD 2020). The COVID-19 pandemic would cause further reduction in already declining FDI flows to fossil export-oriented countries that are dependent on commodity-linked investments. These factors apply to Central Asian countries in particular. This report aims to present an analysis of the recent state of FDI in Central Asia and present implications for policy-making to reverse the negative trends in attracting foreign investment. The available literature allows formulating the current problem of attracting FDI to Central Asia: declining FDI in most of the countries in the region over the recent decade at the time when they are urgently needed to overcome negative consequences of decreasing revenues from commodities and the pandemic outbreak.

The first decade after the collapse of the Soviet Union saw more foreign businesses entering Central Asia following the expansion of market reforms and possibilities for foreigners' travel to the region. Central Asian countries have also received investments from international financial institutions (IFI) since their independence. After attracting considerable FDI in the hydrocarbon and manufacturing sectors of Central Asian countries during the first two decades of their independence, foreign investments in most of the region's countries stagnated or declined in the period 2010 – 2018, as the following figures would reveal. This research addresses the following questions: (i) What were the main FDI trends in Central Asian countries after gaining independence? (ii) Which measures can be taken by policy-makers in Central Asia to attract more FDI? Practical outcomes of the work on such a topic could be of interest to decision-makers, foreign businesses, partner countries, and international development agencies. There are almost no recent studies in the existing literature dedicated to attracting foreign investments in Central Asia as a distinct region in the post-Soviet area. This report attempts to cover the causes of changes in FDI in an up-to-date analysis that takes into account the most important developments recently. The timeliness of conducting such analysis became evident as of 2020 when disruptions caused in global markets by the pandemic outbreak necessitate reducing the heavy dependence on oil and gas exports as never before. Comparisons with post-Soviet countries in general and neighboring Central Asian countries, in particular, are relevant for the analysis since the area had more or less comparable starting conditions and historical background. The comparisons within Central Asia are particularly warranted because of putting the region in perspective of comparator economies for theoretical insights. Furthermore, the governments tracked the best practices of neighbors in various areas and, in some cases, tried to introduce them in the country. For instance, the official policies related to FDI in such advanced areas as technoparks, digitalization, and renewable energy were seemingly influenced by and followed related policies in post-Soviet countries.

The analysis in this report is mainly based on information provided by UNCTAD (2021) and the U.S. Department of State (2020) as perhaps the most reputable sources on the investment climate. UNCTAD (2021) provides detailed FDI statistics on countries summarized in the Global Investment Reports. In those investment reports, Central Asian countries are included in Transition Economies (countries of South-East Europe and CIS) and Landlocked Developing Countries. Data from UNCTAD (2021) forms the basis of data analysis to compare FDI flows and stocks in the countries. U.S. Department of State (2020) provided the comprehensive statements publicly available to date that outlined the most recent investment conditions on the ground in Central Asia. Obviously, it is challenging to cover all facets of foreign investment in a single report. In this report, FDI outflows are not considered, which is perhaps not surprising given the relatively low outward investments from the region. The FDI is specified as a financial-account transaction in which a company's share or equivalent in a subsidiary exceeds ten percent. Greenfield projects are FDI made by a company to building a new operational facility in a foreign country. This report narrows its scope of analysis on FDI inflows. Furthermore, the main focus of this report is on greenfield investments rather than acquiring an existing firm (cross-border merger and acquisition or M&A). In addition to greenfield and M&A, studies further distinguish the following types of foreign investment not belonging to FDI, which could still overlap in some instances: foreign portfolio investments (FPI), official development assistance (ODA), commercial loans, expansion of existing investments, joint venture with a host country entity, establishment of a local subsidiary. Both greenfield and M&A investments are essential modes of FDI, but greenfield projects are beneficial in illustrating concrete examples of new establishments in Central Asia. Thus, the value and number of greenfield projects in each country are essential alternative measures of attracting foreign investments outside of the absolute values of total FDI flows. It should be kept in mind that not all announced greenfield investments materialize as the mass cancellations caused by disruptions related to the COVID-19 show (UNCTAD 2020). As much as possible, the focus of the methods and deliverables is on technical aspects and quantifiable measures of the studied topic with limited inclusion of certain legal and political factors. This report considers values of investment weighted by population size of the respective country represent an accurate measure of relative performance in attracting FDI within the region as a complement to traditional measures, including a percentage of GDP or gross fixed capital formation. Such unconventional units of measurement for the investment climate in each Central Asian country are introduced in the next section on FDI background with FDI inflow per capita and in the subsequent section on the recent FDI trends with the estimates of greenfield FDI projects per capita. Unless stated otherwise, all financial indicators in this report expressed in national currencies are converted to U.S. Dollars using the official exchange rate for the convenience of comparability and interpretation. However, it has to be noted that data reflected in official statistics could be subject to high inaccuracy, and therefore the resulting analysis could be distorted in certain country cases. For instance, the currency exchange rate in Uzbekistan and Turkmenistan significantly differed from the unofficial (black) market rate at different periods (U.S. Department of State 2020). As such, interpretation of figures showing flows denominated initially in the national currencies and other officially available data in this report is to be made with reasonable caution.

The following sections discuss FDI trends, causes of changes in FDI, foreign partners, legal, and other factors affecting foreign investments. The report ends with implications and recommendations for stakeholders related to attracting foreign investments.

Background of FDI in 30 years of independence

Before 1991, Soviet republics were a part of the centrally planned Soviet economy receiving state investments and subsidies in all spheres and branches of the public sector. The private sector was virtually non-existent, let alone foreign investors. The Soviet legacy cannot be ignored even after three decades of independence. Interestingly, the U.S. government considers the treaty with the Union of Soviet Socialist Republics on matters of taxation (1976) to continue to be in effect with Tajikistan, Turkmenistan, Uzbekistan, and the Kyrgyz Republic even though some officials in governments of those countries argued against (U.S. Department of States 2020). The U.S. still has no bilateral investment treaty with many former Soviet Republics covered by the 1973 income tax treaty with the Commonwealth of Independent States (CIS). Like other post-Soviet countries, the disintegration of economic structure in newly independent countries (also known as transition economies) right after the collapse of the USSR caused financial hardships of the 90s. Despite gradual privatization opening new investment opportunities, the state-owned enterprises (SOE) continued to dominate industrial production in most Central Asian states. Relatively cheap and abundant electricity, workforce, and natural resources managed to attract the considerable interest of foreign businesses in the region (OECD 2019). Still, countries in Central Asia, except for Kazakhstan, were generally less successful in attracting FDI than most other post-Soviet countries (Kenisarin and Andrews-Speed 2008). Importantly for conclusions of this report, Central Asia overall made lower progress in the indicators of the rule of law, human capital, transparency, and democracy as evidenced by the global rankings in respective areas compared to other republics of the former Soviet Union.

The governments of countries in Central Asia have long expressed interest in attracting more foreign companies and bringing more western technology. Improved political stability since the late 90s helped to restore growth and attracting FDI. FDI exceeded ODA by the mid-90s. Total capital flows as a share of GDP in Central Asian countries reached higher than the average levels for the developing countries worldwide soon after independence (Bayulgen 2005). As the World Bank and UNCTAD data in Figures 1 and 2 illustrate, independent Central Asian states achieved some progress in attracting foreign investments with the general trend towards increasing FDI both in absolute value as a share of GDP in the first two decades following the collapse of USSR. However, the growth in investments gradually declined in resource-rich Kazakhstan and Turkmenistan since 2010, while in Kyrgyzstan and Tajikistan it remained highly volatile without a clear trend. Such trend was not unique for the region – FDI mostly decreased globally and in all the comparator countries over the most recent decade before the COVID-19 outbreak except for a positive and more stable trend for Uzbekistan since 2015.

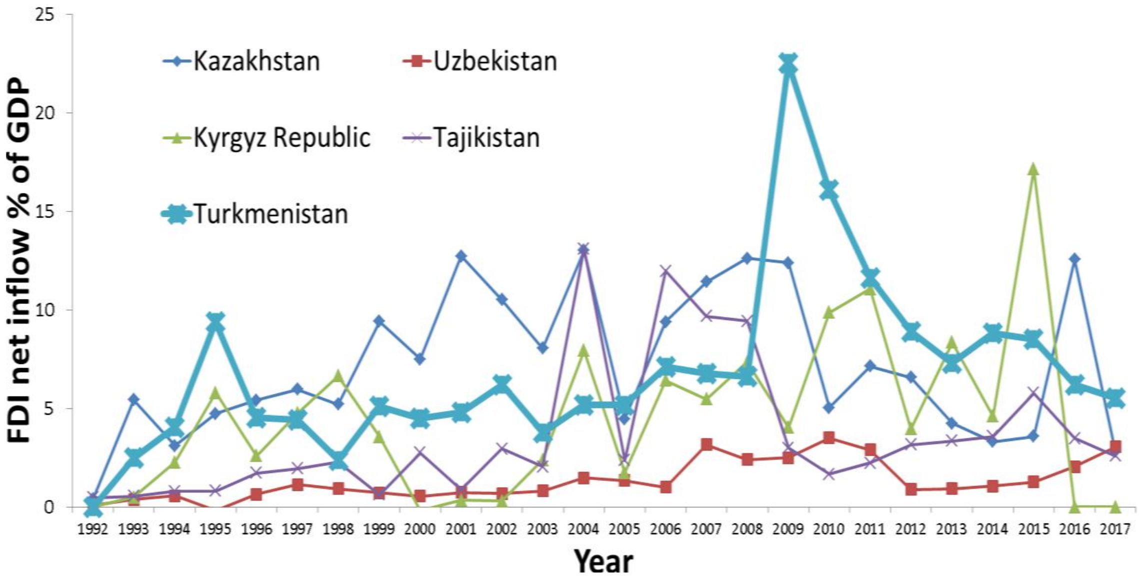

Fig. 1. *FDI in Central Asia as the proportion of GDP (The World Bank 2021).*

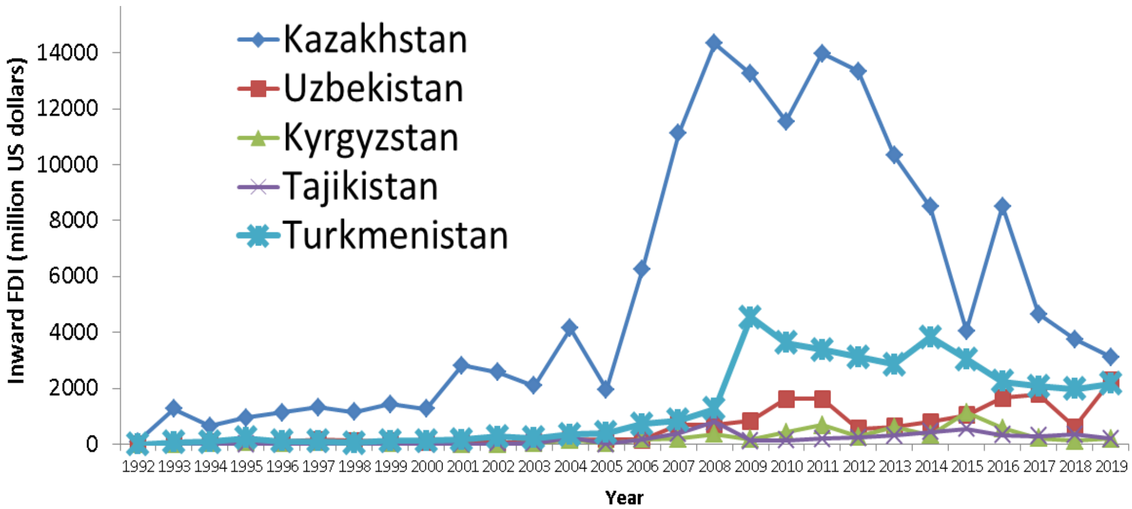

Fig. 2. *FDI inflows in Central Asia (UNCTAD 2021).*

As already stated in the Introduction, foreign investments from Central Asian countries are not the focus of this report. Figure 3 shows that FDI outflows have been negligible relative to inflows in all the studied countries except for Kazakhstan. For example, FDI flows from Central Asian countries were visible in Russia, but their value and profitability were much lower than other newly independent states (Ledyaeva et al 2014). Moreover, the top 100 non-financial multinational enterprises (MNE) from developing and transition economies by foreign assets include none of the Central Asian countries as of 2018 (UNCTAD 2021). MNEs are drivers of investments and technology transfer globally.

Meanwhile, the share of global FDI made in Central Asia was nearly three times smaller in 2019 than in 2009. This trend could suggest the worldwide shift of FDI to rapidly developing countries demonstrating less dependence on commodity exports and more stable growth, such as China, which managed to capture the increasing share of global and Asian investments.

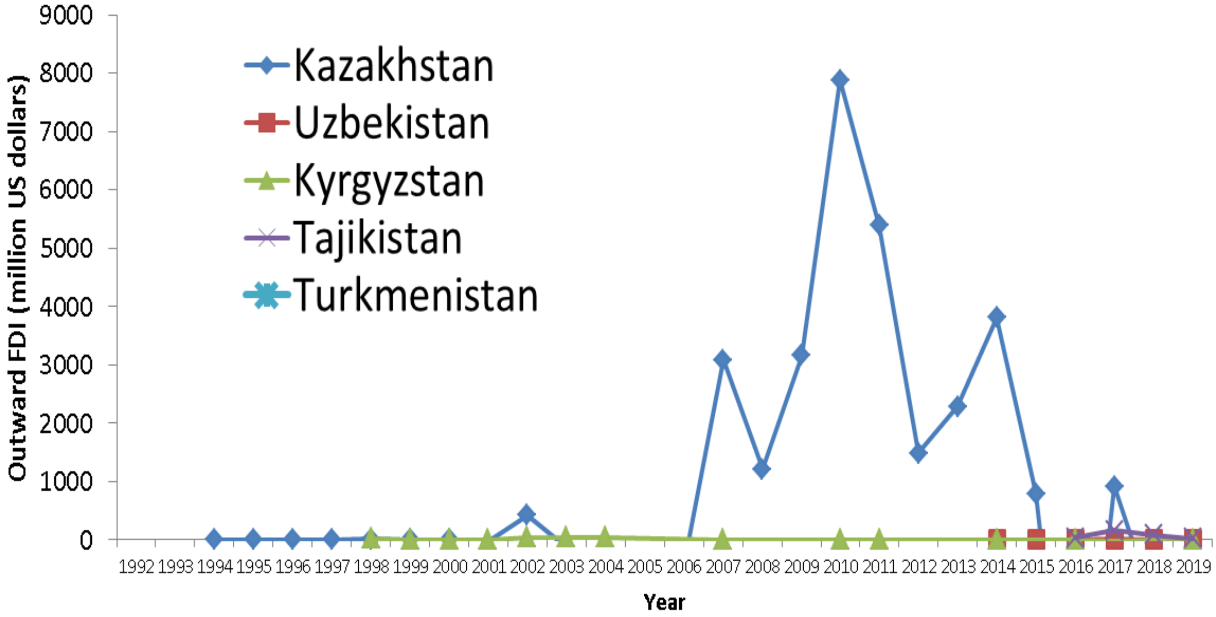

Fig. 3. *FDI outflows from Central Asia (UNCTAD 2021).*

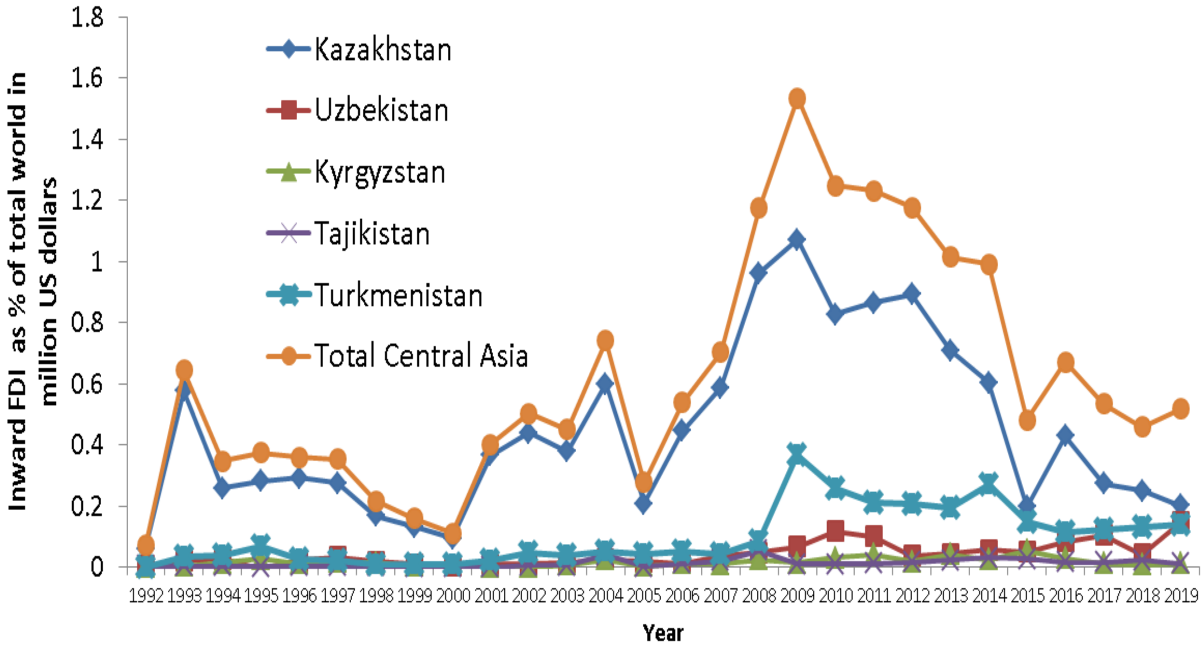

Fig. 4. *FDI inflows in Central Asia as the proportion of the entire world (UNCTAD 2021).*

Discussion of FDI would not be complete without per capita values. Trends in per capita FDI inflows look similar in this respect to the absolute values when comparing Figures 2 and 4. The same cannot be stated about greenfield investments in Figure 6 that suggests the prevalence of such investments is lower in Turkmenistan and higher in Uzbekistan in contrast to the general pattern in FDI inflows per capita presented in Figure 5. Kyrgyz Republic managed to receive higher than average FDI per capita overall compared to countries with fewer hydrocarbon resources. Turkmenistan and Kazakhstan exhibited a very similar pattern of FDI per capita peaking around 2010 and then sharply declining in the recent decade closer to the level of the remaining three countries.

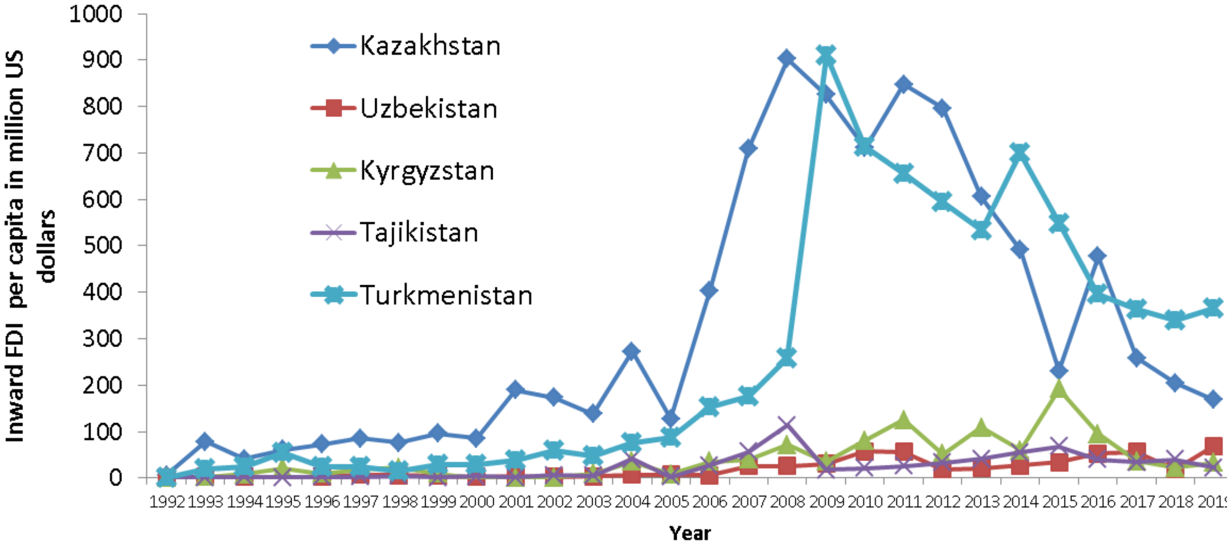

Fig. 5. *FDI inflows per capita in Central Asia (UNCTAD 2021).*

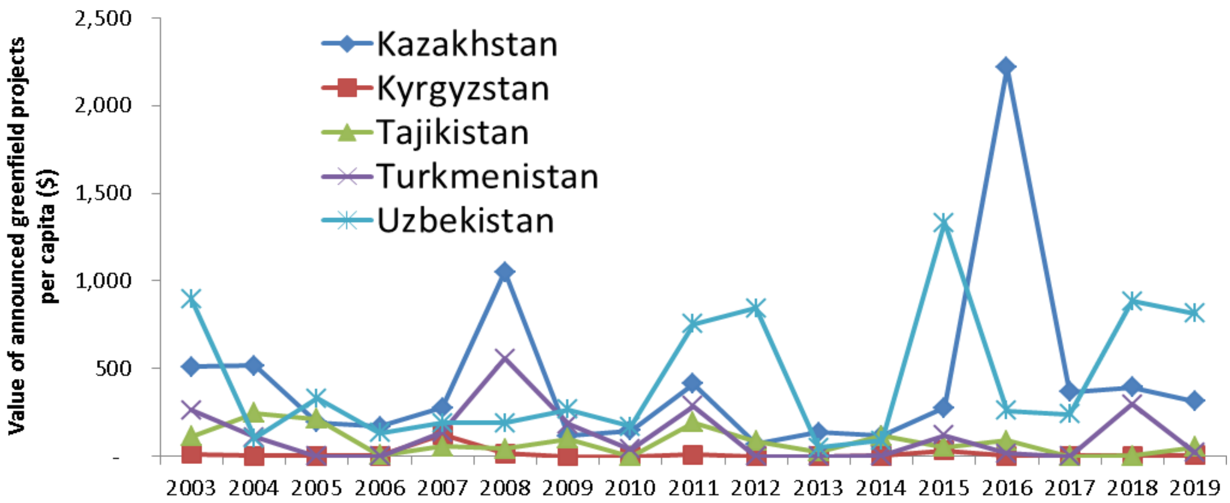

Fig. 6. *Greenfield investments per capita in Central Asia (UNCTAD 2021).*

The stock of direct foreign investment is the cumulative value of all investments in a country made directly by residents of other countries. Kazakhstan and Turkmenistan, both heavily relying on high hydrocarbon revenues, stand out in Figure 7 as countries attracting the largest FDI in three decades of independence. In Central Asia, a specific industry dwarfs all others in attracting investment. Figure 8 features fossil fuel as a sector roughly attracting half of FDI in Kazakhstan, Turkmenistan, and Uzbekistan. The dependence of the Kyrgyz Republic on a single sector attracting FDI is even higher – metals capture about 80 percent of foreign investment. Tajikistan seems more diversified in attracting FDI to different industries, with metals attracting almost 30 percent. Though the total of FDI inflows and FDI stock are various measures of investment activity, there seem to be discrepancies in estimates between Figure 7 and Table 1 if converted to a common denominator (this is only a conjecture as a total of FDI inflows for a fixed time period and FDI stock for different time frameworks are not the same measures). Moreover, there are significant differences in estimates of FDI between the total and stock for Uzbekistan and Tajikistan as reported by UNCTAD. It points out study limitations that data availability and methodological differences used by separate sources cannot be avoided. Those discrepancies once again remind of the critical fact that precise statistics are not available, even though previous and subsequent figures presented in this report are the best estimates available from reputable sources. The following section would provide more detail on each country.

Table 1. The stock of direct foreign investment Central Asian countries made as of the end of the period indicated (The World Factbook 2020).

Country	FDI stock ($)	Global rank	Year of estimate	FDI stock per capita ($)	Population (million)
Kazakhstan	156,200,000,000	36	2017	8,580	18.2
Kyrgyzstan	5,860,000,000	105	2017	969	6.0
Tajikistan	2,272,000,000	117	2013	278	8.2
Turkmenistan	3,061,000,000	114	2013	570	5.4
Uzbekistan	No data available from the source				

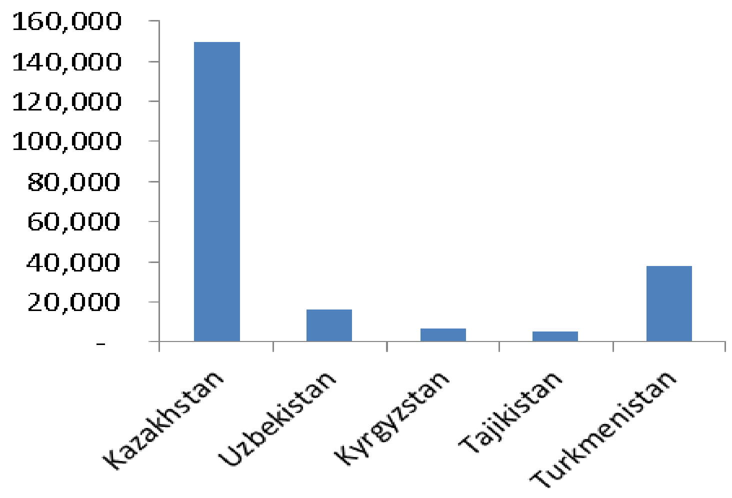

Fig. 7. *Total FDI inflows in million U.S. Dollars in Central Asia between 1991 and 2019 (UNCTAD 2021).*

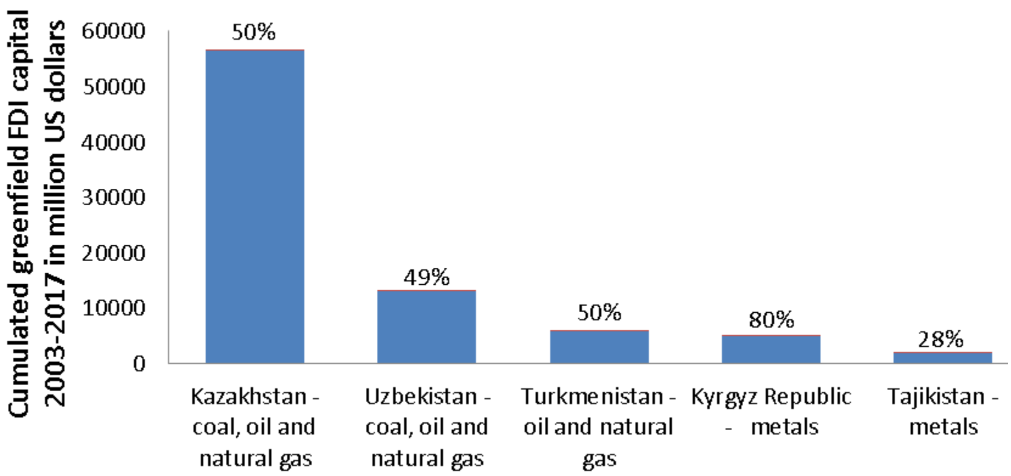

Fig. 8. *Industries that received the most significant cumulated greenfield FDI capital as value and share of the total between 2003 and 2017 in each Central Asian country (OECD 2019).*

Recent FDI trends in Central Asian countries

Central Asia managed to be an area of concentrated FDI in developing countries globally in 2019: Uzbekistan, Kazakhstan, and Turkmenistan were among the top five recipients of FDI in the category of landlocked developing countries (UNCTAD 2020). Looking from the perspective of greenfield investments, Kazakhstan and Uzbekistan recently dwarfed all other countries in the region (Figure 4); therefore, it seems natural why the most recent UNCTAD reports focus on data from those largest countries in Central Asia between 2017 and 2019. Furthermore, there was substantial growth of announced greenfield projects in Turkmenistan, Tajikistan, and Uzbekistan; and the relative change in Kazakhstan and Kyrgyzstan was more modest. However, the recent trends are not entirely indicative of the overall direction, as the unstable growth in FDI over the past three decades in Central Asia demonstrated. Overall, actual FDI inflows in the transition economies heavily dependent on oil and gas extraction and processing declined for two consecutive years (UNCTAD 2019). Countries such as Kazakhstan and Turkmenistan can attract large projects in some periods, but they are exposed to investment and price cycles (UNCTAD 2019). The lack of new projects and divestments from existing projects was responsible for the FDI downturn in such countries, such as Germany's RWE closing down their operations related to natural gas in Turkmenistan. Significant divestments in Kazakhstan caused dropping 18 percent of FDI (down to $3.8 billion) in 2018 and 17 percent (down to $3.1 billion) in 2019. Central Asian countries received different credit ratings ranging from Kazakhstan's "investment grade" to Uzbekistan's "non-investment grade" to Tajikistan's "highly speculative" (OECD 2019). In the country assessment of the risk of a business defaulting by Coface (2020), Kazakhstan and Uzbekistan had Fairly High, while Tajikistan, Turkmenistan, and the Kyrgyz Republic all had Very High ratings of risk. Central Asian countries did not rank very high in global rankings of transparency and democracy. Extractive industries had an outsized effect on investments and economic growth in all of the Central Asian countries. The overreliance on natural resources does not seem sustainable in the long term. Table 2 indicates how Kazakhstan and Uzbekistan, the biggest economies in the region, seemed to provide better conditions for the quick setup of a business even when compared within the larger area of Central Asia and Eastern Europe. In most other recent investment climate indicators related to taxation, Central Asian countries did not seem to differ enormously (Table 2). The remaining part of this section outlines the reports by UNCTAD (2019), UNCTAD (2020), UNCTAD (2021), and other work on each Central Asian country as follows. They reveal how inbound FDI mostly declined or remained unchanged in the last decade before 2020 amid the sluggish progress in reforms and conditions accompanying attraction of investments within each country in Central Asia, except for Uzbekistan. The government of respective countries should take broader measures to improve the investment climate and attract significant FDI outside the minerals, oil, and gas industry. With almost all countries of the region maintaining authoritarian political regimes, more liberalization seems to be a must for further progress.

Kyrgyz Republic was the first post-Soviet country in CIS to initiate broad reforms to encourage foreign investments and recently ranked between Switzerland and Norway on the FDI Restrictiveness Index (OECD 2019). These measures were not sufficient to attract substantial investment at the beginning: 85 percent of FDI in Central Asia during the first decade of independence still went to resource-rich Uzbekistan, Kazakhstan, and Turkmenistan; the Kyrgyz Republic received less than ten percent, while conflict-affected Tajikistan received the rest (Vitalis 2020). However, the strategy seemed to bring effect in the end: Kyrgyz Republic achieved higher than average performance among comparable economies (especially relative to the countries that are less reliant on hydrocarbon resources – Uzbekistan and Tajikistan) in FDI as a percentage of GDP, FDI, and mainly its stock per capita in the region in the recent decade, though the growth remained highly volatile (Figure 1, Figure 5, Table 1). Businesses enjoyed relatively cheap electricity from abundant hydroelectric power (OECD 2019). Mining, finance, and petroleum product manufacturing attracted most FDI but flows to other activities remained weak (Santander 2021, U.S. Department of States 2020). The anti-corruption plan promulgated in 2012 seemed to improve the business climate in the country (Santander 2021). Kyrgyz Republic pioneered the adoption of integrated national financing frameworks supported by the U.N. (UNCTAD 2020). The main sectors attracting FDI were metals making up 79.5 percent (more than ten times larger than the next largest sector) and building and construction materials making up 7.1 percent (OECD 2019). The country has preferential access to markets in Kazakhstan and Russia within the Eurasian Economic Union (OECD 2019). The prominent investors in 2017 were from China (49%), Russia (16%), Kazakhstan (8%), the United Kingdom (5%), Germany (5%), Canada, Turkey, Japan, and the Netherlands (OECD 2019, Santander 2021, U.S. Department of States 2020). The country introduced investment treaties pertinent in Lee John Beck v. the Kyrgyz Republic, a case involving the authority's termination of the investor's land lease agreements (UNCTAD 2019). There were disputes with a Canadian firm over the control of the gold mine, and China pulled out of a USD 280 million project of a logistics centre in a free-trade zone in 2020 following anti-Beijing protests (Santander 2021, U.S. Department of States 2020). Overreliance on the mining industry and Chinese investments present future risks in sustainable FDI flows. The limited capacity to effectively implement regulations and the poor quality infrastructure continue to reduce competitiveness and hinder achieving the potential for attracting more FDI (OECD 2019). One issue for foreign investment opposing the benefits of democratization was political instability occurring at different periods of changing governments during the independence in the country. This lack of stability could affect negative trends in attracting FDI since 2015. Remaining the most democratized economy in the region, the Kyrgyz Republic should further strengthen its liberal institutions, good governance, and the rule of law to provide a stable environment for foreign investors.

Kazakhstan's economy is the largest in Central Asia. It has been heavily dependent on hydrocarbon resources. The country has benefited from a growing economy, skilled workforce, banking system with a large surplus of foreign exchange, location at the crossroads of Europe and Asia, and Chinese investments through the Belt and Road Initiative (Santander 2021, U.S. Department of States 2020). No wonder the country managed to attract over 70% of FDI flowing in Central Asia (OECD 2019). The largest sectors attracting FDI were fossil resources (coal, oil, and natural gas), making up 49.5 percent, and metals making up 14.6 percent (OECD 2019). The biggest of the nine landlocked CIS countries, Kazakhstan, was the third-largest recipient of FDI among transition economies in 2018 and 2019, but the investments seemed to be in decline. Publicly announced divestments included the departure of Telia (Sweden) and Turkcell (Turkey) from telecommunications (UNCTAD 2019). Still, an increase was observed in large projects by MNEs. Greenfield projects of foreign investors announced in Kazakhstan were among the largest within the group of landlocked countries. They included the following projects: textile mills - Chinese Cathay Industrial Biotech estimated at $2 500 000 in 2018, petroleum refineries - R Way Solution from Singapore estimated at $940 000 in 2018, and basic chemicals - Chinese North Huajin Chemical Industries estimated at $600 000 in 2019. French total made investments in oil and gas production, also French Alstom invested in transport. The largest project started in 2019 was a carbide plant of a Chinese chemical company. Mining of metals, manufacturing, wholesale and retail trade were other areas attracting FDI. The U.S., China, and the Russian Federation have long been among the most significant FDI source countries (UNCTAD 2020). In 2018, the Netherlands was the biggest investor contributing to Kazakhstan's FDI (29 percent), followed by the U.S. (18 percent), Switzerland (14 percent), the Russian Federation (6 percent), and China (5 percent) (OECD 2019). Kazakhstan has been among the largest economies in transition introducing special economic zones (SEZ) that encourage investments. Cross-border Economic Zones under joint ownership by neighboring countries involved deeper integration. The Horgos/Khorgos became a hub for trade, entertainment, duty-free commerce, shopping, and intercultural exchange. Travelers from China, Central Asia, Europe, the Russian Federation, and Turkey could stay for 30 days visa-free to meet, communicate and trade since opening in 2012. Kazakhstan pays attention to Sustainable Development Goals with the list of priority activities for the implementation of investments that includes collection, treatment, and distribution of water and the collection, treatment, and disposal of waste (UNCTAD 2020). The country remained among the more liberalized economies in many aspects in Central Asia and CIS. Still, considerable problems with FDI attraction remained: the excessive dependence on commodity prices and economic conditions of partners (mainly Russia), interventionist and protectionist policies (Santander 2021, U.S. Department of States 2020). Further liberalization is needed in a legal framework, corruption, infrastructure, privatization, state monopolies, environment, human rights, labor relations, and intellectual property protection (OECD 2019, U.S. Department of States 2020). While being relatively high compared to Central Asian counterparts, they remain below the best international standards.

In the first decades of independence, Uzbekistan received surprisingly low FDI as a percentage of GDP, considering its largest and fast-growing population in Central Asia. The situation started to change with the new government of the country that was among the most notable transition economies in 2020 that saw FDI inflows increase prompted by liberalizing the country in recent years (UNCTAD 2020). Uzbekistan had comfortable levels of debt and foreign exchange reserves, strategic location between China and Europe ("New Silk Road"), the largest size of the domestic market in Central Asia in terms of the population of 32 million, and an ambitious public investment program (Santander 2021, U.S. Department of States 2020). Legislative changes since 2017 included the elimination of punitive inspections of businesses and the requirements to convert hard currency export earnings at the official exchange rate. FDI flows to Uzbekistan grew four-fold to over $400 million in 2018, as the country gradually opened up to foreign investment. The main origins of FDI in 2017 were Russia (55.6 percent), China (15 percent), Japan (6.6 percent), the Netherlands (4.3 percent), the Islamic Development Bank (4.2 percent), and others (OECD 2019). Russian MNEs started investing relatively recently in hydrocarbon industries with large projects in oil and gas by

Lukoil. More investors in 2018 included MNEs from China, India, the Republic of Korea, and Turkey. Petroleum refineries by Kawasaki Heavy Industries of Japan announced in 2018 is estimated at $940 000 (UNCTAD 2019). More FDI came to agribusiness and renewable energy. More than tripled in 2019 to $2.3 billion in the country, the equity investment and reinvested earnings together expanded by 231 percent to $2.1 billion. Intracompany loans turned from negative to positive. The country promoted industrialization in its 21 newly established free economic zones. Textiles and apparel projects were started by Chinese, German, Indian, Korean, Thai, and Turkish companies. Two Turkish investments in fossil fuel electric power made by Cengiz Enerji San ($996 000) and Yildirim Holding ($996 000) were the second and third-largest in the group of landlocked countries in 2019. Furthermore, Orano Mining (France) invested in uranium exploration and development, while the chemical sector attracted Chinese, Russian, Singaporean, United Kingdom, and the U.S. investors. Political stability seems to be another factor adding to the recent benefits brought by liberalization. Numerous joint ventures were common to benefit from foreign investments, but there were reports of complications in currency exchange or earnings withdrawal (OECD 2019). The significant problems of FDI persisted: low economic diversification, dependence on commodity prices, underdeveloped banking, state interventionism (Santander 2021, U.S. Department of States 2020). While considerable progress has been made recently in the respective areas, the state still maintains a strong presence and regulations that have discriminatory effects on foreign investors in energy, telecommunications, airlines, mining, and textiles (OECD 2019). Further progress in attracting FDI will also depend on diversifying inflows with the slowdown of investments in the energy industry (UNCTAD 2020).

Tajikistan attracted relatively low to moderate inflows of FDI compared to its neighbors in the region. The internal conflict during the early 90s likely had a severe impact in the first decade after gaining independence. Growth in FDI inflow did not seem strong as of 2019, though the number and value of greenfield projects increased sharply in the same period, as evident from Figures 9 and 10 (UNCTAD 2021). Aluminum, renewables, fossil fuel, construction, cotton, and energy sectors attracted the foreign investment from the most prominent sources in terms of share in the total FDI between 2007 and 2015, including China (22 percent), Russia (21 percent), Kazakhstan (8 percent), the United Kingdom (7 percent), the United States (6 percent), the Philippines (5 percent), and others (OECD 2019). China gradually replaced Russia as the largest investor as part of its Belt and Road Initiative, funding thermal power, hydropower, and road infrastructure, including a project between Dushanbe and Uzbekistan (U.S. Department of State 2020). Tajikistan was ranked relatively low in the Doing Business rankings, though it gained progress advancing 20 spots and had a relatively well-developed regulatory framework as of 2020 (OECD 2019). Poor productivity, cumbersome procedures for obtaining permits, stringent labor regulations, hampered access to credit, poor resolution of insolvency cases, uncertain business environment, poor infrastructure, inadequate training, lack of independent judiciary, and widespread corruption all limit attracting more FDI in the country (Santander 2021, U.S. Department of States 2020). Large-scale investments involved considerable debt distress considered unsustainable by some global institutional investors (OECD 2019).

Turkmenistan attracted considerable FDI in decades after gaining independence. By 2009, FDI reached almost a quarter of the GDP - record among Central Asian countries (UNCTAD 2021). Numbers looked less impressive though looking into greenfield and stock per capita values of FDI, as shown in Figure 6 and Table 1. Overall, hydrocarbons and petrochemicals in the country's public sector attracted the most considerable foreign interest and investment – about half of all greenfield FDI (OECD 2019). Other significant sectors receiving FDI were transportation with 24 percent, metals with 10%, chemicals with 5 percent, and textiles with 5 percent (OECD 2019). However, the growth slowed since 2010, and companies were increasingly leaving the market recently due to issues with the exchange rate and payment of bills (Santander 2021, UNCTAD 2021, U.S. Department of States 2020). Though national statistics has not published information on recent FDI, international analysts estimated that the country's largest foreign investors in 2012 were China (39 percent), followed by Russia (16 percent), the Persian Gulf countries (12 percent), Turkey (9%), and Canada (8 percent), and others (OECD 2019). China provided USD 4.1 billion in loans to build the second-largest gas field in the world (Santander 2021). Turkmenistan regularly amended laws to meet international standards. Political stability has been the most positive aspect of business in Turkmenistan outside of lucrative budgets allocated to grand projects financed by hydrocarbon revenues (U.S. Department of State). Low crime rates have also been a positive aspect of security. Future privatization presents new opportunities. Foreign companies were able to secure contracts with the government for construction materials, agricultural machinery, oil and gas extraction equipment, medical devices, food processing equipment, and other kinds of export on a large scale. Major foreign companies such as

General Electric established business in the country as industrial equipment suppliers, but their local operations were primarily limited to sales of machinery to the government (U.S. Department of States). Turkmenistan's business environment is among the most difficult in the region due to a regulatory framework and business practices (OECD 2019). There were reports of issues with the rule of law, opaque regulations, corruption, and expropriation risks (U.S. Department of States). Strengthening legal protections of assets, contract awards without the need for connections to those in power, and an independent judiciary are necessary. The control of foreign exchange flows complicates payments (Santander 2021). Developments in the financial sector, including the market exchange rate and conversion, and would improve the investment climate. The country was not included in Doing Business data and overall suffers from inadequate ICT infrastructure (Santander 2021). The lack of detailed and accurate information for decision-makers to the extent that foreign sources are often more reliable and readily available. Effectively functioning one-stop shop to facilitate the registration of businesses and an investment promotion agency is desirable (OECD 2019).

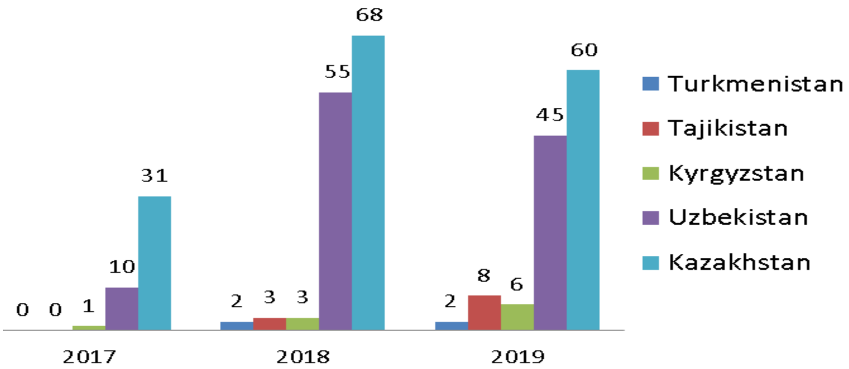

Fig. 9. *The number of recent greenfield investments in Central Asia (UNCTAD 2021).*

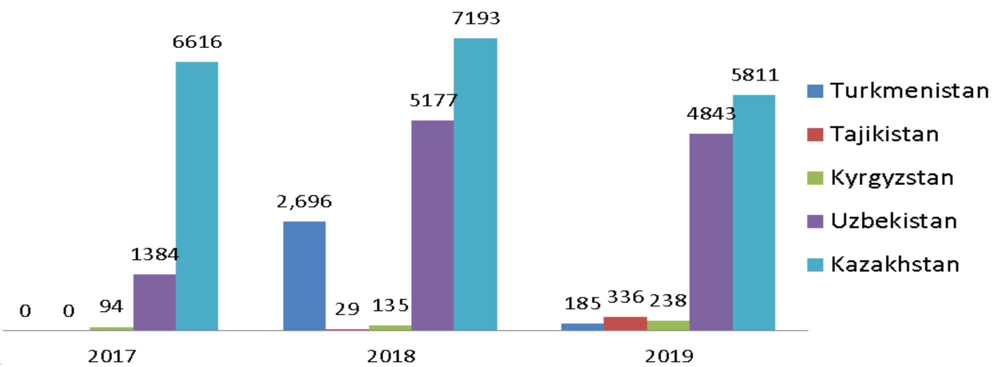

Fig. 10. *Value of recent greenfield investments in Central Asia (UNCTAD 2021).*

Table 2. Comparisons in selected conditions of the recent investment climate within Central Asia and Eastern Europe.

	Turkmenistan	Tajikistan	Kyrgyzstan	Uzbekistan	Kazakhstan	Data sources
Index of Transaction Transparency		8	7			Doing Business (2020)
Index of Manager's Responsibility		6	5			
Index of Shareholders' Power		6	8			
Value added tax (VAT)	15%	18%	12%	15%	12%	Santander (2021)
Company Tax	8%	23%	10%	15%	20%	
Withholding Taxes* - Dividends	15%	12%	10%	10%		
Withholding Taxes* - Interests	15%	12%	10%	10%		
Withholding Taxes* - Royalties	15%	15%	10%	20%		
Number of Payments of Taxes per Year		6	51	10	7	Doing Business (2020)
Time Taken For Administrative Formalities (Hours)		224	225	181	182	
Total Share of Taxes (% of Profit)		67.3	29	32.1	29.4	
Setting Up a Company - Procedures (number)		4	4	3	5	
Setting Up a Company - Time (days)		11	10	4	5	

** Including those per double taxation treaties*

Data for comparison: estimates for entire Eastern Europe & Central Asia			
Index of Transaction Transparency*	7	Number of Payments of Taxes per Year	17.6
Index of Manager's Responsibility**	5	Time Taken For Administrative Formalities (Hours)	238
Index of Shareholders' Power***	6	Total Share of Taxes (% of Profit)	34
Setting Up a Company - Time (Days)	10	Setting Up a Company - Procedures (Number)	5

It is worthwhile briefly mentioning relevant responses to COVID-19 here. The majority of developed countries introduced stricter FDI screening in critical industrial sectors to protect from undesirable foreign influences. Central Asian countries cannot afford to provide the same support for struggling businesses as in rich countries. There is a delicate balance between urgently needed investments for post-pandemic recovery and the long-term need to protect in areas of strategic importance from excessive control or takeover by foreign entities. Thus, the protection of critical sectors and weakened companies is another concern for governments in the region trying to attract foreign investors. Legislation plays a vital role in this and other aspects of foreign investment, as discussed in the next section.

Legal and institutional basis

This section covers certain legal aspects of investments in Central Asia. The following types of legal instruments and investor protections exist national laws protecting investors' rights, security, and property; bilateral investment treaties between home and host governments; host-country adherence to multilateral treaties protecting intellectual property (e.g., agreement on intellectual property); host-country adherence to multilateral treaties governing human rights and worker protections; adherence of business partners in the host country to voluntary corporate codes of conduct on human/worker rights, environmental protection, etc. (Economist Intelligence Unit 2014). The rule of law and efficient bureaucracy are conditions that make high-quality investments from abroad possible. Legal and institutional reforms are necessary, but already existing investment-related legislation should be consistently implemented or enforced in Central Asia. Central Asian countries have developed the following bodies and legislation in charge of foreign investments that differ in structure and approach (OECD 2019).

In Tajikistan, there is the Committee on Investment and State Property Management responsible for investment policies, TajInvest in charge of the promotion, the Ministry of Economic Development and Trade is in charge of the free economic zones, and the Consultative Council on Improvement of Investment Climate promoting related reforms.

In Uzbekistan, the Foreign Investment Agency is responsible for the information and legal support to the foreign investors, one-stop servicing investors, an investment map with the information on the profile of each province, and various policies for attracting foreign investments within the Development Strategy for 2017-2021.

The Kyrgyz Republic has legislation based on global best practices on tax administration, permits, technical regulations, and inspections.

Kazakhstan introduced a new public-private partnership law, improved concession legislation, enhanced the protection of foreign investments, provided effective dispute resolution mechanisms, removed foreign equity restrictions in transport and telecommunications, simplified licensing, and setting up a business.

In Turkmenistan, extensive regulations of the investment included the following legislation: "On investment activities in Turkmenistan" (1992), "On Foreign Concessions" (1993), "On Foreign Concessions" (1999), "On" Foreign Investments "(2008)," On Hydrocarbon Resources "(2008)" On Currency Regulation and Currency Control in Foreign Economic Relations "(2011)," On Foreign Economic Activity In Turkmenistan "(2014)," On International Commercial Arbitration" (2014), "On Property" (2015), "On Free Economic Zones" (2017). The country provided legal guarantees for participation in multilateral international treaties and international agreements on the promotion and mutual protection of investments. Turkmenistan joined the International Center for Settlement of Investment Disputes. The country is a party to 28 bilateral investment treaties with Great Britain, Germany, India, Italy, Canada, China, Russia, Turkey, and others. Concerning the avoidance of double taxation of income and property, Turkmenistan is a party to over 37 bilateral international treaty agreements. (Ministry of Finance and Economy of Turkmenistan 2020) In order to protect the national economy from economic, financial, legal, sectoral, regional, and natural risks, the Agency for the Protection of the Economy from Risks was created under the Department of Economy and Development in 2013.

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Table 3. Investment treaties in Central Asia (UNCTAD Investment Policy Hub 2021).

Rank*	Country	Total BITs	Total TIPs
41	Uzbekistan	50 (45 in force)	5 (4 in force)
43	Kazakhstan	47 (43 in force)	11 (10 in force)
70	Tajikistan	35 (24 in force)	7 (6 in force)
72	Kyrgyzstan	34 (24 in force)	9 (8 in force)
92	Turkmenistan	26 (19 in force)	7 (5 in force)

**Global rank based on International Investment Agreements by the economy.*

The post-pandemic period could accelerate efforts to reform their investment agreements to ensure regulation in the public interest while maintaining adequate investment protection (UNCTAD 2020). Bilateral investment treaties (BITs) and treaties with investment provisions (TIPs) are instrumental in special economic zones and investment dispute settlement. Transition economies have been adopting regimes of such zones since the 1990s. UNCTAD Investment Policy Hub (2021) indicated the number of investment treaties in Central Asian countries correlated with population size (Table 3). It should be noted that countries' development and growth levels in the global ranking did not necessarily mean a higher number of agreements.

Major countries and global investors as sources of FDI

The country-specific information presented in relevant reports outlines China, the Russian Federation, and countries of Western Europe as significant origins of investments in Central Asia (OECD 2019, UNCTAD 2021). In this section, the scope and quality of investments from selected countries and areas are briefly discussed, though admittedly, other countries are not included here that are of significant importance for FDI in the region.

With the size of its economy, ***China*** is often the foremost option in the economic development of geographically isolated Central Asian countries. Uzbekistan and particularly Turkmenistan have become increasingly reliant on China as the major importer of their gas and the source of investment in extractive sectors since 2010. This dependence became particularly evident in 2020 after China sharply reduced its gas imports from both countries, citing coronavirus-induced emergency (Hess 2020). Interestingly, China increased gas imports in the same period from Kazakhstan, a country with diversified exports and less dependent on the Chinese market. Central Asian countries exporting commodities and already lending heavily from Chinese banks should carefully consider the cost of any future joint projects. China has a history of refusing to pay the agreed price upon completing the pipeline once the balance of power shifts from supplier to buyer (The Economist 2020). In addition, less stringent requirements towards transparency, environment, and social responsibility make Chinese organizations even more attractive for governments of certain developing countries. However, the seemingly straightforward upfront conditions of getting investments in projects where other investors would not consider can come at a cost later. China presents a powerful economic partner capable of driving low prices for its purchases, borrowing at interest rates often higher than other international lenders, and negotiating other favorable conditions for Chinese companies and lenders. In negotiations with cash-strapped developing countries, outcomes sometimes could be detrimental to the partner economies in the long term. In particular, large-scale projects financed on high market rates and other unfavorable conditions for developing countries present a risk of the debt trap. A conspicuous example is Sri Lanka handing over its port and surrounding land to a Chinese company for almost a century-long lease. This case could serve as a warning about dealing with partners willing to fund and build projects ignoring adverse feasibility reports due to political and strategic reasons of own government (Abi-Habib 2018). Realizing the inefficiency of previous agreements with Chinese companies, the new government in Malaysia recently tried to cancel a controversial project but had to renegotiate instead to avoid $5 billion termination fees (Mitchell and Woodhouse 2019). There is ample body of evidence in those examples above and other regions spanning from Asia to Africa that projects could suffer from poor cost and benefit analysis (The Economist 2020). The considerable number of projects in debtor countries under the Chinese Belt and Road Initiative already face the risk of default. However, some of the projects in the initiative could still bring benefits to local populations, and many projects are yet to demonstrate results in the future. Chinese operations in Turkmenistan were mainly limited to the oil and gas sector. Considerable opportunities remain in Chinese FDI to technological industries such as renewables. The government could effectively attract FDI in more expansive areas if balanced and mutually beneficial terms can be negotiated with partners from China.

Russian Federation historically had considerable economic ties, political influence, and soft power in Central Asia. The Russian language is the preferred means of communication between officials and business representatives of post-Soviet states, more commonly spoken than English or any Turkic language. Russian companies have invested in operations in Central Asia since independence, and they will likely continue to be attractive business partners in the foreseeable future.

The E.U. countries had cultural and economic connections with the post-Soviet region strengthened over the years of independence. Numerous projects have been funded and implemented in the participation of European organizations. European countries and companies traditionally enjoy great soft power among the Central Asian population that highly value quality and transparency levels achieved by E.U. businesses. All governments of Central Asian countries seemed highly interested in attracting more investments from the E.U. Non-hydro renewables are just one very relevant example where European partners are particularly capable of and willing to invest in greenfield projects. In this area, Central Asia was lagging behind other regions but recently strived to catch up. E.U. partners will continue strengthening focus on investing in the green economy and Sustainable Development Goals, which matches the best interests of Central Asian populations facing the impact of environmental changes and outdated infrastructure. Yet, the very strengths of European investors that earned them a positive image could present challenges in dealing with partners from the post-Soviet area. Issues with infrastructure, complex regulations, underdeveloped private sector, corruption, occasional problems with the currency exchange rate, and human resources all hamper wider involvement of E.U. business that typically have stringent requirements towards transparency, environment, and ease of doing business in foreign countries. The high standards are often in contrast to Russian and Chinese investors for whom it is relatively more comfortable to afford to be less scrupulous in negotiating agreements in such conditions. In particular, Chinese investors appear to have the advantage in negotiations with governments to implement large-scale projects without paying extra attention to socio-economic and human impact on the local population. A viable option to combine the strengths of European businesses to enter the local markets and counter competition from state-backed companies in Central Asia could be forming joint ventures (J.V.) or other forms of cooperation. As a relevant example from the construction equipment area, Zeppelin International AG maintained a strong regional presence in Russia and Central Asia (Zeppelin 2020). This European-based company selling American Caterpillar machinery benefited from synergies created by the well-integrated network of Russian-speaking specialists to offer high-value services to public and private customers in the local markets. There are other examples of flexible Western companies in post-Soviet countries adapting to local business culture while maintaining acceptable ethics and social responsibility standards. However, even companies from developed countries with the highest rankings of transparency could sometimes be prone to questionable practices, as scandals involving Daimler AG and Telia in Central Asia are illustrated (U.S. Department of Justice 2010, Schoultz and Flyghed 2016). Maintaining high standards of social responsibility in Central Asia while being flexible in adaptation to peculiar manners of doing business in the region should remain a priority for foreign companies.

Actual benefits and best practices

In a world where increasingly competitive economies try to attract limited foreign investments, studying the best practices from other regions and countries is necessary for any government. Developments in Central Asia should be considered in the context of global trends in FDI. With the official aid from industrialized countries remaining far below and occasionally declining further from the target of 0.7 percent of GNP, the growing share of FDI rather than ODA became effective in boosting the economic growth of developing countries (Vitalis 2020). Donor countries mainly were investing in a small number of recipients and generally showed declining interest in less developed countries with both ODA and FDI (Vitalis 2020). Investment flows globally could increasingly shift from Central Asia to regions that are more competitive and less dependent on commodity exports, including countries such as China and India, the recipients of the lion share of intra-Asian FDI in the past two decades. In natural-resource-based projects in Central Asia, prospects are likely to be further revised downward after 2020. Demand for commodity and fossil resources weaken; the prices of the main exports remain depressed; the prospects look even worse considering the potential of the price wars between major oil producers and cheaper renewables (UNCTAD 2020). The previous section of this report on the recent FDI trends already outlined these and other issues and strengths each country can address or exploit. Governments of countries in Central Asia should continue working on all aspects known to create the conditions and image attractive for much-needed foreign investment in all sectors.

A question could arise for policy-makers who want to base their decisions on scientific evidence in the first place: what are conditions that make attracting FDI to the national economy in the long term? Theoretical and empirical evidence supports the widespread view that greenfield and M&A investments could have a positive homogenous effect on growth. Still, the effect is not strong, and the enhancement of the human capital of host countries is an essential condition to get the maximum benefits. Relevant results can be summarized as follows. A foreign direct investment (FDI) made by organizations or individuals in foreign business operations or assets can substantially enhance the levels of technology transfer and socio-economic growth in developing countries (Vitalis 2002). FDI thus can be desirable for the technological development of the host country compared to other types of investment. FDI can promote growth by contributing to capital formation, incorporating new technologies, and knowledge transfer from more developed nations. A purchase of securities, foreign portfolio investment (FPI), on the other hand, might be more effective in promoting institutional reforms than foreign aid (ODA) from public sources and FDI from private sources (Bayulgen 2005). However, the positive spillovers from any foreign investment may not arise in less-developed nations because domestic firms with backward technologies and low-skilled labor may not learn from MNE since the technology and knowledge gap is too broad (Moid 2018). Foreign enterprises could even have negative impacts if investments into a less-developed country are primarily in the form of resource-seeking FDI when investors obtain scarce resources that are less available in the home market. At the same time, workforce and technology are not sufficient to benefit from FDI. The actual benefit that foreign investment brought for local populations in developing countries with authoritarian governments is still a subject of debate, as the next section would discuss in more detail (Bayulgen 2005).

Though the exact impact of each aspect on the investment climate in each Central Asian country is not clear, the publicly available surveys in other countries allow identifying the broad range of factors, motives, and incentives affecting FDI as follows. Businesses can have various commercial reasons for FDI: access to new markets through local production or service provision, replacing importation; access to locally sourced natural resources; reduction of operating costs through cross-border integration of production or provision of services; access to knowledge-based assets of the investment location, e.g., local innovation and R&D (Economist Intelligence Unit 2014). Factors that might deter companies from investing abroad can include: political or social instability; lack of transparency of regulatory or legal rule-making processes; arbitrary or discriminatory treatment by host country government; lack of recognition of contract rights; lack of recognition of intellectual property rights; lack of independent and impartial courts in host country; risk of physical security of in-country personnel; risk of expropriation of investment without adequate compensation; poor human rights conditions in host country; non-democratic character of host country government; lack of trust in judiciary; widespread corruption; monopolization of markets and state capture by oligarchs; cumbersome and frequently changing legislation; oppressive law enforcement agencies; complicated tax administration; unstable financial system and currency; regional conflicts; restrictive capital and foreign exchange controls; large-scale labor migration from a country (Economist Intelligence Unit 2014, Dragon Capital 2020). Conditions necessary for FDI decision-making include ease of doing business; stable political environment; the strong rule of law; low cost of doing business; reliable infrastructure and other utilities; low levels of corruption (public and private); stable macroeconomic environment; regulatory or tax incentives for investors; access to natural resources/raw materials; access to skilled labor and other key staff; access to national/regional markets; access to innovation or R&D in the host country; access to capital markets and finance (Economist Intelligence Unit 2014).

As for the rule of law, steps for a country to take to improve the situation can include greater independence of the judiciary; greater independence of the police and security forces; better-trained judiciary, police and security forces, and the legal profession; improved transparency in legal/administrative rule-making; stronger laws for the enforcement of investor rights including intellectual property rights, and laws guarding against expropriation; adoption of bilateral investment protection treaties; adherence to international agreements and standards on human rights; controlling corruption; increased political and social stability; adoption of democratic systems of government; adherence of local business partners to internationally recognized corporate codes of conduct (Economist Intelligence Unit 2014).

The following steps by authorities could have a positive impact on investment decisions: demonstration of practical anti-corruption efforts; re-launch of the judiciary; visible steps to separate politics and business interests, reduce the influence of oligarchs; appointments of credible reformers to top positions; improvements to infrastructure and logistics; quick agreement with the global institutional investors on the loan tranches and regular disbursements later on; government support and financial incentives for new direct investors; agreement with regional organizations to expand market access; reforms in law enforcement bodies; transparent large-scale privatization (Dragon Capital 2020). The following steps, on the contrary, could harm investment decisions: change in geopolitical direction from west to east; increased tax pressure on businesses; a shift away from democratic values; direct or hidden privileges to selected firms; loose fiscal and monetary policies increasing risks to macro stability; failure to reach an agreement with the global institutional investors on the next loan tranche; default on government debt; removal of credible reformers from their current positions; re-imposition of capital controls; protectionist measures in foreign trade (Dragon Capital 2020).

Services provided to investors interested in investments could include the following: business events/conferences promoting priority sectors abroad or within the country; investment-related shows promoting priority sectors; comprehensive briefing on the location and accompanying companies' representatives during first-time site visit; attending companies' representatives on follow-up site visits; guidance on government structure, regulatory, and nonregulatory aspects for business start-up, including entry and establishment procedures, through advice and introductions; support during the first-time site visit with itinerary/agenda suggestions, planning, and meeting confirmation; location's investment guide such as printed or downloadable resources from the website; information updates concerning priority sectors/activities; reach out to investors to gather information on potential/actual grievances related to government conduct; tailored response to specific questions asked by particular investors; facilitation and coordination of participation in initiatives and events that provide networking opportunities in the local ecosystem; periodic visits to and meetings to monitor the status of the investment projects and explore new investment opportunities; comprehensive support through intervention on project management for business expansion/reinvestment; invitation to relevant activities and events to promote linkages and matchmaking opportunities between investors and suppliers; introduction to other foreign companies, domestic companies, potential suppliers, and institutions (World Bank Group 2020).

Most recently, the pandemic-related restrictions and lockdowns likely influenced the investment plans of any business globally. Measures that could be implemented to counter COVID-19 impact on investors include: working from home using digital platforms; providing laptops to employees for a continuous provision of services to investors; providing subsidies to establish internet or increase bandwidth to their homes; strengthening transparency and communication on COVID-19 by updating investors on impact; updating investors on country measures or response; bolstering direct assistance; tracking effect on investors in portfolio; contacting highest risk firms or contacting all established firms; solving individual investor issues; boosting advocacy services; submitting or mediating on requests for investors to access public financial support, debt assistance, trade finance, or tax relief; systematically gathering information about issues investors are facing; advocating before government for emergency policy responses or reforms; following up until reforms or solutions are provided; supporting companies to repurpose lines; assisting investors on restructuring their projects to return the operations back to scale; promoting repurposing, which could even lead to expansions/diversification in segments that benefit from the crisis; supporting diversification of investor's activities (World Bank Group 2020). The global pandemic accelerates the following processes in the global value chains, which make increasingly challenging for Central Asian economies to attract more foreign investments that are highly beneficial for the development of local industries: automation-driven reshoring, localization, shortening supply chains, increasing protectionism and trade costs (UNCTAD 2020).

Implications for stakeholders

Nearly all of the considerations and recommendations presented so far are nothing new, and they are not exclusively related to FDI. If implemented consistently, broader liberalization of all aspects of life in Central Asia is likely to bring much-needed improvement in the social, economic, and educational conditions of the population. They might have a positive impact on the image of the countries abroad. All of these are likely to boost the interest and actions of investors in the long term. However, the extent of the much-needed measures taken by the governments in the region would ultimately depend on their willingness to surrender tight control over various areas of the respective economies and societies. As the trend of the long-term decline in hydrocarbon and other export revenues continues, the countries should increasingly adopt the best management practices standard for most neighboring regions. The best practices should be used instead of the particular policies the government could afford to rely on in the past when prices of oil and gas and other major commodities of Central Asia were high. Those unique ways of running the economy and doing business, also known as "the national path," for many years differed sharply not only from other post-Soviet countries but also from most neighbors in Eurasia. The local officials frequently stated the need to understand "the local ways" and a gradual low-risk approach as an excuse for their resistance to further liberalizing economies. The rule of law and democratization accompanying liberalization efforts could be perceived as a threat to political stability and control. Given high uncertainties and opaque decision-making at the top levels of power in governments of the countries, it is difficult to judge whether and how much the economies of Central Asia would succeed in giving up excessive political control to gain obvious benefits of liberalization towards higher investments and growth. The potential benefits could convince the ruling elites to take bolder steps towards bringing "local specifics" closer to the best international standards of transparency and the rule of law. Political stability up to a specific limit has its apparent benefits for attracting investment, but not at the expense of stifling growth in other areas of the development potential of the economy. Ruling elites need to realize that excessive focus on stability is likely to destabilize the economic and social situation, in the long run, thus threatening the cherished control they might be benefiting from. International organizations could have an essential role in persuading governments to implement necessary reforms, which is discussed later in this section.

As already mentioned, adequate human capital is a necessary condition for FDI inflow to positively impact growth in the long run (Moid 2018). Central Asia certainly has room for improvement in the R&D and education sectors (Ovezmyradov and Kepbanov 2020). It should be noted here that progress in the closely interrelated issues of low investments and inadequate human capital go hand in hand with the lack of liberalization in respective countries, leading to brain drain and preventing attracting the best talent. Shortage of qualified workforce and low R&D performance threaten plans and policies of the governments aimed at advancing positions of Central Asian countries in the global value chains. In addition to human capital, the reforms related to FDI should focus on issues that are known to affect investment decisions: corporate governance (corruption, transparency); social and economic stability; transparent and reliable administrative processes; fair taxation and competition policies; and socio-economic issues including human rights and security (World Bank 1997). Earlier studies in post-Soviet countries also determined good governance, economic freedom, and perceptions of corruption to be crucial for improving FDI and avoiding stagnation (Kenisarin and Andrews-Speed 2008). Furthermore, as the example of Argentina in the 90s illustrated, successfully opening a country to FDI and attracting enormous foreign investments alone cannot maintain long-term growth without addressing structural weaknesses of the economy. Even countries taking necessary measures to attract FDI can wait for very long until reforms bring desired investments, as the aforementioned example of Kyrgyz Republic illustrated. The path to improving investment climate could take a long time, but failure to take timely measures while staying complacent with high FDI and revenues in extractive industries will lead to an inevitable loss of competitiveness in the fast-changing world.

Good governance, transparency, green economy, and sustainable debt in Central Asia remain significant issues in negotiating terms of investments from certain countries. The importance of FDI from developed countries and institutional investors with high standards of social responsibility was previously highlighted. Western states long considered the chance that economic and trade engagement (of which FDI are important part) could stimulate necessary political reforms in developing countries, and rightly so. Critics argued Central Asia depended heavily on external capital flows that could finance and empower authoritarian governments but provided little financial strength to local businesses (Bayulgen 2005). Central Asian countries rich in natural resources benefiting from booming hydrocarbon revenues did not have to rely as much on efforts to improve institutions (Billmeier and Massa 2007). Earlier Western support of democratic and economic transition, in the form of TACIS and similar programs, was mostly devoted to technical measures to be taken by Central Asian partners for facilitation of economic exchange, while there was less discussion of the political and institutional objectives (MacFarlane 2002). Compared to other states of Central Europe and CIS, the E.U. encountered larger difficulties in movements of Central Asian states on the rule of law, rights, democratization, and integration of the regional economies outside the energy sector (MacFarlane 2002). In fact, the differences among Central Asian countries in terms of the capital flows could explain why some of them moved towards more authoritarian rule while others remained in hard authoritarianism (Bayulgen 2005). Global investors could indeed offer more incentives for reforms aimed at market and political liberalization. In the past, more authoritarian states could afford to ignore or even deride the efforts of international partners to promote liberalization when foreign aid and loans tied to necessary political reforms were negligible relative to private investments in extractive industries (Bayulgen 2005). Furthermore, even in countries with a high share of ODA in Central Asia, progress in liberalization could differ, as Tajikistan and Kyrgyz Republic demonstrated. The experience of IMF in Central Asia is highly illustrative of fundamental changes occurring when international partners successfully persuaded national elites into a shared way of thinking about the economy and the limits of the state's role. Elites could take into account the future material benefits through cooperating with the IMF to receive external financing, but considerable political investment in institutional change and policy learning play important roles in shaping political outcomes (Broome 2010). These effects could explain the earlier differences in foreign involvement: a substantive change in a regime's policy orientation in the case of IMF-friendly policy in the Kyrgyz Republic, less durable change in Kazakhstan when the government encountered domestic resistance towards top-down changes, and the government quickly abandoning recommended policies in Uzbekistan. Importantly, 2020 appears to be the right time for the Western partners of Central Asia to renew efforts supporting institutional change as most countries in the region seek ways to move away from an unsustainable reliance on exports.

FDI by no means can be considered the most important type of investment promoting political reforms. Conditions of FDI and especially ODA are rarely tied to implementing necessary changes in private and public sectors. In fact, MNEs could even prefer dealing with an authoritarian leader in the region for "one-stop shopping" in getting a major investment deal rather than negotiating with strong institutions rigorously enforcing high standards (Bayulgen 2005). FPI (for instance, in the form of government bonds) and commercial loans (for example, IMF loans) allow more pressure for political reforms in transition to democracy and market economy. Foreign capital thus can promote pluralism by augmenting the resources to local businesses and shifting to the rule of law that reduces the costs of doing business and favors liberalization in alternative sources of power in society to challenge and curb the authoritarian or despotic tendencies (Bayulgen 2005). Donor and recipient countries could increase funds that support important areas to investment decisions for the development of synergies between FDI, FPI, loans, and ODA. This should include more consistent efforts to develop institutions and policies. Some donor countries and institutions such as the World Bank could focus on the mechanism of output-based aid where agreements are established between government agencies and the private sector to deliver specific services. Central Asia should become more open to reforming its institutions and expanding privatization in order to benefit from combined loans, FDI, FPI, and ODA inflows. The shifting priorities of the E.U. and the new American administration after the global pandemic outbreak present new opportunities for supporting environmental protection, renewables, institutional reforms, and other initiatives among partners in the region that benefit the wider populations rather than narrow groups. Strengthening institutions and human capital are key areas where developed countries assisted in Central Asia. "Promotion of the Rule of Law in Central Asia" (commissioned by German Federal Ministry for Economic Cooperation and Development) and "Central Asian Law: Legal Cultures and Business Environments in Central Asia" are examples of the recent projects supported by the E.U. that are relevant for efforts to improve the investment climate in the region. International partners should continue redistribution of investments away from less sustainable sectors such as fossil energy to those contributing to Sustainable Development Goals. This is particularly relevant for rural and vulnerable populations as private investments in the agricultural sector might be low due to the limited potential for irrigation and productivity in landlocked and arid area locations (Woertz 2008). Finally, stakeholders should support intra-regional investments between the countries within Central Asia, which have considerable potential and opportunities that remain to be realized as the regional cooperation grows.

Conclusion and limitations

As a distinct area attracting direct foreign investments on the world map, Central Asia achieved certain progress in attracting foreign direct investments globally in the first three decades after gaining independence. In drawing the attention of investors, governments of respective countries in Central Asia have been implementing necessary reforms, but the recent trend of decreasing global and regional FDI indicates that policies should be reconsidered and extra measures are to be implemented. Concern remains about whether the investments from major countries of origin would actually contribute to sustainable development in the long term because of their focus on extractive industries, unfavorable financing terms, lack of skilled workforce, and the low priority of socio-political objectives for sustainable development in the agreements. Another related concern is foreign investment concentrated in extractive industries, with the countries becoming overly dependent on a single origin with unfavorable financing terms. Advancement in liberalization and a stable environment seems to be a key element of making the countries more attractive for foreign partners even without considerable hydrocarbon resources, as an example of Kyrgyzstan and, more recently, Uzbekistan demonstrated. The region lacks human capital, one of the most important conditions for upgrading the position of the countries in global value chains and the overall positive impact of foreign investments in the long term. Legal reforms and technological upgrades alone would not suffice. Consequently, concrete progress in fostering closely interrelated aspects of democratization, the rule of law, and human capital is an area of improvement to both attract and maximize the benefits of FDI for local populations in the long term. However, the future progress of each country in the region is highly uncertain and could ultimately depend on the willingness to surrender the excessive government control over various aspects of Central Asian economies.

Results and implications presented in this report have their clear limitations. Accurate and up-to-date data on national-level FDI flows are the main concerns of the analysis this report is based upon. Discrepancies existed in values reported by different sources. Future work should focus on combining comprehensive data analysis with deeper investigations of root causes of negative changes in the investment climate. Also, a deeper analysis of the most recent state of foreign investments in Central Asia from the perspective of global value chains is necessary considering the global changes caused by the pandemic outbreak.

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