





Vinokurov, E., Tsukarev, T., Ahunbaev, A., Babajanyan, V., Berdigulova, A., Kuznetsov, A., Pereboev, V., Fedorov, K., Kharitonchik, A., Chkoniya, A. – M. (2021) *Uzbekistan and the EAEU: Prospects and Potential Impact of Economic Integration*. Reports and Working Papers 21/2. Moscow: Eurasian Development Bank.

## Authors

Evgeny Vinokurov, EDB and EFSD Chief Economist,  
[vinokurov\\_ey@eabr.org](mailto:vinokurov_ey@eabr.org)

Taras Tsukarev, Head of Projects, Centre for Integration Studies, Research Department,  
[tsukarev\\_tv@eabr.org](mailto:tsukarev_tv@eabr.org)

Arman Ahunbaev, Head, Sectoral Analysis Centre, Research Department,  
[ahunbaev\\_am@eabr.org](mailto:ahunbaev_am@eabr.org)

Aigul Berdigulova, Senior Analyst, Centre for Country Analysis, Research Department,  
[berdigulova\\_ar@eabr.org](mailto:berdigulova_ar@eabr.org)

Aleksey Kuznetsov, Head, Centre for Country Analysis, Research Department,  
[kuznetsov\\_as@eabr.org](mailto:kuznetsov_as@eabr.org)

Vladimir Pereboev, Head of Projects, Centre for Integration Studies, Research Department,  
[pereboev\\_vs@eabr.org](mailto:pereboev_vs@eabr.org)

Konstantin Fedorov, Senior Analyst, Centre for Country Analysis, Research Department,  
[fedorov\\_ks@eabr.org](mailto:fedorov_ks@eabr.org)

Anatoly Kharitonchik, Senior Analyst, Centre for Country Analysis, Research Department,  
[kharitonchik\\_ai@eabr.org](mailto:kharitonchik_ai@eabr.org)

Anna-Maria Chkoniya, Senior Specialist, Strategy and Business Initiatives Department,  
[chkoniya\\_AE@eabr.org](mailto:chkoniya_AE@eabr.org)

This report assesses the potential effects of integration of the Republic of Uzbekistan with the Eurasian Economic Union (EAEU), and lists the most promising areas of cooperation between the current Union member countries and Uzbekistan. The authors have examined the key indicators of social and economic development of Uzbekistan and the main areas of trade and investment cooperation between the republic and the EAEU, and have presented an in-depth review of two sectors that are critical for Uzbekistan and for Central Asia as a whole: transport and the water and energy complex. The authors have concluded that, inasmuch as Uzbekistan is a large and strategically positioned Central Asia player, resolution of regional development issues without its participation will not make much progress. Deeper economic integration between Uzbekistan and the EAEU may become a major driver of investment and trade cooperation.

**Keywords:** Uzbekistan, Eurasian Economic Union, integration, economic effects, mutual trade, investments, infrastructure, water and energy complex, transport, labour migration.

**JEL:** F15, F21, F22, O11, O18, O47, O53.































































The text of this report may be reprinted and otherwise copied, either wholly or in part, including any large fragments, and published on external electronic resources subject to obligatory reference to the original text.

The electronic version of this document is available at <https://eabr.org/en/analytics/special-reports/>

# SUMMARY

**Uzbekistan is a large Central Asian (CA) economy** with a GDP of USD 57.7 billion and a population of 34.6 million (2020). The country is rich in natural resources, and has a well-developed production base. In dollar terms, Uzbekistan's GDP is equivalent to slightly more than 3% of the aggregate EAEU GDP, and comparable to the Belarusian GDP.

## Macroeconomic Indicators of the EAEU Member Countries and Uzbekistan

	Armenia	Belarus	Kazakhstan	Kyrgyzstan	Russia	Uzbekistan
						
	<b>GDP (USD billion, 2020)</b>					
	 12.6	 60.4	 169.8	 7.7	 1487	 57.7
	<b>Real GDP growth rate (average per year, 2011–2019)</b>					
	 4.7	 1.2	 4.7	 4.7	 1.7	 6.6
	<b>PPP-based GDP per capita (USD thousands, 2020)</b>					
	 13.3	 20.2	 26.6	 5.0	 27.9	 7.4
	<b>Inflation rate (% y/y, 2020 EoY)</b>					
	 3.7	 7.4	 7.5	 9.7	 4.9	 11.1
	<b>Public debt (% of GDP, 2020 EoY)</b>					
	 67.3	 48	 29.4	 68.1	 17.6	 40.4
	<b>International reserve assets (USD billion, 1 January 2021)</b>					
	 2.6	 7.5	 35.6	 2.7	 595.8	 34.9
	<b>Population (millions, 2021 BoY)</b>					
	 2.96	 9.35	 18.9	 6.6	 146.17	 34.6
	<b>Unemployment rate (% of total workforce, 4Q2020)</b>					
	 16.0	 4.1	 4.9	 3.0	 6.1	 10.5

**In 2011–2019, Uzbekistan’s economy grew at an average rate of 6.6%.** This is higher than reported by the EAEU member countries. Despite the vigorous economic growth, the income gap between Uzbekistan and the EAEU member countries remains significant.

**In terms of income per capita, Uzbekistan lags behind most EAEU member countries.** In 2020, its PPP-based GDP per capita amounted to USD 7,400. That is more than in Kyrgyzstan, but less than in Russia and Kazakhstan (by a factor of more than 3.5), Belarus (by a factor of more than 2.5), and Armenia (by a factor of almost 2).

**One of the reasons for the income gap is the low productivity of various sectors of the national economy:** in agriculture (which accounts for 25% of total GDP), it is half of that in Russia and Belarus; in manufacturing and construction – merely a quarter of that in Kazakhstan. In systemic terms, increase of productivity in the economy is hampered by the shortage of investments and technologies, and by the current state of physical infrastructure.

**Uzbekistan’s potential GDP growth rate is about 5.5% p.a.** 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 largest trading partners are China, Russia, Turkey, and Kazakhstan.** Gold is the key export item (about 45% of total trade volume). Almost half of the goods imported by Uzbekistan are machines and equipment.

**At the start of 2021, Uzbekistan’s international reserve assets stood at USD 34.9 billion.** That is comparable to Kazakhstan’s reserve assets, and exceeds the aggregate reserve assets of Armenia, Belarus, and Kyrgyzstan by a factor of more than 2.5. Moreover, **Uzbekistan’s international reserve assets are sufficient to cover almost 20 months of imports of goods and services.** That is considerably higher than the conventional reserve assets adequacy measure of three months of imports. External liabilities of the national government at the end of 2020 amounted to almost 37% of GDP.

The structural and economic reforms launched by Uzbekistan’s leaders in 2017 noticeably changed the country’s economy: the country opened up to the world; the business environment, prices, commerce, and the currency market were liberalised; capital expenditures increased, and the country sought to boost production of high added-value products and to diversify its exports. That significantly improved the investment climate, and created new opportunities for raising external funding to finance future economic growth. However, Uzbekistan still has a long way to go before it can revamp its infrastructure, gain better access to global and regional markets, and create a favourable institutional environment. The economic and institutional support that can be provided in the course of integration with the EAEU member countries can drive and facilitate comprehensive development of Uzbekistan.

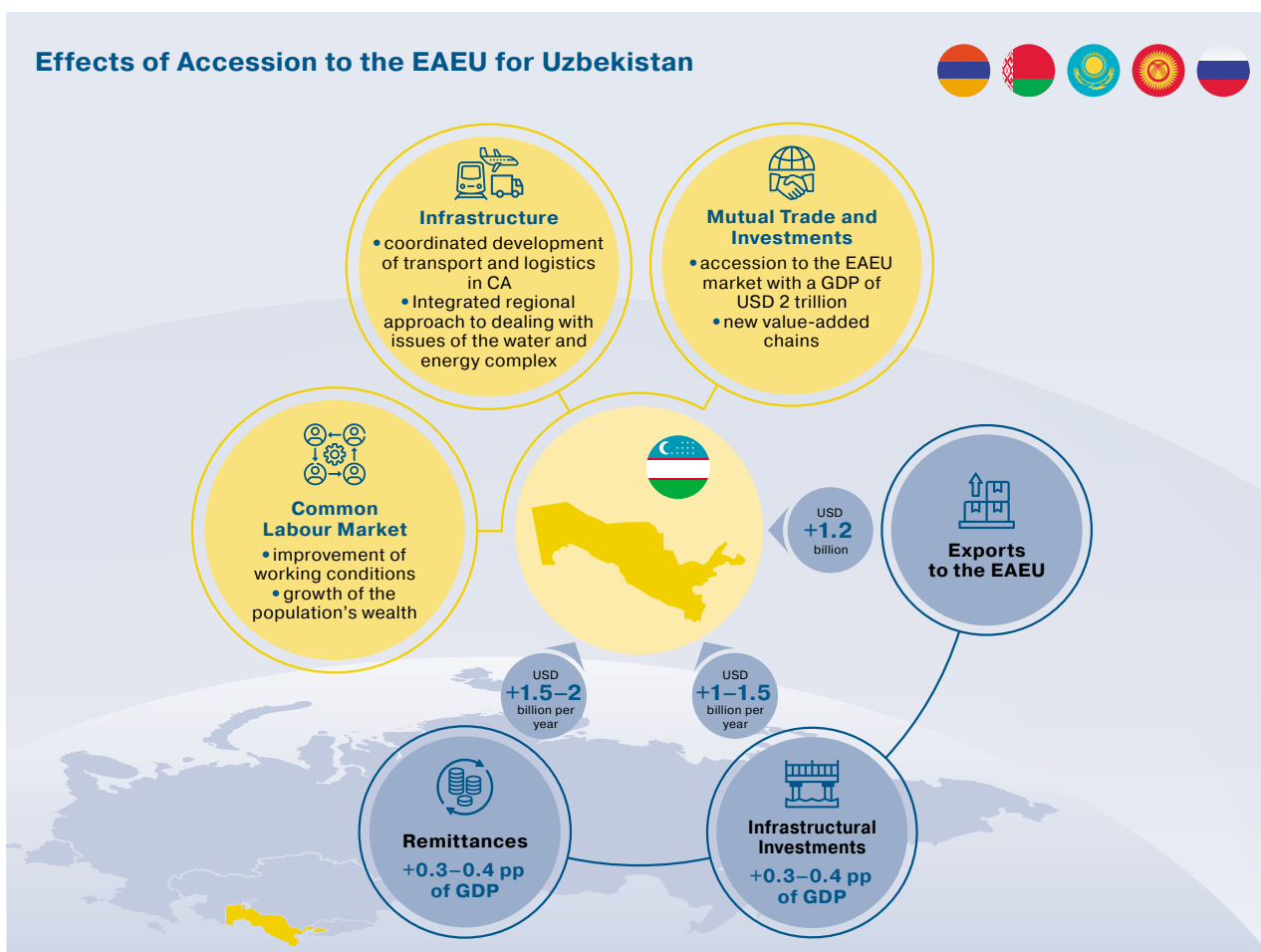
**The 2020s and 2030s: demographics of rapid growth. During that period, the demographic factor will support economic growth in Uzbekistan.** According to UN estimates, about 70% of the country’s population will be of working age by 2040 (United Nations, 2017). During that “demographic window”, the **share of the working-age population (workforce)** in the country’s total population will reach its peak.

### Potential Impact of Integration on Uzbekistan’s Economy

**Potential infrastructural investments by the EAEU in Uzbekistan 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.** Uzbekistan is an attractive business and FDI destination for the current EAEU member countries: the republic has substantial natural and labour resources, and the required production base. Investment capital inflow will spur labour productivity increase in Uzbekistan due to both renovation of the physical infrastructure and introduction of new technologies.

**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.** The increase in the amount of inward remittances will build up the wealth of Uzbekistan’s population, which, in turn, will have a positive impact on consumer demand. Labour migration to EAEU member countries will mitigate the adverse social and economic consequences of unemployment and underemployment in the country.

**Expansion of intra-industry trade and industrial cooperation** between Uzbekistan and the current EAEU member countries will help diversify the structure of the economy and Uzbekistan’s export basket.



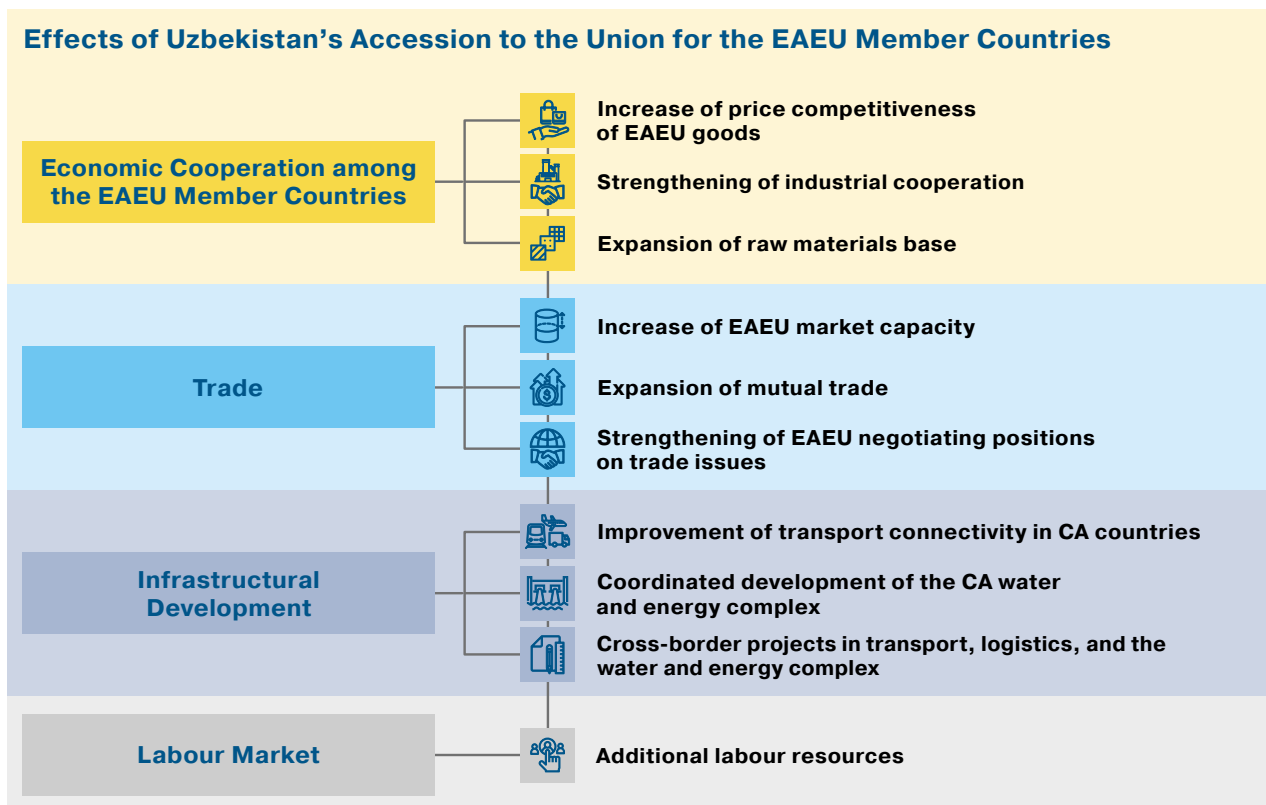
**Uzbekistan’s exports to the EDB member countries may additionally increase by USD 1.2 billion.** That is the estimated volume of unrealised export potential of Uzbekistan relative to the existing EDB member countries. Uzbekistan’s manufacturers can boost exports not only to Russia, the country’s key trading partner, but also to all other EDB member countries. At the end of 2020, total exports to those countries reached USD 3 billion.



*The key to intensification of mutual trade and mutually beneficial reduction of non-tariff barriers is the harmonisation of Uzbekistan’s technical regulations and phytosanitary standards with the requirements currently in effect in the EAEU. The problems caused by the institutional transformation and adaptation of Uzbekistan’s national legal framework can be offset by organisational, financial, and technical support on the part of the current EAEU member countries.*

### Potential Impact of Integration on the Current EAEU Member Countries

**Expansion of industrial and investment cooperation.** Simplification of access to labour resources and raw materials creates the preconditions for strengthening of economic cooperation and the emergence of new production chains in the EAEU area. Free movement of goods, services, capital, and labour will create favourable conditions for companies from EAEU countries to develop their businesses in Uzbekistan. Resource crossflows will improve the efficiency of the industrial base for the entire integration association, and make its goods more competitive.



**Expansion of mutual trade.** The possible accession of Uzbekistan to the EAEU will lift the remaining external trade restrictions, and open access to the republic's ample consumer market for all current EAEU member countries. That will enable an increase of exports of goods and services. The unrealised **EDB–Uzbekistan export potential is estimated at USD 1.6 billion.** The most promising export commodities include engineering products, ferrous metals, wheat, mineral products, timber, plastics, and rubber.

**Strengthening of EAEU negotiating positions on trade issues.** A larger membership of the EAEU strengthens its positions in trade agreement negotiations with third countries. Third-country suppliers are more interested in the purchasing power of the united region rather than of separate small economies. In bilateral negotiations, it is easier for a regional association to get more favourable external trade terms than it is for small economies.



*However, “expansion for the sake of expansion” can diminish performance of an active regional organisation. Accession of each additional member increases the probability by 1.5% that an active integration association will be transformed into a “discussion forum”. The Asia-Pacific Economic Cooperation (APEC) may be regarded as an example of such a “discussion forum” (EDB Centre for Integration Studies, 2016).*

**Strengthening of competition in the EAEU labour market.** The possible accession of Uzbekistan to the EAEU will increase competition among migrant workers from Armenia, the Kyrgyz Republic, and Tajikistan, among other things, in consequence of the numerical superiority of migrants from Uzbekistan.

### Uzbekistan Is a Key Element of the Economic Integration “Puzzle” in Central Asia



**Uzbekistan is a large and strategically positioned player in Central Asia, and it will be difficult to deal with regional development challenges without its participation.** That fully applies to transport, logistics, and the water and energy complex, where it is impossible to come up with optimal solutions without coordination of efforts and mutual understanding of all stakeholders. The sustainability and success of regional and Eurasian integration processes will hinge on the depth and



intensity of Uzbekistan's involvement. More active economic integration between Uzbekistan and the EAEU may become a major driver of investment and trade cooperation.

**Uzbekistan as a promising and strong partner in the development of trans-Eurasian transport corridors.** The republic is situated at the Central Asian crossroads of international West–East and North–South transport routes, and may become a critical element in the evolution of CA transport and logistics systems, including through participation in the Belt and Road Initiative. Coordinated efforts by the current member countries of the Bank and Uzbekistan, directed at development of transport and logistics infrastructure, will reinforce the region's transport links with emerging Asian markets (Iran, Turkey, Pakistan, Afghanistan, India).

**End-to-end cross-border projects are the key to the development of transport and logistics infrastructure.** That requires cooperation of all countries of the region. Cooperation among Eurasian countries can be maximised if the existing predominantly latitudinal (West–East) transport infrastructure is complemented with meridional (North–South) branches, which are now underdeveloped. Alignment of Uzbekistan's interests with those of the EDB member countries and intensification of their collaboration will improve the chances of raising additional funding for the republic's transport and logistics infrastructure. According to some estimates, **the funding needs of Uzbekistan's transport infrastructure until 2030 may amount to about 2.1% of GDP per year.**

**Accession of Uzbekistan to the Eurasian institutions (EAEU, EDB) will contribute to coordinated development of the CA water and energy complex.** Due to the complementary nature of its grid architecture, power generation structure, and water resources management system, the CA water and energy complex will remain viable only if energy and water use issues faced by the region are resolved in an integrated fashion. **Uzbekistan and the other CA countries need to identify new approaches to shaping and steering the regional market** on the basis of cutting-edge technologies and digital solutions.

**Cooperation between Uzbekistan and the EDB member countries in dealing with the problems faced by the CA water and energy complex is an economic necessity.** Collaboration of the countries of the region will help Uzbekistan deal with inferior performance of the water and energy complex (severe wear and tear on production facilities, massive losses, low ECE, power supply failures during peak hours), offset the shortage of water resources and, consequently, boost productivity in the agricultural sector. An integrated approach to dealing with issues of the CA water and energy complex will increase the investment appeal of Uzbekistan's power sector, and facilitate its access to appropriate infrastructure funding sources. **The funding needs of Uzbekistan's electric power industry until 2030 may amount to about 2.9% of GDP per year.**

**Success of integration with Uzbekistan will depend on the growth of national wealth of the stakeholder countries and the density of real economic ties among them.** Establishment of trade and economic ties among the countries of the region on the basis of effective projects (production facilities) is a critical condition for their sustainable long-term economic development. Such projects need to be globally competitive. In the course of its evolution, the integration association should not seek “expansion for the sake of expansion” – that path will ultimately impair the efficiency of the regional organisation.