Eurasian Development Bank

Uzbekistan and the EAEU: Prospects and Potential Impact of Economic Integration

Centre for Integration Studies
Research Department
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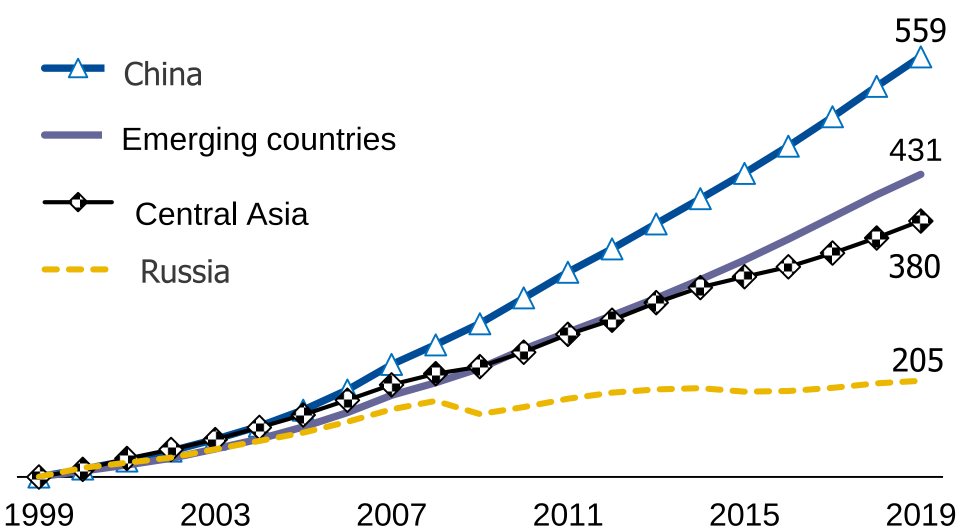
Central Asia is growing rapidly and features considerable potential

$295 bln
GDP (2019)

9%
GDP per capita growth (average per year, 2003-2019)

73,8 mln
people (2019)

Cumulative real GDP, 1999 = 100



Sources: IMF data, authors' calculations

Key features of the region

1. Commodities, agriculture, and water and energy nexus
2. Transport corridors – both East-West and North-South!
3. High share of working-age population
4. Considerable investment potential

Uzbekistan is a key element of the economic integration "puzzle" in Central Asia and Eurasia

After the Uzbekistan's economy opened up to the world, the importance of the republic both in Central Asia and in the EAEU has been growing

It will be extremely difficult to deal with regional development challenges without participation of Uzbekistan

Central Asia needs cooperation with the other Eurasian macro-regions to support economic development and gain secure access to global markets

Uzbekistan:

GDP – $57,7 bln
Population – 34,6 mln
International reserve assets – $34,9 bln
Real GDP growth rate – 6,6%*

* - average per year, 2011–2019

Macroeconomic indicators of the EAEU member countries and Uzbekistan

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	Uzbekistan
GDP (USD billions, 2020)	12.6	60.4	169.8	7.7	1487	57.7
Real GDP growth rate (average per year, 2011–2019)	4.7	1.2	4.7	4.7	1.7	6.6
PPP-based GDP per capita (USD thousands, 2020)	13.3	20.2	26.6	5.0	27.9	7.4
Inflation rate (% y/y, 2020 EoY)	3.7	7.4	7.5	9.7	4.9	11.1

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	Uzbekistan
Public debt (% of GDP, 2020 EoY)	67.3	48	29.4	68.1	17.6	40.4
International reserve assets (USD billions, 1 January 2021)	2.6	7.5	35.6	2.7	595.8	34.9
Population (millions, 2021 BoY)	2.96	9.35	18.9	6.6	146.17	34.6
Unemployment rate (% of total workforce, 4Q 2020)	16.0	4.1	4.9	3.0	6.1	10.5

Uzbekistan's potential GDP growth rate is about 5.5%. By comparison, in Kazakhstan and Kyrgyzstan it is currently estimated at about 3%, and in Russia at 1–1.5%, while in Belarus it hardly exceeds 1%.

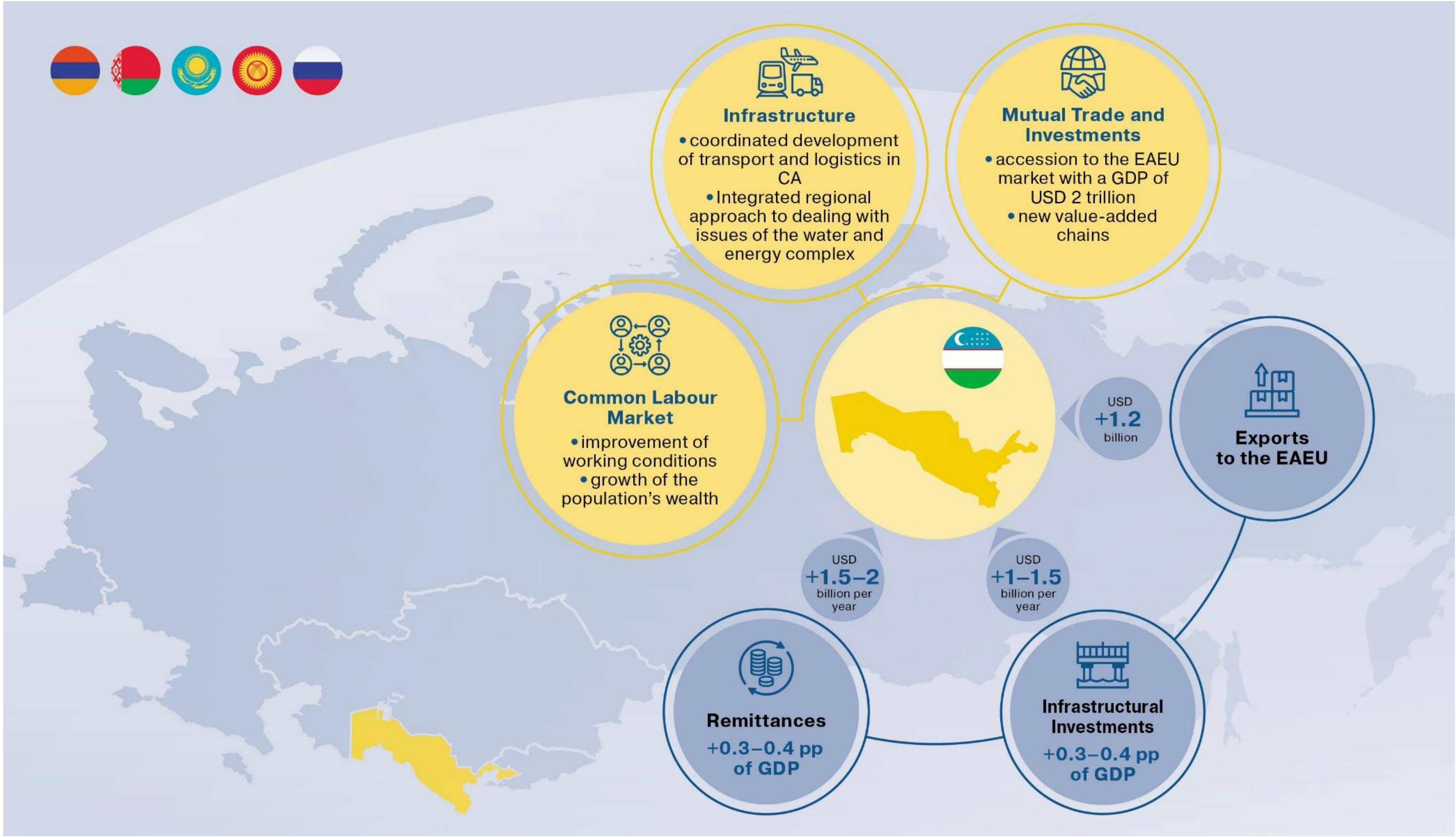
Uzbekistan's international reserve assets are sufficient to cover almost 20 months of imports of goods and services.

Low productivity of various sectors of Uzbekistan's economy:

in agriculture, it is half of that in Russia and Belarus,

in manufacturing and construction – merely a quarter of that in Kazakhstan.

Potential impact of integration on Uzbekistan's economy



Potential impact of integration on Uzbekistan's economy

Potential infrastructural investments by the EAEU are estimated at USD 1–1.5 billion per year.

That will secure an additional real GDP increase of 0.3–0.4 pp per year.

Access to the common EAEU labour market will produce an additional average inflow of remittances to Uzbekistan of USD 1.5–2 billion per year.

The extra contribution to annual real GDP growth will be 0.3–0.4 pp.

Uzbekistan's exports to the EDB member countries may additionally increase by USD 1.2 billion, in particular to Russia – by USD 560 million.

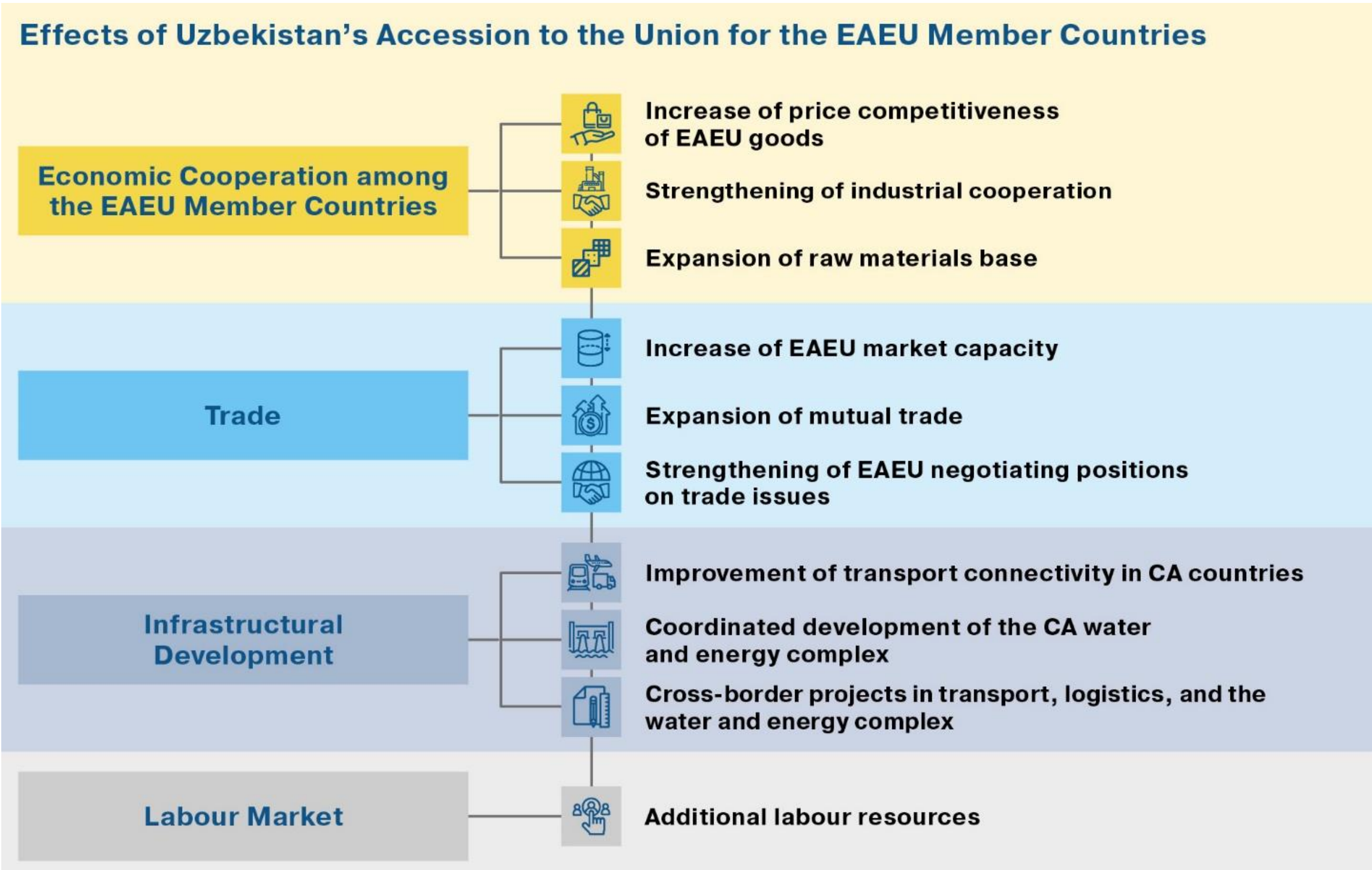
Active involvement of Uzbekistan in the development of trans-Eurasian transport corridors.

The funding needs of Uzbekistan's transport infrastructure until 2030 may amount to about 2.1% of GDP per year.

Cooperation between Uzbekistan and the EDB member countries in dealing with issues of the Central Asia water and energy complex.

Development of the electric power industry and water management, boosting productivity in agriculture, increasing the investment attractiveness of the energy sector.

Effects of Uzbekistan’s accession to the Union for the EAEU member countries



Effects of Uzbekistan's accession to the Union for the EAEU member countries

The unrealised EAEU–Uzbekistan export potential is estimated at USD 1.6 billion, including export from Russia – USD 1.2 billion.

The most promising export commodities include engineering products, ferrous metals, wheat, mineral products, timber, plastics, and rubber.

Expansion of industrial and investment cooperation

- Simpler access to labour resources and raw materials
- More efficient industrial base
- New production chains

Infrastructural development in Central Asia

- Elimination of bottlenecks in the transport and logistics infrastructure of Uzbekistan
- Implementation of end-to-end cross-border projects
- Coordinated development of the Central Asia water and energy complex
- Potential for country cooperation at the corporate level

Labour market

- Uzbekistan is one of the largest suppliers of labour resources
- Elimination of the workforce shortage in a number of industries and GDP growth of the EAEU

Transport and logistics infrastructure of Uzbekistan and its potential

Uzbekistan is one of the main nodes of both East–West and North–South transport routes

The economy of Uzbekistan needs a significant improvement in the country's transport connectivity with global markets

Uzbekistan needs to deepen cooperation with the EAEU in transport and logistics: 90% of the republic's exports are transported via Kazakhstan

Uzbekistan stands to gain the most from connecting to the Central Eurasian Corridor

- access to Kazakhstan and Russia

- access to the EU and PRC markets

Uzbekistan is interested in developing the North–South Corridor as well as in construction of a trans-Afghan railway route (Uzbekistan–Afghanistan–Pakistan) with access to the ports of the Indian Ocean

Water and energy complex of Uzbekistan: investments and cooperation are needed

Electricity Sector

Energy self-sufficiency hasn't been reached. The country still depends on mutual regional energy crossflows.

The shortage of demand management capacity leads to excessive fuel consumption by TPPs and low ECE.

Many power grid facilities have been in operation for more than 30 years: 66% of transmission networks; 62% of distribution networks.

Uzbekistan's industry and agriculture are characterised by high energy intensity.

Technical and commercial losses in the electricity sector range from 13% to 20% of net generation.

Lack of solar and wind power generation capacity.

Water Complex

Agriculture accounts for 89–92% of total water consumption in Uzbekistan.

High wear and tear on the irrigation infrastructure results in large water losses (up to 1/3 of total water consumed by agriculture).

Wear of pumping stations, main canals, irrigation and collector-drainage networks.

Changes in modes of operation of reservoirs and HPPs in Central Asia.

Lack of consistent inter-governmental policy in the area water resources in Central Asia.

Opposition of the interests of the upstream and downstream countries of cross-border rivers in the water and energy issues.

Energy inefficiency leads to losses of about USD 1.5 billion per year.

Losses from poor quality water supply and sanitation are about 8% of GDP.

The funding needs of Uzbekistan's electric power industry until 2030 may amount to about 2.9% of GDP per year. High level of regional cooperation in Central Asia is needed to realise the potential of water and energy complex.

Uzbekistan and complex regional solutions

Uzbekistan is a key participant in complex regional solutions in Central Asia in the field of transport, electricity and water use systems

Reducing economic losses in Central Asia countries

Increase of investment attractiveness of Central Asia

Enhancing transport connectivity with global markets

Stability of energy supply and sufficiency of water resources

Joint infrastructure development agenda in the region

Labour market of Uzbekistan and labour migration

	Uzbekistan	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia
Workforce *(millions)*	14.8	1.2	5.1	9.2	2.6	74.9
Unemployment *(% of total workforce)*	10.5	18.1	4.1	4.9	5.5	6.1
Remittances *(% of GDP)*	14.8	11.2	2.2	0.3	28.5	0.6
Salaries *(USD)*	266	388	508	515	239	710

Uzbekistan is **one of the largest suppliers of labour resources** and recipients of remittances in the CIS region.

Uzbekistan's labour resources are **equivalent to 16% of the total EAEU workforce.**

In 2020, cross-border bank transfers from Russia to Uzbekistan amounted to **USD 4.4 billion**, and from Kazakhstan to Uzbekistan – **USD 132.3 million**.

The 2020s and 2030s: demographics for rapid growth.
During that period, the share of the working-age population in the country's total population will reach its peak.

Abundance of labour resources in Uzbekistan → **Attractiveness of investments in labour-intensive sectors of the economy of Uzbekistan**

Labour migration from Uzbekistan to the EAEU → **Mitigation of the adverse social and economic consequences of unemployment and underemployment in Uzbekistan**

Labour migration from Uzbekistan to the EAEU → **Strengthening of competition in the EAEU labour market**

Uzbekistan and the EAEU: industrial and investment cooperation

The volume of Russian FDI in Uzbekistan is estimated at more than **USD 9 billion**.
The total number of companies with Russian equity participation has exceeded 2,000.

The main investors: PJSC LUKOIL, PJSC Gazprom, JSC Zarubezhneft, PJSC Tatneft, Rostselmash, PJSC KAMAZ, VEON, etc.

Kazakhstan is the second-largest investment partner of Uzbekistan: more than 900 enterprises with Kazakhstan's equity participation operating in Uzbekistan (in 2020).

In November 2020, Uzbekistan and Kazakhstan approved a "roadmap" designed to expand and deepen their bilateral cooperation.

Joint production: PLC MTZ, PLC MAZ, PLC Amkodor.
More than 80 enterprises with Belarusian equity participation operating in Uzbekistan.

Uzbekistan's sectors with the highest investment potential

- oil and gas
- textiles
- leather and footwear
- agriculture and food products
- chemicals
- mining
- construction
- telecommunications
- finance

Agriculture and food complex of Uzbekistan

Among CIS countries, Uzbekistan is one of the leading producers of cotton, fruits, vegetables, and berries.

Agriculture is the largest sector in GDP structure (its share is about 26%).

The sector is characterised by **steady growth (4.7% average per year in 2010–2020).**

During the COVID-19 pandemic, agriculture recorded an increase of 3%.

Agriculture and food complex of Uzbekistan

- **Export potential**
- **Investment potential**
- **Prospects for the development of the agriculture and food business and deepening cooperation between companies in Uzbekistan and the existing EAEU member countries**
- **Prospects for Uzbekistan's participation in the development of the Eurasian commodity distribution system**

Thank you for attention!
Շնորհակալություն ուշադրության համար.
Дзякуй за ўвагу!
Назар аударғандарыңызға рахмет!
Назар салганыңыздарга рахмат!
Благодарю за внимание!
Раҳмати калон!
Эътиборингиз учун ташаккур!