

# **Map of investment attractiveness of the countries of Central Asia and the South Caucasus**



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## Introduction

The countries of Central Asia and the South Caucasus in 2021 will celebrate the 30th anniversary of independence. This is a sufficient period to form a new model of the economy, to identify long-term development goals, to develop models for interaction with investors, including foreign ones.

For almost three decades of separate development, they have led to a significant stratification of the former Soviet republics in terms of national wealth and the specific nature of their economic activity. And this despite the fact that by 1991 the standard of living, educational standards were approximately similar in all countries. With rare exceptions, countries over the past time have not been able to seriously reformat the economic, and in some countries political models inherited from the USSR.

Assessment of the investment attractiveness of the state is an effective marker / indicator in the analysis of the systematic work of the state as a responsible actor in domestic economic policy and in foreign markets, the responsibility of its approach in working with non-state internal and external players.

Unfortunately, it could be stated that, with rare exceptions, the countries of the region have failed to achieve serious successes in creating a competitive, diversified, open economy, with an effective system of protecting private property and investor rights. Moreover, basically the countries of the region did not even formally set such a goal for themselves, and from the very beginning of independence they made maximum use of the industrial heritage of the USSR, which had formed the way of the economy by that moment. At the same time, in modern conditions, without attracting foreign investment, using best practices and technologies, none of the states can count on high-quality development, improving the socio-economic situation.

Investors' interest in the countries of Central Asia and the South Caucasus is facilitated by the systematic development of regional integration projects, as well as transport infrastructure in the framework of a number of large projects, such as the Silk Road Economic Belt, the Southern Energy Corridor, North-South, TRACECA and etc. The final choice of the country for investment is determined as a result by a complex of important factors.

The purpose of this study is to create a ranking of the countries of Central Asia and the South Caucasus, which are the most promising, potentially profitable for investors and safe from the point of view of doing business and protecting property rights. Assessment of investment attractiveness was carried out on the basis of an analysis of the development of the countries of the region, an assessment of the sustainability of the work of political institutions, an assessment of economic potentials, openness and "friendliness" in relation to domestic and foreign investors.

According to the results of the study, the following rating was formed:

#### **Kazakhstan №1**

Advantages: a serious economic potential, a capacious market (19 million people + markets of the EAEU countries), rich natural resources, a legislative base focused on attracting investors, the presence of a set of programs for the development of a non-resource-based economy, and accordingly, the creation of favorable conditions for investors in these areas.

Cons: political risks associated with the uncertainty surrounding the transit of power, the presence of intra-elite conflict potential, corruption risks, a difficult interethnic situation.

#### **Azerbaijan No. 2-3**

Advantages: significant resource potential, good transport accessibility and developed transit opportunities, a relatively capacious market (9.5 million people), an economic policy focused on the admission of foreign investors, measures to reform the economy, diversify it and increase attractiveness for investors.

Cons: high foreign policy risks (the threat of armed conflict with Armenia), mainly the monopoly, semi-closed nature of the non-oil economy with the dominance of large domestic players, corruption and bureaucracy of the state apparatus, a high degree of state regulation of the economy.

#### **Uzbekistan No. 2-3**

Advantages: a capacious domestic market (over 34 million people), a diversified economy, the availability of its own resource base, political stability, large-scale plans of the new President of the Republic Sh. Mirziyoyev to systemically reform the economy of the republic and create favorable conditions for investors.

Cons: strong state intervention in the economy, weak financial system, corruption and bureaucracy especially in the regions, the presence of social contradictions, low purchasing power of the population, low qualification of labor resources.

#### **Georgia №4**

Advantages: favorable conditions for doing business, favorable transit location, relatively diversified economy, strengthening economic and migration ties with the European Union.

Cons: deep structural problems in the economy due to a breakdown in relations with traditional economic partners, the presence of unresolved territorial disputes (the situation in Abkhazia and South Ossetia, the conflict with Russia), permanent political instability, risks of social protests.

#### **Kyrgyzstan №5**

Pros: relatively liberal legislation, the work of the authorities to create favorable conditions for investment, inexpensive labor, favorable conditions for the development of agriculture, light industry and tourism, the country's participation in the work of the EAEU and access to a single association market.

Cons: state intervention in the economy, a number of serious precedents for the difficulties of foreign investors in implementing projects in the republic, repeated review of previously reached

agreements with foreign investors, lack of political continuity, high risks of political instability, the spread of Islamic ideology, narrow domestic market, low qualifications of the workforce .

#### **Armenia №6**

Pros: relatively diversified economy, skilled labor force, relatively favorable investment climate.

Cons: high foreign policy risks (threat of armed conflict with Azerbaijan), transport blockade, insignificant resource base, social contradictions.

#### **Tajikistan №7**

Pros: low-cost labor, the presence of a number of minerals and a favorable climate for the development of agriculture.

Cons: underdeveloped infrastructure, narrow domestic market, high risks of political destabilization, corruption and bureaucracy, state intervention in the economy, and lack of real mechanisms for entrepreneurs to protect their rights.

#### **Turkmenistan №8**

Pros: the presence of large hydrocarbon reserves, high transit potential, political stability and continuity of the economic course, the adoption by the authorities of measures to reform the economy, maintain stability in society.

Cons: total control of the state (the president and his family in the first place) over the economy, lack of protection of property rights, high corruption and bureaucracy, the Islamization of society, the risk of destabilization due to the crisis in Afghanistan, dependence on hydrocarbon exports.