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LEVERAGING THE POTENTIAL OF A NEW GENERATION OF INDUSTRIAL PARKS, ZONES AND CITIES IN AZERBAIJAN, TAJIKISTAN, TURKMENISTAN AND UZBEKISTAN

DIAGNOSTIC STUDIES



AZERBAIJAN

UZBEKISTAN

TAJIKISTAN

TURKMENISTAN

CHINA

Leveraging the Potential of a New Generation of Industrial Parks, Zones and Cities in Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan

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Preface

In September 2013, Chinese President Xi Jinping formulated his foreign policy priority—to revitalize the ancient Silk Road, which connected Asia and Europe and enabled trade and cultural exchange to flourish, in the new Belt and Road Initiative (BRI). The BRI aims to make economic and cultural ties closer; improve communication; and encourage flows of capital, knowledge and labour, with expected positive spillovers reaching far beyond the Central Asian region.

The scale of the initiative is unprecedented, with almost a trillion dollars in commitments to infrastructure projects, including transport (roads, rail, maritime, ports and airports) and energy supply. The BRI has the potential to improve billions of people's lives and to offer them new opportunities to realize the Sustainable Development Goals (SDGs). Nearly two-thirds of the world's people fall in the BRI's scope. It has enormous potential to connect large trading markets in Asia with Europe, crossing often sparsely populated areas of Central Asia and its landlocked countries.

The vision and concepts of the BRI are based on the idea that low economic density can be addressed by spatial economic development strategies and hub-and-spoke development approaches. Such strategies use spatial economic policy instruments such as growth poles, growth corridors, special economic zones, industrial parks and innovation areas. Hub-and-spoke approaches assume that investment in transport, logistics and industrial corridors, special economic zones, and industrial parks can accelerate economic growth and diversification by enabling low-cost trade in goods and services; easing the flow of capital, knowledge and labour; facilitating intra-regional trade and linkages to regional and global value chains (GVCs); and integrating markets. Industrial agglomerations and other growth benefits could be realized from “hub development” around transport nodes and urban and industrial centres. By

linking industrial and logistics hubs, economic linkages and networks may extend over an even larger mega-regional area, dramatically expanding markets and the division of labour, and shaping patterns of regional economic development.

As part of its assistance to the countries of Central Asia to achieve inclusive and sustainable industrial development (ISID) through economic diversification and economic corridor development, UNIDO initiated a project on leveraging the potential of industrial parks, zones and cities for fostering inclusive and sustainable industrial development in Central Asia, in close cooperation with the Central Asia Regional Economic Cooperation (CAREC) Programme. The CAREC Programme is a partnership of 11 countries¹ and multiple development partners working together to promote connectivity that leads to accelerated economic growth and poverty reduction, for which the Asian Development Bank (ADB) serves as the secretariat. CAREC's integrated strategy defines goals and action plans fostering connectivity and regional economic integration among the member countries, sharing the vision of the BRI.

Once connectivity and policy harmonization are established, CAREC seeks to leverage the benefits of industrial and economic corridors, graduating from infrastructure connectivity to trade and economic connectivity. Six CAREC corridors crisscross the region from Kazakhstan in the north to Afghanistan and Pakistan in the south, and from Western China in the east to the Caucasus in the west. Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan are important transit countries along several of these corridors. This UNIDO–ADB project focuses on CAREC Corridor 2 countries. Connecting East Asia to the Caucasus and the Mediterranean and comprising Azerbaijan, China, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, CAREC Corridor 2 has 9,900km of roads and 9,700km of railways.

The ADB project selected Kazakhstan and Kyrgyzstan as pilot project countries, and the UNIDO project focuses on Azerbaijan, Tajikistan, Turkmenistan and Uzbekistan. These countries are highly diverse in geography, economic structure and natural resource endowments. Independent of income level, they face common challenges, such as increasing economic inequality, environmental degradation and weak intra-regional trade. Consequently, the industrial base tends to be narrowly diversified in most countries, and a slump in commodity prices and sluggish economic growth everywhere mean that resource-rich countries, which depend on commodity exports, are the most vulnerable. The focus of this project on fostering ISID is therefore timely for all countries in the region.

The project demonstrates a commitment to realizing the 2030 Agenda for Sustainable Development and its 17 SDGs. In SDG 9, the international community recognized the nexus of industrialization, infrastructure and innovation. Industrialization is important because of its multiplier effect on all economic sectors. ISID is the key to promoting sustainable economic growth, employment and decent work for all—SDG 8. Industry is fundamental to ending poverty in all its forms everywhere—SDG 1. Industry, by providing jobs and expanding the fiscal revenues needed for social investment, can boost capacity of governments for inclusive development. Efficient, reliable and safe transport infrastructure and services are crucial for connectivity and regional economic integration.

The ability to create, adopt and adapt new knowledge has become a major source of competitive advantage, wealth creation and well-being of people. Innovation, technology and entrepreneurship are engines of economic growth. Innovation and technology foster prosperity and competitiveness, environmental and social attainability, industrial diversification and an improved quality of life. New digital technologies have created opportunities for ensuring sustainable consumption and production—SDG 12.

During project development, UNIDO worked closely with the ADB to align the objectives,

outcomes, outputs and activities of each organization's project. The common objective of this partnership project is to foster ISID in the six project countries connected by CAREC Corridor 2. The outcome is better understanding of the role of a new generation of science, industrial and technology parks, zones, and cities and other territorial units for realizing SDGs. Both projects used the same methodology and approach to working with counterpart institutions and to producing and reporting on the outputs of the project.

To achieve its objective and outcomes, the project facilitated the establishment of an industrial park knowledge-sharing platform for officials at the national, local and city levels and representatives from the private sector, academia, civil society, international organizations and development finance institutions. The platform enabled mapping of regional needs, networking, and sharing of information, best practices and experience among various stakeholders on how to leverage static and dynamic advantages of special economic zones (SEZs) and industrial parks in their various forms and their positive synergetic effects with economic corridors. The platform also stimulated multi-stakeholder dialogue on building partnerships to scale up investment in ISID and organized three country site visits. In total around 400 experts, practitioners, policy-makers and academics contributed to this platform.

The project further produced a Strategic Framework for Leveraging a New Generation of Industrial Parks and Zones for Inclusive and Sustainable Development; Country Diagnostic Studies; and an Action Plan for follow-up activities in the region, each presented as a standalone publication. The Strategic Framework identifies critical issues and outlines the major steps to be taken for establishing and managing an industrial park. It provides guidelines, in accordance with international best practices, supporting the decision-making process on establishing zones and parks, and their operation, and enhancing existing parks and zones' effectiveness in promoting ISID. Parks and zones can be adapted to different economic and political settings—from less developed

countries, to transition economies, to resource-based economies to middle-income countries. The challenge for governments is to ensure that they are used most effectively and efficiently within a given country context. For example, the government of China has more than 140 industrial zones and parks, some more successful than others, and many developing countries counting on the parks and zone instruments can learn from China's experience. The Strategic Framework is a road map in that direction.

The diagnostic studies highlight the main features of special economic zones (SEZs) and industrial parks in each project country and their performance, taking into account the zone development phase, and suggests recommendations to improve their cost-effectiveness, aligning them to global best practices and thus making them an effective tool for fostering ISID.

The Action Plan sets out the overall objective, outcomes, outputs and activities with the greatest potential to benefit the project countries during the project's second phase. The goal is to provide inputs to the design of programmes and policies for developing

zones and parks in their various forms, including eco-industrial parks, in the project countries. The participation of all CAREC countries will strengthen collaboration and regional integration and create a solid base for future work with UNIDO and for the pursuit of the SDGs.

This report presents country diagnostic studies and is organized as follows. Chapter 1 provides the purpose, contribution and organization, and methodology of the country diagnostic studies. Chapter 2 provides an overview of economic development and government policies in the project countries. Country diagnostic studies describe the status of zones and parks in each country and are presented in Chapters 3, 4, 5 and 6. Chapter 7 presents conclusions and recommendations on how to use parks and zones more effectively.

Note

1. Afghanistan, Azerbaijan, China, Georgia, Kazakhstan, Kyrgyzstan, Mongolia, Pakistan, Tajikistan, Turkmenistan and Uzbekistan.

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Abbreviations

ADB	Asian Development Bank	ISID	Inclusive and Sustainable Industrial Development
ADR	Alternative Dispute Resolution	IT	Information Technology
AIC	Azerbaijan Investment Company	KPI	Key Performance Indicator
ANAS	Azerbaijan National Academy of Sciences	LLC	Limited Liability Company
CAREC	Central Asian Regional Economic Cooperation	MOE	Ministry of Economy
CASA	Central Asia and South Asia	NDS	National Development Strategy
CIS	Commonwealth of Independent States	R&D	Research and Development
EBRD	European Bank for Reconstruction and Development	SAARES	State Agency on Alternative and Renewable Energy Sources
EU	European Union	SCIP	Sumgait Chemical Industrial Park
FDI	Foreign Direct Investment	SDG	Sustainable Development Goal
FEZ	Free Economic Zone	SEZ	Special Economic Zone
FTZ	Free Trade Zone	SME	Small and Medium Enterprises
GCI	Global Competitiveness Index	TAPI	Turkmenistan-Afghanistan-Pakistan-India
GDP	Gross Domestic Product	TP	Technological Park
GII	Global Innovation Index	UNDP	United Nations Development Programme
GNI	Gross National Income	UNIDO	United Nations Industrial Development Organization
HDI	Human Development Index	VAT	Value-added Tax
ICT	Information and Communications Technology	WTO	World Trade Organization
IIT	Intra-industry Trade		
ILO	International Labour Organization		

All references to dollar and \$ are to the US dollar unless otherwise noted.

Chapter 1

Diagnostic studies' purpose and approach

The diagnostic studies provide an overview of the features, functioning and effectiveness of existing or planned economic zones and parks in the project countries and suggest measures for improving their effectiveness, aligning them to global best practices and thus making them an effective tool for fostering ISID (see Box 1.1. on the potential of zones and parks based on the strategic framework produced).

Purpose

The purpose of the diagnostic studies is to identify critical issues, formulate guidelines (in accord with international rules and best practices) and recommend pathways, rather than solutions, to:

- Improve the decision-making process for the creation and operation of new zones.
- Enhance the role and effectiveness of existing zones, or redefine/reorient zones' functions, to boost their potential to promote economic and social development in their regions or areas.

Contribution and organization

The diagnostic studies consider the economic policy priorities of the governments, as well as global and regional factors that affect their development trajectories. They further highlight the main features of zones and their performance, taking into account the zone development phase, and suggest recommendations to improve their cost-effectiveness.

The diagnostic studies outline:

- The macroeconomic situation in each country.
- The status of special economic zones, industrial and technology parks, including their key features and the state of their operation.
- Different typologies of existing and planned parks, zones and other territorial units.
- The laws and regulations governing SEZs, including the proposals for their reforms.
- The main legal provisions with impacts on SEZs.
- Gaps and obstacles.

- Recommendations for policy and regulatory reforms, where necessary.

The studies were prepared with experts and other stakeholders in the countries.

Methodology

The methodology is based on a quantitative and qualitative analysis of data from primary and secondary sources, crosschecked against information provided by stakeholders during on-site visits and supplemented by insights into the legal and institutional framework from reviews conducted with the support of national consultants.

Reviewed sources include government strategy plans and reports, laws and regulations, publications, information on the zones from official websites, reports of international forums and meetings, and the relevant literature.

The analysis was conducted as follows:

- Collection and assessment of information and data.
- Identification of the criteria and parameters for obtaining a homogeneous system of data.
- Fact-finding missions to the project countries to verify and validate collected information and to conduct interviews with stakeholders.
- Analysis of information and diagnosis:
 - In-depth off-site desk review of documentation.
 - Synthesis of interviews, verification and validation of on-site information collected.
 - International benchmarking with worldwide best practices, with particular focus on countries with similar political, economic and social scenarios.

The following resources were used:

- UNIDO internal expertise, provided by a team of national and international experts and supported by the outcomes of previous and ongoing UNIDO activities.
- Government partners' documentation and technical contributions, through an integrated consultation process.

Box 1.1

The great potential of zones and parks

Many transition economies face market imperfections and barriers, as well as scarce access to information, new technological knowledge and finance. They must also deal with high transaction costs, working with poor infrastructure and weak institutions. SEZs and industrial parks can help overcome these hurdles and accelerate economic development. They are useful for attracting investment, fostering technological learning and innovation, and creating jobs. With the potential to generate comparative and competitive advantages, zones and parks attract innovative businesses, leading to more jobs and a larger tax base. They support start-ups, new enterprise incubation and the development of knowledge-based businesses, while offering an environment where local and international firms can interact with a particular centre of knowledge creation for mutual benefit.

Zones and parks serve several policy objectives, such as attracting investment, boosting exports, creating jobs, enhancing competitiveness and promoting broader economic transformation, while adhering to universal labour and environmental norms. For example, in Taiwan Province of China and in Malaysia, they were used to compensate for infrastructure deficiencies and introduce flexible policies targeting priority industries. In China, SEZs have been vital for introducing most of the key reforms to land, finance and labour.

In an overall development strategy, industrial parks can be valuable for increasing regional and national industrial competitiveness and for arresting negative externalities associated with urban congestion and a “brain drain.” Given that one of the major causes of the failure of small and medium enterprises (SMEs) in industrializing countries is their lack of finance and of managerial and entrepreneurial skills, industrial parks can help stem highly skilled migration (the brain drain) and attract qualified individuals back to their countries of origin to plug skills shortages, in a “brain gain.”

Zones and parks are usually planned and built according to a comprehensive plan with provision for roads, transport and public utilities for the use of enterprises (the physical infrastructure). By providing adequate infrastructure, modern administrative services and a legal and institutional framework that may not be available elsewhere in the country, industrial parks reduce costs and risks. They are also designed to meet the needs of industrial enterprises in a particular region or community by offering modern business development services, such as information and communications technology (ICT). They lower costs through economies of scale in providing common services and facilities. Buyers, producers and suppliers can operate in the same locality, reducing the transaction costs of economic learning while establishing new standards and norms of entrepreneurial behaviour. Firms in industrial parks also often use the services of local companies, creating backward and forward linkages with the local economy and diffusing economic learning to the wider business community. A concentration of certain types of industries and of industrial support services attracts investors to the zone and park.

More sophisticated industrial parks offer a wide range of common facilities and support services, such as consulting, financial services, training, technical guidance, information services, joint research facilities and business support services to satisfy the corporate and technological needs of tenants. They pool resources to make and market goods and to meet large orders. They generate off-shoot companies and provide fertile grounds for cross-fertilizing ideas. Successful industrial parks can therefore become growth and innovation hubs, creating high-growth regions and directing national economic development. As a place for enterprise and innovation to flourish, successful industrial and technology parks are therefore key for the economy.

Source: UNIDO 2018.

- Legal and economic assessments and reports already conducted or written by other international organizations.
- Other surveys conducted on- and off-site through interviews and questionnaires targeting the main stakeholders.

Aspects reviewed

The country studies reviewed the following aspects:

- Background to the zones, that is, decision-making criteria, laws and procedures for national planning, location and development of zones.
- Current situation of each zone, such as sectoral focus; SME development; private sector involvement; environmental protection; and legal and operational framework, including incentives, services, administration structure and infrastructure.
- Each zone's impact on and relations with surrounding territories and communities, in terms of spillovers, including protection and improvement of the neighbouring natural and social environment.

This approach appears realistic, pragmatic and conducive to formulating implementable recommendations in the overall context of the project countries.

In line with this approach and beyond the full review of documents, ad hoc schedules were prepared to raise awareness of local consultants/competent institutions and to allow them to identify the basic problems, and in this way provide the team with useful and homogeneous data.

Legal and institutional issues

The key provisions of the main legal deeds were first examined by national consultants and/or by institutional counterparts, on the basis of structured questionnaires targeting key issues. Feedback and data were jointly reviewed by experts.

Relevant laws and regulations were usually identified before on-site visits. The elements gathered were verified during on-site meetings and then streamlined to final instructions received. It must be emphasized

again that the assessment was made only along the perspective of zone development and operation.

The specific methodology involved:

- Review of the current legal framework (laws and regulations in place) governing establishment and activities of all types of zones and the assessment of the implementation of relevant rules.
- Review of relevant pending legislation or reform proposals (including all relevant law proposals/draft amendments to existing laws submitted to, or in the process of being prepared for submission to, the competent authorities).
- Selection of legal core areas to be assessed, given lack of specific provisions governing all aspects of business operations within the zones and consequent need to identify other applicable rules.
- Assessment of laws and regulations belonging to such areas and analysis of relevant provisions.
- Gathering of information through consultations and during meetings with high-level local institutions, other international organizations and other stakeholders.

The legal core areas were identified as:

- Investment, company and commercial regime.
- Land and building licensing regime.
- Private property protection and intellectual property rights.
- Taxation/customs regime and transfer of capital and funds.
- Employment and immigration regime.
- Environmental regime.
- Banking/finance regime.
- Dispute resolution.

Legal texts—collected and translated by national consultants—with legal surveys provided by national consultants or institutional counterparts, were analysed to identify zone development prospects in each project country, allowing for a subsequent comparison among country scenarios and to enable recommendations.

The diagnostic studies raise transparency of the legal frameworks and make recommendations for more effective rules and regulations, enabling evidence-based policy-making.

Analysing laws and regulations in force is easier than ascertaining their actual enforcement—in other words, the way they have been interpreted and implemented by the competent public institutions. Thus a second phase of the project should envisage provision of technical support to public authorities to better implement their legal framework in line with international standards.

Chapter 2

Economic development and government policies

After independence in the early 1990s, the countries suffered sharp economic contractions. Tajikistan's GDP fell by 29 percent and Uzbekistan's by 11.2 percent in 1992, Azerbaijan's by 23.1 percent in 1993 and Turkmenistan's by 17.3 percent in 1994. By the late 1990s, all had returned to growth, but during the next two decades growth was erratic. Huge challenges remain in all four countries to increase trade through competitiveness, diversify from natural resource extraction, connect transport and energy infrastructure, lower the costs of doing business, and facilitate trade and cooperation. Table 2.1 provides economic, social and environmental data for the four project countries.

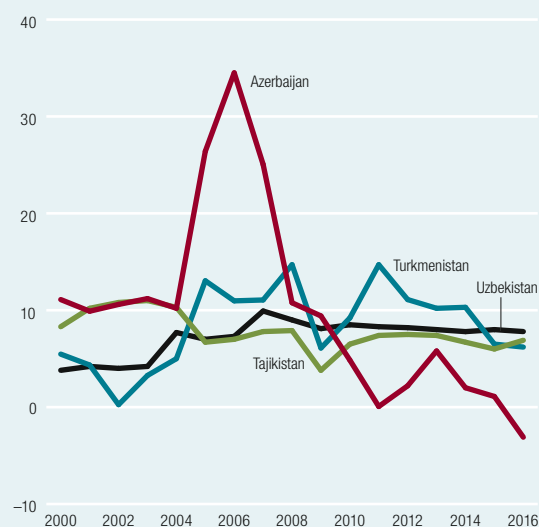
In recent decades, the economic performance of Central Asian countries has been linked to the exploitation of natural resources, mainly oil and gas in Azerbaijan, Turkmenistan and Uzbekistan. Between 2000 and 2016 GDP growth rates oscillated, with some of the countries repeatedly achieving double-digit annual growth. Azerbaijan's GDP grew by over a third—34.5 percent—in 2006 (Figure 2.1). For the other countries, GDP expansion broadly kept within the 0–15 percent range. Growth rates fell in all countries after the global financial crisis in 2008 (in Azerbaijan it had already started a downward trajectory two years previously, even though GDP still grew by 25 percent in 2007). And since 2012 Turkmenistan and Azerbaijan have experienced persistent downward trends, the latter seeing contraction of 3.1 percent in 2016 due to reliance on exports of oil and gas and the sharp fall in the global price of these commodities. Uzbekistan and Tajikistan have seen stable growth of around 8 percent and 7 percent, respectively, since 2010.

Since independence, the processes of transition have opened national markets to global forces and fierce competition, while weakening the power of the state to regulate the economy. The restructuring

of industries is still far from complete. Economic performance has been affected by external factors, including falling global prices for natural commodities, which are large export earners; economic recession and slowdown in trading partners, notably China and the Russian Federation; and a sharp reduction in remittances from the countries' many migrants working in neighbouring countries (especially the Russian Federation) caused by economic woes and currency fluctuations. Many countries in the region, including the Russian Federation and Kazakhstan, have experienced currency devaluations in recent years, mainly caused by falling oil prices.

A key issue for Central Asia and Azerbaijan is therefore how to pursue economic growth not based on the extraction and export of primary commodities, and make the shift towards an economy based on diversified exports of value-added goods and services, with a strong SME sector.

Figure 2.1
GDP growth (annual %), 2000–2016



Source: World Bank. <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2016&locations=AZ-TJ-TM-UZ&start=1999>.

Table 2.1

Macroeconomic data for the countries

	Azerbaijan	Tajikistan	Turkmenistan	Uzbekistan
Population (millions) (2016)	9.76	8.7	5.6	31.8
Surface area (thousand sq. km) (2017)	86.6	143	491	448
GDP [PPP] (\$ billions) (est. 2017)	174.6	27.8	103.9	222.7
GDP [PPP] per capita (est. 2017)	17,857	3,146	1,877	7,023
GDP (\$ billions) (est. 2017)	41.2	7.24	42.3	68.3
GDP per capita (est. 2017)	4,439	819	7,645	2,154
Gini	31.8	30.8	40.8	36.7
HDI (2015)	0.76	0.63	0.69	0.70
GDP growth (annual %)	-3.1	6.9	6.2	7.8
Industry, value added (% of GDP)	51.68			32.85
Imports of goods and services (% of GDP)	43.67			20.64
Export value index (2000=100)	757.04	124.49	438.94	354.98
Exports of goods and services (% of GDP)	46.45			18.8
Agriculture, value added (% of GDP)	6.03			17.6
Research and development expenditure (% of GDP) (2015)	0.22	0.11		0.21
High-technology exports (% of manufactured exports) (2015)	2.5			
Global innovation index score (2017)	30.6	28.2		
Individuals using the internet (% of population) (2016)	78.2	20.47	17.99	46.79
Mobile cellular subscriptions (per 100 people) (2016)	106.28	106.68	157.66	77.32
Total patent applications (direct and Patent Cooperation Treaty national phase entries) (2016)	163			555
Total trademark applications (2016)	5,780	2,241	2,283	5,064
Total industrial design applications (direct and via the Hague system) (2016)	234	58	25	230
Total utility model applications (direct and Patent Cooperation Treaty national phase entries) (2016)	20			158
Charges for the use of intellectual property, payments (balance of payments, current \$) (2016)				
Trademark applications, direct non-resident (2015)	4,094	2,421	2,066	2,833
Trademark applications, direct resident (2015)	856	109		2,260
Infrastructure				
Global infrastructure ranks (2017)	5	4.2		
HDI rank (2015)	78	129	109	105
Life expectancy at birth (2015)	71.8	71	67.64	71.14
Duration of compulsory education (years) (2016)	10	9	12	12
Adult literacy rate (% of people aged 15 and above) (2016)	99.79			
Expenditure on education as % of total government expenditure (%) (2015)		16.27		
Educational attainment, at least completed lower secondary, population 25+, total (%) (cumulative) (2015)	95.6			99.88

Table 2.1 (continued)

Macroeconomic data for the countries

	Azerbaijan	Tajikistan	Turkmenistan	Uzbekistan
Lower secondary completion rate, total (% of relevant age group) (2016)		97.54		94.35
Population aged 15–64 (% of total) (2016)	70.98	61.44	65.01	67.69
Urban population (% of total) (2016)	54.89	26.89	50.39	36.47
Unemployment, total (% of total labour force) (ILO modelled estimate) (2017)	5.09	10.8	8.6	8.69
Unemployment, male (% of male labour force) (ILO modelled estimate) (2017)	4.4	11.5	8.8	8.8
Unemployment, youth total (% of total labour force aged 15–24) (ILO modelled estimate) (2017)	14.8	15.6	17.29	17.5
Employment total, ILO modelled estimates (thousands) (2017)	4,672	3,528	2,255	13,095
Employment in agriculture, ILO modelled estimates (thousands) (2017)	1,715	2,019	404	3,797
Employment in industry, ILO modelled estimates (thousands) (2017)	663	473	843	3,130
Employment in services, ILO modelled estimates (thousands) (2017)	2,295	1,036	1,008	6,167
Wage and salaried workers, total (% of total employment), ILO modelled estimates (2017)	35	56	67.4	71.69
Wage and salaried workers, male (% of male employment), ILO modelled estimates (2017)	37.7	54.29	71.69	69.9
Labour force participation rate, total (% of total population aged 15+), ILO modelled estimates (2017)	66.1	59.83	65.45	65.64
Labour productivity-output per worker (GDP constant 2011 international \$ in PPP), ILO modelled estimates (May 2017)	32,839	7,155	41,845	15,561
Rural poverty headcount ratio at national poverty lines (% of rural population) (2015)		35.2		
Multidimensional Poverty Index (2005–2015)	0.009	0.031	0.011	0.013
Population in multidimensional poverty headcount (thousands) (2005–2015)	210	623	144	931
Population living below income poverty line (%) (2012)	6	31.3		14.1
Access to clean fuels and technologies for cooking (% of population) (2014)	96.93	71.68	99.99	90.27
Intensity of primary energy (megajoules/\$2011 PPP GDP) (2014)	3.76	5.51	14.29	11.18
Electricity production from renewable sources, excluding hydroelectric (kWh) (2014)	92,000,000	0	0	0
Renewable electricity output (% of total electricity output) (2014)	5.62	97.13	0	21.35
Renewable energy consumption (% of total final energy consumption) (2014)	2.11	40.71	0.04	2.89
Electric power consumption (kWh per capita) (2014)	2,202	1,479.77	2,678.80	1,645.44
Natural resources depletion (% of GNI) (2010–2014)	19.6	1.1	35.7	9
CO2 emissions per capita (tonnes) (2014)	3.9	0.62	12.51	3.4

Source: UNCTADstat (<http://unctadstat.unctad.org>), World Bank Group, 2017, UNIDO, World Development Indicators: The Little Data Book 2017.

Trade¹

Central Asia's countries vary in their development, economic structure and diversification, and in their stage of transition to market-based systems. As seen over the last two decades, there are many challenges facing transition economies but also great potential to strengthen their global integration. Trade data can be used as an indicator of patterns and shifts in economic activities across countries and regions. Examining the bilateral trade of this region with other world regions and sub-regions will also help to distinguish shifting patterns of specialization.

The trade-to-GDP ratio is a useful tool for measuring the importance of international trade for a country and providing hints on its economy's involvement in global value chains. It is the aggregate value of imports and exports over a period divided by GDP for the same period. Of the project countries, Azerbaijan and Turkmenistan have the highest trade-to-GDP ratio, due mainly to high commodity exports (Figure 2.2).

All four countries saw falling growth of exports in 2015 (see Table 2.1), with Azerbaijan's tumbling by almost half. The countries exporting oil and gas (that is, not Tajikistan) saw exports rise hugely between

2005 and 2014, before falling back in 2015. Azerbaijan was the worst affected, with its export value falling from \$28.3 billion in 2014 to \$15.6 billion in 2015. Turkmenistan and Uzbekistan also witnessed their export values fall, though by less. Tajikistan's exports—trailing the group of countries significantly in value—bucked the trend by falling in 2014 and 2015. Imports by value grew in all countries between 2005 and 2014, but with only Azerbaijan recording continued growth.

The following four chapters analyse each project country's development in more detail, followed by a chapter with conclusions and recommendations.

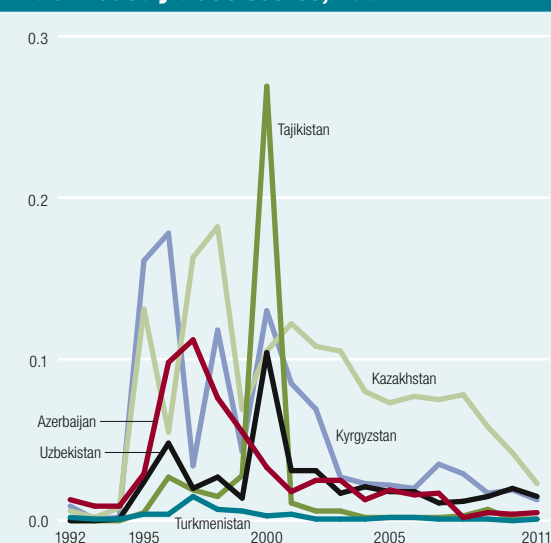
Intra-industry trade

Intra-industry trade (IIT) is the two-way trade (import and export) of products within the same industry, in contrast to inter-industry trade, which refers to the import and export of goods in different industries. IIT has increased substantially since the Second World War in all three product categories, primary, intermediate and final goods, but IIT in intermediate goods has grown fastest and especially in most globalized industries, such as automotive and electronics.²

IIT has advantages over inter-industry trade because growth in IIT is associated with expansion in trade through greater specialization and economies of scale.³ IIT is used as a proxy for participation in regional/global value chains (GVCs) and division of labour. Trends in IIT indicate changes to countries' production structures and the extent to which they can meet the requirements of the leading players in value chains and the markets they are supplying.⁴ Expanding IIT is an indication that countries are becoming more competitive on international markets.

A variety of factors, such as country size, FDI, per capita income, quality of human capital, economic geography and openness to international trade, influence levels of total trade and IIT between countries and regions. IIT is particularly high in economies that are very open and specialized in sophisticated manufactured products, such as chemicals, automotive and

Figure 2.2
Intra-industry trade scores, 1992–2011



Source: UNIDO calculations based on United Nations Comtrade data.

electronics. Such economies “are more likely to benefit from economies of scale in production and are easier to ‘differentiate’ to the final consumer, and so facilitate trade in similar products.”⁵ A large number of studies examining the consequences of the single market in the European Union (EU) are based on trade data from the EU. Evidence from bilateral trade data shows that IIT increases with integration and size of trading partners.⁶ Earlier studies have shown that the reduction of trade barriers increases the proportion of IIT in total trade.⁷ It follows therefore that global integration of markets should increase the proportion of IIT.

Research on IIT points to the impact that economic expansion will have on resource and labour allocations in an economy by highlighting the factor-market adjustment pressures that accompany expanding trade.⁸ As disparities between countries narrow, theory suggests that economies become structurally more similar. IIT can show whether this is in fact so. For developing and transition countries, an ability to increase IIT quickly means rising capabilities to meet different market requirements.⁹

Central Asian countries have much lower IIT than the EU, where IIT remained roughly stable between 1992 and 2010 (Figure 2.2). The four Central Asian countries had low IIT in 1992. Indeed, Tajikistan had a negligible score but recorded a high peak in its IIT score in 2000, rising from 0.030 in 1999 to 0.262 in 2000, sliding back to 0.013 in 2001. Uzbekistan had a similar peak in 2000, albeit much smaller. The general IIT trend in Central Asia over the period was erratic, with a downward trajectory in all countries since the early 2000s. Extrapolating from IIT scores for Central Asia, it appears that the countries are relatively unintegrated with international markets and division of labour.

Value added per sector in GDP

Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated by the World Bank without making deductions for depreciation of fabricated assets or

depletion and degradation of natural resources.¹⁰ The indicator, combined with other information, such as data on growth and employment, makes it possible to assess the relative importance of a particular sector to the national economy. For example, except for Tajikistan, agriculture’s share has been declining due primarily to the shift in focus to developing industry and the relative backlog in transition to more productive agriculture.

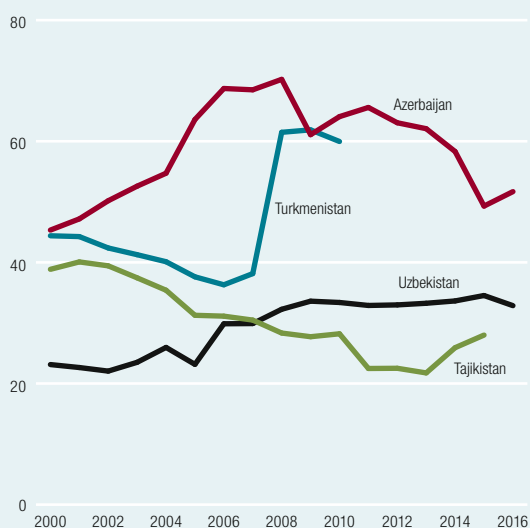
Agriculture includes forestry, hunting, and fishing, as well as cultivation of crops and livestock production. Industry comprises value added in mining, manufacturing (the World Bank also provides a separate subgroup), construction, electricity, water and gas. The service sector includes value added in wholesale and retail trade (including hotels and restaurants), transport, and government, financial, professional, and personal services such as education, health care, and real estate services.¹¹

The shares of agriculture, industry and services in GDP over 2000–2015 vary across the four countries (Figures 2.3–2.5). In Azerbaijan, agriculture accounts for the smallest share of GDP in all the countries, while industry accounts for the largest. Tajikistan’s agricultural sector accounted for roughly a quarter of GDP throughout the period. In Tajikistan and Uzbekistan the service sector accounts for around 50 percent of GDP.

Azerbaijan

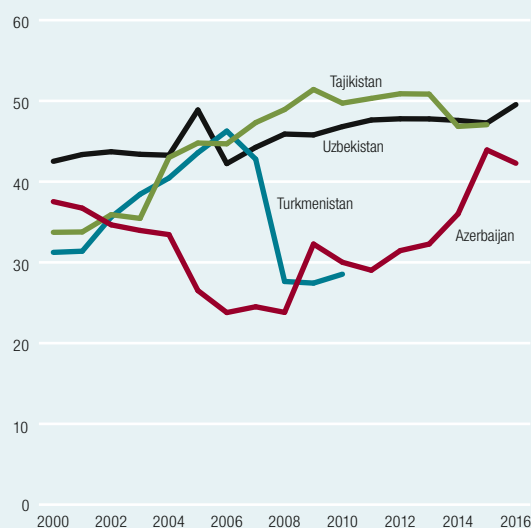
Industry’s share of GDP reached over 70 percent in 2008, and although it subsequently declined to just over 50 percent in 2016, it remains the highest among the four countries. The volatility of industrial value added to GDP is attributed to the economy’s reliance on petroleum exports. The service sector share of GDP has risen in recent years and accounted for 42 percent in 2016. As the overall employment rate is rising and the unemployment rate is decreasing, the service sector is providing some new jobs. Despite Azerbaijan’s decline in the share of agricultural value added in GDP, agriculture’s employment share increased slightly.

Figure 2.3
Industry, value added (% of GDP)



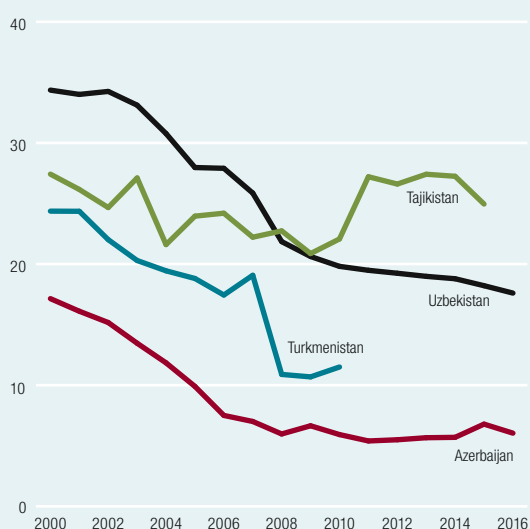
Source: World Bank Data. <https://data.worldbank.org/indicator/NV.IND.TOTL.ZS?end=2016&locations=AZ-UZ-TJ-TM&start=2000&view=chart>.

Figure 2.5
Services, value added (% of GDP)



Source: World Bank Data. <https://data.worldbank.org/indicator/NV.SRV.TETC.ZS?end=2016&locations=AZ-TJ-TM-UZ&start=2000&view=chart>.

Figure 2.4
Agriculture, value added (% of GDP)



Source: World Bank Data. <https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=AZ-TJ-TM-UZ&view=chart>.

Structural shifts in the value added of GDP call for matching shifts in employment to secure high productivity. Azerbaijan's labour productivity in total is still rising. In 2016, there was a big difference between

the share of agriculture in the country's GDP, at 6 percent, and the share of the labour force employed by the sector, at more than 36 percent. This indicates slow structural change within the agricultural sector and expected shifts in labour and capital from lower to higher levels of factor productivity.

Tajikistan

Reaching 27 percent of GDP in 2011, agriculture's share of GDP in Tajikistan is the highest of the four countries, while industry has the lowest share of GDP. The service and industrial sectors account for around 46 percent and 27 percent, respectively, of GDP. The importance of agriculture to the economy can be explained by a relatively large rural population, which has gradually grown since the 1970s and exceeded 70 percent in the last two decades.¹² Employment in agriculture is also rising. Employment by sector provides an insight into the relative importance of different economic activities and is particularly useful for identifying the structure of an economy and stage of economic development. During field missions it was observed that Tajikistan seems to be more focused on agriculture than other project countries.

Turkmenistan

Recent data on the share of agriculture in Turkmenistan have proved difficult to collect because the country has not reported since 2010. But conducted interviews confirm that cotton cultivation remains a high-priority sector for the country, and the wheat and livestock sectors have also developed rapidly. About 95 percent of national food demand is met from domestic supply.¹³ Nevertheless, the share of agriculture in GDP is declining fast and other sectors, like industry and services, are contributing most to GDP. Inequalities in earnings between rural and urban residents reportedly continue to decrease. The working population works mainly in the service sector (44.7 percent of GDP in value added) and in industry (37.4 percent), and the share of agriculture is 17.9 percent of the added value of GDP, while the majority of the population still lives in rural areas.

Uzbekistan

The agricultural sector contributes 29 percent of GDP and industry 23.9 percent. The service sector is the major driver of growth, accounting for almost half of GDP at 47.1 percent. The labour force participation rate, estimated by the International Labour Organization (ILO), is low and comparable to that of Tajikistan. Uzbekistan's employment rate in services is steadily rising and at a higher rate than in industry and agriculture.¹⁴ Cotton and wheat are the principal crops, accounting for about 16.7 percent of GDP and employ 26 percent of the labour force.¹⁵ Uzbekistan is the world's seventh-largest cotton producer and fifth-largest cotton exporter.¹⁶ Exports of agricultural products contributed approximately 13.6 percent to Uzbekistan's external earnings in 2016.

Foreign direct investment

Inflows of FDI have increased in all four countries since 2005. In 2015, Turkmenistan attracted the most, worth \$4.26 billion, followed by Azerbaijan with \$4.05 billion. Tajikistan saw its FDI jump the most, by 1,383 percent between 2005 and 2015, when FDI in Azerbaijan increased by 241 percent, in Uzbekistan

by 559 percent and in Turkmenistan by 1,018 percent. Among the top sources of FDI to Central Asia were the Netherlands, Switzerland, China and the United States of America (together, around 60 percent).¹⁷

Azerbaijan

Flows of FDI have been rising in recent years. In 2016, FDI inflows increased by 11 percent from the previous year (Table 2.2). The energy sector attracts most FDI flows to the country. One of the top priorities of the government is to diversify the country's economy and to attract foreign investors in sectors such as agriculture, transport, tourism and ICT.¹⁸

In 2016, as part of measures to promote exports and facilitate the inflow of FDI, an FTZ was established near the seaport of Alat, located 65km south of Baku. In addition, the Law on Customs Tariff was amended, and entrepreneurs importing capital equipment for priority sectors now receive a tax exemption for up to seven years.

The government of Azerbaijan has announced reforms of other relevant laws and policies to support non-oil economic growth and FDI inflows. Current legislation permits FDI in any activity in which a national investor may also invest, unless otherwise prohibited by law. Foreign investment enjoys legal protection, also through international and bilateral

Table 2.2
Azerbaijan's FDI, 2014–2016

Azerbaijan FDI	2014	2015	2016
FDI inward flow (\$, millions) ^a	4,430	4,048	4,500
FDI stock (\$, millions)	18,181	22,229	26,683
Number of greenfield investments ^b	30	19	25
FDI inward flow (% of GFCF) ^c	25.6	29.8	47.8
FDI stock (% of GDP)	24.2	43.7	71

Notes: a. The UNCTAD Inward FDI Performance Index is based on a ratio of the country's share in global FDI inflows and its share in global GDP. It is based on 12 economic and structural variables such as GDP, foreign trade, FDI, infrastructure, energy use, R&D, education and country risk. b. Greenfield investments are a form of foreign direct investment where a parent company starts a new venture in a foreign country by constructing new operational facilities from the ground up. c. Gross fixed capital formation measures the value of additions to fixed assets purchased by business, government and households less disposals of fixed assets sold off or scrapped.

Source: Santander TradePortal; UNCTAD, latest available data.

treaties. Azerbaijan has a liberal exchange rate system, and there are no formal restrictions on the transfer of funds abroad. In principle, investors enjoy a great amount of freedom, but bureaucracy and corruption make foreign investment difficult outside the energy sector.¹⁹

Tajikistan

FDI in Tajikistan has often been concentrated in a few, large projects, such as creation of a mobile communications network, a hotel in Dushanbe and the Sangtuda-1 hydropower plant. Averaging about 15 percent of GDP annually since 2008, total investment is low by regional and international standards. Tajikistan received \$434 million of FDI inflows in 2016, a sharp gain from the \$168 million of FDI in 2013, but a reduction from the previous year (Table 2.3). The current FDI stock is estimated at \$2.4 billion. The aluminium, cotton and energy sectors attract the most FDI. Tourism is also increasingly promising. The main sources of investment are, in decreasing order, China, the Russian Federation, Kazakhstan, the United Kingdom, and the United States of America. The Russian Federation has invested in the construction of a hydropower plant and in the banking sector. After the completion of the power plant and the onset of the global financial crisis, FDI declined sharply.²⁰

The government has aimed to direct FDI into developing new industries and modernizing existing ones. All private investments require government

approval. But investment laws are implemented inconsistently.

Turkmenistan

In 2016, FDI inflows to Turkmenistan rose by 3 percent, reaching \$4.5 billion (Table 2.4), as Daewoo International began the construction of an iron manufacturing plant and work started on the expansion of the Galkynysh gas field. The estimated FDI stock reached \$36.2 billion. China, the Russian Federation, Kazakhstan and Uzbekistan are the country's main investors.

Potential investors may be discouraged by a number of factors, including state control, restrictions in the currency exchange system, excessive and inconsistent regulations, corruption, and the lack of rule of law and experience in international business. All land is owned by the government, and other ownership rights are limited. Domestic legislation allows foreigners to create and own a business and to conduct business not prohibited by law, but repatriating assets is very difficult, because currency conversion remains complicated.

All foreign contractors working in the country for at least 183 days must register with the State Tax Service. National accounting standards and international financial reporting standards are applied. In the energy sector, the government prevents foreigners from investing in the exploration and production of its onshore gas fields.²¹

Despite these obstacles, hydrocarbons and petrochemicals are increasingly attracting foreign investors.

Table 2.3
Tajikistan's FDI, 2014–2016

Tajikistan FDI	2014	2015	2016
FDI inward flow (\$, millions)	408	545	434
FDI stock (\$, millions)	1,724	2,039	2,398
Number of greenfield investments	6	3	5
FDI inward flow (% of GFCF)	28	37.6	31.8
FDI stock (% of GDP)	18.7	26	34.7

Note: See the notes to Table 2.3.

Source: Santander TradePortal; UNCTAD, latest available data.

Table 2.4
Turkmenistan's FDI, 2014–2016

Turkmenistan FDI	2014	2015	2016
FDI inward flow (\$, millions)	3,830	4,398	4,523
FDI stock (\$, millions)	27,320.9	31,718.6	36,241.1
Number of greenfield investments	2.0	3.0	3.0
FDI stock (% of GDP)	62.8	88.0	100.2

Note: See the notes to Table 2.3.

Source: Santander TradePortal; UNCTAD, latest available data.

China is one of the main investors in Tajikistan's oil and gas sector. In 2009, the country received a \$4 billion loan from the Chinese Development Bank to develop the gas field Galkynysh (formerly South Yoloten), followed by a second loan of \$4.1 billion in 2011. The country also received several smaller loans from the China Export-Import Bank for transport and communications projects.²²

Uzbekistan

After a 35 percent reduction in FDI in 2011, Uzbekistan reviewed its restrictive commercial policies (temporary border closures, increase in customs tariffs and heavy import procedures) and implemented new rules such as fiscal exemptions and administration reforms. This shift contributed to investment inflows growing from \$1 billion to nearly \$3 billion within four years. According to the Presidency of Uzbekistan, foreign investment reached \$2.7 billion in 2016 and was expected to be \$2.65 billion in 2017.²³ However, official figures contrast with UNCTAD data, which suggest a much lower FDI figure in 2016 (Table 2.5).

Uzbekistan is deepening cooperation with China. In 2011, the construction of a pipeline extension linking the country to the Central Asia–China gas pipeline was launched. The new extension will have an annual capacity of 25 billion cubic metres. China has also pledged to invest \$5 billion in infrastructure and mining. The Republic of Korea has also been an important partner since 2011, investing over \$2.6 billion for the construction of a chemical plant. Japan and Uzbekistan signed an agreement to explore new hydrocarbon deposits, with Japan contributing \$5 billion to the project via the Japanese company JOGMEC.²⁴

Despite a desire to encourage foreign investment, the regulatory environment and legal conditions remain erratic, and guarantees offered are ambiguous. Corruption and the risk of seizure by the state, including in key sectors (cotton, gold, hydrocarbons and raw materials), remain among the main obstacles to development.²⁵ Despite this, in recent years the

Table 2.5
Uzbekistan's FDI, 2014–2016

Uzbekistan FDI	2014	2015	2016
FDI inward flow (\$, millions)	632	65	67
FDI stock (\$, millions)	8,825	8,890	8,957
Number of greenfield investments	16	19	23
FDI inward flow (% of GFCF)	3.2	0.3	0.3
FDI stock (% of GDP)	14	13.6	13.5

Note: See the notes to Table 2.3.

Source: Santander TradePortal; UNCTAD, latest available data.

country has adopted a broad spectrum of economic, institutional and political reforms aimed at improving the situation.

Investment still favours capital-intensive state-owned enterprises in machinery and energy—traditional locomotives of industry—although these sectors have stagnated, despite the public support received. Energy receives the lion's share of foreign investment, as proven by the \$4 billion petrochemical plant on the Surgil natural gas deposit, realized in 2015 by a consortium involving Uzbekistan and the Republic of Korea (although devoted to production of polymers and likely to generate exports). Among the prospective investment projects, the construction or expansion of power plants and a new production facility of General Motors Uzbekistan are priorities.

Under legislation, the state guarantees and protects the rights of foreign investors in the country. Furthermore, several investment promotion programmes were launched to encourage big investments in priority sectors. Programmes include 86 FDI projects totalling \$1.8 billion, of which more than half is for the energy sector. Among investors, China's CNPC company is expected to participate in the construction of an oil pipeline. The Republic of Korea is involved in a chemical-gas complex, and the Russian company Lukoil in gas wells.

To encourage foreign investment, the government provides tax incentives to joint-stock companies for which foreign investment participation accounts for at least 15 percent of the authorized capital. The

compulsory systematic registration of all import contracts with the Ministry of Foreign Relations, Investments and Trade has been abolished. However, other import contracts still need to be registered with authorized banks or with the customs authorities. A company receiving foreign investment and a company established by foreign capital are not treated the same way, the former having special status.

Infrastructure

Well-functioning infrastructure is a cornerstone of the modern economy. Beyond its importance in facilitating business transitions, infrastructure increases a country's efficiency and improves its citizens' standard of living. There is a positive correlation between the GDP of countries and their infrastructure quality, with the two sharing a cyclical relationship. Economic growth allows for additional infrastructure investment.

Transport infrastructure is typically the most discussed form and a primary focus of infrastructure investment, in part because it has a direct effect on the lives of citizens, both tangible and visible. Moreover, countries well equipped with roads, airports, rail and port facilities are better positioned to gain from trade domestically and internationally. Singapore and Hong Kong SAR, China are both examples of economies that have secured a competitive advantage from their geographical location through trade facilitation, and both are in the top five-largest ports worldwide by cargo turnover, while taking the top two spots in global infrastructure quality.

The four project countries are landlocked (Uzbekistan is double landlocked), which inhibits their ability to join regional and global value chains. Infrastructure initiatives, such as the CAREC Programme²⁶ and China's Belt and Road Initiative, offer the promise of modernizing and expanding energy, transport and communications infrastructure in the region and beyond. Projects to improve trans-regional infrastructure, such as the Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipeline and the Central Asia and South Asia (CASA-1000)

electricity project, hold promise for greater connectivity.

Rail systems have the potential to facilitate interregional and intraregional trade and improve the economy in Central Asian countries. Railway freight in Central Asia has increased since 2005, although not in Tajikistan, where it has fallen.²⁷

The countries face issues affecting the energy sector, including out-of-date infrastructure and a lack of capacity to implement energy-efficiency practices and systems.²⁸

The project countries have considerable renewable energy potential. For instance, Turkmenistan has the potential to produce enough electricity from renewable sources to meet current demand many times over. Tajikistan has substantial potential for small hydro-power plants in addition to solar and wind energy.²⁹

Despite the project countries' renewable energy capacity and the number of state programmes launched to develop alternative and renewable energy sources, the share of renewables in the primary energy mix remains low, except in Tajikistan. Tajikistan has the highest share of renewable energy sources in the primary energy mix—59.8 percent in 2013, due mainly to hydropower—compared with 0 percent for Turkmenistan and 7 percent for Azerbaijan. In Uzbekistan hydrocarbons, mainly gas, with nearly 97% dominate the country's energy balance, with the remaining 3% coming from hydro, coal and charcoal.³⁰

Azerbaijan

Azerbaijan has well-developed infrastructure, with 19,000km of sealed roads, six international airports, a new international sea port with a planned capacity of 21 million–25 million tons of cargo and 1 million TEUs (twenty-foot-equivalent units), as well as over 2,000km of railways. In 2017, the Baku-Tbilisi-Kars railroad became operational, catering to 1 million passengers and 6.5 million tons of cargo in its initial stage, with an expected capacity of 3 million passengers and 17 million metric tons of cargo in the next three years.³¹

In addition to infrastructure projects, state investments have been channelled into production-oriented projects and creation of a favourable business environment. Projects executed by the private sector have been financed by the state on concessional terms, and, when necessary, the government has directly participated in these projects.

In 2015, \$4.47 billion was invested in transport and energy-related projects through CAREC (13 projects are ongoing, eight are completed), among which is the East-West Highway improvement project. In 2016, Azerbaijan was granted four loans totaling \$1.325 billion. ADB financed the construction of about 200km of new and upgraded highways and rural roads, to support the country's connectivity within the CAREC region. It also funded projects to protect people from flooding and to supply drinking water.

In transport, the European Bank for Reconstruction and Development (EBRD)³² in 2011 provided a \$750 million loan for a project for road reconstruction and upgrading, aimed at ensuring international road connections.³³

Tajikistan

A series of transport upgrades have addressed the topographical separation of the northern and southern regions of the country. Most of the transport system was built during the Soviet era, and since that time the system has deteriorated badly because of insufficient investment and maintenance. The north-south artery runs across the mountains linking the cities of Khujand and Dushanbe. A second artery runs from Dushanbe to Kyrgyzstan. Infrastructure construction projects in the 2000s created transport links with Kazakhstan, Afghanistan and warm-water ports of neighbouring countries to the south. Tajikistan has a limited railway network that connects the major urban centres to Uzbekistan and Turkmenistan.

The poor quality of energy supply continues to act as a drag on development. Due to energy shortfalls and difficulties in importing energy from its neighbours,

the government has made energy development a top priority and is pursuing a two-track strategy to improve the domestic energy sector, and to develop large projects to generate electricity for export.

In 2013, ADB approved a \$136 million grant for a project to increase the supply of renewable energy to national and regional power grids. The project was to refurbish electrical and mechanical equipment for power generation and transmission at the Golovnaya Hydroelectric Power Plant, 80km south of Dushanbe.³⁴ A further 22 projects worth \$1.13 million have been invested through CAREC to improve transport, trade and energy infrastructure and policies. EBRD has supported a project on rehabilitating and modernizing the Qairokkum hydropower plant, the only power generation facility in the Sughd region of northern Tajikistan.³⁵

CASA-1000 was launched to connect Central Asian energy producers to customers in Afghanistan, Pakistan and, potentially, India. Its total estimated cost is over \$1.1 billion. In 2014, the World Bank approved \$526.5 million in grant and credit financing for CASA-1000. In 2015, the Islamic Development Bank pledged \$155 million for the project, bringing the financing gap down to roughly \$45 million. When complete in 2018, the full CASA-1000 transmission lines will move electricity from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan. Tajikistan's share of energy exports will be 70 percent, Kyrgyzstan's 30 percent.

Turkmenistan

Since independence, Turkmenistan has invested in transport infrastructure, much of which dates back to Soviet times, including railways, roads, airports and ports. Major highways run from the Iranian border through the capital and on to the Caspian Sea port city of Turkmenbashi, and from the Afghan border to Uzbekistan. Railways link Turkmenistan to other Central Asian countries, the Russian Federation, South Asia and the Persian Gulf. The main port at Turkmenbashi has been renovated, which has allowed access to the markets of the Russian Federation and

Azerbaijan as well as to international markets through the Volga-Don canal.

Substantial hydrocarbon wealth—the country is estimated to have the fourth-largest gas reserves in the world—has provided the means for major infrastructure, social and economic projects, including renovation and reconstruction projects in the capital (Ashgabat), the Caspian Sea port of Turkmenbashi and the Awaza tourist resort (also on the Caspian shore). A new airport in Ashgabat opened in 2016 at a cost of \$2 billion. International railways (the 1996 Tedjen-Serahs-Meshed and the 2014 transnational railway corridor between Kazakhstan, Turkmenistan and Iran) connect Turkmenistan with other Central Asian countries, the Russian Federation, South Asia and the Persian Gulf.

Cooperation between ADB and Turkmenistan has developed in line with regional initiatives promoted by CAREC. In the country, eight projects in trade facilitation, energy and transport have been initiated under the CAREC Programme, of which five are ongoing. Conducted rail and energy projects have fostered cooperation between Turkmenistan and Afghanistan, resulting in a sharp increase in electricity exports from Turkmenistan to Afghanistan. ADB has supported and advised the government of Turkmenistan on the TAPI Natural Gas Pipeline Project, under the Turkmengaz corporation's leadership of the consortium established to build, own and operate the 1,800km gas pipeline.

Uzbekistan

Because of low investment and poor maintenance, Uzbekistan's overland transport infrastructure has declined greatly in the post-Soviet era. Air transport is the only branch that has received substantial government investment, in the early 2000s.

In 2005, Uzbekistan had 84,400km of roads, of which 72,000km were paved. The road infrastructure is deteriorating, particularly outside Tashkent. In the early 2000s, US engineers improved some roads around the port of Termez to facilitate movement of supplies to Afghanistan. Uzbekistan is

a member country of the United Nations Asian Highway Network, and several national roads are designated as part of the network.

Also in 2005, Uzbekistan had 3,950km of rail lines, about 620km of which were electrified. A large share of the rail system requires major repair work. The main line is the Transcaspian Railroad, which connects Tashkent to the Amu Darya and the Caspian Sea.

From 2000 to 2011, \$2.3 billion of loans was invested in projects promoted by CAREC, with a contribution from ADB of almost \$890 million. Thanks to its location at the heart of Central Asia, Uzbekistan is important for achieving CAREC 2020's strategic objectives of increasing trade and competitiveness. Sixteen aviation, road and railway transport projects are in the pipeline for Uzbekistan, with a total investment of about \$1.9 billion.

In 2016, ADB provided four loans totalling \$572.9 million to support SME finance and broaden access to water supply and sanitation, and four loans totalling \$1.325 billion to develop horticulture and improve regional roads.

Landlocked, Uzbekistan's main river port is Termez on the Amu Darya. Although Termez lacks modern facilities, activity there has increased as conditions in neighbouring Afghanistan have stabilized.

Competitiveness and innovation

Over the last few years, innovation and capability to commercialize innovation have become an important concern for the economic policy-makers around the globe and in the BRI. Innovation is one of the main drivers of economic progress and competitiveness. It is also important for addressing climate change and health challenges.

A composite indicator for measuring competitiveness is the World Economic Forum's Global Competitiveness Index (GCI). The GCI has 12 pillars: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development,

technological readiness, market size, business sophistication, and innovation.³⁶ It includes measures of competitiveness in Azerbaijan and Tajikistan, but not Turkmenistan or Uzbekistan.

The GCI 2017–18 ranks Azerbaijan 35 out of 137 countries (up from 37 in 2017–18).³⁷ In most of the GCI pillars, Azerbaijan exceeds the performance of the Eurasia region as a whole, though in general the country is weakest on innovation, financial market development, and market size. The most problematic factors affecting firms' ability to do business are access to finance, foreign currency regulations, and tax regulations.³⁸

Tajikistan is ranked 79 out of 137 countries in the GCI 2017–18, a fall of two places from the previous year. The areas where it is performing worst are technological readiness, market size, infrastructure, and financial market development. Broadly, the country is in line with the average scores for the rest of Eurasia. The most problematic factors for doing business are tax rates, inflation, tax regulations and access to financing. Crime and theft, and government instability, are the least problematic.³⁹

Another useful composite indicator is the Global Innovation Index (GII) published by Cornell University, INSEAD and the World Intellectual Property Organization. The GII ranks countries based on innovation capabilities, and results and evaluates progress continually.⁴⁰ In 2017, Azerbaijan ranked

82 and Tajikistan 94 (Turkmenistan and Uzbekistan were not included in the index), both showing lower scores on creative and knowledge and technology outputs (Table 2.6). The GII also shows that the countries' high-tech exports have a miniscule share of total trade, at around 0.1 percent.

The GII also identifies countries' particular strengths and weaknesses. According to its sub-categories, for instance, research and development (R&D) is weak for Azerbaijan and Tajikistan. On ecological sustainability, environmental performance⁴¹ in Azerbaijan is regarded as a strength area. Market sophistication is a strength for both countries, based on microfinance institutions' gross loan portfolio;⁴² Tajikistan is scored first in this category, while Azerbaijan stands 10th. For investment, ease of protecting minority investors in both countries is also a strength.⁴³ However, intensity of local competition is a weakness in Azerbaijan while Tajikistan is ranked 94 out 127 countries in the GII and 120 on the rule of law. Business sophistication is a weak area for Azerbaijan, particularly in knowledge absorption and high-tech imports, although FDI (net inflows) is a strength. Intellectual property payments is a weakness in Tajikistan while FDI (net inflows) is a strength, as well as firms offering formal training and university/industry research collaboration.

According to the GII, Azerbaijan's strengths are ease of starting a business and ease of paying taxes.

Table 2.6
Global Innovation Index 2017

	Azerbaijan		Tajikistan	
	Rank	Score	Rank	Score
Overall	82	30.6	94	28.2
Institutions	74	55.9	108	46.4
Human capital and research	108	17.9	80	28.5
Infrastructure	50	50.5	120	24.8
Market sophistication	23	55.3	29	53.6
Business sophistication	110	23.8	107	24.2
Knowledge and technology outputs	104	15.4	58	22.4
Creative outputs	87	25.5	106	19.2

Source: www.globalinnovationindex.org/analysis-comparison.

In Tajikistan the cost of redundancy dismissal is a strength. On human capital and research, Tajikistan performs better than Azerbaijan, particularly in its strength areas of education and expenditure on education, which are both regarded by the GII as weak areas in Azerbaijan.

For knowledge and technology outputs, strengths for Azerbaijan are FDI (net outflows),⁴⁴ while weaknesses are intellectual property receipts and high-tech exports. For Tajikistan, knowledge and technology outputs are a strength area, particularly in knowledge creation and growth rate of GDP per person engaged.⁴⁵ Weak areas are ISO 9001 quality certificates, high- and medium-high-tech output, and knowledge diffusion.

For creative output, industrial design by origin⁴⁶ are weaknesses for both countries. ICT and organizational model creation⁴⁷ is a strength area for Azerbaijan, but the export of creative goods is a weakness.

Research and development

R&D expenditures as a share of GDP—also known as “R&D intensity”—represent expenditures (public and private) on systematic creative work to increase knowledge and the use of knowledge to create new applications.⁴⁸ Scientific studies confirm the positive spillovers of R&D investments on economic growth. Erdil’s study of 15 OECD countries found a positive relationship between R&D expenditures and economic growth.⁴⁹ Another study found that a 1 percent increase in R&D expenditures as a share of GDP led to a real GDP spillover of 2.2 percent in the 28 countries of the EU between 2002 and 2012.⁵⁰

All four countries’ gross domestic spending on R&D is below the global average. For example, Azerbaijan spends only 0.22 percent of GDP on R&D, which is the highest among the project countries, although far below the global average of 2.23 percent. Further, data for Azerbaijan, and for Uzbekistan, point to a downward trend in R&D expenditure as a share of GDP, from 0.34 percent and 0.36 percent,

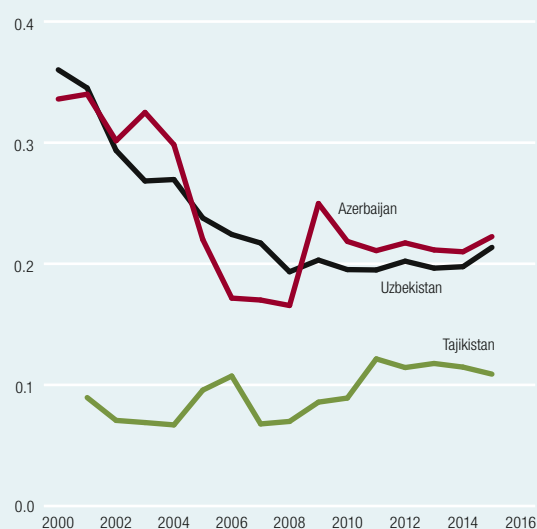
respectively, in 2000 (Figure 2.6). The four countries also have a low number of published scientific and technical journal articles, although Azerbaijan increased that number nearly fivefold between 2000 and 2012, before it plummeted from 683 publications in 2012 to 482 in 2013.

Patents

Patents are another indicator of innovation in a country. A patent for an invention is granted by the government to the inventor, giving the inventor the right to stop others, for a limited period, from making, using or selling the invention without their permission. This right also requires a detailed public disclosure of the invention.⁵¹

Azerbaijan and Uzbekistan filed the most patents in 2002–2016 (Figure 2.7). The largest number in patent applications was achieved by Uzbekistan in 2003 (715). Since this high point, the number of its filed patents has fallen below Azerbaijan’s. Tajikistan filed the fewest (there are no data for Turkmenistan), the number gradually falling from a high of 39 in 2002 to 11 in 2013 (the most recent year with data

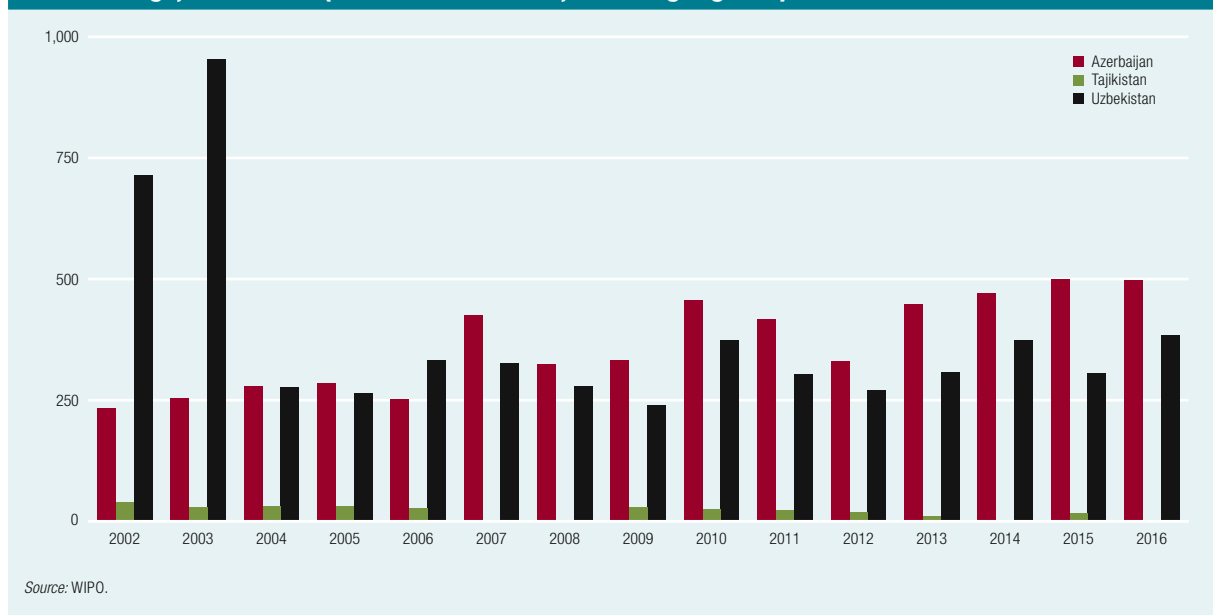
Figure 2.6
R&D expenditures (% of GDP)



Note: No data for Turkmenistan.

Source: World Bank Database. <https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS?locations=AZ-TJ-TM-UZ&view=chart>

Figure 2.7
Patent filings, 2002–2016 (resident and abroad, including regional)



for that country). Azerbaijan has seen a gradual, fluctuating, increase in the number, from 234 in 2002 to a high of 499 in 2015. Nevertheless, this is a very small fraction of the 2.9 million patent applications filed worldwide.

Social and sustainability aspects of development

Demographics, employment and labour force participation

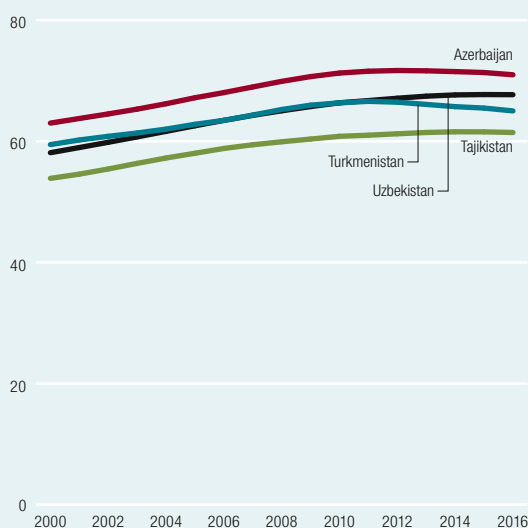
The working age population (15–64 years) as a share of the total population peaked in Azerbaijan (71.7 percent) in 2012, Tajikistan (61.6 percent) in 2014, Turkmenistan (66.6 percent) in 2011 and Uzbekistan (67.7 percent) in 2015. The general trend is a rising share in the 2000s of the 15–64 population cohort as a share of the total population, before levelling off and falling slightly from 2011 (Figure 2.8).

Low wages and labour productivity, large informal economies, and high youth unemployment are widespread in Central Asia. Labour markets suffer from structural mismatches between supply and demand. Government capacity to increase the employment

potential of growth is limited for several reasons. Budget cuts have crippled technical and vocational education systems and public employment services. In addition, in several countries these government functions have been decentralized and, in the process, weakened. Many workers are moving among jobs in various sectors or regions, and large cohorts of new young workers are entering the labour market. Existing institutions are unable to meet the demand for on-the-job training, retraining and life-long learning. The challenges are particularly severe for young people, whose transition from school to work has become longer and more insecure, and who experience deterioration in the quality of jobs.⁵²

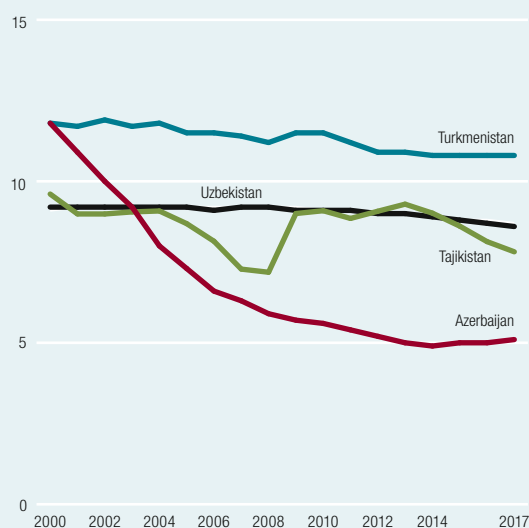
According to ILO estimates, the unemployment rate among the four countries in 2016 was the lowest in Azerbaijan at 5 percent and the highest in Tajikistan at 10.8 percent. The same year, unemployment in Turkmenistan and Uzbekistan stood at 8.7 percent and 8.8 percent, respectively.⁵³ Total unemployment in the four countries between 2000 and 2017 was the highest in Tajikistan, at 10.8 percent in 2017, only marginally lower than in 2000, when it stood at 11.8 percent (Figure 2.9).

Figure 2.8
Population aged 15–64 (% of total)



Source: World Bank. <https://data.worldbank.org/indicator/SP.POP.1564.TO.ZS?end=2016&locations=UZ-AZ&start=1960&view=chart>.

Figure 2.9
Total unemployment, 2000–2017
(ILO modelled estimates)



Source: World Bank Data.

Tajikistan's struggle to reduce unemployment contrasts sharply with the experience of Azerbaijan in 2000–2017. In 2000, Tajikistan and Azerbaijan had the same level of unemployment at 11.8 percent. However, by 2017, unemployment in Azerbaijan had fallen to 5.1 percent. Indeed, among the four countries only Azerbaijan's unemployment rate is lower than the Europe and Central Asia rate. Similar to Tajikistan, Turkmenistan and Uzbekistan have seen only marginal reductions in unemployment, from just over 9 percent in both in 2000, to 8.6 percent in Turkmenistan and to 8.7 percent in Uzbekistan.

Male unemployment is higher than total unemployment in Tajikistan throughout the period. Female unemployment is consistently much lower than male unemployment in Tajikistan; in 2017, female unemployment was 9.8 percent, against the male rate of 11.5 percent (Figure 2.10). The male and female unemployment rates for Turkmenistan and Uzbekistan are broadly the same, with female unemployment higher throughout the 2000–2017 period (Figure 2.11). Azerbaijan, on the other hand, has a more discernible discrepancy between male and female unemployment, with the former substantially

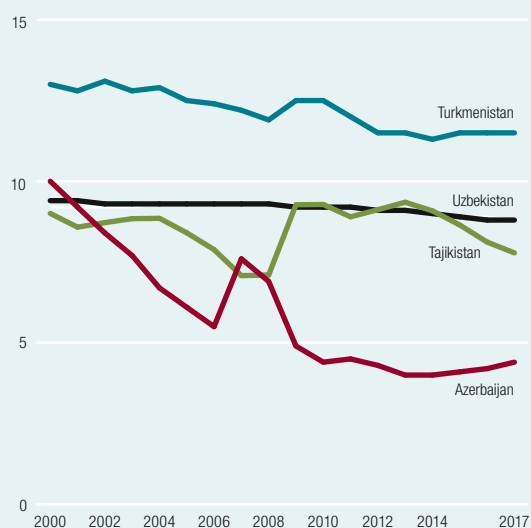
lower in that period. Youth unemployment is lower than the average for Europe and Central Asia. In Azerbaijan, it bucked the trend seen in Europe and Central Asia between 2010 and 2015 (Figure 2.12).

The labour force participation rate in all four countries between 2000 and 2017 was higher than the Europe and Central Asia average (Figure 2.13). Although there is an upward trend in the four countries, it is clear that Tajikistan has not been able to close the gap with the other countries and has a far lower labour force participation rate that barely improved over the period. The other three countries have similar rates with Azerbaijan leading the group at 66.1 percent in 2017.

Azerbaijan

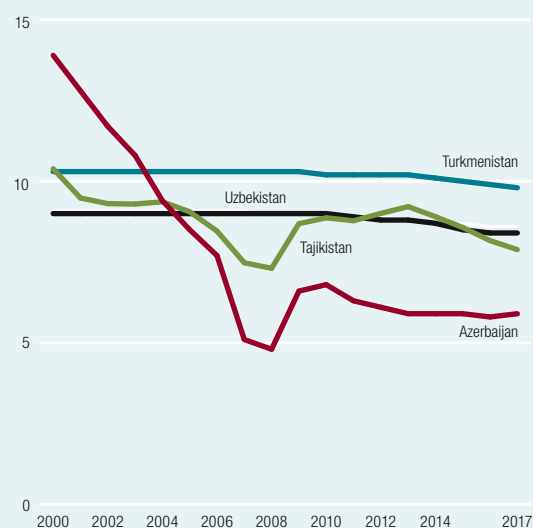
Since 2000, Azerbaijan has made steady progress in reducing unemployment, to 5.2 percent of the labour force in 2016. But this trend is at risk because of an over-dependency and concentration of employment in certain sectors, together with a fast-growing population of young people entering the labour market. In addition, the current slowdown in oil revenue is compounding the risk.⁵⁴

Figure 2.10
Unemployment, male (% of male labour force)
(ILO modelled estimates)



Source: World Bank Data.

Figure 2.11
Unemployment, female (% of female labour force)
(ILO modelled estimates)



Source: World Bank Data.

Figure 2.12
Unemployment, youth total (% of total labour force aged 15–24) (national estimates)



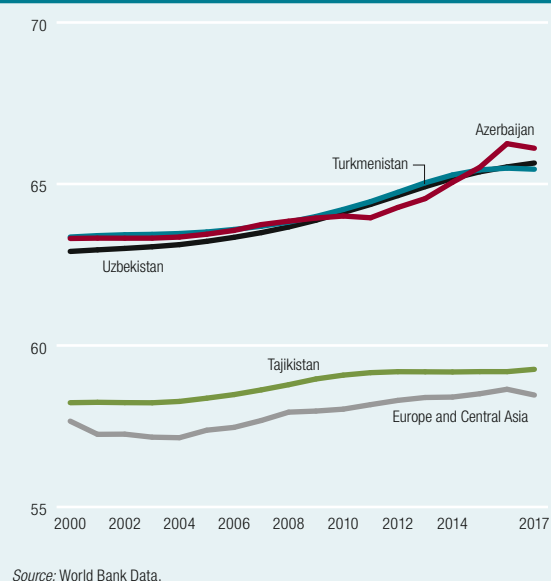
Source: World Bank Data.

The proportion of employed among the work-able population has decreased, mainly due to increased inactivity. Labour force participation declined from 83 percent in 2005 to 78 percent in 2012. Had labour force participation not decreased in those

years, unemployment would be about 11 percent today—6 percentage points higher than the current 5.2 percent.

One of the main obstacles to job creation is employment dependency in agriculture. This

Figure 2.13
Labour force participation rate, total (% of total population aged 15+) (ILO modelled estimates)



low-productivity, low-growth sector remains Azerbaijan's largest employer, absorbing 37 percent of the workforce, but contributing only a little over 5 percent of GDP. Indeed, rural poverty is largely explained by reliance on subsistence agriculture. Mining, on the other hand, is capital intensive and, despite its contribution of over 40 percent of GDP, employs only about 1 percent of the workforce.

As in Central Asian countries, Azerbaijan's "youth bulge" will also become a problem. The share of the population aged 10–24 was 23 percent in 2017.⁵⁵ With a significant portion of the population comprising young people, Azerbaijan expects a continuously large influx of youth into the labour market over the next three decades. At the start of 2014, young people under 25 constituted 40 percent of the total population; those under 35, 60 percent.

More than 70 percent of the country's population is within the working age range of 15–64 years, a share estimated to remain around that high until 2025. By then, the working age population is expected to have increased by a net number of more than 350,000. With such socio-economic and demographic changes,

Azerbaijan faces challenges on future poverty reduction and job creation, especially for young people.

At 5 percent of the workforce, business ownership in Azerbaijan is lower than the 6 percent average for countries in the Europe and Central Asia region.⁵⁶ Compared with other countries in the region, Azerbaijan also appears to be at a disadvantage in the volume of potential entrepreneurs (those who are not yet entrepreneurs but who are striving to be). Programmes to promote youth and female entrepreneurship should be facilitated to further reduce unemployment rates and enhance the country's and region's economic potential. High-value-added and innovation sectors should be emphasized.

Tajikistan

The current growth model is unable to ensure quicker job creation and improved job quality for the fast-growing workforce of Tajikistan. Between 2003 and 2013, GDP grew by an average of 7.2 percent a year, while employment expanded at only 2.1 percent annually. The working age population (15–64), rose from 3.31 million in 2000 to 5.23 million in 2015. The share of the population aged 10–24 was 29 percent in 2017.⁵⁷ Only 43 percent of Tajikistan's total working age population are in the labour force. The majority of those working are in low-quality and informal-sector jobs. Moreover, many jobs in Tajikistan are seasonal or temporary, and their share has increased.

Labour productivity is low, and the country is the worst performing among the four countries.⁵⁸ Labour force participation is also low, at around 60 percent in recent years.⁵⁹ Tajikistan's most valuable asset—human capital—is underused.

The unemployment rate has been constantly high during the last decade. Around 11 percent of the total labour force is unemployed, according to ILO estimates.⁶⁰ Women and youth are the least represented in the labour force. In 2013, the female labour force participation rate was just 27 percent, less than half that of males (63 percent). Employed women are more likely to work in the public sector, but almost a quarter of women are involved in unpaid employment in

family businesses, against 13 percent of men. Inactive youth—those aged 15–24 who are neither employed nor in school—make up 40 percent of the total youth population, which is high by international standards. While youth are more likely than adults to work in private sector wage jobs, almost one third of employed young people are in unpaid (informal) jobs, compared with 15 percent of adults.

Tajikistan is highly dependent on remittances from its large pool of labour migrants abroad, mainly in the Russian Federation. However, the financial crisis and subsequent recession and currency devaluation in the Russian Federation led to a collapse in remittances and the return of thousands of Tajik labour migrants.

The formal private sector, squeezed by large public and informal sectors, is underdeveloped. Over a third—39 percent—of workers are wage employees without contracts, and 18 percent are unpaid family workers. Formal wage employment in the private sector represents just 13 percent of total employment, while the share of potential entrepreneurs who try to start a business is very low, at 11.8 percent, pointing to barriers to starting and running a business. The majority of existing private sector firms are small and young, and appear to face constraints or disincentives to growth.

Turkmenistan

Turkmenistan has the smallest population of the four countries and is sparsely populated. Total unemployment in 2000 stood at 9.2 percent. Seventeen years later, unemployment had hardly shifted, at 8.6 percent, and was higher than the Europe and Central Asia average of 7.8 percent. Throughout 2000–2017, female unemployment was a touch lower than male unemployment. The share of the population aged 10–24 was 26 percent in 2017.⁶¹ There are no data on youth unemployment. Turkmenistan has a favourable demographic profile. The size of the economically active population increased by 8.1 percent from 2010 to 2013.⁶² There is also no information available on the share of the informal economy or employment in Turkmenistan, and it is difficult to estimate without in-depth research on the topic. The IMF estimated the

size of the informal economy to be below 20 percent in 2008.⁶³

In recent years several programmes have been created to support SMEs, such as the State Programme for Small and Medium Entrepreneurship for 2018–2024. This programme is aimed at activating business activities in various sectors, increasing the range and volume of production and competitiveness of SMEs and promoting private entrepreneurship. The success of such programmes depends largely on economic freedoms, the state of the financial system and the success of legal and institutional reforms in the country.⁶⁴

Uzbekistan

With the largest population in Central Asia, Uzbekistan also has the largest labour force. It is also a youthful population: about 65 percent of the population is under 30. Indeed, it is predicted to increase in size by 3.9 million by 2030, becoming one of the largest labour forces in emerging Europe and Central Asia, after the Russian Federation, Turkey, Ukraine and Poland.⁶⁵ The share of the population aged 10–24 was 26 percent in 2017.⁶⁶

Uzbekistan is also one of the main sources of labour migrants among the Commonwealth of Independent States (CIS) countries, with the Russian Federation and Kazakhstan the main destinations.⁶⁷ As experienced in Tajikistan, the economic slowdown and currency devaluations in the Russian Federation have reduced the value of remittances, as well as prompting the return of labour migrants.

Unemployment in Uzbekistan has remained steady since 2000 at around 9 percent, similar to Turkmenistan, lower than Tajikistan but higher than Azerbaijan. The unemployment rate for women and men is roughly the same. The labour force participation rate has gradually increased since 2000, from 63 percent to 65.6 percent in 2017, ahead of the Europe and Central Asia rate of 58.4 percent. There are no data on youth unemployment in Uzbekistan.

Research by the World Bank shows that the skills produced by the education system are not keeping pace with labour market demands. Firms complain

of difficulties in finding skilled workers. One study found that 73 percent of firms identified inadequate skills as an obstacle to doing business.⁶⁸

More than half of Uzbekistan's workers are employed in the informal sector, where they lack the chance to acquire new skills. Although the government does not issue official data, experts estimate that the informal economy is equivalent to as much as 31–35 percent of GDP.⁶⁹

Human Development Index

The Human Development Index (HDI) is the geometric mean measuring various dimensions of human development—a long and healthy life, knowledge, a decent standard of living and so on. HDI, with country-specific indicators, can be an instrument to measure the quality of national policy and stimulate debate on priorities.

All project countries face similar challenges, such as brain drain, decreasing environmental and social protection, lower wages than in some neighbouring countries and unstable political regimes. These require a gradual shift in mind-set and further improvements to national policies to ensure long-term sustainable and inclusive development.

Another index, the Gini index, measures income equality in a society. It is measured between 0, where everybody has the same income, and 1, where all income is earned by one person. The lower the score the more equal society (Table 2.7).

Azerbaijan

The HDI value for 2015 was 0.759, which puts the country in the high human development category, at 78 out of 188 countries and territories. Between 1995 and 2015, Azerbaijan's HDI value increased from 0.609 to 0.759. Between 1990 and 2015, life expectancy at birth increased by six years, mean years of schooling by one year and expected years of schooling by two years.

Tajikistan

The HDI value for 2015 was 0.627, placing the country in the medium human development category, at 129

Table 2.7

Gini index (latest available)

Country	Score
Azerbaijan	31.8 (2008)
Tajikistan	34 (2015)
Turkmenistan	
Uzbekistan	35.3 (2003)

Note: For countries with enough data, the indices remain fairly consistent up to 2013, and as there are no data for the most recent years for some countries, the impacts of the global financial crisis on income inequality remain to be measured.

Source: <https://data.worldbank.org/indicator/SI.POV.GINI?locations=AZ-TM-TJ-UZ> (accessed 23/11/2017).

out of 188. Between 1990 and 2015, Tajikistan's HDI value increased from 0.616 to 0.627. Between 1990 and 2015, life expectancy at birth increased by 6.7 years, mean years of schooling increased by 0.8 years and expected years of schooling decreased by 0.7 years. Gross national income (GNI) per capita decreased by about 28.3 percent between 1990 and 2015.

Turkmenistan

The HDI value for 2015 was 0.691, putting the country in the medium human development category, at 111 out of 188. Between 2010 and 2015, Turkmenistan's HDI value increased from 0.665 to 0.691. Between 1990 and 2015, life expectancy at birth increased by 2.9 years, mean years of schooling remained constant and expected years of schooling increased by 0.6 years. GNI per capita increased by about 85.9 percent between 1990 and 2015.

Uzbekistan

The HDI value for 2015 was 0.701, placing the country in the high human development category, at 105 out of 188. Between 2000 and 2015, Uzbekistan's HDI value increased from 0.594 to 0.701. Between 1990 and 2015, life expectancy at birth increased by 2.6 years, mean years of schooling by 2.9 years and expected years of schooling by 0.9 years. GNI per capita increased by 91.5 percent between 1990 and 2015.

Environmental agenda

Since independence, economic growth in three of the four project countries (Azerbaijan, Turkmenistan and

Uzbekistan) has been based on the extraction and export of primary resources, namely oil and gas. The extraction, consumption, production and disposal of these resources have also generated high levels of waste and pollution, damaging local environments.⁷⁰ All four project countries are threatened by floods and earthquakes.⁷¹

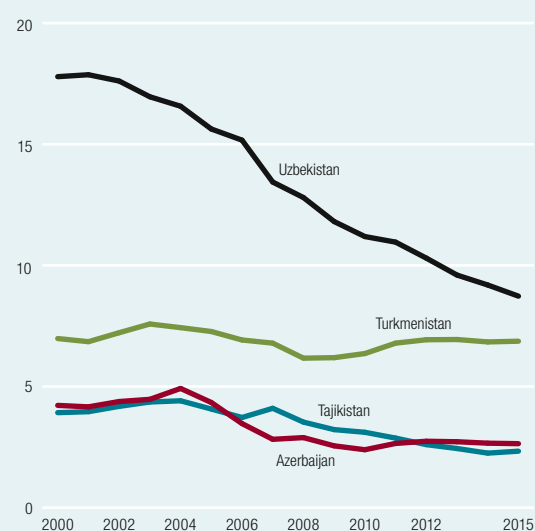
In Uzbekistan, industrial waste, fertilizers and pesticides used in agriculture have contributed to serious water pollution of both the Aral Sea basin and its tributaries. The Aral Sea itself, once the fourth-largest lake in the world, has almost completely disappeared.

Material use—as measured by domestic material consumption—has increased in all four countries since 2000 (Figure 2.14). After stabilizing and, in Uzbekistan, Tajikistan and Turkmenistan, falling after the 2008 crisis, domestic material consumption in all countries resumed an upward trend after 2010/2011 (Figure 2.15).

Due to semi-arid climates, climate change poses a threat to the four countries and to the wider region. Growing demand for water, particularly in countries with large agricultural sectors (notably cotton production in Uzbekistan) is particularly worrying. Threats to water sources also affect countries that rely on hydropower sources, such as Tajikistan. Indeed, water has long been a source of tension in Central Asia. Tajikistan, which faces energy-related problems, is building a dam on one of the region's main rivers, which would affect the downward flow of water to Uzbekistan. Water shortages especially affect the Fergana Valley, shared by Kyrgyzstan, Tajikistan and Uzbekistan, a densely populated region dominated by farming but where poor water management, outdated infrastructure and encroaching desertification threaten livelihoods.⁷²

Since 2000, carbon dioxide emissions in the four countries have pursued different trajectories (Figure 2.16). The biggest emitter—Azerbaijan—is the only country to have seen emissions fall in 2014 relative to 2000, although the level has fluctuated throughout the period. Emissions in Turkmenistan have shown a rising trend, notwithstanding a dip, as

Figure 2.14
Domestic material consumption (total, tonnes)



Note: Domestic material consumption measures the total amount of materials used by an economy. It is defined as the annual quantity of raw materials extracted from the domestic territory, plus all physical imports minus all physical exports. It includes intermediate and final consumption until released to the environment.

Source: UNEP (<http://unep.org/>), Environment Live (<https://environmentlive.unep.org/>).

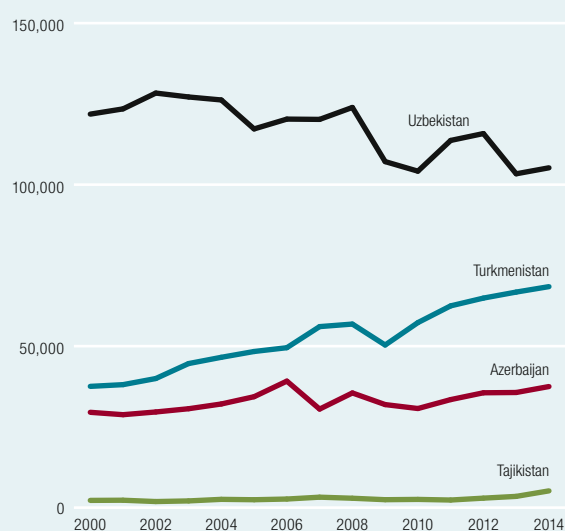
Figure 2.15
Material footprint (total) per capita



Note: The global allocation of used raw material that is extracted to fulfil the final demand of an economy.

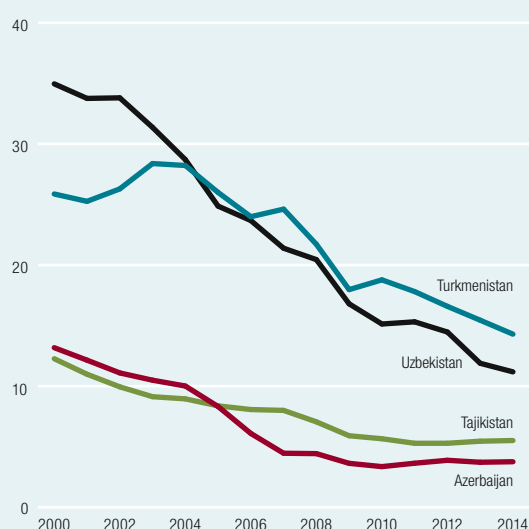
Source: UNEP (<http://unep.org/>), Environment Live (<https://environmentlive.unep.org/>).

Figure 2.16
Carbon dioxide emissions (kt)



Source: World Bank. <https://data.worldbank.org/indicator/EN.ATM.CO2E.KT?locations=AZ-TJ-TM-UZ>.

Figure 2.17
Intensity of primary energy (megajoules at 2011 PPP\$)



Source: SE4ALL database, IEA and World Bank. <https://data.worldbank.org/data-catalog/sustainable-energy-for-all>.

seen in all the countries, after 2008. Still, all countries saw an increase in their emissions from 2013 to 2014, the last year with data.

Carbon energy intensity has fallen in all four countries, and the gap between them—high energy intensity in Turkmenistan and Uzbekistan, low intensity in Azerbaijan and Tajikistan—continues to close (Figure 2.17).

Alternative energy accounts for 7 percent of electricity production in Azerbaijan, but the Ministry of Energy and the State Agency on Alternative and Renewable Energy Sources (SAARES) want to increase this to 20 percent by 2020. Over \$7 billion in alternative energy investments will be made, and total renewable capacity will reach 2,000 megawatts.

In Uzbekistan, the government is pursuing measures to reduce energy intensity, such as the introduction of energy-saving technologies. The construction of residential, social and domestic facilities continues, using solar and energy-saving technologies. The road map “Development of the use of solar energy in the Republic of Uzbekistan” for 2014–2031 set a target

that the share of solar energy in the country’s energy balance by 2030 should be 6 percent.

Legal and institutional frameworks

Sound investment laws and regulations, with light provisions on company formation and business registration, are crucial for developing a sound market economy, as well as zones and parks. A company/commercial regime in line with international standards can improve the business climate, making countries more attractive for non-oil investors. Sophisticated service providers to oil and gas could find other opportunities in a country if the overall scenario undergoes necessary reforms. This legislation is key for defining rules for SEZ developers and/or investors, thus the need to extend the legal assessment to this and the other core areas identified above.

The review of the legislative framework shows that each country has, of course, its own level of definition/implementation, though similarities among institutional scenarios are numerous (Table 2.8).

Table 2.8

Legal frameworks for special economic zones

Country		Azerbaijan	Tajikistan	Turkmenistan	Uzbekistan
<i>Specific SEZ law</i>		Law on Special Economic Zones <i>Law No. 79 of 14 April 2009 and related amendments</i>	Law on Free Economic Zones <i>Law No. 700 of 25 March 2011 and related amendments</i>	Law of Turkmenistan on Free Economic Zones <i>8 October 1993 and related amendments</i>	Law on Free Economic Zones <i>25 April 1996 No. 220-I and related amendments</i>
Provisions included in SEZ law	Establishment	✓	✓	✓	✓
	Duration	✓	✓	✓	✓
	Type of activity/ies	✓	✓	✓	✓
	Type of zone/s	✓	✓	✓	✓
	Privileges	✓	✓	✓	✓
Management	Regulation	✓	✓		
	Administrative board (management)	✓	✓		
	Advisory board (supervision)	✓	✓		
	One-stop shop/single window	×	✓		
	Monitoring activity	×	✓		
Legal core areas					
Regimes	Property protection	✓	✓		
	Investment protection	✓	✓		
	Public-private partnership	×	✓		
	Customs	✓	✓		
	Tax	✓	✓		
	Financial	✓	✓		
	Land	✓	✓		
	Labour	×	✓		
	Incentives	×	✓		
Dispute resolution	×	✓			
Sustainability	Health	×	✓		
	Social	×	✓		
	Environmental regime	×	✓		

Note: Blanks in the table mean that the information was not made available to the project team.

The project countries are all in the initial phase of establishing or operating the zones. Many crucial aspects are shared by most of the countries.

At a general level:

- A full concept of organized economic zone and related development strategy/road maps has not been fully designed.
- The legislative/regulatory context is incomplete and implementation of rules is not monitored.
- Legislative/administrative powers are still quite centralized; powers delegated to local authorities are limited.
- Coordination among the institutions involved in zone establishment and operation is usually unsatisfactory for relevant institutions/stakeholders.
- Rules on zone activities are fragmented among legal documents.

- There is a strong need for an autonomous single authority to supervise the activities of all organized zones, as frequently suggested by the countries' public institutions.
- Certain administrative procedures remain burdensome.
More specifically:
 - Even if laws governing SEZ establishment and operation exist in each country, some core issues such as the role, duties and competencies of zone developers and operators are still not up to international standards.
 - The functions and powers of the administration authorities, central and inside each zone, are not clearly and completely set out.
 - Foreign ownership of land is usually not permitted by law. A guarantee of the free use of the project's immovable properties for a reasonable period of time, based on legal title, is not always provided.
 - A fair level of property rights protection seems to be guaranteed to investors in the project countries; however, for intellectual property rights, institutions and stakeholders have frequently pointed out the need to modernize the legal framework from the innovation and high-tech perspective.
 - The unfavourable business environment in Tajikistan, and barriers to foreign direct investment (FDI), did not help attract private investment and actually limited investment in the country. The key obstacles mentioned by local and foreign entrepreneurs are inadequate infrastructure (especially insufficient and unreliable energy), weak rule of law (especially for property rights), and tax policy and administration.
 - To achieve higher economic growth, Tajikistan needs to implement deeper structural reforms aimed at reducing the role of the state and increasing the role of the private sector by creating a more favourable business environment.
 - Even though three of the four countries (Azerbaijan is the exception) have laws and regulations on public-private partnerships (PPPs), the

overall legal framework governing PPPs is unfit to regulate such complex transactions.

- Participation of the private sector in establishing and operating zones remains burdensome and difficult.
- Even with significant improvements in the investment protection regime, serious risks remain for dispute resolution, and for disposal of assets.

Overview of state of operation: main gaps and obstacles

Substantial barriers to investment still exist in the project countries. Special attention should be paid to support micro firms and SMEs. Except for industrial estates in Azerbaijan, the current investment regimes in the project countries is not easily applicable to such enterprises.

In general:

- In all countries, the private sector is insufficiently organized to make requests or proposals to shape a more friendly business environment.
- It is important to involve the entire private sector in establishing and operating organized economic zones. The business community should be properly represented, with organizations dealing with support for innovation, development of skills and provision of capital, including donors and SME support services.
- SEZs cannot operate without private sector participation. Given the size of the financial resources needed to guarantee good infrastructure and services, it is hard for organized economic zones to develop without the support and funding of private entities.
- SEZs' legal and institutional arrangements are often inappropriate to attract investors to large projects.
- Public institutions need to be supported in their efforts to improve their officials' capacities to manage and supervise very complex PPP transactions.
- Investment licensing requirements and licensing procedures must be clear and transparent. The authorities' discretionary powers must be limited.

- The constraints on foreign land ownership can be then dealt with through long leases to developers/users. This aspect has to be constantly monitored.
- In all project countries, the investment regime needs reform in the generally similar main weak areas, such as dispute resolution and disposal of assets.
- Except for a few cases, Sumgait Chemical Industrial Park (SCIP) in Azerbaijan is the most relevant one-stop shop model. Generally in the

zones, these one-stop shops must be improved to facilitate formalities, and efficient customer-oriented bodies to interface with institutions need to be established. Single interfaces for setting up a business are paramount for sound development of a zone. They not only save time and money—they can also make procedural requirements more transparent and easier to meet. It will be necessary to monitor the performance of the one-stop shops after the zones' start-up phase.

Chapter 3

Azerbaijan

After the difficult years caused by the demise of the Soviet Union, Azerbaijan embarked on wide-scale economic reforms and privatization, and in the last two decades has enjoyed striking economic growth. Today, it is the largest economy in the South Caucasus, accounting for more than 70 percent of that region's GDP. It is among the 40 most competitive economies in the world and is a top performer in the CIS region.⁷³ The private sector has become the main economic driver, providing more than 74 percent of employment and 80 percent of GDP. In 2018, the World Bank classified Azerbaijan as an upper-middle-income country.⁷⁴

The major economic sectors are oil and gas, construction, machinery and metal processing, chemicals and petrochemicals, light industry and food processing, and agriculture. The country benefits from a strategic geographic location, a low-cost and skilled labour force, a developed energy sector and a number of signed bilateral trade treaties.

According to ADB, economic growth rates fell in 2014, due to the fall in oil prices, causing a 50 percent reduction in export earnings, because oil generates more than 90 percent of exports. This trend continued until the slight increase of oil prices in 2017. Sluggish growth shows the country's vulnerability to reliance on oil and gas. The near-zero growth in 2011 was the lowest since 1995's GDP contraction and was due to a steep fall in oil production.⁷⁵ Since 2013, Azerbaijan has experienced a new downward turn, and GDP contracted by 3.1 percent in 2016, the largest decline since 1996. Non-oil export revenues are also vulnerable to economic problems in its key markets, such as the Russian Federation and Turkey.

A sharp decline in fiscal revenues has driven the government to bolster the economy with an increase in expenditure on pensions, social security and salaries. The government introduced various tax and import/export incentives to counter the crisis and boost non-oil sectors.⁷⁶ It also engaged in far-reaching

reforms to simplify bureaucratic licensing of business procedures.⁷⁷

In recent years, Azerbaijan has risen on the World Economic Forum's Global Competitiveness Index (GCI).⁷⁸ It scores highest among the CIS countries on the GCI, having improved its ranking from 72 in 2011 to 38 in 2014–2015, and to 35 in 2017–2018. Past GCI analysis singled out the country for the strength of its macroeconomic environment (for which it ranked 10 on the GCI in 2015–2016), low inflation (ranked first) and favourable public finances. Azerbaijan has significantly reduced the number of days required to start a business, from 105 in 2000 to three in 2014, which is the lowest among the project countries. But Azerbaijan has performed insufficiently in infrastructure, bureaucracy and economic diversification. By 2017–2018, following a spike in inflation, a reduction in gross national savings and an increase in government debt caused by the decline in the price of oil and gas, Azerbaijan's ranking on the macroeconomic environment had fallen to 65. Corruption, which in 2015–2016 was cited by respondents to the World Economic Forum's Executive Opinion Survey as the most problematic factor for doing business, was supplanted in 2017–2018 by access to financing and regulations on foreign currency and tax. The issue of accessing finance is a particular problem that has the potential to undermine the country's goal of diversifying economically.

In 2015, Azerbaijan experienced two currency devaluations triggered by falling global oil prices. The currency lost about 50 percent of its value against the US dollar. These greatly reduced household consumption and public investment, by more than 1 percent and 8 percent of GDP. The central bank was forced to abandon the peg to the US dollar.

The recovery in oil prices and export revenues has aided currency stabilization, although the country remains highly vulnerable to external shocks caused by a fall in oil prices, which could once again

destabilize the currency. The central bank plans to shift to a floating exchange rate regime, but it is unlikely that such a policy could be pursued successfully without major reform,⁷⁹ primarily because the banking sector is underdeveloped and capital markets are shallow, limiting the ability of the central bank to influence the money supply and inflation through interest rates.⁸⁰

Development of a business-friendly environment and legislation is among the top priorities of the document on the concept of national development, “Azerbaijan – 2020: The Vision of the Future.”⁸¹ The development of the non-oil sector envisages enhancing the information technology (IT), agrifood, chemicals, machine industry and construction sectors.

The country has signed double taxation treaties with 51 countries and bilateral investment treaties with 47 countries. It ranks 65 out of 190 countries on the World Bank’s Doing Business 2017 report (compared with 2015’s 80 out of 185). Although Azerbaijan performs well on business entry indicators, it lags on trading across borders, accessing electricity, processing construction permits and accessing credit. Effective and enforceable bankruptcy and creditor protection regulations are among the priorities for encouraging business in facilitating financial transactions.

To combat the crisis in the construction sector, the government is pursuing increased cooperation with international and bilateral donors. Moreover, an upward trend in agriculture, partially thanks to government support to farmers, confirms the relative resilience of the sector to economic crisis, which could be further bolstered through the establishment of agro-industrial SEZs.

An effective financial sector is a necessary precondition for business establishment and growth. Sound funding and support tools are especially needed by SMEs, which are important for boosting the economy and job creation, especially in developing and transition countries. Strong financial institutions and financial markets are needed to mobilize domestic sources of funding. The central bank of Azerbaijan is providing a finance programme in local currency to

local banks aimed at supporting SMEs. Increasing the capacity of domestic banks and finance institutions (including those specialized in funding industrial or agricultural projects or managing micro-finance schemes) remains a key priority to expand the private sector.⁸²

As in many countries with substantial natural resources, Azerbaijan has launched large-scale construction and infrastructure projects, in particular in and around the capital Baku. In response to falling oil prices, the government is promoting economic diversification, with policy directed at the development of a sustainable and competitive non-oil economy while it continues to invest in energy (such as the Southern Gas Corridor) and energy-related infrastructure projects. Industrial development was previously guided only by the “State programme on the development of industry in the Republic of Azerbaijan in the years 2015–2020,” which was approved in 2014, the same year declared the “Year of Industry.” In 2016, it was followed by strategic road maps for 11 key sectors:⁸³

- Oil and gas industry.
- Manufacture and processing of agricultural products.
- Manufacture of small and medium entrepreneurship-level consumer goods.
- Heavy industry and machinery.
- Specialized tourism industry.
- Logistics and trade.
- Housing provision at a reasonable price.
- Vocational education and training.
- Financial services.
- ICT.
- Utilities (electricity and thermal energy, water and gas supply).

The strategic road maps aim to achieve sustainable economic growth, enhance the competitiveness and inclusiveness of the economy and increase social welfare. The objectives are to strengthen the country’s position in the global economy and make Azerbaijan a high-income country, by attracting investment, creating a competitive environment, accessing new markets and developing human capital.

The National Programme for Socio-Economic Development was launched to diversify the economy through a renewed policy on industrialization and private sector development, coupled with adequate social programmes, including a rise in public wages, pensions and student support.

Job creation is one of the top priorities, especially jobs for youth and the growing working-age population. The focus is on creating opportunities in manufacturing and agriculture, but also in the service sector through increased productivity, efficiency and structural reforms. As the capital-intensive hydrocarbon sector employs little labour—only 1.7 percent of total employment—the new economic policy will prioritize industrial clusters, which are likely to create new high-value jobs, strengthen value chains, create networks of domestic suppliers and increase products' value added.

Supporting agriculture is considered important, because the sector still provides 37 percent of all jobs and its growth rate increased to 7.9 percent in 2016 from 4.2 percent in 2015, due to good performance of wheat and cotton and increased livestock farming. Adopting advanced technologies can greatly increase the value added in the sector. Other sectors targeted by the government are textiles, electric power, chemicals, construction, and transport and communications.

Other sectors such as transport, communications, logistics, finance, trade and tourism also show good potential. Investments in education and health have been long demanded to strengthen the human capital and skills needed for growth of local enterprises and sustainable social development—the country's current HDI ranking is only 109 out of 188.

Structural reforms and liberalization of business and regulatory frameworks—mainly the protection of property rights—are becoming urgent for sustainable economic growth and for the success of the government's long-term economic plans. The macroeconomic analysis carried out in Chapter 2 also stressed the need to restructure public finance, to make it more open and transparent.

Status of special economic zones, including state of operation

“Development Concept Azerbaijan—2020: Outlook for the Future” states that “it is planned to strengthen measures to transfer and use advanced technologies and to create industrial parks and innovative zones to develop and apply science-intensive products and technologies. From this point of view, a relevant legislative basis will be prepared and adopted, and it is planned to set up a State Fund for the Development of Information Technologies to develop an economy based on innovative entrepreneurship and knowledge.”

Further, one of the main priorities of the “Strategic Roadmap for Manufacturing of Consumer Goods at the Levels of Small & Medium Entrepreneurship in the Republic of Azerbaijan” is the creation of special industrial zones and clusters for SMEs.⁸⁴ The importance of SEZs is also reflected in the State Program for Industrial Development in the Republic of Azerbaijan for 2015–2020,⁸⁵ of 26 December 2014.

The Law on Special Economic Zones was adopted in 2009.⁸⁶ Article 1.0.1 defines an SEZ as “a delimited part of the territory of the Azerbaijani Republic within which a special legal regime is applied to the implementation of business activities,” allowing entrepreneurs to benefit from privileges such as preferential tax and customs regimes. Article 5 regulates SEZ establishment, article 9 management and development, and article 11 administration. The one-stop shop regime and monitoring activities are regulated by secondary legislation. To simplify and accelerate the process of establishing new industrial parks and estates, model regulations on industrial parks and estates have been approved. Establishing an SEZ requires a decree of the President, on the proposal of the authority or multiple authorities.

The law bars certain types of economic activities in SEZs, including extraction of minerals; production and conversion of precious metals; oil, alcohol and tobacco production, storage and sale; and television broadcasting. The SEZ framework is thus making use of short “negative lists,” rather than prescribing activities through the use of “positive lists.”

The development and administration of each zone is entrusted to an ad hoc administrative body accompanied in implementing the activities by an “Operator” selected by way of tender. The Operator is “the company which, according to a management agreement, bears the responsibility for management and development of the special economic zone” (Law on Special Economic Zones).

Special tax and customs regimes apply to each SEZ. According to article 18 of the SEZ Law, SEZ residents are also entitled to a 50 percent reduction on the income tax rate.

As pointed out by the national customs authority, customs policy is crucial for soundly developing international trade and organized economic zones and for harmonizing legal frameworks within the BRI. A road tax exemption for lorries transporting goods along international corridors might be applicable within Azerbaijan’s SEZs.

Article 15 of the SEZ Law sets the contours for land allocation: each SEZ Administration is responsible for state management of plots of land within its boundaries when these are held under state ownership. A rental agreement is signed between the SEZ Administration and the Operator, and the resident of the SEZ, pursuant to an official template. Sub-leasing activities (if any) are also regulated.

Employment and currency matters, such as convertibility, are governed by the relevant national legislation and regulations.

SEZs in Azerbaijan are not of a single type; they are developed in various forms:

- Free trade zones.
- Industrial parks.
- Industrial estates.
- High-technology parks.
- Agroparks.
- Others.

Figure 3.1 shows Azerbaijan’s SEZs.

The government aims to develop agribusiness by setting up innovative agroparks—38 in 26 regions. The first agroparks were finalized in Khachmaz, Shamkir and Djalilabad regions, and preparatory

work for a further 12 parks has started. The aim is to have competitive and modern agribusiness that will allow balanced development and ensure employment through innovative management and technologies.

Industrial parks

Industrial parks are charged with creating favourable conditions for developing industrial production based on innovative and high-technology design. They are established to support economic diversification by supporting the growth of and employment in the non-oil sector.

The Model Regulation on Industrial Parks⁸⁷ defines an industrial park as “the territory having necessary infrastructure and managerial structures for implementation of business activity, destined to production of competitive products and provision of services by using current technologies, promoting fruitful activities and development of enterprises.”

Industrial parks can be created on state, municipal or private land, and can be publicly and privately driven. Yet in practice, all industrial parks are on state land and were established at the state’s initiative. No specific provision prevents private players from establishing and operating industrial parks, but none does.

Every stage of the establishment and operation of industrial parks sees the close involvement of the Ministry of Ecology and Natural Resources. In particular, it monitors the ecological aspects of land use, issues authorizations and checks waste-disposal schemes.

The ministry’s competencies related to industrial parks include issuance of binding opinions/recommendations at the start of the process, such as feasibility studies and holistic assessments of the project, and for single projects inside the park, in particular on activities allowed.

Azerbaijan has five industrial parks with an ad hoc regime:

- Sumgait Chemical Industrial Park (SCIP).
- Balakhany Industrial Park.
- Mingachevir Industrial Park.
- Garadagh Industrial Park.

Figure 3.1
Special economic zones in Azerbaijan



- Pirallahi Industrial Park.
Among the incentives provided to park users, the following are specified in the legislation:
- Customs duties: “Industrial park residents are exempt from customs duties on imports for five years starting from May 1, 2016” (Law on Customs Tariffs).
- Social charges for FDI: “Foreign residents of Azerbaijan industrial parks are exempt from payment of compulsory social insurance for five years starting from May 1, 2016.”
- Tax incentives: All residents “are exempt from income tax and property tax for seven years. Moreover, the equipment and technology used in the industrial parks are exempt from the value added tax (VAT).”⁸⁸

Legal entities and individuals engaged in entrepreneurial activities resident in industrial or technology parks created in accord with the decision of the relevant executive authorities are exempt from tax on land for seven years from the year of registration in a park. All recent changes are aimed at simplifying the tax system, making parks more attractive for foreign investment.

Many institutional stakeholders pointed out, however, the need to develop new incentives (beyond the tax breaks and infrastructure) to encourage greater long-term investment such as simplified procedures for registration and licencing, enhanced protection of FDI and investment in aftercare. Table 3.1 details various parks’ main geographical and economic features, as well as their state of operation.

The majority of the SEZs are either directly funded or supported by the government. For example, the SCIP, which is fully owned and funded by the MOE, has received a large budget to start operations. However, no further information is shared on the current structure of the budget, and it is expected that once it is fully operational, it will not need further governmental funding.

In terms of infrastructure and services offered, the SCIP intends to become a strategic economic hub, aided by its advantageous geographic position, state-of-the-art infrastructure and services, and park management's strong willingness to comply with international best practices. The SCIP's experience was used in creating other parks and zones.

A one-stop shop for customs, administrative and financial services; it is functioning well, inside the park. Services are provided for free. Selection of incentives for residents are based on analysis of successes

and failures (several international and regional cases have been analysed so far).

Information supply and organizational support are guaranteed, as is assistance in preparing funding applications to (among others) the Caspian Investment Company, the Azerbaijan Investment Company (AIC), the National Fund for Entrepreneurial Support and the Private Investment Company.

The park's social facilities include an administrative building for park residents, exhibition and conference centre, laboratory, children's care centre, indoor and outdoor sport pitches, health centre, dormitory and other facilities to serve residents and employees. A high-level vocational training school, based on the German model, in collaboration with Stuttgart Technical University, is scheduled to open in the near future. However, no university has opened or is planning to open in the park.

Table 3.1

Industrial parks in Azerbaijan

Name	Sumgait Chemical Industrial Park (SCIP)
Law	Order of the President of the Republic "On Establishment of Sumgait Chemical Industrial Park" No. 548, dated 21 December 2011.
Description	Total area: 466.37 ha (167.66 ha land area of the SOCAR's Azerikimya Production Unit has been allocated to SCIP. Situated close to Baku-Rostov (Russian Federation) highway.
Sectors	Agro-food, medicine, chemicals, non-ferrous metals, consumer goods, construction material and electronics.
Enterprises	Seventeen residents: Azertexnolayn Limited Liability Company (LLC), SOCAR Polymer LLC, Azerbaijan Fibro Cement LLC, AzerFloat CSC, SIKÁ LLC, MST Engineering, Baku Non-Ferrous Metals & Ferrous Alloys LLC, Alco Lubricant Company LLC and Agrokimya Azerbaijan LLC. Under Construction: tobacco plant of Tabaterra Closed Joint Stock Company, SOCAR Cabamide Plant for production of nitrogen fertilizer, SumPlast LLC, AzerFloat CJSC and Azerxalcha Open Joint Stock Company. Includes both local and foreign firms.
Managing authority	Sumgait Chemical Industrial Park LLC is under the supervision of the Ministry of Economy (MOE).
Functioning	SCIP will be operational in 2018.
Name	Balakhany Industrial Park
Law	Order of the President of the Republic "On Establishment of Balakhany Industrial Park" No. 1947, dated 28 December 2011.
Description	Total area: 7 ha. The park is 31km from Baku and near the Baku-Rostov (Russian Federation) highway. Jobs created/planned: 400 permanent jobs.
Sectors	Recycling industry. Innovation and high technology.
Enterprises	Eleven residents: Ekokat LLC (involved in processing of used motor oils), AzEkol LLC (involved in plastic bottle recycling), Ecotire LLC, Metak LLC and others.

Table 3.1 (continued)

Industrial parks in Azerbaijan

Managing authority	Tamiz Shahar, Open Stock Company, under the supervision of the MOE.
Functioning	The park was officially launched in September 2017. The first stage of development is completed.
Name	Mingachevir Industrial Park
Law	Established by the order “On Establishment of Mingachevir Industrial Park” No. 1077 in 2015.
Description	Total area: 14.8 ha. Near Mingachevir city, established on the basis of liquidated state enterprise—Mingachevir-Tokhudju OJSC. Initial planned 2,000 new jobs and more than 5,500 later.
Sectors	Textile and medical industries.
Enterprises	Nine factories will be established in the park according to institutional counterparts, including one on medical cosmetics.
Managing authority	Sumgait Chemical Industrial Park LLC, under the supervision of the MOE.
Functioning	Launched in 2018.
Name	Garadagh Industrial Park
Law	Garadagh Industrial Park was established by the order of the President of the Republic “On Establishment of Garadagh Industrial Park” No. 1255, dated 3 June 2015.
Description	Total area: 72 ha. South of the Absheron peninsula.
Sectors	Shipbuilding including tankers, marine supply vessels and other vessels.
Enterprises	One resident—Baku Shipyard Company LLC.
Managing authority	Sumgait Chemical Industrial Park LLC, under the supervision of the MOE.
Functioning	The park is operational.
Name	Pirallahi Industrial Park
Law	Established by the order “On Establishment of Pirallahi Industrial Park” No. 2336, dated 14 September 2016 of the President of the Republic.
Description	Area: 30 ha. Pirallahi district of Baku. Jobs created: 350 (planned).
Sectors	Production of pharmaceutical products.
Enterprises	Diamed Co-production of single use injections/disposable syringes. Hayat Farm in cooperation with R-Pharm (Russian Federation), Vita-A LLC (Azerbaijan) and the AIC. Caspian Pharmed in cooperation with Tamin Pharmaceutical Investment Company (Iran) and Azersun Holding (Azerbaijan). Negotiations on the JVs on production of pharmaceutical products with companies from Europe, Japan and the Republic of Korea are ongoing. Investments by the residents: more than \$90 million.
Managing authority	Sumgait Chemical Industrial Park LLC, under the supervision of the MOE.
Functioning	Under construction; not operative yet.

Further expansion is planned to attract more residents, including a business incubator to develop new businesses and capacities of existing residents. Plans include construction of a data centre. It was reported that construction started in 2016.

Residents could also benefit from the “Made in Azerbaijan” initiative of the government, aimed at

promoting non-oil exports. Among the measures, non-oil exporters will be reimbursed up to 3 percent of exports and receive assistance with market research.⁸⁹

Industrial estates

In Azerbaijan, industrial estates are designed to provide favourable conditions for the development of

SMEs in the industrial and service sectors to increase employment. Residents benefit from provision of necessary infrastructure, as well as administrative and logistical support.

The “Development Concept Azerbaijan—2020: Outlook for the Future” states that:

[the] use of innovative technologies in industrial enterprises will be stimulated and special and general industrial estates will be set up. Along with the development of the non-oil processing industry, the formation of the industrial estate infrastructure in economic districts will be the main sphere of the state investment policy. From this point of view, during the period covered by the concept, it is planned to create a SEZ and industrial estates in every economic district taking into account economic potential (including industrial estates for the processing of petrochemical products in Sumgait, the processing of domestic waste in Balakhany and the production of metal (aluminum) products in Ganja.

The Model Regulation on Industrial Estates⁹⁰ states that an industrial estate is an “area where there are necessary infrastructure used by the small and medium-sized enterprises for manufacturing of goods and provision of services.”

Table 3.2 provides a list of established and planned estates.

The primary objectives of the industrial estates are:

- Socio-economic development of the regions.
- Support for establishment and operations of SMEs.
- Creation of new jobs.
- Increase of industry’s share in the economy.
- Reduction of infrastructure costs.
- Strengthened cooperation between enterprises.

Since October 2014, the AIC has been mandated to oversee the setting up and management of industrial estates. The AIC is a state-owned equity fund,

supervised by the MOE, with an overall objective to support the development of the non-oil sector. According to its website, the AIC “supports the development of the non-oil sector via termed equity injection along with local and foreign co-investors into the greenfield and brown field projects on the territory of Azerbaijan.”

The AIC has also been appointed as organizer and regulator of industrial estates. The Cabinet of Ministers allocated land for an estate that was transferred to the AIC. Based on instructions from the MOE, the AIC created favourable conditions for business at that territory including internal and outer infrastructure (power, water, gas, heating, sanitation, communications, transport, fire-fighting means, administrative, industrial and social areas).

No special direct incentives are provided for by law for industrial estates, but investors can benefit from special loans from the MOE’s entrepreneurship fund. Further studies on creating industrial settlements in other regions of the country are being conducted.

Future residents are encouraged to apply for an investment promotion certificate provided by the MOE to enjoy the benefits envisaged in the Tax Code and in the “Law on Customs Tariff,” including:

- Fifty percent of income tax exemption, property and land tax.
- VAT and import duty exemption on imported technological equipment and facilities for seven years.

Through investment promotion certificates, the government expects to attract more than half a billion AZN to the economy, and create 4,000 jobs. Residents can also benefit from the “Made in Azerbaijan” initiative.

High-technology parks

High-technology parks in Azerbaijan aim to create a business-friendly environment for commercialization of innovative technologies.

There is no specific law governing such parks. A law on innovation is pending, and another law that could foster establishment and operation of

Table 3.2

Industrial estates in Azerbaijan

Name	Law	Description	Sector/s	Enterprises	Managing authority	Functioning
Neftchala Industrial Estate	The Neftchala Industrial Estate was established by the order of the President of the Republic "On Establishment of Neftchala Industrial Estate" No. 1011, dated 2 February 2015.	Located in Aran Region, city of Neftchala. A 10 ha area has been allocated.	Multi-sector estate. Different types of enterprises will be operating, including car production, oil-gas equipment production, fish processing and canning, and production of plastic pipes.	Residents include: Kahf LLC, Petroqeoqaz LLC, Azeurocar LLC, Sun Rise Production LLC Aqua Group LLC, Toğrul-2008, Providence Doytch Limited LLC, Metak LLC, Azproduct LLC, Gilan Pivot and one joint venture with Iran Khodro on car production.	Azerbaijan Investment Company OSC under supervision of the MOE.	Construction of the production blocks has been completed. Some companies have started installation of facilities. Industrial estate is expected to be fully operational in 2018. Official launch of the estate was in September 2017. ^a In total, AZN 45.3 million was invested by residents and 500 new jobs created.
Masally Industrial Estate	The Masally Industrial Estate was established by the order "On Establishment of Masally Industrial Estate" No. 2115, dated 13 June 2016 of the President of the Republic.	A 10 ha area has been allocated. Located close to the highway connecting the Russian Federation and Iran.	Multi-sector estate. Sectors include production of furniture, construction materials, plastic bottles, tableware, food products, carpets, and agricultural products. (33 proposals with total value of AZN 33.5 million were received by the AIC.)	Resident acceptance process has started. No information on residents is yet available.	Azerbaijan Investment Company OSC under supervision of the MOE.	Construction work has started, and is expected to be completed in the second half of 2018. Planned to create 607 new jobs.
Hajigabul Industrial Estate	Hajigabul Industrial Estate was established by the Order "On Establishment of Hajigabul Industrial Estate" No. 3127, dated 25 July 2017 of the President of the Republic.	Twenty ha of land has been allocated for construction of the industrial estate. Industrial estate is situated in the Aran economic region.	Multi-sector estate. It is going to host SMEs from different sectors. (The AIC received appeals on creation of heavy machinery, special wagon; composite materials; and car manufacturing plants.)	Resident accepting process has not started yet.	Azerbaijan Investment Company OSC under supervision of the MOE.	Industrial estate is under legal registration. The construction work is expected to start in the first quarter of 2018.

Table 3.2 (continued)

Industrial estates in Azerbaijan

Name	Law	Description	Sector/s	Enterprises	Managing authority	Functioning
Sabirabad Industrial Estate	Sabirabad Industrial Estate was established by the Order "On Establishment of Sabirabad Industrial Estate" No. 3407, dated 27 November 2017 of the President of the Republic. ^b	Based on the Order, 20.3 ha of land should be allocated for construction of the estate. The Cabinet of Ministers was ordered to amend the category of land into industrial, and report to the President in two months.	Multi-sector estate. It is going to host entities in wool supply, cotton cleaning, wood and plastic products, production of construction materials, and agricultural processing. A logistics centre will also be established.	Resident accepting process has not started yet.	Azerbaijan Investment Company OSC under supervision of the MOE.	Industrial estate is under legal registration. Ground-breaking ceremony was held on 28 December 2017.

Notes: a. www.neftchala-ih.gov.az/news/221.html. [Accessed February 2, 2018]. b. www.e-qanun.az/framework/37008.

high-technology parks—that is, a law on venture capital—is not planned.

In 2012, the President of Azerbaijan, by an ad hoc decree, launched a project for the development of a sustainable and competitive environment for the high-tech economy. Under Presidential Decree 481, dated 26 February 2015 the Mingachevir Hi-Tech Park under the supervision of the Ministry of Transport, Communications and High Technologies was created.⁹¹ The park is in Mingachevir city and covers 1.3 ha. It will “carry out research and experimental design works and apply its results to develop or improve innovative products and high technologies.”

It is planned to equip the park with all the necessary infrastructure, logistics and governing entities, enabling engineers to conduct research in ICT, energy efficiency and other technological fields. Residents will be exempt from VAT on all imported infrastructure and technological goods and services. Currently the park has one resident, H-Tech Invest.⁹²

Previously under the Decree of the President No. 736, dated 5 November 2012, a Science and Technology Park in Pirallahi was established, which aims to ensure sustainable development, increase the economy’s competitiveness, apply ICT based on state-of-the-art scientific and technological achievements, promote research, and create new ICT products.⁹³ The

park in Pirallahi will cover 50 ha, which is connected to land with a bridge. It aims at fostering a nascent technology industry by providing economic incentives and business services.⁹⁴

Stakeholders expect that high-technology parks will, at least for now, largely exist within an ad hoc regime. The government’s ultimate goal is to use oil and gas revenues to develop ICT and human capital.

Anticipated focus areas of high-technology parks are:

- Software engineering.
- Telecommunications and mobile technology.
- E-business and commerce.
- Next-generation transport.
- Aerospace and defence.
- Green energy.

The new facility is an area with the necessary infrastructure, logistics and governing entities for conducting research in ICT, telecommunications and space use, energy efficiency, and the development of high technologies.

The above parks are managed by High Tech Park LLC, established under the Ministry of Transport, Communications and High Technologies of Azerbaijan.

Azerbaijan National Academy of Sciences (ANAS) High-Technology Park was established under the

Executive Order of the President, No. 2425, dated 8 November 2016.⁹⁵ (The ANAS is a high-ranking state institution in charge of science and technical development policy.) The park was created on the basis of Experimental Industrial Plant of the ANAS in Khatai district of Baku. The ANAS is responsible for park administration.

This high-tech park aims to contribute to R&D activities conducted by the ANAS through considering the results of studies in the manufacturing, development and improvement of new products and services. The park also aims to improve government support for spreading innovation and high tech, and to enhance scientific research for development of modern technologies.

Under the tax code, as well as relevant laws and regulations of Azerbaijan, incentives for residents include the profit tax relief for seven years, relief from real estate and land tax, VAT relief for imports and provision of social and business services, including training and access to the talent pool and academia. The incentive scheme is similar to the one in industrial parks.⁹⁶

Agroparks

Azerbaijan plans to spur modernization of agribusiness, in which agroparks are a priority. While there are no specific regulations for agroparks under the regulatory supervision of the Ministry of Agriculture, all agroparks are established in accord with the Presidential Decree of 16 April 2014 “on measures for improving management in agricultural sector and acceleration of institutional reforms,” which encourages their creation. In total, around 38 agroparks are planned in 26 regions, to increase export of agriculture products and to enter new markets. Agribusiness incubators may also be established in the near future.

The government is seeking further investment in agriculture to increase economic stability and diminish the country’s dependency on oil and gas against a backdrop of demand for ever-greener and sustainable and inclusive development. One method has been the creation of additional agroparks.

According to the MOE, agroparks will help increase the country’s export potential, create national brands, increase the innovative experience of small and medium-sized farmers, create a coordinated agribusiness system, realize integration among producers, workers and consumers, and achieve high productivity growth. This can also help improve the skills of specialists and create new opportunities.

With a total area of 604 ha, located in one of the most fertile regions of Azerbaijan, Shamkir Agropark was the first agropark to be established in Azerbaijan and in the South Caucasus. Since 2014, the park has used advanced technology for production, packaging and labelling of fruit and vegetables. The park also has a laboratory and logistics centre with 24,000 tons of capacity, Ultra Low Oxygen-type refrigerated storage rooms, a single window complex, TIR parking and a helipad. Reportedly 179 people work at the logistics centre, with an average monthly salary of 600 manats.⁹⁷

Through the one-stop shop, customers can get customs clearance to many countries, including the EU and CIS, and receive banking services.

The Yalama Agropark, with an area of 523 ha, has been in operation since September 2016. It was funded with an investment of \$11.5 million, with a further \$23 million to be invested over two construction stages. The park was established on the basis of the Yalama State Dairy and Pedigree Cattle Breeding Agricultural Production Enterprise. In 2016, 150 people were employed at the park. It is expected that more than 300 new jobs will be created once it is fully operational.⁹⁸

Absheron Agropark Complex is on the Absheron Peninsula and was developed by a private company, AS Group. The project was launched in 2016. On completion, the area of the park will be 434 ha, of which 330 ha will be dedicated to greenhouses and 24 ha for industrial use. The greenhouse complex will be open to SMEs to produce tomatoes.⁹⁹ The industrial zone will serve not only the complex, but also greenhouses in nearby villages and towns. The purpose of the complex is production, processing, logistics with

the application of modern technologies in storage, sorting, packing, labeling, transport, sales and distribution to internal and external markets.¹⁰⁰ It is also aimed at contributing to entrepreneurship, job creation and the welfare of the inhabitants of Absheron peninsula.

One of the newest examples of privately led agroparks include the Baku Agropark LLC greenhouse complex in the Khazar district of Baku. The cost is about AZN 68 million. The first stage of the project, including construction of infrastructure, is complete (AZN 21.7 million). The Entrepreneurship Support Fund of Azerbaijan provided AZN 10 million in preferential loans for that stage. It includes a greenhouse complex on 10 ha with annual production capacity of 3.3 million tons. The project created 140 jobs. Once fully operational, the complex will create additional jobs.¹⁰¹ In the next stages, more than 20 ha of greenhouses and a seedling area will be created.

As specified by SAARES, only one ongoing pilot agro-energy complex with a focus on the application of renewable energy and waste utilization in agriculture is under way.

An agro-energy complex is planned in the Samukh district. The construction of a solar power plant with a capacity of 20 MW, a biogas plant with (8 MW) and a geothermal power plant (3 MW) is part of the project. The complex will also include an agricultural area, where it is planned to produce 9,000 tonnes of vegetables, 20 tonnes of milk and 1,000 tonnes of meat per year. The project cost is estimated at \$165 million. Funds will come from the state budget, private investments and international finance organizations.

Azerbaijan still imports food from different countries and is unable to compete globally. Azerbaijan needs to upgrade and modernize its agribusiness and to accelerate its transition to technology-intensive agriculture. Agroparks can play a vital role in supporting this modernization.

Free trade zones

Baku International Sea Trade Port in Alat, close to Baku and on the Iran–Russian Federation strategic

highway, will become a free trade zone (FTZ). The EU is providing technical assistance to the Baku International Sea Trade Port CJSC for the creation of such an FTZ. The technical assistance provided will focus on transferring knowledge and personnel training. The land for this FTZ is owned by the state. Targeted industrial sectors in the zone are textiles, automotive parts and components, chemicals, and oil and gas. The FTZ is still in its establishment phase.

The President signed a decree on 17 March 2016, on measures to create an FTZ-type special economic area covering the territory of Alat's Sea Trade Port. A draft law on establishment of the FTZ was submitted to the Milli Majlis [Parliament] in January 2018.¹⁰²

The FTZ in Alat will be pivotal in international multimodal transport and the Eurasian supply chain via Azerbaijan. The port will act as a major logistics hub in the Caspian region, serving European and Asian markets, and be part of an extensive international logistics network linking Europe and Asia. The FTZ will include a lorry park and international and domestic logistics centres.

The FTZ will be within the grounds of the new port, covering 100 ha. Since the new port is being built at the major railway juncture connecting the North-South and the East-West railway lines in Azerbaijan, the FTZ will also have very good rail access. Serving as a multimodal transit logistics hub, the new port and FTZ will become a major consolidation and distribution centre in Central Eurasia, providing a wide range of value-added services.

The primary objective of the zone is to stimulate diversification from oil and gas by attracting manufacturing. Tenants of the Alat FTZ are expected to serve regional demand, stimulating exports. The FTZ will also aim at attracting big commercial players, including international companies, which will help bring best practices to Azerbaijan and increase human capital development. Moreover, the creation of new economic activities will have direct and indirect impacts on GDP. Boosting the Azerbaijani economy in aggregate will help promote FDI.

The Alat settlement is expected to become one of the leading trade and logistics hubs of Eurasia. After all three phases of construction, it is projected to increase capacity to up to 7,660 tons daily. The new port aims to achieve “green port” status by employing measures to reduce its carbon footprint. A programme to reduce waste from port operations through efficient management, treatment and disposal will be adopted. Waste treatment plants and equipment will be installed inside the zone.

Other planned SEZs

In 2014 technology/innovation and industry departments, similar to research/innovation parks, were established in the Institute for Scientific Research on Economic Reforms, under the MOE. The institute’s mandate includes preparation of a feasibility study for industrial parks. The institute also has a mandate of spurring the establishment of technology transfer centres.

However, there are no specific incentives for innovation in the country. The aim of innovation and R&D promotion activities has shifted somewhat and is now to develop technology parks and research centres at universities. Almost all universities—Azerbaijan State University of Economics, Azerbaijan Diplomatic Academy, Qafqaz Universit, Khazar University and others—have either incubators or research facilities, but there is no legislation on their activities. The Azerbaijan Diplomatic Academy is building a research centre in Pirallahi. Other state institutions and companies have their own research facilities.

As for Heydar Aliyev International Airport, after a new air terminal, runway and hangars are fully operational, an FEZ is planned to be created in the area, although no concrete plans were shared by the authorities.

Agribusiness incubators and clusters may be established in the near future. Yet the clustering of agriculture and industry may happen without explicit government supervision. These informal agglomerations, usually around the main cities, occasionally include businesses in the same sector, as with traditional

clusters, and generally ensure better group access to utilities. However, the size and configuration of such undefined and unmanaged zones, combined with the seemingly arbitrary and ad hoc character of how they are set up, do not provide a compelling blueprint for future growth.

Despite the fact that the Model Regulation on Creation of Touristic and Recreational Zones in Azerbaijan was accepted in 2008, the first practical steps in developing such zones were taken only in recent years. According to the resolution of Cabinet of Ministers No. 287, dated 1 August 2016, the creation of three tourism and recreational zones in Khizi-Khachmaz, Guba and Qusar regions, and their borders, were to be approved.¹⁰³ It is expected that these zones will be operational in the coming years.

Laws and regulations governing SEZs, including reform proposals

Figure 3.2 outlines the process of establishing industrial parks in the country.

Table 3.3 details the main provisions in legislation on the SEZ regime, although this framework only pertains to SEZs more generally, as industrial parks and estates are governed by ad hoc laws.

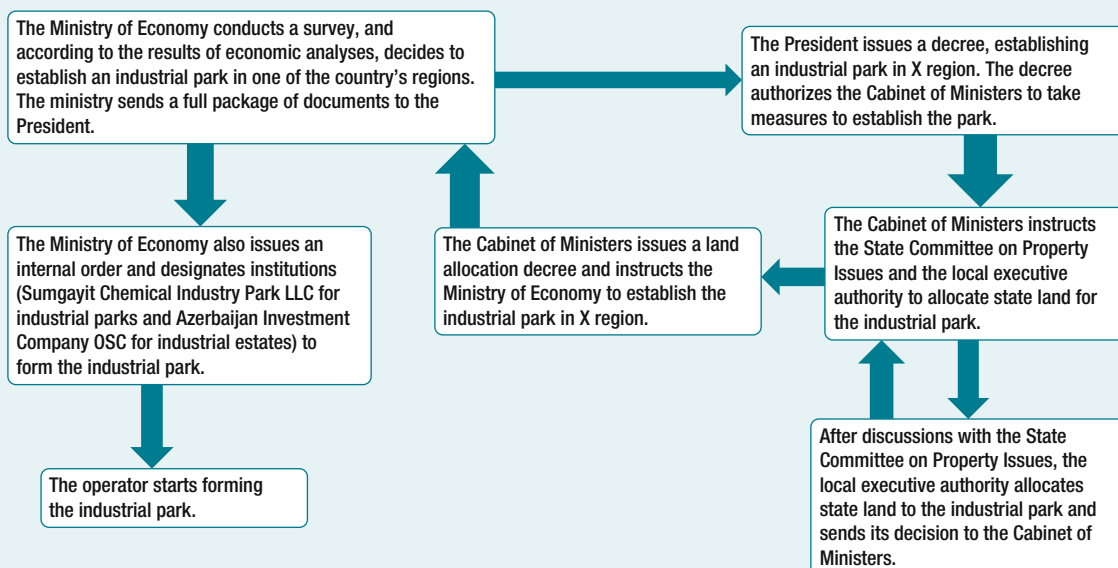
There are very few if any pending laws or regulations on SEZs, as most of the legal and regulatory framework is recently established. According to the MOE, however, a reform of the SEZ legal framework is planned.

Main legal provisions with impacts on SEZs

Some aspects of zone activities are governed by laws on the business and economic environment. For example, the “Rule on Investment Promotion Certificates” was approved under a Decree of the President of the Republic with the objective of promoting production, investment and the business climate. Numerous entrepreneurs have obtained the investment promotion certificate, which grants its holders a 50 percent exemption on income tax, property and land tax, VAT on imported technological equipment and facilities, and import duties for seven years.

Figure 3.2

Establishing an industrial park in Azerbaijan



Source: UNIDO estimate based on CIC (2009) and UNIDO (2012a).

Table 3.3

Azerbaijan's legal framework for special economic zones

Law/decreed number	Title	Contents
Law of 14 April 2009, No. 791	On Special Economic Zones	<ul style="list-style-type: none"> • General principles. • Governance of the zone. • Allocation of land. • Rights and duties of the operator. • Preferential tax/customs regime.
Decree of 20 June 2008, No. 548 of the President of the Republic	Model Regulation on Touristic and Recreational zones	<ul style="list-style-type: none"> • Aims and goals of zones. • Special protection conditions. • Governance of the zone. • Rights and duties of stakeholders.
Decree of 21 December 2011, No. 548 of the President of the Republic	On creation of Sumgayit Chemical Industrial Park	Establishment of the SCIP. Available at: www.scip.az .
Decree of Cabinet of Ministers of Azerbaijan Republic, of 2 February 2012, No. 47s		Land allocation to the park.
Decree of 28 December 2011, No. 1947 of the President of the Republic		Establishment of the Balakhany Eco-Industrial Park. Available at www.bsp.az .
Decree of Cabinet of Ministers of 2 February 2012, No. 47 and Decree of the Sumgayit City Executive Authority, of 7 March 2012, No. 59		Sumgayit city Executive Authority has allocated some additional land to the Sumgayit Chemical Industrial Park on different dates.
Presidential Decree of 5 November 2012 of the President of the Republic		High Tech Park—HT Park LLC under the Ministry of Transport, Communication and High Technologies was launched under this decree to organize and manage the park's activities. Managing Authority: High Technologies Park —HT Park LLC, under the Ministry of Transport, Communication and High Technologies.

Table 3.3 (continued)

Azerbaijan's legal framework for special economic zones

Law/debate number	Title	Contents
Presidential Decree of the Azerbaijani Republic of 24 April 2013, No. 865	On approval of "Model Regulation on Industrial Parks"	Definition of industrial park. General provisions. Business activity rationale, reference to production of highly competitive products and provision of services. Governance of the park. Provisions on managing authority and operator.
Order of 2 February 2015, No. 1011 of the President of the Republic	On establishment of Neftchala Industrial Park	Establishment of the park.
Order of 26 February 2015, No. 1077 of the President of the Republic	On establishment of Mingachevir Industrial Park	Establishment of Mingachevir Industrial Park (Chemicals).
Order of the President of the Republic of 3 June 2015, No. 1255	On establishment of Garadagh Industrial Park	Establishment of Garadagh Industrial Park (Chemicals).
Order of 13 June 2016, No. 2115 of the President of the Republic	On establishment of Masally Industrial Estate	Establishment of Masally Industrial Estate (SMEs).
Order of 26 February 2015 of the President of the Republic	On establishment of Mingachevir Industrial Park	Establishment of Mingachevir Industrial Park (Chemical). Managing Authority: Sumgait Chemical Industrial Park LLC, under the MOE.
Order of 17 March 2016, No. 1912 of the President of the Republic		Measures for establishment in the Alat settlement of Garadagh district of Baku SEZs such as FTZs, including the territory of the new Baku International Sea Trade Port (transport and logistics industry, pharmaceuticals, manufacturing, packaging).
Order of 14 September 2016, No. 2336 of the President of the Republic	On establishment of Pirallahi Industrial Park	Establishment of Pirallahi Industrial Park (Pharmaceutical Industry).
Order of 25 July 2017, No. 3127 of the President of the Republic	On establishment of Hajigabul Industrial Estate	Establishment of Hajigabul Industrial Estate (SMEs).
Order of 27 November 2017, No. 3407 of the President of the Republic	On establishment of Sabirabad Industrial Estate	Establishment of Sabirabad Industrial Estate (SMEs).
Decree of 17 March 2016, No. 1912 of the President of the Republic	On measures for creation of an FTZ-type SEZ, including the territory of the new Baku International Sea Trade Port in Alat settlement of Garadagh district of Baku city	<ul style="list-style-type: none"> • On preparing the analytical proposals on establishment of the park in Alat. • Improving SEZ legislation.

All exporters, including the residents of SEZs, could benefit from the "Made in Azerbaijan" initiative. According to the Presidential Decree on large-scale promotion of local non-oil products in foreign markets of 5 October 2016, nine support mechanisms to stimulate exports and promote "Made in Azerbaijan" abroad were formulated. Non-oil exporters will receive up to 3 percent reimbursement from the export prices of goods and services delivered. Every exporter of local non-oil products has the right to apply for these incentives, which are indirect government support of exports.¹⁰⁴

Other key legal provisions that have an impact on the SEZ legal framework, such as protection of investment and property rights, transfer of funds and capital, licensing, employment and immigration, were reviewed, and key problems areas are identified in Table 3.4.

Key features of the zones

As seen in Tables 3.1 and 3.2, all industrial parks and estates have been established recently and are either at an early phase of operation or in the launch phase. The most advanced one is SCIP, which is also the managing authority of the four other parks.

Table 3.4

Azerbaijan's legal provisions for SEZs

Core legal areas	Provisions relevant to SEZs	Key gaps or problems
Investment, company and commercial regime Investment laws and regulations, with provisions governing company formation and business registration, are crucial for developing the private sector. Legislation also applies to industrial-zone developers and/or investors	Current legislation permits FDI in any activity in which a national investor may also invest, unless otherwise prohibited by law. Foreign investment enjoys complete and unreserved legal protection also by way of international and bilateral treaties. Guarantees are granted to foreign investors such as national treatment; fair compensation in case of nationalization and expropriation; and limited protection in case of adverse change in legislation. Significant improvements have been achieved in company registration procedures, with a single-window system adopted. The country is among the world's top reformers of business regulations, according to Doing Business 2009 and 2015. The burden of regulation is low. Strengthening the welcoming environment and legislative reforms are among the priorities of "Azerbaijan—2020: The Vision of the Future."	No PPP law/regulation or complete policy guidelines. Bankruptcy law not in compliance with international standards.
Land and building licensing regime	Foreigners—individuals or legal entities—cannot own land in the country. A long lease is provided by law. The process of land allocation and of change of land category is burdensome and not fully transparent. Ownership of buildings is not subject to the same restrictions as land. The construction permit process has been simplified.	More transparency and delegation of powers from central to local authorities is needed in allocation and licensing.
Private property protection—intellectual property rights	The legal structure for intellectual property protection is quite strong. In the mid-1990s, Azerbaijan began implementing a national system for registering and protecting intellectual property rights with the help of the World Intellectual Property Organization. Such rights in Azerbaijan include protection on all types of property, including inventions, industrial designs, utility models, trademarks, geographical names, domain names, and copyright and related rights.	Enforcement should be improved. Piracy and blatant infringements, such as fake "international" computer shops in the capital, are common.
Taxation/customs regime—transfer of capital and funds	Azerbaijan has a liberal exchange rate system and, in general, there are no restrictions on converting or transferring funds associated with an investment into freely usable currency at a legal, market-clearing rate. To attract investment from abroad, the President signed a Decree on Additional Measures to Promote Investment, modifying tax and customs incentives for investors. Changes made to the Tax Code, effective 1 January 2016, aim at simplifying the tax system in construction, trade and catering, and introducing a seven-year exemption on paying 50 percent of income/profit tax and full exemption from property tax and land tax. According to amendments to the Law on Customs Tariffs, holders of investment certificates will be exempt for seven years from paying customs duties and VAT on machinery, technological equipment and devices imported for investment purposes in priority branches and industrial parks.	Transparency is lacking in procedures.
Employment and immigration regime	Foreign employees working in Azerbaijan (except those who have an employment contract with a legal entity of a foreign country and fulfil their labour duties in a branch or representative office) are subject to the Azerbaijani labour law. Juridical persons, physical persons dealing with entrepreneurship activity without establishing juridical persons, and branches and representations of foreign juridical persons should employ foreigners and stateless persons only in their own work place and should conclude a labour contract in compliance with the validity period of the work permit. Labour contracts with foreigners with no work permit are not allowed. Work permits are issued for one year, or if the labour contract is signed for less than one year, for that period. Validity can be extended each time for not more than one year. From 2016, foreign directors or deputy directors for companies incorporated in Azerbaijan and have at least one foreign shareholder are no longer required to obtain a work permit.	Immigration of high-skilled workers and transparency of procedures should be promoted.

Table 3.4 (continued)

Azerbaijan's legal provisions for SEZs

Core legal areas	Provisions relevant to SEZs	Key gaps or problems
Environmental regime	<p>Environmental protection is governed by the Law on Environmental Protection (1999), which establishes the main principles, rights and obligations of the State, public associations and citizens. It establishes requirements for environmental impact assessments, for environmental quality standards and for permits on activities that affect the environment, for prevention and reduction of environmental pollution, and for environmental monitoring and control. It also addresses sanctions on violators and the role of the public.</p> <p>Other laws have been adopted since 1992 on specific issues, such as sanitary-epidemiological welfare, land reform, energy, health, water, forests, cadastre and land use, industrial and domestic waste, fauna, fish breeding, ecological safety, water supply and wastewater, atmospheric protection and specially protected areas. Many resolutions of the Cabinet of Ministers have been issued to help interpret the body of environmental legislation and related presidential decrees and orders.</p> <p>Established in 2005, the Ministry of Emergency Situations is responsible for emergency response mechanisms in all sectors. Its mandate includes natural and man-made disasters and fire, as well as emergency situations. It provides policy measures in civil defence, and rescue and restoration work.</p>	<p>Unclear and onerous norms and standards. Of course, it is important to revise existing environmental standards and norms, including to facilitate the inflow of investment, but here one must be very careful, as this can lead to unexpected consequences, including permanent disruption of the ecological balance.</p>
Banking/finance regime	<p>The financial sector is dominated by banks, with the non-banking sector continuing to offer few opportunities. Banks hold about 95 percent of financial sector assets. The non-banking financial sector, particularly the micro-finance sector, is underdeveloped but is an important source of finance for SMEs.</p> <p>The central bank was the central regulatory body until the creation of the Financial Markets Supervisory Authority in early 2016. The central bank continued its policy of ensuring financial stability in 2015. New capital adequacy requirements came into force in January 2015, and all banks were either able to comply or given additional time to do so.</p> <p>In February 2015 and December 2015, Azerbaijan announced steep devaluations of the manat against the dollar, due to declining export receipts after the fall in global oil prices.</p>	<p>Despite the recent reforms, the overall banking system is highly unstable, and companies have limited funding opportunities for growth. The country needs to develop other investment schemes, including attraction of private investment funds, seed funding, acceptance of microfinance programmes and IPO support.</p>
Dispute resolution	<p>To attract foreign investors, an Alternative Dispute Resolution (ADR) system is crucial. The Law on International Arbitration, 1999 (the Arbitration Law), provides guidance.</p> <p>Azerbaijan is a member of the International Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention). It is also party to the 1958 Recognition and Enforcement of Foreign Arbitral Awards (New York Convention), which provides for the recognition of foreign arbitral awards resulting from international arbitration.</p> <p>Contracting parties may agree to apply foreign law, so long as there exists a "foreign element" in their relations.</p> <ul style="list-style-type: none"> • In practice, a foreign element is where one of the parties is a foreign legal entity or physical person. • In certain circumstances, the laws of Azerbaijan must apply, notwithstanding the choice of law in the contract, where: <ul style="list-style-type: none"> ◦ The choice of law contradicts the Constitution of the Republic of Azerbaijan or acts adopted by referendum. ◦ Imperative norms of Azerbaijani law supersede foreign norms. 	<p>Experience in enforcing arbitration awards is very limited and not satisfactory.</p>

Except for a certain degree of operations of Industrial Estate in Neftchala, other estates are not fully functioning yet. As mentioned by the AIC, facilities are under construction in Masally and Hajigabul. The land allocation process for two other industrial estates is almost complete. The same is true for the FTZ in Alyat established in 2016 by presidential decree, though

the respective law was not forwarded to the parliament until 2018. It is thus too early to evaluate the success of the parks and zones in the country.

But there are some improvements to make, which decision-makers are aware of the need for:

- Diversifying the economy away from the dependence on oil to increase employment.

- Supporting industrial modernization and upgrading to make products able to compete on international markets.
- Targeting proactively science, technology and innovation. Almost all universities have incubators and research centres, but stronger networking with top worldwide research centres and universities and increased exchange of researchers and scientists would be useful.
- Promoting and facilitating the establishment of “anchor” lead firms in industrial parks, since their spillover capacity in many countries has been a key factor in generating other innovative start-ups.
- Promoting more effectively the creation or expansion of SMEs. Many different actions are necessary: talent scouting, tailored and SMEs user-friendly financial facilities, proactive support to identify and enter new markets, assistance for solving transport and logistical problems, and training for managers and technicians.
- Promoting modernization and upgrading of agribusiness and turning traditional crops into processed high-quality products, especially organic products—the likely future of food in advanced markets. However, promoting clustering and cooperation among farmers in the countryside is often very hard. Promoting agroparks could produce effective outcomes, including improved social welfare in the countryside, if they are correctly located, managed and equipped with the services traditionally missing in agriculture.

Gaps and obstacles

- SEZs cannot be developed or cannot function without active participation of the private sector.
- There are no rules specifically governing PPPs, nor do public institutions have expertise in dealing with PPPs (Table 3.5).
- In 2014 a working group with representatives from the private sector on furniture production, light industry, textiles, construction materials, computers and electronics equipment have been created to improve dialogue and cooperation between the

MOE and private sector representatives. Several meetings have been held at the Ministry, but are far from constituting the beginning of sound PPP structures. Investors, especially foreign investors, consider clear rules, regulations and a system of their enforcement—rather than ownership of real estate—as preconditions for investing in a PPP project.

- Issues of foreign ownership have to be dealt with properly. An economic zone needs plenty of land, with easy access to on- and off-site infrastructure. The selection of the zone area is thus very important. The allocation of land to SEZ potential developers/investors is also crucial. The guarantee of the free use of the project’s fixed properties for a reasonable period of time, based on legal title, must also be provided. The limit to foreign ownership can be then dealt with by making a long lease to developers/users a feasible option. This aspect needs consideration and must be addressed in a proper way, given the complex land allocation process in the country.
- Foreign investors evaluate the level of protection of investments on the basis of key elements such as ADR tools. The international arbitration regime needs serious improvements regarding the definition of general rules and implementation of awards.
- Laws having an impact on the right to freely dispose of assets at the end of the investment period, such as bankruptcy or liquidation laws, do not provide an adequate guarantee.
- The legal framework for SEZs is fragmented. Many institutions expressed a need for better coordination among public entities supervising zones and envisaged the establishment of a single authority for all zone management and regulation.

Recommendations

- Policy-makers must strongly support the development of the PPP concept.
- An articulated and extended legal framework for PPP promotion and regulation should be put in place.

Table 3.5

Recommendations for Azerbaijan

Issue	Suggested measures
The overall strategy of SEZ development is still fragmented and not implemented consistently.	<ul style="list-style-type: none"> • Build capacity among decision-makers and legislative/regulatory authorities to formulate general strategy, policy guidelines and a complete legal/administrative SEZ framework. • Strengthen institution competences to manage complex business transactions related to SEZ development and operation.
There is no private sector participation in SEZs.	<ul style="list-style-type: none"> • Identify the relevant stakeholders at the national and local levels. • Identify existing organizations representing private sector constituencies within the country. • Assess national and local authorities' willingness to involve private stakeholder in SEZs establishment and/or operation. • Decide on the most suitable model for private stakeholder involvement. • Build capacity among competent authorities in the definition of the legal/regulatory PPP framework and in its implementation phase, strongly promoting private sector role.
The supervision, administration and management model is incomplete and fragmented.	<ul style="list-style-type: none"> • Create a single authority to supervise all zones. • Strongly promote the introduction in the zones of a single, one-stop shop administration model.
Zone administration and management.	<ul style="list-style-type: none"> • Issue clear rules regulating powers and duties of zone developers and operators. • Issue modern regulations on licences to investors and zone administrators/managers. • Monitor the overall national strategies and planning to make them consistent with international strategies.
Clear investment guarantees are needed.	<ul style="list-style-type: none"> • Promote legal framework reforms in key core areas such as the ADR system, asset disposal, others specified in the annex.
Capacity is weak for generating innovative technologies. A different model is needed for research activities.	<ul style="list-style-type: none"> • Strongly promote research and innovation. • Promote networking of universities and research centres with analogous institutions in developed countries. • Attract and anchor firm as a keystone for developing the business ecosystem and attracting other investors. • Support cooperation between SEZ administration and academia to make research one main pillar of zone development.

- Because PPPs are complex transactions, the capacity of government to design, package, manage and monitor them must be strengthened. Given the nature and lengthy time frame of such projects, it is imperative that the interests of the public and private sectors are protected by law. An established legal framework governing PPP transactions creates an incentive and an enabling environment for prospective investors.
- A phased, pragmatic approach should be followed for PPP projects because projects must be attractive for SEZ developers and investors. The priority should be to implement very few key pilot projects, with strong legal/financial structures, in sectors highly attractive to foreign investors.
- Crucial aspects of the investment security regime must be in line with international standards: the ADR system must be effective, and disposal of assets at the end of the investment must be guaranteed.
- There must be greater coordination among institutions approving development of and providing services for zones (and see Table 3.5).

Chapter 4

Tajikistan

Tajikistan's GDP is the smallest of the four project countries—indeed, of the whole of Central Asia—and one of the poorest by GNI per capita. In 2018, the World Bank classified it as a lower-middle-income country.¹⁰⁵ It faces multiple threats to stability and prosperity, including poverty, unemployment, government austerity and external shocks. The principal sectors of the economy are mineral extraction, metal processing and agriculture. The economy is also reliant on remittances from the over 1 million citizens working abroad. The civil war in 1992–1997 damaged economic infrastructure and caused a sharp decline in industrial and agricultural production.¹⁰⁶

GDP growth decelerated between 2012 and 2015 from 7.5 percent to 6 percent. Growth recovered slightly in 2016 to 6.9 percent, before decelerating again in the first half of 2017, when it stood at 6 percent. Constraints on growth include lower prices for primary Tajik exports, weak private investment and FDI, falling Tajik expatriate workers' remittances and the depreciation of the Tajik somoni by around 33 percent against the US dollar (24 percent in 2015 and another 10 percent in the first half of 2016). Exports fell by 8.9 percent, mainly because of weak demand for the country's main exports, petroleum, wheat, aluminium and cotton, and imports dropped by 20 percent due to lower private consumption. Since gaining independence in 1991, Tajikistan has shifted its export trade focus away from the CIS to EU countries and Turkey. However, the CIS countries remain the source of much of the country's imports.

Since the late 1990s, the country has pursued economic reform and privatization, and simplification of administrative procedures for enterprises and entrepreneurs. Its single window for business registration has reduced the number of licences and permits needed, and of the number of inspection services and audit regulations. The law guarantees a single mode for national and foreign investors, with freedom to transfer profits and other forms of investment income.

Special benefits are provided to investors who operate in priority sectors, such as hydropower and cotton processing.

The private sector's share of the economy has remained stable at around 55 percent of GDP. While the government has privatized the majority of SMEs since the Soviet era, the largest enterprises are still under state control, making state-owned enterprises important contributors to productivity.¹⁰⁷

Tajikistan has sought to develop its hydroelectricity potential through partnerships with Russian, Iranian and Chinese investors, and is pursuing completion of the Roghun Dam—which, if built according to plan, would be the tallest in the world. However, the project is sensitive for neighbouring countries and faces financing shortfalls.

Agriculture accounts for 20 percent of GDP and over half of domestic employment, but Tajikistan is a net agricultural importer, importing about 70 percent of its food. Less than 7 percent of the land area is arable. Cotton is the most important crop. Mineral resources include silver, gold, uranium, antimony and tungsten. Industry consists mainly of small, outdated factories in food processing and light industry, substantial hydropower facilities and a large aluminium plant, which operates at well below capacity.¹⁰⁸

Uneven growth in recent years, and the modest outlook, can in part be attributed to the Russian Federation's financial crisis and economic recession, the slowdown in China, the fall in prices for aluminium and cotton, and delayed structural reforms. Further, Tajikistan is the most remittance-dependent country in the world: in 2013, expatriate remittances constituted over half of GDP.¹⁰⁹ The depreciation of the Russian rouble from 2014, as well as increased unemployment in the Russian Federation caused by the recession, led to a pronounced fall in expatriate remittances from that country to Tajikistan, affecting both domestic demand and imports. In US dollar terms, these remittances fell by 43 percent in 2015 and

1.4 percent in 2016. With low value added national production and exports, domestic consumption depends on remittances. Further, flat global prices in aluminium and cotton could undermine the economy.¹¹⁰ The government's small foreign reserves limits its ability to prop up a falling currency, and instruments such as restrictions on foreign exchange are the main recourse.¹¹¹

Although labour costs are low (average monthly salaries are about \$40), serious constraints still affect the overall business environment, such as poor electricity access, cumbersome and heavy taxation, slow and complex procedures for obtaining construction and business permits, and tight foreign exchange controls.

As observed in many other countries of Central Asia, banks and the financial sector in general face serious risks from inflation and tightened foreign exchange regulations (non-performing loans have reached 30 percent), leading to poor capacity to fund enterprises, undeveloped trade transactions, and minimal assistance services to business.

Reforms to improve the business environment have had little success. The government is planning, under the National Development Strategy to 2030 (NDS 2030), to increase public investment, improve access to energy resources, attain self-sufficiency in food production, improve international and national transport links and corridors, support communication networks, and strengthen access to social services. (The NDS 2030 succeeds the National Development Strategy for 2007–2015.) By most measures, however, the economic climate remains un conducive to business.¹¹² Business registration costs are high, for example.

Still, Tajikistan improved its position on the World Bank's Doing Business 2018 by five positions from the previous year, to 123 out of 190 economies, with the country's ranking progressing considerably since 2014. The country was among the top 10 leading reformers in the report in 2010, 2011 and 2015. The World Bank highlights progress in business creation, obtaining loans, the tax system and

cross-border trade. Yet low industrial productivity, a fragile and uncertain business environment, and weak infrastructure are some of the factors curtailing the country's attractiveness. Also, labour regulations are not flexible enough for dynamic employment growth.

Sharp improvements are needed in the above areas, and to simplify regulations on product quality certification and the adoption of other measures to promote linking local to regional and global value chains. They are preconditions for supporting the country's four SEZs.

According to a recent World Bank study, *Reaping Digital Dividends*,¹¹³ which examined the impact of ICT and the internet on economic growth and development in Europe and Central Asia, "digital Tajikistan can be an important source of innovation, growth, and employment—provided that the country invests more in people's skills, improves the business environment, and strengthens the digital infrastructure."¹¹⁴

The World Bank's *Tajikistan Jobs Diagnostic: Strategic Framework for Jobs*¹¹⁵ recommends that the government rethink the role of jobs in achieving its development objectives, including those set out in the NDS 2030. The government's job strategy should aim to facilitate the creation of more jobs, particularly in the private formal sector; improve the quality of existing jobs, especially in the informal sector; and facilitate better access to jobs, including transitions from inactivity to employment and from low- to higher-quality jobs, with a focus on vulnerable workers. The report makes policy recommendations around three pillars:

- Promoting private sector growth: Sustainable job creation relies on the growth of a competitive private sector. Accordingly, this pillar focuses on the reforms needed to ensure an effective enabling environment that will help entrepreneurs to create new businesses, and current firms to invest and expand, and to hire workers.
- Improving productivity and earnings, and access to formal jobs: This pillar focuses on strengthening

local value chains and connecting small producers and rural SMEs to improve their productivity and earnings. It also involves policy incentives to create formal jobs.

- **Connecting people to jobs:** This pillar focuses on connecting potential workers to jobs through a set of supply-side policies and programmes aimed at increasing labour force participation such as labour market programmes, and better leverage of the benefits of migration.

Under the NDS 2030, the country's goals are energy security, connectivity, food security and productive employment. The principles include measures to promote efficient use of national resources and innovation.¹¹⁶ The first phase of the NDS (2016–2020) foresees transition to a new model of economic growth, investment and increased production for trade. The second (2021–2025) will emphasize rapid investment growth, while the third (2026–2030) will see a transition from industrialized growth to diversified production and knowledge-based innovation.

The growth model puts human capital and its main core components—education and science—at its centre for boosting economic competitiveness. Plans to improve the education system include adopting international educational standards in the vocational training system. The state's role is also to be strengthened in the selection and provision of support in science and technology.

The basis of resilient, industrial and innovative development will be natural and human capital. Hydropower potential, human resources and mineral reserves are promising conditions to boost the development of modern mining and processing industries, nonferrous and ferrous metallurgy and environmentally sound agro-processing industries. The government has also pledged to launch an agricultural reform programme.¹¹⁷

Further development of hydropower capacity and regional transport and communication projects will allow Tajikistan to become a regional leader in the production and export of cheap and environmentally clean energy, and to expand its trade and logistics

capabilities. This will further contribute to inclusive and sustainable development of southern and south-eastern countries in the Asian region, including Central Asian countries, and to South–South cooperation.

The science development component of the National Development Strategy for 2007–2015 identified several weaknesses in science and technology, such as lack of funding and shortage of highly educated staff members, and weak research infrastructure and IT sector. The strategy aimed at strengthening collaboration between research organizations and ministries, and cooperation with other countries and international organizations, via agreements and partnerships concluded by the Academy of Sciences, research institutes, and universities. It underlined the need to build digital infrastructure to improve institutes' connections to modern information technologies and to make scientific literature available to libraries. In 2011, the Programme of Innovative Development for 2011–2020 was adopted, including a resolution on the foundation of the Centre for Innovative Development of Science and New Technologies of the Academy of Sciences.

Status of existing zones, including state of operation

To attract foreign investment and technology, Tajikistan has established free economic zones (FEZs) providing firms with tax and customs incentives. In 2004, Parliament passed a law on FEZs and in 2008 passed a decree creating two zones, in Panj and Sughd.

The Law on Free Economic Zones and the Regulation on Free Economic Zones were designed to create favourable conditions for attracting foreign investment, technology, management expertise, for setting up a modern social infrastructure and for creating jobs.

As with many other countries, the government of Tajikistan considers the establishment and operation of SEZs important for the future of the economy.¹¹⁸ There were legal precursors to establishing the FEZs, with initial approvals in 2005 to 2011. A 2011 law was

issued to provide for the establishment of FEZs, which set out the managerial, legal and economic bases for the creation and functioning (and, indeed, winding up or liquidation) of FEZs, and regulates the entrepreneurial activities that can operate in these zones.

According to the Living Standards Improvement Strategy of Tajikistan for 2013–2015,¹¹⁹ the legal framework created by the Law on Free Economic Zones and the Law on Technology Parks was established to regulate the launch and operation of FEZs and technology parks.

FEZs in Tajikistan are intended to:

- Build the economic and social capacity of the country, its regions and territories.
- Ensure a favourable environment for attracting investment.
- Maintain existing and create new jobs.
- Attract modern technology and innovation.
- Develop and establish modern transport, and industrial and social infrastructure.
- Improve management, ensure efficient production and improve product quality to meet the requirements of the world market.
- Increase the export potential and development of industries aimed at import substitution.
- Saturate the domestic consumer market.
- Strengthen foreign economic and regional relations.
- Support regional and urban development.
- Effectively use renewable and non-renewable natural resources.

All activities that are not prohibited by domestic legislation can be carried out within zones.

The Ministry of Economic Development and Trade is in charge of the general policies related to establishing FEZs and their subsequent functioning, while decisions on the proposals to establish them tend to originate from local authorities. Proposals approved by local and national government ministries must ultimately be approved in Parliament by the *Majlisi Namoyandagon* (Lower House).

In the legislation, an FEZ is defined as “a separate (limited) section of the territory of the Republic

of Tajikistan with exactly defined boundaries, where favourable economic conditions and a special legal regime shall be created for exercising business and investment activities.” In practice, these favourable conditions and legal and regulatory advantages are manifold.

Companies that are resident in an FEZ are exempt from customs duties, and from all taxes as stated by the Tax Code, except for the social tax and the tax on the income of physical persons. The corporate tax burden is thus greatly reduced if an enterprise operates within the borders of an FEZ.

In particular, the import of foreign and domestic goods into FEZ territories can be carried out without the collection of customs duties; further, bans and restrictions of an economic nature do not apply. Exports of goods from FEZ territories are not subject to taxes and customs duties, except for customs clearance fees. FEZs operate under a highly liberalized trading regime relative to non-FEZ areas of Tajikistan. In summary, the special legal regime for FEZs is a preferential regime of taxation, currency circulation, customs and employment.

Investors enjoy a fair level of legal protection of investment under overall domestic legislation. There are a copyright protection for FEZ residents and guarantee of equality of the legal regime for foreign and internal investment, and non-discrimination towards foreign investors. There is also compensation to mitigate the risk of state expropriation. It is in part due to these protections that Tajikistan performs reasonably well on the World Bank’s “investor protection” measure (ranking 56 out of 189 countries monitored).

Some of the other benefits for businesses operating in FEZs include:

- Free transfer of income abroad.
- Profits of foreign investors and wages of foreign employees, resulting in a foreign currency that may be freely repatriated, and when exported abroad is not taxed.
- A simplified visa regime for foreign workers.
- Labour relations including hiring, dismissal, labour and rest regimes, social guarantees and

compensation of FEZ subjects, as regulated by the labour legislation of Tajikistan, collective agreements and/or individual labour agreements (contracts).¹²⁰

Several requirements must be satisfied before a business can benefit from these preferential conditions. Enterprises must:

- Be registered under the Business Registration Law.
- Prepare a business plan and other required documents.
- Present and defend the proposed investment project before a commission under the Ministry of Economic Development and Trade.
- Enter into an agreement on carrying out a business activity within the territory of an FEZ with the administration of the FEZ.
- Obtain a “certificate of FEZ participant” for \$5,000.

Other requirements include: having a founding capital of \$500,000 minimum for production activities, \$50,000 for export-import operations and \$10,000 for services; non-property fixed assets, that is, plant and equipment, should not be older than three years; and production of products and services should not be planned for later than three years after registering and paying the fees for the buildings and spaces in the amount of \$1 for 1 sq. m. (\$10,000 for 1 ha).¹²¹

Each FEZ is managed by one public authority coordinated and supervised by the Ministry of Economic Development and Trade. Supervision of the operation of each FEZ is entrusted to the authorized state body: “The Supervisory Board of free economic zones is an expert and coordinating body for operation of free economic zones and shall include representatives of the authorized state body on free economic zones, local bodies of state power, the administrative territory of which is used for establishment of free economic zones, representatives of the customs and tax authorities, business associations and representatives of the subjects of free economic zones.”¹²²

Per the legal and regulatory framework, there are four legally defined categories of FEZ, although these types can be functionally combined:

Industrial (manufacturing industrial products). Industrial FEZs aim to develop and promote the industrial sector. Such types of zones are created by converting some existing enterprises and businesses to a special legal regime of free economic zone. Restructuring, reconstruction, modernization and conversion of enterprises are encouraged in these types of zones to attract investment in priority industries and innovative areas and to introduce advanced technologies.

Trade and commercial. These FEZs can be “used for processing, sorting, packaging, labelling and storage of goods imported to the zone for their further import into the customs territory or removal from the customs territory of the Republic of Tajikistan. Trade and commercial free economic zones are created at the airports, railway stations, docking stations, highways, on border crossings and in other limited areas of the territory Republic of Tajikistan, through which regular international transport of goods is carried out.”

Service provision. These FEZs include “enterprises and organizations in its territory [that provide] catering, tourist, recreational and health, consulting engineering, brokering, investment, auditing, insurance and other services.”

Innovation and research promotion. These FEZs aim to include: “research, scientific, educational, experimental design institutes and organizations [that] are allowed to provide education, training, research, and development, pilot production of technologically advanced products, goods, and effective technical inventions (know-how). Establishing innovative research, development zones are allowed in some parts of the territory of the Republic of Tajikistan provided the scientific and educational, research, production, innovation, training centres and industrial parks are concentrated in such zones.”

Four FEZs with ad hoc regimes (decrees approved by Parliament) and 25-year lifetimes have been established: in Panj, Sughd, Dangara and Ishkoshim (Figure 4.1).

Figure 4.1

Free economic zones in Tajikistan

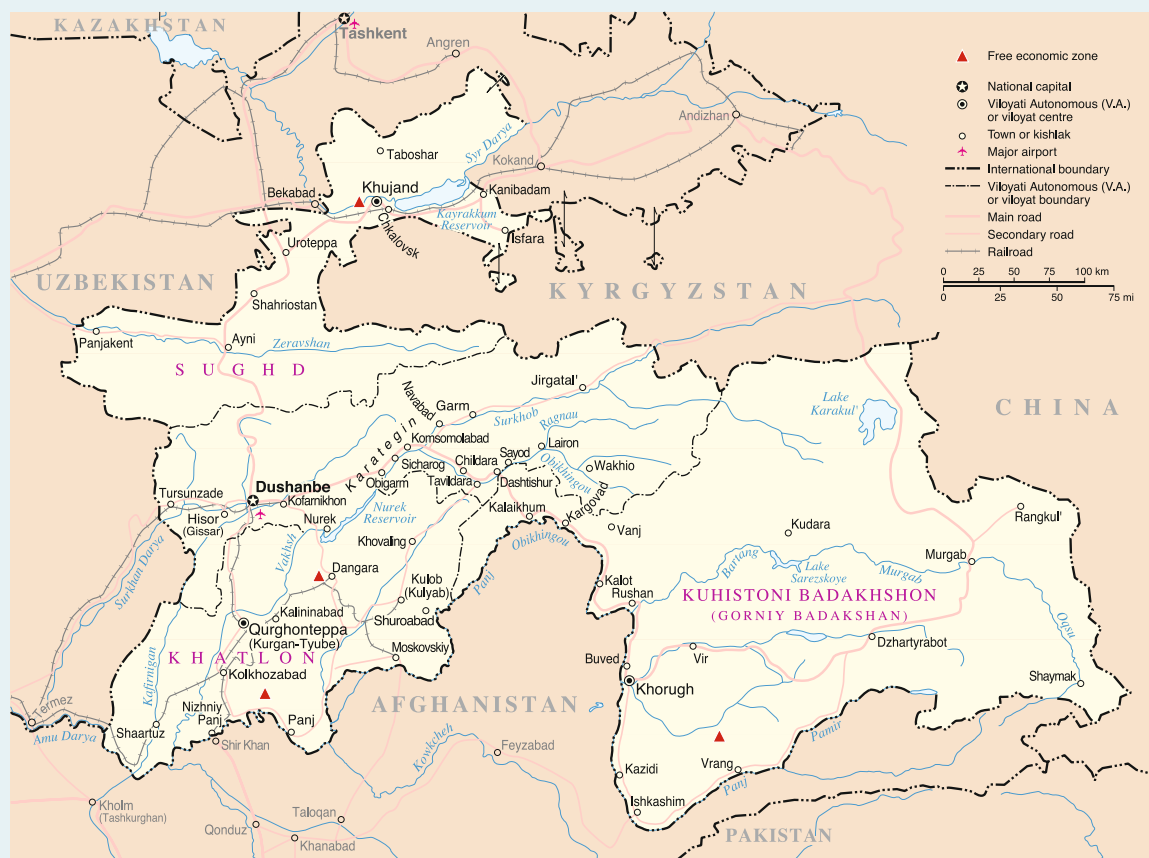


Table 4.1 describes the four FEZs' main geographical and economic features, and status of operation.

To achieve these outcomes, numerous incentives have been given to enterprises operating under the auspices of FEZs, yet FEZs have yet to deliver on their objectives.

The FEZ of Sughd—the most advanced and most diversified—is near the international airport in the most highly developed region. The other FEZs have seen much less success: FEZ Dangara and FEZ Panj have attracted some investors, though not meeting the desired levels; FEZ Ishkoshim, in one of the poorest regions, has been unable to attract any investment.¹²³

A recent UNCTAD study¹²⁴ suggests that there is a positive correlation between the FEZs' operation and the level of development of the geographical

region of Tajikistan in which they are situated. Probably exacerbating these disparities are profound differences in the funding and government support to the zones.

FEZ Sughd is the most developed, due to its location: it is in an area where industrial activities already had a strong foothold (compared with the other zones, which are in more remote areas), and the area is well served by social, transport and communication infrastructure.

The decision to establish an FEZ in Sughd dates to March 2009. The relevant framework was functional from August 2009, and a year later, on 18 August 2010, the first companies were registered as FEZ residents. It was created for 25 years to achieve economic, trade, social, scientific and technical aims. The FEZ

Table 4.1

Main features of the four FEZs in Tajikistan

Name		FEZ Panj
Law	Decree of the Government of the Republic of Tajikistan No. 227 of 2 May 2008 on Establishment of Free Economic Zones Panj and Sughd. Decree of the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan No. 1147 of 29 October 2008 on the Approval of the Regulation [by-laws] of the Free Economic Zone of Panj.	
Description	Total area: 401 ha. The FEZ is in Karadum Kumsangir district of Khatlon Region and shares borders with Afghanistan, China, Uzbekistan and Kyrgyzstan. It is adjacent to separate logistics centre development sites with potential to link to the Vakhsh waterfalls for electricity.	
Sector/s	Twelve investors in commerce and light manufacturing.	
Enterprises		
Managing authority	Administration of FEZ Panj.	
Functioning	Not active.	
Name		FEZ Sughd (industrial and innovation zone)
Law	Decree of the Government of the Republic of Tajikistan No. 227 of 2 May 2008 On Establishment of Free Economic Zones Panj and Sughd. Decree of the Majlisi Namoyandagon Majlisi Oli of 29 October 2008 No. 1146, Regulation (by-laws) of the Free Economic Zone of Sughd.	
Description	Total area: 320 ha, as a separate (bounded) part of Tajikistan's territory. In Khujand, territory of the south-western industrial zone.	
Sector/s	Textile and garments, wood and furniture, machinery, electronics and construction materials.	
Enterprises	There are 23 investors, of which 20 are joint ventures with foreign partners: Chinese, Iranian, Russian and Polish.	
Managing authority	Administration of FEZ Sughd.	
Functioning	Active.	
Name		FEZ Dangara
Law	Decree on the Establishment of FEZ Ishkoshim and Dangara of 2 February 2009 No. 74. Provision on Free Economic Zone Dangara, approved by the Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan on 20 January 2010, Decree No. 1545.	
Description	The FEZ is in the south of Tajikistan in Hatlon Oblast, 90km south of Dushanbe. Total area: 521 ha.	
Sector/s	Initially formed to develop agribusiness, fertilizers, mechanical engineering, pharmaceuticals, textiles and garments, manufacture of furniture, manufacture of perfumes and laundry powder, scientific and technological research, innovation, nano-technology and bio-technology, Dangara's FEZ is now specialized in heavy industry.	
Enterprises	26 investors, including local firms (70 percent) and some large foreign-owned projects.	
Managing authority	Administration of FEZ Dangara.	
Functioning	Active.	
Name		FEZ Ishkoshim
Law	Decree establishing FEZ Ishkoshim and Dangara of 2 February 2009 No. 74. Decree of 20 January 2010, No. 2010.	
Description	Total area: 200 ha, as separate (limited) sites of the territory of the Republic of Tajikistan. The FEZ is in the autonomous province of Kuhistoni-Badakhshon.	
Sector/s	Agribusiness, chemicals, light industry as well as health care tourism, mechanical engineering, and production of wool and leather goods.	
Enterprises	Three investors.	
Managing authority	Administration of FEZ Ishkoshim.	
Functioning	Not active.	

aims to provide the following services within its geographic remit:

1. A simplified procedure in visa issuance for foreign partners.
2. Assistance in the creation of business plans and of scoping for investment projects.
3. Economic and financial consultancy services.
4. Assistance in locating investors and securing funding.
5. Provision of financing for implementing projects/commercial activities.

FEZ Sughd has seen some success, with company registration, foreign capital injections, growth of manufacturing output, growth of exports, and a gross positive contribution to public finances.¹²⁵ On the social front, enterprises in the FEZ employ on average 400 workers with average monthly salaries of 1,100 Tajik somoni, which is well in excess of the 250 somoni statutory minimum monthly salary.¹²⁶

FEZ Panj was established by decree in 2008. The decree details only negative lists of unauthorized activities, not positive lists of priority activities.¹²⁷,¹²⁸ The FEZ's geographical location aims at further fostering trans-border trade: the Afghanistan border is less than 1km from the FEZ, and an international highway runs through the territory.

As with the other FEZs, management functions are implemented by a public legal entity, which is accountable to the authorized state authority on FEZ management, and which operates in accord with national legislation.¹²⁹

FEZ Dangara faces more substantial challenges than the previous two. It contends with a scarcity of electric power and the need to appropriate adequate funds to build sufficient power lines. The government has signed a build-operate-transfer contract with a Chinese company to build electricity supply from Sangtuda 1 (outside but adjacent to the zone). While 26 companies are registered in the zone, only four of them have built a production line.

FEZ Ishkoshim is in a very early phase. It has received no inward investment, and essentially exists formally but without any projects under way.

There is no coordination or common strategy for promoting zones' activities at national level; this is in part evidenced by the varying degrees of development and success of the four FEZs. Each zone undertakes its investment promotion activities independently. FEZ Sughd works with the local administration to promote itself as part of an overall regional strategy. The quality and intensity of investment promotion varies. For instance, FEZ Sughd has a professional web page developed with international donor support.¹³⁰

In the panel "Economic policy based on investment: the impact of free economic zones of the Republic of Tajikistan to the development of domestic production,"¹³¹ the Deputy Minister of Economic Development and Trade, Mr. Umed Davlatzod, when presenting the activities of the zones, said: "Since the free economic zones began to function 67 entities have been registered, from which 16 companies have already begun their production activities, while the remaining companies are dealing with construction of premises and provision of equipment. Up to now, the total amount of direct investments to the free economic zones reached 1 billion somoni. Moreover, within the free economic zones were created 1,900 seasonal and permanent jobs."¹³²

Technology parks

The country also has some technology parks (TPs) in mostly early or nascent phases. TPs' aims largely cohere and complement those of FEZs, with a key difference the explicit emphasis on fostering technological innovation.

The National Strategy for the Development of Intellectual Property for 2014–2020 (2014),¹³³ the Law on Innovation Strategy (16 April 2012, No. 822) and the Law on Technology Parks (21 July 2010, No. 629)¹³⁴ represent the legal framework governing the establishment and operation of TPs.

The 2010 law describes the main objectives and activities of TPs, which include supporting the commercialization of scientific, technology and innovative research outputs and the launch of production that follows from these research findings.

The same law also defines TPs as legal entities or consortia whose “main activities are the provision of works and services necessary for the implementation of innovative investment projects.”¹³⁵

TPs can legally take a number of models, which formally, if not substantively, differ: innovation and technology parks; scientific or research parks; technology incubators; and so on. Whatever the form, the main aims are to support the innovation performance of Tajikistan and commercialization of new knowledge created through innovation.¹³⁶

Implementation of the TP framework is at a relatively early stage. Even in TPs considered successful by international standards, the long-term nature of scientific and innovative research means that introductory phases can last a long time, typically five years. In Tajikistan, none of the university TPs have generated spin-off firms to date; commercial spin-offs are a hallmark of successful TPs around the world. Legally, however, university staff are permitted to work at spin-offs if they are established, meaning there is no large disincentive to found a commercial spin-off for researchers.¹³⁷

In practice, TPs in Tajikistan are effectively little more than designated rooms or laboratories within existing universities. Compared with TPs elsewhere, especially in high-income countries, the low level of funding for Tajikistan’s TPs is a drawback. Nevertheless, successes from technology and science parks from universities around the world suggest that the potential for these initiatives can be high, and can indeed play a part in Tajikistan’s broader development strategy. However, given that TPs in the country have not met with much success or enthusiasm, this suggests the current framework might be in need of an overhaul.

Following the rollout of the legal provisions governing TPs in Tajikistan, all universities officially registered their existing TPs (or their effective precursors) as non-commercial organizations. In general, the work carried out by these organizations is not permanent and not carried out regularly; rather, the TPs typically only operate when specific projects are under way. This is in part because financing for these initiatives

is so scarce: universities are unable to finance research autonomously with their existing budgets, and the private sector is hesitant to contribute funding given the speculative nature, doubtful prospects for commercialization, and long lead times of many research projects (on top of the existing investment challenges in Tajikistan). Indeed, even the government is generally unwilling to earmark its funds for TP projects, given the state of the country’s public finances and the lack of a well-defined strategy on TP development.

Despite the difficulties of TPs in Tajikistan in securing funding, there are a number of active TPs with a specific focus, including:

- The Technological University of Tajikistan, with two laboratories: Lab 1, which focuses on technological automation, technology design, and production of mineral water, macaroni, yogurt, confectionery and agricultural products; and Lab 2, which focuses on software design, automatic translation of Tajik texts and computer security programmes.
- TPs of Agrarian Universities: research centres around testing agricultural areas and varieties of agricultural products and aquaculture.
- The Institute of Entrepreneurship and Service: light manufacturing of an artisanal nature, for example pottery and jewellery.
- The Technology Park at TSUC:¹³⁸ research organizations, design bureaus, manufacturing facilities, educational institutions and service facilities, which work together to use the resources in creating innovative programmes and projects.

To conclude, TPs in Tajikistan are at a nascent stage and have not been fully established yet; their role in a wider development strategy, and how they can intersect most effectively with FEZs, is still ill-defined, but they remain a source of development and innovation fostering with some potential.

Laws and regulations on SEZs, including reform proposals

A number of laws and decrees govern the establishment and operation of FEZs (Table 4.2).

Table 4.2

Tajikistan's legal framework for economic zones

Law/decreed number	Title	Contents
Law No. 700 of 25 March 2011	Law on Free Economic Zones	Establishment of FEZs: <ul style="list-style-type: none"> • General principles. • Governance of the zone. • Allocation of land. • Rights and duties of operator. • Preferential tax/customs regime.
Decree No. 227 of 2 May 2008	On Establishment of Free Economic Zones Panj and Sughd	Establishment of the Panj Free Economic Zone (site: fezpanj.tj/en/). Establishment of the Sughd Free Economic Zone (site: fezsughd.tj/en/).
Decree No. 1147 of 29 October 2008	Regulation (by-laws) of the Free Economic Zone of Panj	By-laws of the Free Economic Zone of Panj.
Decree No. 1146 of 29 October 2008	Regulation (by-laws) of the Free Economic Zone of Sughd	By-laws of the Free Economic Zone of Sughd.
Decree No. 227 of 2 May 2008	Establishment of FEZs Panj and Sughd	Establishment of Free Economic Zones Panj and Sughd.
Decree No. 74 of 2 February 2009	Establishment of FEZs Ishkoshim and Dangara Provision on Free Economic Zone "Dangara", approved by the Decree of Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan as of January 20, 2010, No.1545	Establishment of the Dangara Free Economic Zones (www.fezdangara.tj/). Establishment of the Ishkoshim Free Economic Zones (http://ifezt.com).
Decree No. 1545 of 20 January 2010	Regulation (by-laws) of the Free Economic Zone of Dangara	By-laws of the Free Economic Zone of Dangara.
Decree No. 1545 of 20 January 2010	Regulation (by-laws) of the Free Economic Zone of Ishkoshim	By-laws of the Free Economic Zone of Ishkoshim.
Law No. 629 of 21 July 2010	On Technology Parks	The law, with the National Strategy for the Development of Intellectual Property for 2014–2020 (approved by the Order of the Government of 3 June 2014 No. 371) and the Law on Innovation Strategy (16 April 2012 No. 822) represent the legal framework governing the establishment and operation of TPs.

The TP concept in Tajikistan has still to be fully defined, even legislatively. For FEZs, no model is ready to meet the standards of a fully-fledged and rounded successful FEZ model, unlike elsewhere in the world. Even the most advanced FEZs—Sughd, and Panj to a certain extent—have made only satisfactory initial progress; they are not yet self-sustainable zones as was the hope. The other FEZs are even further away from their goals, either existing only conceptually (FEZ Ishkoshim), or at a very early stage of development (FEZ Dangara).

Perhaps reacting to the arrested state of the FEZs' development, the government has announced several times that the organized economic zone framework is undergoing reform—but this has not been completed yet. The work is concentrated on improving the organization and incentives model for TPs.

For TPs, there are plans related to two new TP locations, one in Dangara and another in the province of Sughd (Istiklol city), where industrial companies are already operating.

Main legal provisions with an impact on SEZs

Only during recent years have a range of targeted measures been undertaken by the government to enhance the legal framework of the investment regime and to eliminate administrative barriers, in an attempt to simplify business activities.

The 2016 Investment Law¹³⁹ defines foreign investors as "the foreign state, the foreign legal entity, the foreign organizations not organized as a legal entity, the foreign citizen, and also the international

organization performing investments in the Republic of Tajikistan according to the legislation of the country of the location.” This same law guarantees equal rights for local and foreign investors.

Most of the international agreements signed by Tajikistan include most-favoured-nation status, which reduces tariff and non-tariff barriers to trade between signatory nations. Foreign firms may acquire many classes of assets in Tajikistan, including shares and other securities, and land and mineral use rights. Foreign firms may also exercise all property rights to which they are entitled, either independently or shared with other Tajik companies and citizens of Tajikistan.

There are no limits on foreign ownership or control of firms, but local domestic law considers all land to belong exclusively to the state. Foreign-owned companies face significant limitations in accessing land, and this obstacle jeopardizes the attractiveness of agro-processing investment. There are no sector-specific restrictions that discriminate against market access.

In theory, the overall country legal framework provides a fair level of protection of foreign investments. However, the record on practical implementation of relevant rights is mixed.

The Tajik currency (somon) is not a freely convertible currency. The government controls foreign currency operations, including inflows, outflows and exchange of foreign currency. Payments among Tajik residents can be made in the domestic currency only.

The Law on Investment Agreements is very important for improving the investment climate. Tajik law formally recognizes the sanctity of contract, but judicial enforcement can be poor.

In 2012, Tajikistan became a signatory to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (1958 New York Convention). Several important benefits derived from this in terms of increased foreign investment and exports, and access to foreign capital and to foreign technology. These benefits all lead to increased economic growth, more jobs and higher wages.

Tajikistan has also signed bilateral agreements with several countries on arbitration and investment

disputes, but local domestic courts do not always properly enforce or recognize awards.

While domestic legislation provides for the enforcement of arbitral awards, implementation is therefore very difficult. Nevertheless, there are instances in which Tajikistan has not honoured its legal commitments. For example, the local courts refused to enforce a 2013 ruling by a Swiss tribunal against the state-owned Tajik Aluminum Company.

Efforts have been made to achieve targets stated in the Living Standards Improvement Strategy of Tajikistan for 2013–2015, as listed below:

1. Ensure full equality of rights among foreign and domestic investors.
2. Prevent the limitation of investors’ rights.
3. Provide investors with the favourable conditions for operation for five years.
4. Guarantee the signed agreements.
5. Guarantee free capital flows for investors.
6. Guarantee the non-intervention of the state authorities in investment activity.
7. Guarantee investors’ protection against nationalization and seizure.
8. Guarantee investors’ rights for export of property and information.
9. Guarantee the right to use natural resources.

Results are not fully satisfactory, but the explicit recognition and documentation of these issues is heartening.

As to the PPP legal framework, a new Concession Law was enacted on 26 December 2011. This law is vague as far as the majority of core areas are concerned, but it establishes the closest regime Tajikistan has for public–private cooperation, where the state grants private partners the right to use its main material values and wealth, such as land, natural resources, water, aerial space, and so on, on a contractual basis.

There are additional regulations in areas such as the Production Sharing Agreement Law, which also addresses the issues of attracting private partners for exercising economic activity in business, where the state is not (yet) capable of implementing

activities necessary to lead to the accumulation of income through significant investments. Other laws, such as the Law on Education and the Law on Public Health Protection, allow private entities to assume part of the state's obligations to provide people with adequate standards of living. The fragmentary character of the regulation of PPP is one of the major deficiencies of the PPP legal framework in Tajikistan.

Finally, Tajik domestic law is not substantially developed as far as support and financial securities are concerned. Also, international arbitration is limited, and dispute settlement mechanisms are not regulated satisfactorily.

Law 907 on Public–Private Partnership was adopted on 28 December 2012. It establishes the principles of PPPs and procedures for implementation of PPP projects in infrastructure and social services, and applies to all projects implemented by public authorities and private partners in accord with their PPP agreement. Such agreements can be for the design, construction, development and use of new infrastructure facilities or reconstruction, modernization, extension and operation of any existing infrastructure facility; or, for social services, design, development and operation of any structure operating under the jurisdiction of the state partner prior to the start of a project that renders, directly or indirectly, social services to the population for a period of not less than three years. Such services include domestic, psychological, medical, educational and other services.

The main purpose of PPP is the development of infrastructure, particularly social infrastructure. Since the state has insufficient funds for such development and for related maintenance, building relationships between the government and private sector is necessary. The introduction of PPPs ensures that services and infrastructure will be more advanced and of high yield. The process of activating PPPs has begun, but there is still much to be done on the legal and operational framework.

In customs regulations:

1. FEZs are part of the customs territory of Tajikistan. Goods placed in FEZs are considered outside the customs territory of Tajikistan

to obtain relief from customs duties and exempt from taxes, as well as prohibitions and economic restrictions.

2. Imports to the FEZ of foreign and domestic goods are carried out without exemption of customs duties and taxes, and without application of prohibitions and economic restrictions.
3. Imports to the FEZ of manufacturing and construction equipment and other necessary goods for infrastructure by the entities of the FEZ administration are free from customs duties and taxes. The list of these products is approved by the government of Tajikistan.
4. When exporting goods from the FEZ, taxes and duties are not charged, except for customs clearance fees. Prohibitions and economic restrictions are not applied.
5. When exporting goods from the FEZ to another part of the customs territory of Tajikistan, customs duties, taxes and measures associated with prohibitions and economic restrictions established in accord with the legislation of Tajikistan are applied per the terms of the declared customs regime.
6. Determination of the country of origin for goods produced in the FEZ and imported into it shall be carried out in accord with the laws of Tajikistan and international legal acts recognized by Tajikistan.
7. Customs clearance and registration of goods in the territory of the FEZ shall be determined by the legislation of Tajikistan.

In taxation:

1. The tax regime of the FEZ shall determine the procedures and conditions for the preferential taxation of entities on its territory.
2. Business activity on the territory of the FEZ, regardless of ownership, are exempt from all taxes stipulated by the Tax Code, with the exception of social tax and personal income tax.
3. Social tax and personal income tax in the FEZ shall be calculated and paid independently, in accord with the Tax Code of Tajikistan.

4. Personal income tax for non-resident foreign experts of the Republic of Tajikistan shall be paid in accord with the procedure established by the Tax Code of Tajikistan.
5. The tax authority shall exercise control of full and timely payment of social tax and personal income.
6. Profits derived by foreign investors, and the salaries of foreign workers received in foreign currency, may be freely exported by them abroad, and when exported abroad it shall be tax exempt.
7. Tax exemptions shall apply only on that part of the activities of the entities that is carried out on the territory of the FEZ. Taxation of activities outside the territory of the FEZ shall be carried out on a general basis in accord with the laws of the Republic of Tajikistan.
8. The entities of the FEZ are taxpayers and are accountable for financial and economic activity.
9. On the territory of the FEZ, the taxable entities not belonging to the entities of FEZ shall be taxed in accord with the laws of the Republic of Tajikistan.

Key features of the zones and parks

Development of the FEZs is progressing slowly. To facilitate progress, strong political support is needed and integration of disparate zone strategies within a broader economic policy framework is highly advisable.

Given the need for economic diversification and the light density of economic activities in the same location, agglomerates of economic activities must be strongly encouraged. Such a strategy, which is explicitly supported by the government, can already be implemented using the Sughd and Panj FEZs, as they are the most advanced.

Financial and human resources need to be focused on agribusiness, aiming to turn traditional crops into processed food for high-quality products, especially bio-products. Promoting well located agroparks,

managed and equipped with adequate services, could produce satisfactory outputs, including improved social welfare of rural communities.

The national education system needs stronger investment, networking with foreign universities and research centres, concentrating human and financial resources in a very few universities or research centres, attracting the technologically leading firms and eventually leveraging cooperation with international or bilateral donors.

Decision-makers' awareness needs to be improved regarding SMEs, their clustering and how to promote their development. Many different actions are needed, including SMEs' user-friendly financial facilities, proactive support to identify and enter potential new markets, assistance for solving transport and logistical problems, streamlined administrative procedures and training for managers and technicians.

Gaps and obstacles

As specified in the World Bank's *Doing Business 2016* report, Tajikistan would do well to address important obstacles facing businesses. Tajikistan ranks very poorly on certain legal areas with profound impacts on economic zone development, for example, business taxation and regulation of construction permits.

A report by the Asian Development Bank adds that "the complexity of tax regulation is the second highest concern among firms in Tajikistan, according to the Global Competitiveness Report 2015–2016 of the World Economic Forum. During the past year, many firms have been pressured to make advance tax payments. Tight foreign exchange controls have further complicated doing business."

The Living Standards Improvement Strategy of Tajikistan for 2013–2015 identifies a few key gaps in the SEZs governance and regulation, namely:

1. Lack of a strategy for the development of FEZs.
2. Lack of clear and complete objectives for the establishment and development of zones.
3. Unresolved issues concerning funding administrations and building infrastructure.

4. The shortage of highly qualified personnel and the low level of incentives in the social sphere.
5. The lack of state guarantees for attracting capital.
6. The lack of prioritization of investment projects.
7. Lack of coherence among the FEZs in terms of goals and objectives.
8. A fully organized, internally consistent economic zone concept has not yet been developed in the country.
9. A consistent policy framework for improving the legal environment and promoting PPPs has not been identified in Tajikistan.
10. A good management model and a well-structured central and local authority are still to be defined.

Some measures that could favourably affect the business environment have been identified, such as adopting more stable and transparent investment incentives, reducing the number of surprise business inspections (in part by halving the number of government units conducting them), limiting advance tax payments to three months' worth of annual liabilities, streamlining the granting of construction permits, simplifying regulations on certifying product quality and encouraging private investment and linkages with the local economy.

The very different level of operation of Tajikistan's zones, including the quality and intensity of investment promotion activities, reflect the uneven development of their regions and profound differences in funding and government support.

Even though the most advanced FEZs—Sughd, and Panj to a limited extent—are making progress, they are still far from being self-sustainable. The other zones are either only on paper, such as Ishkoshim, or at a very early stage of development, such as Dangara. The government is aware of this and has several times announced that the organized economic zone framework is undergoing reform, which has yet to be completed.

As regards TPs, they are entities within universities, but consisting of simple rooms with equipment.

Their potential could be much higher if they received far more financial support.

Subsequent to the adoption of the law on TPs, all universities officially registered their TPs as non-commercial organizations, but they can operate only when they have projects. Universities are usually unable to autonomously finance research, and the private sector is not supporting research activities because results are not expected to come fast enough for business. The government is not supportive as there is no strategy on TP development, although some work was done by the Technological University of Tajikistan. The university received financial support from the EU, Tempus and other international programmes. Its InnoLab was also established.

Conclusions and recommendations

An examination of the FEZ and TP environment in Tajikistan yields a number of points (Table 4.3).

- Reform of all legal framework sectors governing zones must be accelerated, with a fast track for organized economic agglomerates.
- Management inside zones must be independent and professional, with less participation from public institutions.
- Public skills in complex PPP management must be acquired; transparency of the process must be guaranteed.
- A phased approach should be adopted, constantly monitoring reform implementation and adapting it to emerging/unexpected needs.
- These are aligned with the Living Standards Improvement Strategy of Tajikistan for 2013–2015, which suggests the following actions:
 - Design and adopt a Strategy for the Development of FEZs in the Republic of Tajikistan.
 - Design and adopt a Strategy for the Development of FEZs up to 2030.
 - Commission a research to study the real state of the FEZs.
 - Evaluate how global models organize activities in similar zones.
 - Fully determine the administration procedures of FEZs.

Table 4.3

Recommendations for Tajikistan

Issue	Suggested measures
Overall SEZ development strategy still fragmented and not implemented consistently	<ul style="list-style-type: none"> • Build the capacity of decision-makers and legislative/regulatory authorities to define the general strategy, policy guidelines and complete legal/administrative SEZ framework. • Strengthen institutional competences to manage complex business transactions related to SEZ development and operation.
No private sector participation in SEZ development and operation	<ul style="list-style-type: none"> • Identify the relevant private sector stakeholders at national and local level. • Identify existing organizations representing private sector constituencies. • Assess national and local public authorities' willingness to involve private stakeholders in SEZ establishment and/or operation. • Decide on the most suitable tools for private stakeholder involvement. • Build the capacity of authorities to formulate legal/regulatory SEZ framework and in its implementation phase, strongly promoting the private sector's role.
Lack of private sector involvement in zone administration/management	<ul style="list-style-type: none"> • Issue clear rules on the powers and duties of zone developers and operators. • Issue modern regulations on licences to investors and zone administrators/managers. • Monitoring overall national strategies and planning to make them consistent with international strategies.
Supervision/Administration/Management model incomplete and fragmented	<ul style="list-style-type: none"> • Create a single authority supervising all zones. • Promote the introduction in the zones of a single, one-stop shop administration model.
Need of clear investment guarantees	<ul style="list-style-type: none"> • Strongly promote legal framework reforms in key core areas such as the ADR system, asset disposal and others. • Remove obstacles to foreign investors' access to land.
Weak capacity to generate innovative technologies and need to adopt different model for research activities	<ul style="list-style-type: none"> • Promote a digital transformation to boost economic productivity by improving the efficiency of businesses, and by encouraging the entry and growth of more productive firms and the exit of less productive firms.
Not sufficient level of awareness about the role of SMEs	<ul style="list-style-type: none"> • Build the capacity of local institutions to better understand and boost the creation of enterprises and adopting measures for SME development and growth.

Chapter 5

Turkmenistan

In 2018, the World Bank classified Turkmenistan as an upper-middle-income country.¹⁴⁰ In the early post-Soviet period, its economy was marked by alternate years of growth and contraction. In 1995, GDP contracted by 7.2 percent but returned to growth of 6.7 percent the next year. In 1997, the economy shrank again, by 11.4 percent, bouncing back by 7.1 percent in 1998. Since 1998, the economy has enjoyed nearly two decades of economic growth, although in line with trends experienced by most oil- and gas-exporting countries, GDP growth slowed, to 6.5 percent in 2015, and its current account deficit reached 11.8 percent of GDP.

The economic crisis of 2008 led to a sharp decrease in exports because oil and gas represent more than 90 percent of exports.¹⁴¹ Low levels of integration with the world economy limited the country's foreign liabilities and the crisis did not have a serious impact on GDP growth. Nevertheless, dependence on natural resources has affected overall economic development.

GDP growth increased by an estimated 6.4 percent year on year during the first eight months of 2017 compared with 6.2 percent in the same period in 2016. Turkmenistan earns a large proportion of its foreign exchange from gas sales to China.¹⁴² Higher exports of natural gas to China and more favourable terms of trade—as natural gas prices increased by more than 20 percent year on year—were the main growth drivers.¹⁴³ The government is attempting to diversify its markets for gas exports through key projects such as the TAPI pipeline and the proposed Trans-Caspian gas pipeline. Other than hydrocarbons, exports include chemical products, cotton and cotton fabrics.

Economic growth remains highly dependent on hydrocarbons and related sectors. Turkmenistan has deposits of iodine, bromine, sulphur, potassium and salt. Agriculture is practised mainly in the southern irrigated areas, where the main crop is cotton (the country is one of the world's leading manufacturers), alongside wheat, corn, barley, potatoes,

tomatoes and fruit. Sheep husbandry is important for the economy—particularly in desert areas unsuitable for agriculture—from which Astrakhan wool is produced (obtained from the karakul sheep), and camels and horses (the achal tekin breed). Agriculture is expected to be a high growth sector thanks to extensive government support for farmers.¹⁴⁴ Most industries are still state owned, while the private sector is limited to retail and services. FDI is largely restricted to the hydrocarbon sector.¹⁴⁵

The manat was devalued at the start of 2015 by 18.6 percent against the US dollar (to which the currency is pegged). Downward pressure on the exchange rate persists, though the rate appeared to stabilize in 2017. Due to high inflation (6.6 percent in 2016), the central bank has hardened monetary policy and limited credit expansion. The country should pay special attention to stabilizing the exchange rate. In this regard, there is a rather large black market of currencies in the country, and the difference between official and non-official rates continues to grow, which generally negatively affects the overall economic situation and development of SEZs in the country.¹⁴⁶

As in other oil-dependent countries, the 2015–2016 fall in global energy prices severely hit government revenue. Although accurate data are difficult to come by, cuts in subsidies and lengthening public-sector wage arrears suggest that public finances are in a poor state. On the positive side, external debt is low. Poor official data on the fiscal position and reserves present a major problem for assessing sovereign risk.

The economy has had two stages of privatization: in 1994–1996 mainly for small enterprises in the service sector and in 1996 for large enterprises in industry, construction, transport and other sectors. Privatization of large industrial enterprises was undermined by a lack of financial resources in the private sector. In addition, private firms face higher prices for utilities and services than state-owned enterprises. For instance, the price of electricity for privatized

industrial enterprises was twice that of the price for state industrial enterprises.¹⁴⁷

Turkmenistan is attempting to diversify the economy through state-led industrialization and private sector development. However, the private sector remains closely regulated by the state and the planned programme for privatization of large-scale enterprises is still in the nascent stage. Only construction is almost fully privatized.¹⁴⁸

A resource-rich country, Turkmenistan has issued several national programmes aimed at economic diversification, and social and economic development:

- National Programme for Social and Economic Development of Turkmenistan in 2011–2030.
- State Programme for Manufacturing Import-Substituting Products in Turkmenistan.
- State Programme for Enhancing the Volumes of Export of Products Manufactured in Turkmenistan.
- State Programme for Establishment of Enterprises Manufacturing Electrical Equipment in Turkmenistan. Action plan of this state programme for 2016–2020.

The government is prioritizing key sectors—oil and gas, electric power, chemicals, construction, transport and communications, light industry, food processing, textiles and agribusiness—with the aim of boosting growth in the non-hydrocarbon economy. High levels of public investment and of FDI support the government’s industrial policy, with gross investment reaching 36.6 percent of GDP in 2015.

Diversification requires balanced investment management, the introduction of a strong medium-term fiscal framework, careful prioritization, and thorough appraisal and selection of investment projects.

As the capital-intensive hydrocarbon sector employs only 1.7 percent of total employment—industrial policy should support productive sectors beyond hydrocarbons that can generate export income and employment.

Investment in highly productive industrial clusters and agribusiness would strengthen value chain development throughout the economy, create networks of

local suppliers, and expand the employment potential of the export sector.

Further development of existing FEZs and creation of new ones will contribute to building favourable business conditions necessary to attract foreign and national investment, create high-tech competitive products and encourage the effective use of Turkmenistan’s production and resource capacities.

In the existing FEZs, organization of manufacturing of the products listed in the above three state programmes looks feasible in cooperation with foreign partners.

Productivity can be further enhanced, and more jobs created, by provision of high-quality services in transport and communications, logistics, finance, trade and marketing, and tourism.

Policies should aim to create an environment conducive to private sector expansion, encouraging firms to develop export markets, upgrade workers’ skills, and promote technology transfer through foreign capital.

Investments in education and health would create the human capital needed for structural transformation and improve social development in the country, whose HDI ranking is 109 out of 188. Investing in R&D for innovation, and providing local businesses with information and financial support, would help them acquire the critical mass needed to enter the global market.

Reforms to strengthen institutions and governance, the legal and regulatory framework, and the protection of property rights—and to render public finance more open and transparent—would enable hydrocarbon revenues to be invested more efficiently and productively, furthering diversification.

The State Programme for the Development of Small and Medium Entrepreneurship to 2020 includes measures to improve the quality, stability and transparency of legislation, promote greater access to credit and the development of the financial sector, and eliminate bureaucratic barriers.¹⁴⁹

The government plans to increase the private sector’s contribution to GDP to 70 percent by 2020, from its current 55 percent (excluding energy enterprises).

Status of existing zones, including state of operation

With the objective of developing production, entrepreneurship and innovation, certain key laws and regulations have been enacted:

- Law on Denationalization and Privatization of State Property of Turkmenistan.
- Law on Innovation Activity of Turkmenistan.
- Law on Governmental Support to Small and Medium Entrepreneurship.
- Law on Scientific Intellectual Properties of Turkmenistan.
- Law on Entrepreneurial Activity of Turkmenistan.

Within the context of this reformed legal framework for industrial development, the Law on Free Economic Zones¹⁵⁰ defines an FEZ as a “delimited territory governed by special regime.” Further, “A free economic zone is established within the territory of Turkmenistan the borders of which are defined by legislative acts. Within a free economic zone, investors from the private sector of the economy of Turkmenistan and foreign investors are allowed to carry out all kinds of economic, financial and other activity except those prohibited by the legislation of Turkmenistan” (article 1).

In short, FEZs are specifically dedicated geographical territories, with precisely defined administrative borders and special legal regimes. Except for commercial activities prohibited by law, any economic, financial and other activity of non-governmental entities of Turkmenistan and of foreign investors are allowed.

The basic legislative framework for establishing organized economic zones sets out the definitions of a zone and of its constituent units; rules on legal, economic and institutional aspects of activity; and guarantees special conditions for business within the zones’ jurisdictions. Nationalization and expropriation are not permitted in the zones, either of local or foreign enterprises. Indeed, the Law on Foreign Economic Activity (No. 103-V of 16 August 2014) states that “a special regime of foreign trade activities (customs, currency, tax, and pricing regime) for free

economic zones (free economic zones, tourist areas)¹⁵¹ can be established in Turkmenistan.”¹⁵²

Labour relations within FEZs are regulated by collective and individual agreements in accord with the country’s legislation.

Companies operating in these areas benefit from tax incentives, including:

- Exemption from income tax.
- Exemption from profit tax when the profits are reinvested in export-oriented firms.
- Repatriation of after-tax profits.
- Exemption from customs duties, except for products of foreign origin.

As specified by national counterparts, enterprises are exempt from profit tax for the first three years of their profitable activity. For instance, enterprises in which foreign investment makes up more than 30 percent of the capital structure are entitled to a 50 percent reduction in the profit tax in the first three years of their profitable activities, and then to a 30 percent discount for the following 10 years. In addition, a 50 percent reduction in the property tax is offered for the first five years of activity in the FEZs.

Turkmenistan has also reduced registration and certification fees for foreign companies that invest and operate in FEZs.¹⁵³ Enterprises are also exempt from the rental fee for land for three years following the date of signature of a land rental agreement. Further, incorporation of investment projects and enterprises with foreign investment—as well as branches and representative offices of foreign legal entities engaging in construction and in rental of facilities in a free zone—are not subject to incorporation duties.

Article 4.3 of the Customs Code (25 September 2010) establishes that “In the territory of Turkmenistan there can be special economic zones created according to the legislation of Turkmenistan which are part of the customs area of Turkmenistan. The goods placed in the territory of special economic zones are considered as being out of the customs area of Turkmenistan for the purposes of application of customs duties, taxes, and also prohibitions and restrictions of an economic nature”

Foreign investors and enterprises with foreign stakeholders operating in an FEZ are also exempt from payment of consular duties, payment of stock exchange duties for registration of contracts, payment of state duties for issuance and reissuance of licences, and deductions from the profit of extra-budgetary funds, in compliance with Turkmenistan laws and regulations. The total regulatory burden, in financial terms, is significantly reduced for foreign investors in FEZs.

Certification of equipment and materials imported to Turkmenistan by foreign investors and enterprises, including their contractors and subcontractors, engaging in construction and in exploitation of facilities in the territory of an FEZ is free of charge.

Other rules include the Law on Innovation issued on 16 August 2014; the Law on Science and Technology Parks of 16 August 2014; and the Law on National Governmental, Science and Technology Policies of March 2014. There are also rules governing intellectual property rights and the status of employees working in the science and technology sector, though no legal documents were shared for the review Turkmenistan has the following FEZs:

1. Ashgabat-Abadan.
2. Mari-Bayramli.
3. Caspian-Ekerem.
4. Dashoguz Airport.
5. Turkmanabad-Seydi.
6. Baharli-Sardar.
7. Ashgabat-Ak Bugdai.
8. Serakh Region in Akhal Province.
9. Gunashli-Turkmenistan Free Economic Zone.
10. New Airport Territory.
11. Avaz National Tourist Zone.

The territory of the main zone, the Avaz National Tourist Zone, is 700 ha. Given the country's high potential in tourism—in particular on the shore of the Caspian Sea—this FEZ is intended in part to encourage private tourism. Turkmenistan also has some major UNESCO World Heritage Sites located along the ancient Silk Road, an important international trade route until the 15th century, which can be used

to facilitate the tourism sector.¹⁵⁴ It also opens prospects for developing free trade through Turkmenbashi Port and provides the region with a reliable link to other economic zones worldwide through the North-South Transportation Corridor.

According to Decree No. 8855 of 24 July 2007 of the Turkmenistan President on the Avaz National Tourist Zone:

1. The State Service of Turkmenistan for Incorporation of Foreign Nationals shall apply, without any consular and incorporation duties. This is a simplified procedure for issuing visas and licences to foreign professionals and employees arriving in Turkmenistan to work at the Avaz National Tourist Zone for the period of construction and use of the facilities in this zone.
2. A simplified registration procedure for visas of tourists holding a tourist package arriving in Ashgabat City and Turkmenbashi City shall be applied.
3. The Ministry of Economy and Finance shall set rules for incorporation without duties with regard to:
 - Legal entities conducting construction and exploitation of the Avaz National Tourist Zone.
 - Innovative projects realized in the territory of the Avaz National Tourist Zone.
4. The State Goods and Raw Material Market of Turkmenistan shall apply a simplified procedure of registration of contracts on the facilities of the Avaz National Tourist Zone without any stock exchange duties.
5. The General State Service “Turkmen Standards” shall issue certificates for the equipment and materials imported into Turkmenistan by investors and other persons engaging in construction and in exploitation of facilities in the territory of the Avaz National Tourist Zone without any payment for these services.
6. The State Insurance Organization of Turkmenistan shall insure the property

interests of investors and other persons doing business in the territory of the Avaz National Tourist Zone in compliance with the applicable insurance regulations and by considering the international practice of insurance.

This zone has developed rapidly, with potential benefits to domestic entrepreneurs and to large global investors such as the Turkmenistan market¹⁵⁵ and tax incentives in the construction of hotels and recreational facilities, including exemption from VAT.¹⁵⁶

Gaps and obstacles

In general, FEZs have not been successful in boosting economic activity, despite introduced regulatory and system of incentives. The government continues to interfere in the business decisions of firms in the zones but has not financially supported zones in building modern infrastructure such as advanced telecommunications. The infrastructure at Ashgabat International Airport is more developed and has modern cargo transit facilities.¹⁵⁷

There is also inconsistency in the application of the tax and regulatory incentives and inducements. These are only implemented and enforced “haphazardly,” which reduces their effectiveness in attracting foreign capital.¹⁵⁸

Given the status of legal enforcement and state interference in private business, few foreign investors have ventured to participate in local companies. Even fewer investors have managed to maintain their business in the country and continue to operate.^{159,160} Against this backdrop, the Turkmenistan government announced in 2011 that “it was working on a new Law on Special Economic Zones.” This law has yet to be passed.¹⁶¹

Science and technology parks

According to the provisions of the Law of Turkmenistan No. 107-V of 16 August 2014 on Science and Technology Parks, a legal or natural person to become resident of technology parks should implement innovation projects and disseminate the results of such projects (Article 7(1)(2)) and engage in technology

transfer. The park should include business incubators, the centres for technology transfer and other service organizations (Article 8(3)), providing advice on patent and licensing matters (Articles 4(1)(7) and 8(5)) and the property of the science and technology park, including intellectual property (Article 14).¹⁶²

In 2014, an initial model for technological parks was established in Ashgabat, hosting R&D and educational institutions, industrial facilities and business centres. In this park, R&D departments and laboratories in science priority sectors have been created. They are dedicated to the study of mining, manufacturing new products from domestic raw materials, agriculture, plants, animals, prospective seed types and medical plants. Other focus areas are the protection of the environment, energy technologies, geo-information systems, nano-technologies and ICT.

Legal/institutional framework governing SEZs and main legal provisions for zone regulation

As specified by national counterparts, Turkmenistan guarantees free economic activity of enterprises with any kind of stakeholder structure, so long as they are interested in long-term cooperation.

National laws and regulations set out actions for the protection of rights, interests and property, the establishment of a competitive business environment, and the creation of jobs. Guaranteeing economic and legal conditions for the activity of foreign and domestic enterprises is connected to the strategic objective of attracting foreign investment, new technologies and know-how, and to building a diversified, self-sustainable and competitive economy.

According to the laws and regulations, foreign investors have the right to make investments in Turkmenistan enterprises, purchase privatized enterprises in Turkmenistan, establish new enterprises in full possession and obtain a concession for the use of natural resources. They have repatriation rights and can also freely transfer capital and property in their possession outside Turkmenistan. In case of amendments to applicable laws and regulations on

foreign investments, the effect of existing legal provisions will be guaranteed for 10 years from the date of registration.

As pointed out by institutional counterparts, according to the Law on Foreign Investments:

- Enterprises investing more than 30 percent funds in a freely convertible currency are exempt from payment of income tax on dividends, and from the tax for profit for the period of return on the initial capital investments.
- The period of provision of tax privileges is restricted to the duration of the return on the initial capital investments.
- Property imported into the country for individual needs by foreign employees of legal entities with foreign participation is exempt from customs duties.
- Legal entities with foreign participation in the authorized capital in which foreign investments are more than 30 percent in freely convertible currency are entitled to export products (works and services) of own production without a licence by a certificate issued by the competent authority.
- Legal entities with foreign participation are entitled to export products (works, services) without a licence for private business activity.
- Currency returns of a legal entity with foreign participation from the export of own products after the payment of taxes and other deductions specified in the applicable laws and regulations of Turkmenistan remain at the company's disposal.
- Any material and equipment imported for performing oil-related activities is exempt from customs duties and registration under the State Goods and Raw Material Market of Turkmenistan.

Business entities of any kind, including foreign and joint enterprises and organizations, are entitled to use electricity, water, fuel and utility services at moderate cost, which is still higher than for local enterprises.

Foreign investment is regulated by the Law on Foreign Investments (last amended in 2008), the Law on Investments (last amended in 1993) and the Law on Joint Stock Societies (1999). The Law on Enterprises

(2000), the Law on Business Activities (last amended in 2008), the Land Code (2004) and foreign investment activities are affected by bilateral or multilateral investment treaties. Foreign investment in the energy sector is subject to the 2008 Petroleum Law (also known as the Law on Hydrocarbon Resources, which was amended in 2011 and 2012). The Tax Code provides the legal framework for the taxation of foreign investment. The Civil Code (2000) also defines what constitutes a legal entity and the various types of legal entities in Turkmenistan.¹⁶³

Many government programmes focus on the reform and implementation of legislation—adopted since independence and geared towards the market economy—in civil law, civil procedure and economic law. In 2008, the government adopted new rules on foreign investment and licensing. Nevertheless, the lack of an established rule of law, inconsistent regulatory practices and unfamiliarity with international business norms are major disincentives to foreign investment.

Business forms in Turkmenistan include joint-stock companies, cooperative enterprises, joint ventures, economic societies, joint-venture enterprises, branches and business forms available to individuals—in other words, the legal forms available to investors and entrepreneurs in more developed countries. Entrepreneurial activity may only be conducted in Turkmenistan once state registration has been completed.

Under legislation, foreign investors are subject to the same rules that apply to national investors, and foreign investors are not to be treated less favourably than national investors. Foreign investments may only be restricted or prohibited in respect of activities and/or territories to protect the constitutional order, defence and security of Turkmenistan.

A fair amount of basic rules on investment protection are given, but the main areas of risk remain with regard to the ADR system, repatriation of profits and persistent non-transparency in administrative processes. The level of government involvement in and control over economic activity is still very high, and

the practical implementation of reform legislation still poses serious difficulties, especially over newly introduced legal concepts.

The PPP legal framework is incomplete, vague and unfit to regulate complex transactions. According to the law, foreign investments in Turkmenistan are not subject to nationalization and requisition, and foreign properties may be confiscated only following a court decision. Therefore the law prohibits arbitrarily nationalization or confiscation of the foreign property. However, at the end of relevant project use immovable assets built on land plots must be transferred to the state. Although “The Law considers intellectual property rights as investment assets (see Chapter 1, Articles 1, 3, 4; and Chapter II, Article 6),”¹⁶⁴ the enforcement of property rights appears very difficult and complicated.

All land is owned by the government. Foreign citizens and stateless persons, foreign states, and companies and international organizations may only lease land. Land and facilities subsequently built on the land plots must be transferred to the state after the expiration of the contract of lease.

Key features of zones and parks, including gaps and obstacles

PPPs are relatively new to Turkmenistan, and understanding and knowledge of their basic principles do not have deep penetration. Greater coordination within the public sector and the inclusion of private sector parties are preconditions based on the experience in other countries with a more mature PPP process. This coordination and level of engagement could be further encouraged in Turkmenistan to help raise understanding. Institutional mechanisms could then be created, with regulatory competence entrusted to independent bodies. However, political will is the single most important aspect of successful PPP development, followed by the availability of capital. The PPP process should have political support across all ministries to increase the likelihood of success.

Private participation in PPP projects should have a clear basis in policy, with broad government support,

and should be linked to broader sustainable development objectives. Transparent procedures should be guaranteed for all stages of the PPP process.

The performance of economic zones can be evaluated only when zones are in an advanced phase of development, which means the Avaz zone only. For other zones, there is no available information to assess the status and operation of the zones.

Conclusions and recommendations

- It is crucial to increase awareness of the importance of the private sector for economic growth in general and for the diversification of the economy. FEZs can be a good tool to develop a free market economy if public authorities’ participation in private companies’ management could be progressively limited.
- The PPP legal/operational framework needs to be rationalized and improved for internal consistency.
- The capacity of government to design, manage and monitor PPP arrangements must be strengthened.
- A phased, pragmatic approach to PPPs, strongly supported by all institutions involved, is recommended. The pilot PPP projects to be launched must be attractive for FEZ developers/investors and a good legal/financial structure must be put in place, especially in sectors in which foreign investors have a strong interest.
- The overall business regulatory environment should be carefully reviewed and improved per the above.
- Crucial aspects of the investment security regime must be progressively aligned with international standards: the ADR system must be effective and the legal framework must be completed. The disposal of assets at the end of an investment period must be guaranteed, and the rules upon disposal must be reformed.
- Since Turkmenistan does not have a national business registration website, such a mechanism should be encouraged to speed up procedures.
- Increased transparency of procedures for business-activity establishment and functioning must be

strongly pursued given their impact on attracting investment.

- There must be a higher degree of coordination among institutions involved in zones' development and service provision.
- While the Avaz zone focused on tourism is successful, other zones have not yet developed as desired. The reasons for this underperformance must be further investigated and diagnosed to better inform policy and execution.

Chapter 6

Uzbekistan

Uzbekistan has the largest population in central Asia with 31.8 million inhabitants, with an average age of 26.7 years. The country is rich in raw materials (copper, zinc, gold, silver, tungsten, lead and natural gas). On consumption, it is potentially the largest market in the region. It is also the world's fourth-biggest producer of cotton and the second-biggest exporter after the United States of America. In 2016, the country's GNI per capita was \$2,220 and at PPP was \$6,640. In 2018, the World Bank classified Uzbekistan as a lower-middle-income country.¹⁶⁵

The country is one of the world's major producers and exporters of natural gas, with about 1.1 trillion cubic metres of confirmed reserves and 590 million barrels of oil reserves, as well as 3 billion tons of coal reserves.¹⁶⁶ To facilitate oil and gas exploration and extraction, the government provides tax incentives for foreign investors.

Uzbekistan depends heavily on a few commodities (natural gas, gold, copper, cotton and machinery) traded to a handful of partners—Kazakhstan, the Republic of Korea, the Russian Federation and China. In 2015, the drop in the price of these commodities caused a fall in energy-related exports by 30 percent, cotton by 9 percent, metals by 16 percent and machinery exports—mainly General Motors automobiles—by 71 percent. Trade with the Russian Federation fell by 25 percent, because of the appreciation of the Uzbek currency against the rouble. As well as exports, imports of goods and services fell sharply, due to import restrictions imposed by the government. Due to the number of measures taken by the government, exports showed significant growth in 2017, increasing to nearly \$14 billion from \$12.2 billion in 2016.¹⁶⁷

Of the four project countries, Uzbekistan's immediate post-Soviet economic contraction, though profound, was the least severe, and the country was showing growth by the late 1990s. Between 2000 and 2016, the economy averaged annual GDP growth of 8.4 percent, the second-highest among the four. Unlike the

other countries exporting oil and gas—Azerbaijan and Turkmenistan—GDP growth has been steady.

According to government sources, GDP grew by 7 percent in the first half of 2017, which is slightly less than the 7.8 percent recorded in the same period in 2016 and 8 percent in 2015.¹⁶⁸ According to the Asian Development Outlook, GDP is expected to grow by 5.5 percent in 2018.¹⁶⁹ However, GDP growth can be greatly influenced by a combination of external factors: slowing growth in its largest trading partner, China; the continued recession in the Russian Federation—Uzbekistan's second-largest trading partner and its main source of remittances, which fell by 57.5 percent in US dollar terms in 2015 and another 19.3 percent in the first half of 2016¹⁷⁰ and affected the country's private consumption; and declining prices of Uzbekistan's export commodities.¹⁷¹

The economic downturn cut bilateral trade and remittances in 2015, affecting foreign exchange revenues and private consumption. This accelerated the depreciation of the Uzbek currency against the US dollar, generating average inflation of 8.5 percent. The government was consequently obliged to narrow import controls and increase public investment—a \$40.8 billion programme was launched to boost domestic infrastructure, including health and education—and to limit spending on R&D and increase commercial lending to support internal consumption.

However, public funding of construction, services, telecommunications and the financial sector boosted domestic consumption. Transport and agriculture (which had good harvests of grain and cotton in the previous two years) showed slight growth in 2016. Agriculture is increasingly considered a promising sector. Vegetable and wheat harvests have improved, and the government has engaged a progressive reduction in production and state procurement of cotton fibre, to shift land from cotton to higher valued added crops.

Recently, authorities started a number of economic reforms to improve the country's business environment, enhance competitiveness and reduce state intervention. Small businesses and private entrepreneurship are also considered important, accounting for 56.7 percent of GDP in 2015 and 77.9 percent of employment.¹⁷² Recognizing the importance of small and micro enterprises for the economy and seeking to encourage the return of emigrants, the government is reforming legislation to reduce the tax and administrative burden on business.¹⁷³ Since 2011, an online one-stop shop has simplified company registration procedures. The number of days taken to start a business in Uzbekistan fell from 29 in 2000 to seven in 2014.¹⁷⁴ After rising 16 places between 2015 and 2016, Uzbekistan fell five spots in the World Bank's *Doing Business 2017*, ranked 87 out of 190 countries.

In 2015, the government launched a programme of structural reform through 2019, aimed at diversifying and upgrading industry, targeting domestic and foreign investment, acquiring know-how and new productive technologies, reducing energy consumption and increasing product value added to boost exports. Attracting investment in new technologies is a priority, especially as the number of patent applications has not increased in the last 10 years. The government is also streamlining administrative procedure for business and investment, liberalizing the economy by lowering trade barriers, and promoting innovation through facilitating and strengthening relations between enterprises, universities and research institutes.

Uzbekistan's currency risk rating has improved to BB, from B. The upgrade was driven by the authorities' decision to allow the currency, the som, to float freely in 2017. The som was devalued by almost 50 percent, allowing convergence of the official currency rate with the black market rate, which was the main rate of day-to-day transactions and external trade. At the same time, stringent capital controls on foreign currency for business and individuals have been removed, such as restrictions on firms buying and selling currency. The

government has indicated that the remaining capital controls will be removed.

Uzbekistan has improved its performance in the World Bank's *Doing Business 2018*. Under the "Getting electricity" indicator, it rose by 56 positions and took 27th place in the rating. The result was achieved because of the introduction in 2016 of simplified administrative procedures. In the same year, procedures for obtaining construction permits were reduced from 23 to 17. The transition to electronic tax reporting improved the country's rating under "taxation" from 138th to 78th place. According to World Bank experts, the tax burden on business entities in Uzbekistan is much lower than in the United States of America, Australia, Germany, Sweden, Turkey, China and the Russian Federation. The use of one-stop shops also helped Uzbekistan to strengthen its ranking on the "Registration of property" indicator, at 73rd place. The number of public services that operate exclusively through one-stop shops has more than doubled, from 16 to 34.

According to the World Bank's Country Partnership Framework with Uzbekistan, private sector-driven market-based growth and job creation are the most important development challenges facing the country, particularly due to the growing labour force base.¹⁷⁵ The government has also developed a new privatization programme,¹⁷⁶ and the allocation of additional credit to small and micro enterprises is expected.

Industrial enterprises are the largest energy consumers in Uzbekistan, and due to outdated equipment and machinery, its economy is also one of the world's most energy intensive. To improve energy efficiency, the government has developed a strategy to cut energy use per unit of GDP in half by 2030.¹⁷⁷

The New Development Strategy for 2017–2021 focuses on five areas: improving public-funded construction; ensuring the rule of law and further reforming the judicial system; promoting economic development and liberalization; developing the social sphere; and ensuring security, inter-ethnic harmony and religious tolerance, and implementing

a balanced, mutually beneficial and constructive foreign policy. Under these areas are measures to strengthen macroeconomic stability; improve competitiveness and the development of high-tech industries; introduce energy-saving technologies; create new and improve efficiency of existing FEZs, technoparks and small industrial zones; diversify exports; develop infrastructure; create a favourable business environment for small businesses and private entrepreneurship; and improve the investment climate.

In 2012–2016, the procedures for registration of export-import transactions were reduced and simplified. In particular, the deadlines for registering export and import contracts in authorized banks (up to 8 hours), customs clearance (up to three days), issuing certificates of origin (up to three days), issuing a

certificate of conformity for imported products (up to 10 days) have been shortened. An important measure was the decision of the Cabinet of Ministers to reduce the number of documents submitted to the customs authorities for foreign trade operations: for exports, to four documents (from six), for imports, to five documents (from 10).

In 2016 and 2017, the government adopted 20 documents to stimulate investment activity, including those that created FEZs at Urgut, Gijduvan, Kokand and Khazarasp. There are now 14 FEZs in Uzbekistan (Figure 6.1). In their territories, 50 projects have been launched with a total investment of about \$400 million in the textile, chemicals, pharmaceuticals, food, electrical, automotive and building materials industries. This has increased the volume of foreign and domestic investment.

Figure 6.1
Free trade zones and industrial parks in Uzbekistan



A 2017 resolution¹⁷⁸ envisages the creation of a Fund for Reconstruction and Development of Uzbekistan, which will open credit lines to commercial banks worth \$100 million to finance investment projects in FEZs. In addition, a special inter-departmental commission was created to coordinate the activities of FEZs and small industrial zones. Its tasks include assistance in solving organizational and technical issues related to the development and operation of FEZs.

Status of special economic zones, including state of operation

The Decree of the President of the Republic, on Uzbekistan's development strategy, of 7 February 2017 approved Uzbekistan's New Development Strategy for 2017–2021. Measures include improvement of the economy's competitiveness through deepening of structural reforms and modernization and diversification of leading industries through creating new and improving the efficiency of existing free economic zones, techno-parks, and small industrial zones. The creation of small industrial zones is an important step in developing the regions, cities and towns.¹⁷⁹

The Law on Free Economic Zones establishes the concept of an FEZ, recognizing designated territory with defined administrative boundaries and a special legal regime to attract domestic and foreign capital, advanced technology, and managerial experience for accelerated socio-economic development of the zone. The law also defines allowed FEZ types, namely FTZs, free production zones, and free scientific and technical zones.

The Decree of the President Number 418, dated 29 December 2016, on the development of FEZs, outlines a strategic development programme for FEZs up to 2030. It acknowledges the creation of FEZs as an important factor in attracting FDI to create new high-tech industries, developing the regions, enhancing competitiveness of export products, and ensuring the accelerated development of production, engineering and communications, road transport,

social infrastructure and logistics. Also, the relevant authorities were ordered to include projects aimed at providing transport, engineering and industrial infrastructure of FEZs and small industrial zones in the Investment Program of the Republic of Uzbekistan for 2018 and subsequent years.

The Investment Program of 2017 was developed and adopted for export-oriented products, aiming to increase employment and the quality of life of the population. This policy document is adopted annually and covers investment projects, including in the territories of FEZs. The Ministry of Economy, together with the ministries for state investment, state competition and other interested ministries and agencies, has developed a medium-term "road map" for the further enhancement of FEZ operations. On 1 December 2017, a new system of management and organization of FEZs and small industrial zones, including programmes for them, was introduced.

Free economic zones

Since 2008 there have been three FEZs operating in Uzbekistan, namely: Navoi, Angren in Tashkent region and Jizzakh. The Presidential Decree signed in October 2016 unified the legal and economic status of the Navoi Free Industrial Economic Zone and the special industrial zones and renamed them FEZs. The FEZ Administrative Council was established, to govern and coordinate activities of these FEZs.

In 2017, in accord with the Decree of the President No. 4931 of 12 January 2017, further FEZs were established:

- Samarkand region: FEZ Urgut.
- Bukhara region: FEZ Gijduvan.
- Fergana region: FEZ Kokand.
- Khorezm region: FEZ Khazarasp.

On 3 May 2017, the President of Uzbekistan signed a Decree on the establishment of seven FEZs specializing in the production of pharmaceutical products in the country. Given soil and climatic conditions, it was decided to open them in:

- Karakalpakstan region: Nukus Pharm.
- Jizzakh region: Zomin Pharm.

- Namangan region: Kosonso Pharm.
 - Syrdarya region: Syrdaryo Pharm.
 - Surkhandarya region: Boysun Pharm.
 - Tashkent region: Bustonlik and Parkent Pharms.
- The main objectives of Uzbekistan's SEZs are to
- Attract investment from foreign and local investors for the creation of modern production facilities for high value added goods in demand on foreign markets and for import-substituting products.
 - Create modern production in food processing, storage and packaging; textiles; carpets; shoes and

Table 6.1
Free economic zones in Uzbekistan

Name		Navoi FEZ
Law		<ul style="list-style-type: none"> • Decree of the President of the Republic of 2 December 2008, No. JV2 4059. • Regulations on the Navoi free industrial economic zone approved by the Cabinet of Ministers of Uzbekistan, 27 January 2009, No. 21. • Resolution of the Cabinet of the Ministers No. 105 dated 9 April 2009. • Resolution of the Cabinet of Ministers dated 25 December 2013 No. 341, Provision on the order of functioning special currency regime in the Navoi Free Industrial Economic Zone. • Decree of 26 October 2016.
Description		Area: 500 ha. The zone is near the transcontinental intermodal hub at Navoi city airport and 100–175km from large cities and industrial centres such as Bukhara and Samarkand.
Sector/s		Leading industries—energy, mining metallurgy, chemical, cotton-cleaning, food and building materials. The largest industrial enterprises in the region are the Navoi Mining and Metallurgical Combine in Muruntau (built in 1967) and Navoi State District Power Plant.
Enterprises		17 enterprises operate in the FEZ, 6 of which specialize in the production of automotive components, 3 in telecommunications equipment, 2 in polyethylene pipes, 2 in cables, 2 in cosmetics and 1 in pharmaceuticals.
Name		Angren FEZ
Law		<ul style="list-style-type: none"> • Decree of the President of the Republic No. 4436 of 13 April 2012, on Establishment of the Special Industrial Zone Angren. • Resolution of the Cabinet of the Ministers No. 146 of 29 May 2012, on Measures on organization of operation of the special industrial zone Angren. • Resolution of the Cabinet of the Ministers No. 213 of 13 July 2012, The Charter of the State Unitary Enterprise, on The Directorate of the special industrial zone Angren. • Resolution of the Cabinet of the Ministers No. 247 of 17 August 2012, on Measures on advanced development of transport, production and engineering and communications infrastructure of the Angren special industrial zone for 2013–2015. • Resolution of the Cabinet of the Ministers No. 282 of 3 October 2012, The Regulation on the Order of Selection of the Investment Projects and Registration of the Participants of the Special Industrial Zone Angren. • Resolution of the Cabinet of the Ministers No. 234 of 26 August 2013, The Regulation on the Order of the Land Sites Allocation to the Participants of the Special Industrial Zones. • Decree of 2016.
Description		<ul style="list-style-type: none"> • The FEZ is located on territory of 14.5 ha. • The logistic centre Angren in the FEZ is located on an area of 30 ha.
Sector/s		Enterprises relate to: Electronics and electrical engineering, engineering, chemistry and petrochemistry, food processing, deep processing of fruits and vegetables, production of construction materials, leather industry, and so on.
Enterprises		There are 17 enterprises operating in the FEZ, specializing in the production of building materials, automotive, automotive components, polyethylene pipes, cable production, and in oil refining.
Name		Jizzakh FEZ
Law		Decree of the President of the Republic on the Establishment of the free economic zone Jizzakh of 18 March 2013, No. UP-4516.
Description		The FEZ is on territory with an area of 632 ha. The territory of the FEZ is divided into a main area in the city of Jizzakh and a branch in the Syrdarya region.
Sector/s		Based on the concept of the creation of FEZ Gijduvan, enterprises relate to production of light industry products, confectionery and textile products, office supplies and construction materials.
Enterprises		There are 20 enterprises operating in the FEZ that specialize in automotive, automotive components, polyethylene pipe production, cable production, and textiles.

Table 6.1 (continued)

Free economic zones in Uzbekistan

Name		FEZ Gijduvan
Law	Decree of the President of the Republic on the Establishment of free economic zones Urgut, Gijduvan, Kokand, and Khazarasp dated 12 January 2017, No. UP-4931.	
Description	The territory of FEZ Gijduvan is 400 sq. km.	
Sector/s	Based on the concept of the creation of FEZ Gijduvan, enterprises relate to production of light industry products, confectionery and textile products, office supplies and construction materials.	
Enterprises	<ul style="list-style-type: none"> • In storage and processing of agricultural products, 2 projects are in FEZ Gijduvan, 5 in textiles and ready-made garments. • Four projects for the production of construction materials and 3 for the production of food products will be implemented. 	
Name		FEZ Kokand
Law	Decree of the President of the Republic on the Establishment of free economic zones Urgut, Gijduvan, Kokand and Khazarasp dated 12 January 2017, No. UP-4931.	
Description	The territory of FEZ Kokand is 709 ha. Kokand is the centre of chemical, machine building, cotton processing and food industries.	
Sector/s	It specializes in construction, food, chemical, textile, leather goods, and footwear products.	
Enterprises	To date, the construction of 18 large projects is under way in the FEZ.	
Name		FEZ Urgut
Law	Decree of the President of the Republic on the Establishment of free economic zones Urgut, Gijduvan, Kokand and Khazarasp dated 12 January 2017, No. UP-4931.	
Description	<ul style="list-style-type: none"> • The FEZ is located on territories with an area of 816 ha. • FEZ Urgut is on three territories of the Samarkand region: Urgut-1 in Urgut, Urgut-2 in Nurabad and Urgut-3 in Pastdargomsky. 	
Sector/s	Production of light industry products, household appliances, medical equipment, pharmaceutical, leather and footwear products, office supplies and building materials.	
Enterprises	<ul style="list-style-type: none"> • In storage and processing of agricultural products, 13 projects are in FEZ Urgut, and 32 in textiles and ready-made garments. • Four projects for the production of building materials and 8 for the production of leather shoes will be implemented. 	
Name		FEZ Khazarasp
Law	Decree of the President of the Republic on the Establishment of free economic zones Urgut, Gijduvan, Kokand and Khazarasp dated 12 January 2017, No. UP-4931.	
Description	The FEZ is on territories of a total area of 414 ha. The FEZ consists of 9 territories, while territories No. 4, 5, 6, 7 and 8 consist of only one each. In the future, the area occupied by the FEZ will be expanded to 600 ha.	
Sector/s	The region has developed light industry, food industry, machine building, processing of cotton, and flour milling.	
Enterprises	In the FEZ, enterprises are associated with economic activities in the region.	

leather goods; environmentally safe chemicals and pharmaceuticals; electronics; automotive; building materials; and other industries.

- Increase the local production of high-tech products based on local sourcing of raw materials and by establishing close ties and industrial cooperation between enterprises of the SEZ and the rest of the economy.
- Boost dissemination of general information on national strategies related to economic

development through using zones and parks and fostering innovation.

The residents of the zones are granted the following benefits:

- Land benefits.
- Tax benefits.
- Customs privileges.

As an additional stimulus, special rules for making payments in foreign currencies have been introduced for companies registered in the zones, which is critical

in a country where timely currency convertibility is difficult.¹⁸⁰

Currently, 62 projects worth \$486 million are in Navoi, Angren, Jizzakh, Urgut, Gijduvan, Kokand and Khazarasp FEZs, and more than 4,600 jobs have been created.¹⁸¹ Among them, Navoi FEZ is exemplary in manufacturing of a wide range of high-tech and globally competitive products using modern high-performance equipment, technologies and innovations.

This zone (near the airport) is at the intersection of international land and air corridors, in an industrial region with substantial industrial and communication infrastructure, mineral deposits and other raw materials, as well as a qualified local labour force. All the services necessary to establish and conduct a business in Navoi are offered to FEZ investors using a single window mechanism. It was selected as the winner of the sub-regional Central Asia award by the Global Free Zone of the Year Award 2016.¹⁸² It was noted for its one-stop shop service alongside a specialist investor relations department, which allowed the zone to increase production and sales to multinational companies by 33 percent between 2014 and 2015.

Other planned SEZs

Based on the resolution of the President and Cabinet of Ministers on additional measures aimed at sales of state-owned facilities to small-business and private entities, No. PP-2200 dated 2 July 2014,¹⁸³ development of industrial zones on the basis of the idle enterprises and unused areas of the state property and enterprises was announced.

Under the resolution, small industrial zones will be formed in the country's eight regions. In total, 305.7 ha of land is planned to be allocated for the zones. The government is expected to take over funding for building the necessary utilities and infrastructure. The selection of the residents will be conducted by the Competition Commission. The enterprises locate on average on 0.2–0.3 ha. The unused facilities will be leased for 10 years. Entrepreneurs are obliged to create jobs. Certain tax and customs privileges and preferences are applied to enterprises operating in small industrial zones, taking

into account the volume of investment brought in. In particular, entities in small industrial zones are exempt from all taxes for two years. In addition, it is also stipulated that, when certain parameters are achieved, the enterprise is released from tax payment for an additional two years.¹⁸⁴

One of the policy priorities of Uzbekistan include development of the textile industry. The country is the world's fifth-largest cotton exporter. To further promote and develop the textile industry, construction works of the Textile Technology Park have begun, through the state enterprise JSC O'zbekyengilsanoat in Tashkent, which is implementing the project with the Ministry of Commerce, Industry and Energy of the Republic of Korea.

The main purpose is the “development and implementation of international educational and research programmes for their implementation at the Tashkent Institute of Textile and Light Industry,” in particular the manufacture of products with high value added.¹⁸⁵ The Korean Institute of Industrial Technology has prepared a preliminary plan for the facilities. The Techno Park is expected to “raise Uzbek light industry to a qualitatively new level of development and improve the training system for the sector.”

The concept of technology parks is not outlined in legislation and there are no clear mechanisms to stimulate innovation. Adoption of regulations or laws may facilitate establishment of high-tech parks and enable their targeted support.¹⁸⁶

As part of the President's programme aimed at developing infrastructure, modernizing the economy and making the country investor friendly, it was announced that a 70 ha district in Tashkent City, which will include a technopark, will be constructed at a cost of \$1 billion from 2018.¹⁸⁷

Main legal provisions with impacts on SEZs

The initial legislation was the Law on Free Economic Zones in Uzbekistan, issued in 1996.¹⁸⁸ Decree No. 4853 of 2016 “On additional measures for the intensification and expansion of activities of free economic zones” unified different types of zones, defining all of

them as “free economic zones” and overhauling the overall framework. This was adopted to create more favourable conditions for zones, attracting foreign investment and creating new high-tech industries. The portfolio of legal documents comprises the legal acts in Table 6.2.

Further legislative acts on protection of foreign investments in SEZs are:

- The Law on concessions of 30 August 1995, No. 110-I.

- Law No. 392 on investment and mutual funds, 25 August 2015.
- Law No. 69-II of 25 May 2000 on guarantees of freedom of entrepreneurial activity.

The state guarantees and protects the rights of foreign investors carrying out investment activities on national territory. Acts of legislation, including departmental regulations, do not have retroactive effect in cases where their execution is detrimental to a foreign investor or foreign investment.

Table 6.2

Uzbekistan's legal framework for special economic zones

Law/decreed number	Contents
Law “On Investment Activities”	It defines such concepts as investment, investor, investment commitment, investment activity, participant in investment activities, reinvestment, and investment project. It defines acceptable forms and types of investment activities in Uzbekistan. It also outlines procedures for examination of investment projects, as well as guarantees for implementing investment activities.
Law “On Foreign Investments”	The law: <ul style="list-style-type: none"> • Establishes the rights and obligations of foreign investors. • Describes procedures for the creation and liquidation of enterprises with the participation of foreign investment. • Provides the concept of foreign investment insurance and determines its procedure, and determines the legal regime for resolving disputes in the field of foreign investment.
Law “On guarantees and measures to protect the rights of foreign investors”	The law enshrines the basic guarantees of foreign investment, such as: <ul style="list-style-type: none"> • Guarantees from nationalization. Conditions of execution of requisitions. • Guarantees for the use and transfer of funds. • Guarantees of return of foreign investments in connection with the termination of investment activity. • Responsibility for violation of the law on guarantees and measures to protect the rights of foreign investors.
The Law “On Free Economic Zones” of 25 April 1996 No. 220–1	It establishes the concept of an FEZ as a specially designated territory with defined administrative boundaries and a special legal regime created to attract domestic and foreign capital, advanced technology and managerial experience for accelerated socio-economic development of the zone. The law determines the procedures for creating an FEZ. This text also includes the classification of SEZ types: <ul style="list-style-type: none"> • Free trade zones. • Free production zones. • Free scientific and technical and other areas. The act regulates the guarantees of the rights and interests of legal entities and individuals engaged in activities in the FEZ. The law regulates the legal regime within the FEZ and a special customs regime: <ul style="list-style-type: none"> • Cancellation or reduction of customs duties on import and export of goods. • Cancellation or easing of non-tariff restrictions on exports or imports. • A simplified procedure for the movement of goods across the customs border of the FEZ with their mandatory declaration in accord with the established procedure. The legislative act contains the main aspects of the creation of FEZ such as: <ul style="list-style-type: none"> • The concept of an FEZ. • The procedure for creating an FEZ. • Types of FEZs. • Guarantees of the rights and interests of legal entities and individuals. • Features of the legal regime, especially the currency regime. • Regulation of labour relations in FEZs. • The order of entry into the FEZ, exit from the FEZ and stay on its territory. • Features of the right of state ownership in the FEZ. • The order of reorganization and liquidation of enterprises, institutions and organizations. Settlement of disputes. If an international agreement of Uzbekistan establishes the rules other than those stipulated by Uzbekistan's legislation on FEZs, the rules of the international agreement are applied.

Legislation regulates the management of FEZs, and sets the powers and responsibilities of the governing bodies, the FEZ Administrative Councils and the Directorate of FEZs. In accord with a presidential decree of 2016, a Unified Administrative Council of all FEZs was established under the Cabinet of Ministers, to improve and expand the activities of FEZs in Navoi, Angren and Jizzakh. This abolished the previous FEZ Administrative Councils of Navoi, Angren and Jizzakh.

Unified tax and customs regimes for these economic zones were established. The 2016 decree exempts participant entities in FEZs from payment of:

- Land tax, income tax, tax on property of legal entities, tax for construction and development of social infrastructure, single tax payment for micro-firms and small enterprises, as well as mandatory contributions to Republican Road Fund and Off-budget Fund for reconstruction, refurbishment and equipping of general schools, professional colleges, academic lyceums and medical institutions under the Ministry of Finance.
- Customs duties (except fees for customs clearance) for equipment, raw materials and component parts imported for own production needs, as well as building materials not produced in the country and imported within the framework of the projects on the lists approved by the Cabinet of Ministers.

The following tax and customs privileges are provided for the economic zones depending on the investment amount:

- From \$300,000 to \$3 million—for three years.
- From \$3 million to \$5 million—for five years.
- From \$5 million to \$10 million—for seven years.
- \$10 million and above for 10 years, while profit and uniform tax rates for the next five years are set at 50 percent below current rates.

Key features of the zones and parks

As mentioned earlier, the residents of FEZs enjoy several benefits, including land, tax, loan and customs privileges. Detailed benefits include the following:

Land benefits:

- The resident is granted land for use free of charge for the entire duration of the FEZ (30 years).
- The management of the FEZ grants the economic entities land plots on the territory of the FEZ for lease without the right to sublet them, transfer their rights and obligations under the lease to another person, transfer the lease right as collateral, or use them as a contribution to the authorized capital. Sale and other alienation of land on the territory of the FEZ is prohibited.
- The land plots in the FEZ territory are under the direct authority of the Administrative Council and are presented to FEZ participants on the basis of decisions of the council.
- Architectural and town-planning activity in the FEZ territory is carried out according to the FEZ master plan.
- Land plots to FEZ participants are provided for urgent use for the period of FEZ functioning determined by decisions of the President of the Republic.
- FEZ participants are entitled to renewal of temporary use of land for the extension of the term of functioning of the FEZ for the corresponding period.
- It is prohibited to refuse to grant a land plot to an investor who has received the status of FEZ participant and/or to whom the decision of the Administrative Council in accord with the FEZ master plan has made the placement of the enterprise.

Tax exemptions:

- Corporate income tax.
- Property tax.
- Tax on improvement and development of social infrastructure.
- Single tax payment for micro-firms and small enterprises.
- Mandatory deductions to the Republican Road Fund.

Customs privileges:

- Residents are exempt from customs duties on equipment and raw materials not produced in the

country and imported in the framework of projects, according to lists approved by the Cabinet of Ministers, and from customs payments (except for fees for customs clearance) for equipment, raw materials, and materials and components imported for their own production needs.

Loans:

- Residents are entitled to apply to commercial banks for loans through their own and foreign credit lines for co-financing projects. A commercial bank is assigned to each zone to provide tenants with access to financing and banking services.

The country is also aiming to simplify procedures for allocating land plots and vacant buildings. In particular, the projects to be implemented in FEZs will be considered by the Administrative Council. In this direction, a new system has been created—territorial commissions—with rights to review projects and authorize implementation.

The criteria for selection of investment projects for placement in economic zones will be reviewed, and additional measures will be undertaken to improve the terms of lending to participants in FEZs and to provide communication on engineering.

Legislation prohibits discrimination against foreign investors in connection with their citizenship, place of residence, religion, place of economic activity, or the country of origin of investors or investment, taking into account international treaties signed by Uzbekistan. Acts of legislation, including departmental regulations, do not have retroactive effect in cases where their execution is detrimental to a foreign investor or investment.

Gaps and obstacles

- Although a PPP law (on concessions) was enacted in 1995, Uzbekistan does not have a policy/institutional framework for improving the legal environment and for promoting PPPs. Nor does it have detailed regulations on selection processes for PPP projects.
- The PPP law defines a concession as an authorization “for the performance of a certain kind of

economic activity connected with the granting to such investor of property, plots of the land and subsoil on the basis of the conclusion of the concession agreement.” In addition to being vague in a number of important areas, the law appears to be discriminatory against domestic investors. Overall, its scope and relevant sectors remain unclear.

- The bureaucracy of procedures for establishing an SEZ is excessive. In particular, there are complex and often formal procedures for reviewing and approving projects by responsible ministries and departments, including on the allocation of land to participants inside the zones.
- FDI and state guarantees for investment are in short supply, or absent, as seen in the very few projects involving foreign investment in Urgut, Kokand, Gijduvan and Khazarasp FEZs, and in pharmaceutical FEZs.
- Access to basic utilities and infrastructure has issues. There are problems in the stable and timely provision of FEZs and small industrial zones with electricity, natural gas, water and other engineering and communication networks.
- A review of the regulatory and legal frameworks for developing the activities of FEZs is needed, as is the introduction of clear and understandable mechanisms for all stakeholders.
- The concept of the science and technology parks, which can be a valuable instrument to stimulate R&D activities and innovation, is not fixed in the current regulatory and legal frameworks.

Conclusions and recommendations

Uzbekistan has 14 FEZs. In the FEZs Navoi, Angren, Jizzakh, Urgut, Gijduvan, Kokand and Khazarasp, 62 projects worth \$486 million were realized, and more than 4,600 jobs were created. Work is being carried out to develop seven new FEZs specialized in pharmaceuticals: Nukus Pharm, Zomin Pharm, Kosonso-Pharm, Syrdaryo Pharm, Boysun Pharm, Bustonlik Pharm and Parkent-Pharm. However, still organizational and administrative procedures need to be further simplified to attract investors and entrepreneurs.

Bureaucracy weighs heavily on the allocation of land to FEZ participants.

Work on attracting foreign investment in the creation of new production facilities in the FEZs Urgut, Kokand, Gijduvan and Khazarasp, and in all pharmaceutical FEZs, does not meet requirements, as among the projects implemented the number of projects involving foreign investment remains minimal or absent. There are problems particularly in the stable and timely provision of electricity and gas.

There is an obvious need, first, to review the regulatory and legal framework for developing FEZ activities, bringing it into line with modern requirements, and creating an open and understandable mechanism.

The country is paying close attention to simplifying the procedure for allocating land plots and vacant buildings. In particular, projects to be implemented in FEZs are considered by the Administrative Council under the Cabinet of Ministers. So far, this council has included 17 ministries and departments; on instructions of the President, their number has been reduced to four.

A new system has been created—territorial commissions. The criteria for selection of investment projects for placement in economic zones will be reviewed, and additional measures taken to improve the terms of lending to participants in FEZs.

Developing the institutions for FEZ activities

Legislation in several countries, including the Republic of Korea, China, Malaysia, and CIS countries, states that local authorities have the right to apply for the creation of an FEZ within the boundaries of their territorial-administrative unit, meaning that local authorities are active in determining the territories for FEZs and the types of industries for the FEZ. Most local authorities are in fact better informed about the potential of their region.

The government should pay special attention to creating free industrial zones oriented to innovation and technological learning and development that benefits the whole economy. These zones will provide an

opportunity to increase the potential and competitiveness of strategically important industries and to trigger mechanisms for the formation of growth poles in the domestic economy.

It is possible to adapt the positive experience of the Republic of Korea in creating industrial complexes. Two main types can be created there: national industrial complexes and industrial complexes of local subordination. Their purpose is to increase the level of development and the competitiveness of strategically important industries. The national complexes are created by decision of the Minister of Construction and the local complexes by decision of the mayor. The management functions are entrusted to the Ministry of Commerce, Industry and Energy.

To ensure comprehensive support of investors, it is necessary to integrate FEZ management functions. The Administrative Councils and Directorate of FEZs should be independent of other state bodies related to their activities and should have the right to initiate the development and expansion of FEZs via detailed strategies.

The Administrative Councils should focus on crafting common plans for development and for monitoring implementation. To eliminate unnecessary administrative procedures and increase efficiency, the governing body should focus on selecting strategic industries, planning long-term projects, developing annual development plans and managing FDI promotion.

The function of the Administrative Council should include general decisions on the organization of activities and the operation of FEZs. It is also recommended that the composition of the Administrative Council be expanded from representatives of the government, ministries and departments to have experts from economic and financial circles, including heads of foreign companies and members of the Chamber of Commerce and Industry.

For example, non-governmental participants occupy two thirds of the positions in the Industry Development Agency of Ireland. The Singapore Economic Development Board also attracts leaders

of foreign companies and representatives of trades unions.

Consideration should be given to creating a Consultative Council of external specialists capable of expressing an objective opinion on FEZ activities, similar to the Singapore Economic Development Board, which works with a consultative committee, an independent organization that collects ideas and proposes strategies for regional and international development for the Council. This committee helps to connect Singapore with international production associations, contributing to formulate effective economic strategies. The Irish Industry Development Agency also cooperates with advisory committees. The Council for Science is a consultative committee of the highest governmental level, which oversees the development of science, technology and innovation.

As foreign experience shows, an important role is assigned to the FEZ management company. It should be an executive body whose task is to implement the plans of the governing body. The management company should manage the state support of projects and serve as an intermediary in implementing foreign investment in the FEZ. It should also develop a business model for the FEZ, a strategy for attracting investment, and financial services.

Forming and developing a system of information support for FEZs

Few potential investors are sufficiently aware of FEZ capabilities, and the business community

lacks the information necessary to carry out activities. Information support would be improved by the following:

- Provision of information services to FEZ residents and potential investors.
- Advertising information on FEZs (magazines, catalogues), with constant updating of FEZ websites, including interactive services, on-line counselling, questionnaires, and so on.
- Placement and dissemination through popular local and foreign social networks, media, organizations and financial institutions of information on conditions created in the FEZ, as well as the development of specialized videos that reveal the potential of each FEZ.
- Intensify activities of embassies and other missions abroad to provide potential foreign investors with up-to-date information on the business environment in Uzbekistan.
- Open separate offices of the Directorate of FEZs abroad to attract foreign investors. Further, a sound, official translation into English and/or other languages of the main investor countries is required, to cover, for example, regulatory acts on the activities of foreign investors and enterprises with foreign investment, the performance indicators of activities in the FEZ, and other aspects for foreign investors, such as customs, taxes, labour and financial regulations, dispute resolution, and so on. This package should be provided with comments on the performances of individual industries and successful examples from practice.

Chapter 7

Conclusions and recommendations

The project countries are “midstream” market economies, with:

- Persistent strong centralization of political and administrative decision-making powers.
- Dependence on oil and gas exports and a handful of raw materials and commodities, traded with very few countries.
- A poor business environment.
- Few private stakeholders in national and local territorial governance.
- Poor national infrastructure and access to international transport corridors.
- Weak capacity to generate innovative technologies.
- Many unskilled or poorly skilled workers.
- Little awareness of the potential role of SMEs in economic growth and creating jobs.
- Underestimation of the economic potential of integration of agriculture, agro-food and tourism.

Such factors often saw SEZs set up based on transplanted ideas of international models. Zones appear to be somehow located in different regions, often for political reasons, or to simply coincide or overlap with the administrative regions or oblast.

The country diagnostic studies analysed SEZs as a spatial policy instrument aimed at promoting regional economic and social development. The focus has been on their present and potential contributions to inclusive and sustainable economic development. The country studies sought to understand existing SEZ strengths and weaknesses and suggest measures for improving their effectiveness, aligning them to global best practices and thus making them a useful tool for pursuing ISID and realizing the SDGs.

The country studies were prepared based on a quantitative and qualitative analysis of data from primary and secondary sources, crosschecked during on-site visits and structured interviews with national stakeholders and complemented by the outcomes of reviews of the legal and institutional frameworks conducted by national consultants.

The diagnostic studies found that, on the whole, parks and zones in the region are at the initial stage of development or undeveloped. Strategies and monitoring mechanisms have yet to be defined, and fragmented laws and regulations need to be properly addressed. Coordination among the institutions involved in zone establishment and operation is not up to the required standard, and participation of private stakeholders in SEZ development is rare. Similarly, the ADB, presenting the findings from its parallel studies on Kazakhstan and Kyrgyzstan, attributed the limited success of zones in the two countries to a lack of coherence between national development strategies and plans and approaches towards parks and zones, which frequently ignore the changing global trade and investment landscape, including the impact of global value changes on global production and trade systems.

More specifically, the countries have shared many aspects that can be summarized as follows:

- With very few exceptions, SEZs are either in the initial phase of launch or operation, or not operational yet. It is thus extremely difficult—even impossible—to evaluate their performance or their impact on regional development.
- A full concept of organized economic zone and related development strategies and road maps has not been fully designed.
- The legal framework governing SEZ establishment and operation is generally fragmented, incomplete and incoherent.
- The implementation of rules is not monitored.
- Legislative/administrative powers are centralized, and powers delegated to local authorities are limited.
- Coordination among the institutions involved in zone establishment and operation is unsatisfactory for relevant institutions/stakeholders.
- Rules on zone activities are fragmented among legal documents.

- There is a strong need for an autonomous single authority to supervise the activities of all organized zones, as frequently suggested by the countries' public institutions.
- Certain administrative procedures remain burdensome.
- Even though three of the four countries (Azerbaijan is the exception) have laws and regulations on PPPs, the overall legal framework governing PPPs is unfit to regulate such complex transactions.
- Legislation on environmental regimes exists in project countries, mostly inherited from the former Soviet Union, but its implementation is burdensome and lacks on transparency. Furthermore the countries striving to create favourable conditions for investment often neglect the long term-impact of loosening of such regulations. The countries should concentrate on improving transparency and providing clear rules and procedures and be careful changing existing environmental rules and regulations.
The studies highlighted major gaps and constraints in SEZs planning and development, namely:
 - The role of the private sector is still limited, and in the majority of cases, SEZs have been created with limited consideration of the designated location's actual and entrepreneurial potential.
 - The potential role of SMEs and linkages between sectors, such as tourism and productive activities, should be considered for the creation of new SEZs or reorienting of existing ones.
 - SEZs are usually managed by public officials and lack the private sector's business culture. The management function often overlaps with the supervision functions.
 - Zone marketing should be improved and increased.

The document survey and interviews with stakeholders generated the impression that traditional industries—oil and gas, minerals, chemicals and machine building—still receive overwhelming priority in economic development and job creation, yet agro-business and tourism proved to be strong engines for economic development in countries as diverse as China, France, Germany, Italy and the Netherlands.

The recommendations (Table 7.1) for further SEZ development in line with international best practices outlined in the strategic framework document are:

1. Formulate a comprehensive strategic road map for SEZ development for each project country in cooperation with national stakeholders, preferably in the second phase of this project.
 - An on-site analysis of each zone's economic and social environment should be conducted

Table 7.1

Summary of issues and recommendations

Issue	Suggested measures
Persistent strong centralization of political and administrative decision-making	<ul style="list-style-type: none"> • Investigating if (and to what extent) decentralization has begun. • Raising national authorities' awareness of the need of local authorities' involvement in SEZ creation and operation. • Understanding the real interest and political willingness of local authorities to be involved.
SEZ strategy and planning	<ul style="list-style-type: none"> • Conducting an analysis of the economic and social environment, to identify the best SEZ models and locales to anchor each SEZ on the local community's traditional activities, capabilities and potential. • Orienting or reorienting each SEZ's objectives, infrastructure and services to meet the needs of targeted sectors and activities. • Exploring the opportunity to create or reorient SEZs to house firms in neglected but promising sectors, such as agriculture and tourism. • Identifying the stakeholders to be involved, including local authorities. • Supporting national and local authorities in drafting new SEZ planning strategies consistent with the criteria in this Diagnostic Study.

Table 7.1 (continued)

Summary of issues and recommendations

Issue	Suggested measures
SEZs not yet or partially operational	<ul style="list-style-type: none"> Analysing the opportunity to create inside each existing zone specialized sub-zones, and eventually different sectors (textiles, machine building), so as to increase the zone's effectiveness in higher value added sectors and specializations. Tailoring SEZ sectors to sub-zone needs and potential. Ultimately, considering the opportunity to create in each SEZ a sub-zone or incubator for SMEs and start-ups. Assessing local community human resources to identify training needs.
Business/economic environment not sufficiently developed	<ul style="list-style-type: none"> Supporting reform processes at decision-making, legislative, administrative and implementation levels. Upgrading the legal framework and compliance with international standards and best practices. Strengthening institutional competences to manage complex business transactions related to SEZ development, especially PPP transactions.
Scarce participation of private stakeholders	<ul style="list-style-type: none"> Identifying stakeholders at national and local levels. Identifying existing organizations representing private sector constituencies in the countries. Assessing the policy/legal framework on private sector participation in establishing and operating SEZs. Assessing national and local public authorities' willingness to involve private stakeholder in establishing and/or operating SEZs. Supporting public authorities in defining the most suitable tools for private stakeholders' involvement.
Poor national infrastructure and access to international transport corridors	<ul style="list-style-type: none"> Analysing the state of the art of international corridors, the political and financial participation of each of the target countries, and the actions to be conducted within the regional international cooperation institutions. Monitoring the overall strategies and planning for national infrastructure improvement to make them consistent with SEZ strategies.
Strong dependence on the traditional markets of the Russian Federation and the former Soviet Union Republics	<ul style="list-style-type: none"> Providing specialized consultancy for studying prospective alternative potential markets for each country's promising industrial sectors to identify new foreign markets.
Weak capacity to generate innovative technologies	<ul style="list-style-type: none"> Surveying the top universities and research centres in each country to identify the most promising fields of research and specialization, potentially to generate innovative products and technologies. Promoting networking of universities and research centres with similar institutions in advanced countries. Investigating the opportunity and feasibility to support setting up an anchor to lead high-tech firms in SEZs as an engine for attracting other technological investors. Supporting cooperation between SEZ administration and academia to make research a pillar of zone development.
Large number of unskilled or poorly skilled workers	<ul style="list-style-type: none"> Conducting a needs assessment of universities and vocational schools in each target country to ascertain the type of training and technical assistance needed for aligning the skills standards to required levels. Assessing the launch of a scholarship and/or on-the-job training programmes in foreign countries to support capacity building of country's managers and/or top technicians. Supporting customized capacity-building programmes to improve managerial skills of individual public and private SEZ managers.
Low level of awareness of the role of SMEs	<ul style="list-style-type: none"> Assessing local communities' manufacturers, businesses and services providing traditional activities to ascertain the potential for SEZs to support SME development in the different regions of each country. Illustrating to project country national authorities the benefits of supporting SME activities for boosting economic development and employment.
A limited financial and banking system	<ul style="list-style-type: none"> Improving the capacity of financial and banking institutions to support enterprises. Relying on the best models in other countries to provide financial facilities for enterprises' needs. Increasing cooperation with international financial institutions and bilateral donors for facilitating enterprises' access to financial facilities.

- to identify elements to be modified and models to be corrected to improve links to local communities and the zones' performance.
- For the zones not fully operational or in the planning/initial phase, prospects to create more specialized sub-zones inside them, focused on certain industrial sectors (such as textiles and machinery), should be considered.
 - When planning new SEZs, the opportunity to better launch or revamp existing ones should be contemplated.
2. Build capacity of political legislative and administrative decision-makers to decide on the SEZ concepts and the strategy and implementation scenario. Rooting the zones in local contexts (history, traditions, culture, local talent pool and skill base) and capacity building of respective institutions to reform the legal framework should have high priority in the follow up activities.
 3. Ensure high-level political commitment and support for inter-ministerial collaboration.
 4. Integrate SEZ programmes into national development strategies and plans.
 5. Use attractive measures for investors such as improving core aspects of existing regulations governing or affecting national and foreign investment, such as introducing (or revamping) one-stop shops, liberalizing all aspects of profit repatriation or making dispute resolution and disposal of project assets more feasible.
 6. Consider a fast track for streamlining administrative procedures.
 7. Ensure the participation of all stakeholders in establishing and operating SEZs, especially business associations, chambers of commerce and civil society organizations.
 8. Promote linkages between tourism and productive activities to drive economic development through value chains and cluster development programmes.
 - Clustering could be a very useful tool to support countryside communities, helping them turn crops and basic products into high-quality ones—and sometimes the organic food that is increasingly appreciated on international markets.
 9. Raise decision-makers' awareness of the need to support the creation, development and operation of SMEs for developing local family businesses, generating innovative business ideas and boosting flexible employment.
 10. Build awareness of best practices in SEZ governance. SEZs need a management and a supervisory body with well-defined powers and competencies, appointed by different authorities; they should have strong managerial capabilities and independence from public authorities.
 11. Improve vocational schools and build the capacities of local managers by providing training programmes in line with international best practices.
 12. Build the capacity of banks and financial institutions to support businesses, especially SMEs, through development assistance programmes and cooperation programmes with international financial institutions.
 13. Tailor SEZs development to a country's social, economic, institutional and historical context and learn from other countries' experience by exploring various partnerships arrangements (the experience of Chinese bilateral zones deserves attention).
 14. Review and introduce the minimum key performance indicators (KPI) for the new generation of parks and zones in line with best practices and considering social, economic and environmental aspects of zone operations. The KPIs proposed in the strategic framework document are highly relevant to the project countries, which often lack clear schemes for monitoring performance and the social, environmental and economic impact of zones and parks.

The KPIs are summarized around three main aspects relevant for the SEZs that are not all inclusive but represent set of minimum standards at the SEZ and company levels, aimed at increasing sustainability and attractiveness for the international investors, as follows:

 - Economy aspects such as connectivity to local and global value chains, job creation, provision of extension services, use of space and occupancy and others.

- Social aspects aimed at measuring satisfaction with occupational safety and health (OSH) management systems and other industrial safety measures, working conditions and facilities offered, youth and female participation, reaction to emergency situations and others.
- Environmental aspects such as those KPIs designed to screen application of energy

management systems (EMS), pollution prevention and waste reduction strategies, waste water renewable use and others.

The full list of KPIs can be found in the UNIDO publication “Strategic Framework for Leveraging a New Generation of Industrial Parks and Zones for Inclusive and Sustainable Development,” developed as part of the current project.

Notes

1. Three Central Asian countries are members of the World Trade Organization (WTO): Kyrgyzstan, Kazakhstan and Tajikistan.
2. Reinert (2012) Brülhart (2009) found that in 2006, IIT accounted for 27 percent of global trade if measured at the higher (5-digit) level and 44 percent if measured at a lower (3-digit) level of statistical aggregation.
3. Kawecka-Wyrzykowska (2009):11.
4. Aturupane, Djankov and Hoekman (1999).
5. OECD (2002): 161.
6. Fontagne et al. (2006): 466.
7. Balassa 1966; Grubel and Lloyd (1975). -
8. Brülhart 2009, p. 401.
9. Brulhart 2009, p. 402.
10. World Bank 2018.
11. World Bank 2018; <https://data.worldbank.org/indicator/NV.SRV.TETC.ZS?end=2016&locations=AZ-DE-TJ-TM&start=1999>.
12. Encyclopædia Britannica 2018.
13. ETF 2015.
14. ILO 2017a.
15. Export.gov, August 15, 2016 “Exports of agricultural products contributed approximately 15.9 percent to Uzbekistan’s external earnings in 2015.”
16. CIA 2014.
17. ADB 2017b, p. 67.
18. Santander Bank 2017a.
19. U.S. Department of State 2016a.
20. UNCTAD 2016.
21. U.S. Department of State 2016b.
22. U.S. Department of State 2013.
23. Santander Bank 2017b.
24. Santander Bank 2017b.
25. Santander Bank 2017b.
26. www.carecprogram.org.
27. UNESCAP 2017.
28. UNESCAP 2017.
29. UNESCAP 2015c.
30. https://energypedia.info/wiki/Uzbekistan_Energy_Situation; IEA; UNESCAP 2015c.
31. Dispatch News Desk 2017.
32. The countries of the project have all been members of the EBRD since 1992.
33. To date, 161 projects have been launched in Azerbaijan.
34. Export.gov 2015.
35. 110 EBRD projects have been launched in Tajikistan.
36. GCI. <https://widgets.weforum.org/global-competitiveness-report-2017/>
37. World Economic Forum 2017.
38. <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=AZE>.
39. <http://reports.weforum.org/global-competitiveness-index-2017-2018/countryeconomy-profiles/#economy=TJK>.
40. www.globalinnovationindex.org/.
41. An index that ranks countries on 20 performance indicators tracked across policy categories that cover both environmental public health and ecosystem vitality. These indicators gauge how close countries are to established environmental policy goals.
42. Combined gross loan balances per microfinance institution (current \$), divided by GDP (current \$) and multiplied by 100.
43. The average of the distance to frontier scores for the extent of conflict of interest regulation index and the extent of shareholder governance index.
44. Net outflows of investment from the reporting economy to the rest of the world and divided by GDP
45. Growth of GDP per person engaged provides a measure of labour productivity (defined as output per unit of labour input).

46. Number of designs contained in industrial design applications filed at a given national or regional office (per billion PPP\$ GDP).
47. Average answer to the question: In your country, to what extent do ICTs enable new organizational models (such as virtual teams, remote working, telecommuting) within companies? [1 = not at all; 7 = to a great extent].
48. This includes the knowledge of humanity, culture, and society, and the use of knowledge for new applications. R&D covers basic research, applied research, and experimental development. It includes R&D funded from abroad, but excludes domestic funds for R&D performed outside the domestic economy; World Bank, UNESCO, OECD.
49. Şahin 2015.
50. Sokolov-Mladenović, Cvetanović and Mladenović 2016.
51. www.bl.uk/business-and-ip-centre/articles/what-is-a-patent.
52. ILO n.d.
53. ILO 2017c.
54. World Bank 2015b.
55. UNFPA 2018.
56. www.worldbank.org/en/region/eca.
57. UNFPA 2018.
58. ILO 2017d.
59. ILO Estimates and Projections series, analysed in the ILO's World Employment and Social Outlook reports.
60. ILO 2018.
61. UNFPA 2018.
62. ETF 2015.
63. IMF 2012.
64. <http://tdh.gov.tm/news/en/articles.aspx&article=11838&cat26>; <https://uzbekistan.tmembassy.gov.tm/en/news/10839>.
65. World Bank 2015c.
66. UNFPA 2018.
67. www.export.gov/article?id=Uzbekistan-9-2-Labor-Policies-and-Practices.
68. World Bank 2015c.
69. www.export.gov/article?id=Uzbekistan-9-2-Labor-Policies-and-Practices.
70. UNESCAP 2017.
71. www.worldbank.org/en/region/eca/publication/europe-and-central-asia-country-risk-profiles-for-floods-and-earthquakes.
72. Shahbazov 2017.
73. WEF 2016.
74. For the 2018 fiscal year, the World Bank defines lower middle-income economies as those with a GNI per capita, calculated using the World Bank Atlas method, between \$1,006 and \$3,955; upper middle-income economies are those with a GNI per capita between \$3,956 and \$12,235. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.
75. ADB 2014b.
76. "Recent economic reforms in customs, licensing and permits, as well as incentives to encourage export-oriented manufacturing are welcome and will improve the ability of the non-oil private sector to further develop and operate more efficiently." EBRD 2016a.
77. "With 33 of these licences being provided by the Ministry of Economy through the "ASAN XIDMET," a single window agency which aims to issue licences within 10 working days." EBRD 2016a.
78. <http://reports.weforum.org/global-competitiveness-report-2014-2015/economies/#economy=AZE>.
79. EIU 2017a.
80. EIU 2017a.
81. AZPROMO 2016.
82. "A new financial regulatory authority (Financial Market Supervisory Authority or FMSA) was established in February 2016, with the aim of strengthening financial sector supervision." EBRD 2016a.
83. http://azertag.az/store/files/untitled%20folder/_STRATEJI%20YOL%20XERITESI_.pdf.

84. <http://president.az/articles/22197>.
85. http://senaye.gov.az/az/normative_programs/industry_development.
86. Unofficial translation.
87. Model regulation on industrial parks approved by the Presidential decree of April 24, 2013, No. 865. Unofficial translation.
88. Mammadov 2016.
89. www.azpromo.az/made-in-azerbaijan.
90. Unofficial translation.
91. www.e-qanun.az/framework/29431.
92. www.usacc.org/news-a-publications/investment-news/1182-azerbaijan-opens-another-high-tech-park.html.
93. www.e-qanun.az/framework/24574.
94. www.azpromo.az/uploads/files/pages/1ec919fa38c755fadd588a71bf98a287.pdf.
95. www.e-qanun.az/framework/34023.
96. www.ameaytp.az/content.aspx?id=4&lng=az.
97. <http://en.president.az/articles/25014>.
98. <http://en.president.az/articles/21029>.
99. www.asgroup.az/projects/current,75/lang,en/.
100. www.asgroup.az/projects/current,75/lang,en/.
101. <http://en.president.az/articles/26147>.
102. www.meclis.gov.az/?/az/news/view/3936/ [Accessed February 3, 2018].
103. <http://cabmin.gov.az/page/doc/1920>.
104. www.azpromo.az/made-in-azerbaijan.
105. See endnote 74. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.
106. www.cia.gov.
107. U.S. Department of State, 2014a.
108. www.cia.gov/library/publications/the-world-factbook/geos/ti.html.
109. www.worldbank.org/en/news/press-release/2015/04/13/remittances-growth-to-slow-sharply-in-2015-as-europe-and-russia-stay-weak-pick-up-expected-next-year.
110. EIU 2017b.
111. EIU 2017b.
112. “Access to finance is a problem, with high interest rates on loans in local currency effectively closing off access to finance for most regional companies.” EBRD 2016a.
113. World Bank 2017b.
114. “Because of poor Internet access and high prices, only 57 percent of firms in Tajikistan currently use e-mail to communicate with their clients, and less than 40 percent of firms have a website.” www.worldbank.org/en/news/press-release/2017/06/13/investment-in-skills-and-business-environment-can-boost-tajikistans-digital-transformation.
115. Strokova and Ajwad 2017.
116. http://nafaka.tj/images/zakoni/new/strategiya_2030_en.pdf.
117. “... which includes accelerated land reform, freedom to farm, improved access to rural finance and increased diversification of agriculture.” www.worldbank.org/en/country/tajikistan/overview.
118. UNDP 2015b.
119. Approved by regulation of Majlisi Namoyandagon Majlisi Oli of the Republic of Tajikistan on December 26, 2012 under No. 1030.
120. The 2008 Resolution also specifies that “Conditions and sizes of remuneration of labour and also other incomes of employees in national or foreign currency are established by FEZ subjects independently through own funds. Conditions of collective and individual labour agreements can’t worsen employees situation of these organizations in comparison with conditions provided by current labour legislation of the Republic of Tajikistan on labour, and also conventions of International labour organization.” (Resolution No. 1147 of October 29, 2008—unofficial translation).
121. UNCTAD 2016.
122. (art. 17).
123. UNCTAD 2016.
124. UNCTAD 2016.
125. Thorough research on the incremental contribution to public finances has not yet been conducted; given, for instance, forgone tax revenues

- and the potential diversion of investments from elsewhere to the FEZ, it is possible that the net contribution is lower than the gross contribution, and perhaps negative on the public finances in terms of incrementality.
126. www.fezsughd.tj/index.php/en/news.
 127. “The promotional tools of the FEZ of Panj are very basic, and its web page is non-operational.” UNCTAD 2016.
 128. Resolution No. 1147 of October 29, 2008 (unofficial translation), indicates the prohibited activities.
 129. Resolution No. 1147 of October 29, 2008—unofficial translation.
 130. UNCTAD 2016.
 131. Government of the Republic of Tajikistan 2014.
 132. <http://medt.tj/en>, website of the Ministry of Economic Development and Trade of the Republic of Tajikistan.
 133. Approved by the Order of the Government of June 3, 2014 No. 371—unofficial translation. 1. Introduction: “...This Strategy is intended to promote development of creativity, invention, the entrepreneurship and approval of the country as the equal partner on the international scene, to creation of the social and economic, cultural, organizational and legal basis for integration of national intellectual potential into regional and international potentials...”
 134. Unofficial translation.
 135. Unofficial translation.
 136. UNECE 2015.
 137. UNECE 2015.
 138. www.tguk.tj/index.php/en/structure/technology-park-at-tsuc.
 139. March 15, 2016 No. 1299.
 140. See endnote 74. <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>.
 141. World Bank 2017c.
 142. Turkmenistan’s exports are increasingly dependent on a single large market (China) and continue to be dominated by natural gas, making the economy vulnerable to fluctuations in global prices beyond its control. World Bank 2017c.
 143. www.worldbank.org/en/country/turkmenistan/overview#3.
 144. ADB 2017a, p. 142.
 145. World Bank 2017c.
 146. Reuters 2017.
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