

**COMPARATIVE ANALYSIS OF GERMANY'S INVESTMENT STRATEGY IN CENTRAL ASIA: A CLOSER LOOK AT KAZAKHSTAN AND UZBEKISTAN**

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Abstract

Germany's investment footprint in Central Asia, particularly in Uzbekistan and Kazakhstan, marks a significant pivot towards tapping into the region's burgeoning economic landscape. Over the past two decades, Central Asia has undergone remarkable transformations, demonstrated robust growth trajectories, and emerged as a dynamic player on the global economic stage. Despite a regional GDP that has soared to \$347 billion in 2022 through an average annual growth rate of 6.2%, and a population nearing 77 million with a 2% annual increase, Central Asia remains underappreciated in its economic potential by the broader international community. This narrative is gradually shifting as foreign direct investment (FDI) in the region has reached an impressive \$211 billion, with trade turnover multiplying sixfold since the turn of the millennium.

This analysis zeroes in on Germany's strategic engagement with Central Asia, focusing on its investment ventures in Uzbekistan and Kazakhstan. These two nations stand out due to their strategic geographic positioning, economic reforms, and pivotal roles in fostering regional integration and connectivity. Germany's investment strategy in these countries is emblematic of a broader recognition of Central Asia's strategic importance in the Eurasian corridor, leveraging the region's transit potential and burgeoning markets.

Keywords: Central Asia, Uzbekistan, Kazakhstan, Germany, foreign direct investment, economic development.

Introduction

The landscape of Foreign Direct Investment (FDI) in Central Asian countries is undergoing a significant transformation, catalysed by the increasing involvement of the European Union (EU), with Germany emerging as a particularly influential player. This development marks a pivotal shift in the region's economic dynamics, opening new avenues for growth, diversification, and integration into the global economy. Central Asia, a region historically known for its strategic geographical position and abundant natural resources, is now at the cusp of a new era characterized by enhanced economic partnerships and investment opportunities.

Germany's role as a leading economic powerhouse within the EU has positioned it as a key architect of this evolving investment landscape. Its technological prowess, combined with a strong commitment to sustainable development, aligns well with the needs and aspirations of Central Asian countries, making it an ideal partner in the quest for economic modernization and diversification. The bilateral relations between Germany and Central Asian nations, underpinned



by a series of strategic partnerships and investment initiatives, are not just reshaping the economic fabric of the region but also setting a precedent for EU engagement.

Central Asia: A Region of High Development Potential

Central Asia, a region with considerable development potential, boasts an aggregate GDP of approximately \$347 billion (Figure 1) and a population of 77 million. Over the past two decades, the region's GDP has quadrupled in real terms, while the population has grown by 40%, with a current annual growth rate of 2%. UN projections estimate an average annual population growth rate of 1.1% until 2040, suggesting a favorable demographic outlook for economic expansion due to an anticipated increase in labor resources.

The region's wealth in natural resources contrasts with its geographical challenges, including isolation from major global economic centers and the landlocked nature of its countries. This geographical positioning results in higher costs for accessing global markets. Furthermore, the existing transport and logistics infrastructure, a legacy of the Soviet era, underscores the importance of enhancing regional cooperation, particularly in energy and water resource management.

Initially, Central Asian countries experienced higher growth rates compared to developed and emerging economies. However, post-2010, the growth momentum has slowed, with an estimated average annual GDP growth rate of 3.6% from 2012 to 2021 (Figure 2), down from over 9% in the first decade of the 21st century. Factors contributing to this slowdown include reduced economic activity in Russia (a key development partner), the conclusion of the post-transformation recovery period, and growth constraints tied to market reform incompleteness and the lack of inclusiveness in political and economic institutions.

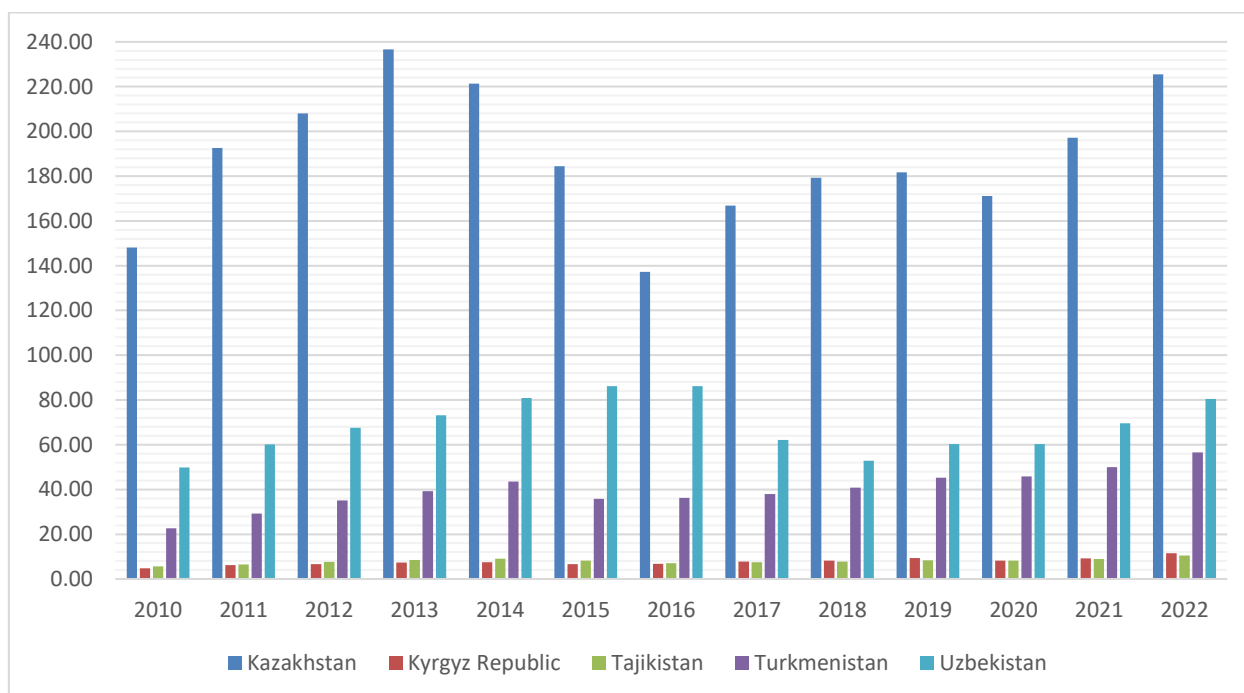


Figure 1. Real GDP (in USD billions).

Source: The World Bank. <https://data.worldbank.org/>



The diversity in the economic compositions of Central Asian nations is marked, with Kazakhstan's GDP mirroring that of upper-middle-income countries through its heavy reliance on the service and industrial sectors and minimal agricultural output. In contrast, Turkmenistan's economy is heavily focused on industrial activities, especially the extraction of mineral resources. Meanwhile, Kyrgyzstan, Tajikistan, and Uzbekistan—countries positioned in the lower-middle-income bracket—feature economies significantly bolstered by agriculture.

As of 1999, all Central Asian states, with the sole exception of Kazakhstan, fell into the low-income category as per World Bank classifications. Following comprehensive economic reforms, there has been a notable uplift in the populace's standard of living across the region. Notably, Kazakhstan and Turkmenistan climbed to the upper-middle-income category by 2006 and 2011, respectively. Shortly thereafter, Uzbekistan, Kyrgyzstan, and Tajikistan made strides into the lower-middle-income tier, showcasing an encouraging trajectory towards improved economic prosperity within the region.

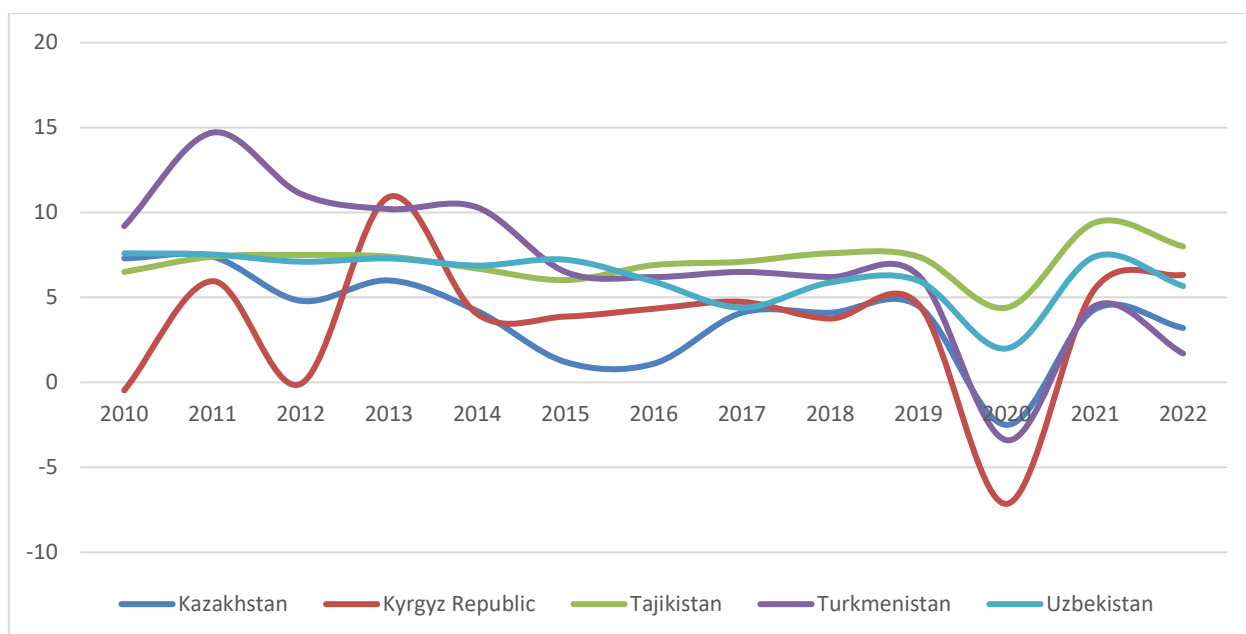


Figure 2. GDP growth (annual %).

Source: The World Bank. <https://data.worldbank.org/>

Kazakhstan: The Economic Powerhouse of Central Asia

Kazakhstan stands as Central Asia's most robust economy. With a nominal GDP of \$197.1 billion in 2021, it surpasses the combined GDP of the region's other four countries by 1.3 times. Its per capita GDP (PPP) in the same year was significantly higher—ranging from 2 to 7 times—than its Central Asian counterparts, closely trailing Russia's per capita GDP by a mere 8%.

According to Eurasian Development Bank (2022), Kazakhstan boasts vast natural resources, ranking 12th globally in proven oil reserves and 16th in natural gas reserves, with 30 billion barrels of oil and 2.3 trillion cubic meters of gas. Kazakhstan's contributions as a leading global producer include coal, iron ore, bauxites, cadmium, copper, zinc, gallium, chrome, and, notably, uranium, which will account for 41% of the world's production in 2020. It is also a top wheat exporter, ranking 8th globally in 2020 by supplying 6.2 million metric tons to the international market.



Geographically, as the largest landlocked country, positioned centrally in Eurasia and bordered by economic giants Russia and China, Kazakhstan faces both challenges and opportunities. High transportation costs impede trade, yet its strategic location on routes connecting Europe to the Asia-Pacific presents potential advantages, especially with developments like China's Belt and Road Initiative.

The economy is predominantly driven by the Services, Mining, and Manufacturing sectors, which accounted for 54%, 14%, and 14% of GDP respectively in 2021. The Wholesale and Retail Trade sector emerges as the largest within Services, contributing 16.8% to the GDP. Industrial production is led by Oil Production (35%) and Metallurgy (20.7%), with Manufacturing seeing growth since 2019, partly due to increased metal and engineering product outputs and state economic diversification efforts like the “Economy of Simple Things” and “Business Roadmap”.

From 2010 to 2021, Kazakhstan's economy expanded at an average rate of 3.9% annually, with the Services sector being a significant growth driver. The period saw varied contributions from different sectors to GDP growth, including Industry, Construction, and Agriculture. Despite facing a slowdown in 2014 due to declining global oil and metal prices, government interventions, such as the Nurly-Zhol and Nurly-Zher programmes and crisis response measures during the COVID-19 pandemic, have helped mitigate the economic impacts.

Efforts to enhance market efficiency and foster a competitive environment have been ongoing. According to OECD estimates, the share of state-owned enterprises in GDP decreased from 30-40% in 2010-2011 to 16% by the end of 2019 (OECD 2016). The government's Comprehensive Privatisation Plan for 2021-2025 aims to further reduce state participation in the economy to 14% of GDP by the end of 2025, with a structured plan for privatisation over the years.

Uzbekistan's Economic Renaissance: Paving the Way for Future Growth

Uzbekistan, Central Asia's second-largest economy following Kazakhstan, marked its GDP at \$69.2 billion in 2021. Boasting an array of natural resources including precious metals, copper, uranium, tungsten, coal, and natural gas, the country possesses a solid production foundation. Despite these assets, there is room for growth, especially in enhancing its role within the Non-Ferrous Metallurgy, Construction Materials, and Chemical and Petrochemical industries (Alekseev et al., 2019).

The commencement of economic reforms in 2017 has been a turning point for Uzbekistan, significantly reshaping the nation's economic landscape. These transformations have brought Services, Agriculture, and Manufacturing to the forefront, contributing 36%, 25%, and 20% to the GDP, respectively. A notable rise in the Manufacturing sector's GDP share by over 6 percentage points since the reforms indicates a substantial influx of investment capital, revitalizing the sector. Metallurgy leads the industrial sector, comprising more than a quarter of its total output, followed by notable contributions from Machine Engineering, Textiles, Food Production, and the Chemical Industry.

This duplication highlights the transformative impact of Uzbekistan's economic policies initiated in 2017, steering the country towards a more diversified and dynamic economy. By tapping into its rich resource base and encouraging foreign investment, Uzbekistan is poised to climb up the value chain in several key industries, significantly improving its long-term growth prospects.



The Surge in Foreign Direct Investment: A New Chapter for Kazakhstan and Uzbekistan

According to The World Investment Report 2023¹, the landscape of Foreign Direct Investment (FDI) in Central Asia, particularly in Kazakhstan and Uzbekistan, has undergone significant transformation, highlighting a pivotal shift in the region's economic dynamics.

In 2023, Kazakhstan experienced an unprecedented increase in FDI flows, reaching \$6.1 billion (Figure 3). This remarkable growth was primarily driven by reinvested earnings, which hit a record high of \$10 billion. The extractive industries, known for their high profitability, played a crucial role in this surge, emphasizing Kazakhstan's essential role in the economic development of Central Asia. Uzbekistan also set a record in FDI attraction, with investments totalling \$2.5 billion. A significant aspect of this achievement was the doubling of reinvested earnings to \$1.2 billion, reflecting the country's increasing appeal to investors. The extractive industries' dividend payments significantly contributed to these inflows, marking Uzbekistan's growing significance in attracting investment within the Central Asian. The Report also sheds light on the broader investment climate in Central Asia, noting a 39% increase in FDI flows to the region, which amounted to \$10 billion. This growth, significantly influenced by the performances of Kazakhstan and Uzbekistan, underscores their critical roles in attracting FDI and contributing to the sectoral expansion, particularly in the extractive industries.

The dynamics of investment in these countries are pivotal for understanding the wider economic and developmental trends within Central Asia. The notable increase in FDI, alongside a focus on sustainable and long-term growth, signifies a changing landscape in the investment scene of the region. Kazakhstan and Uzbekistan are highlighted not only for their economic potential but also as central actors in the narrative of regional economic expansion and sustainability.

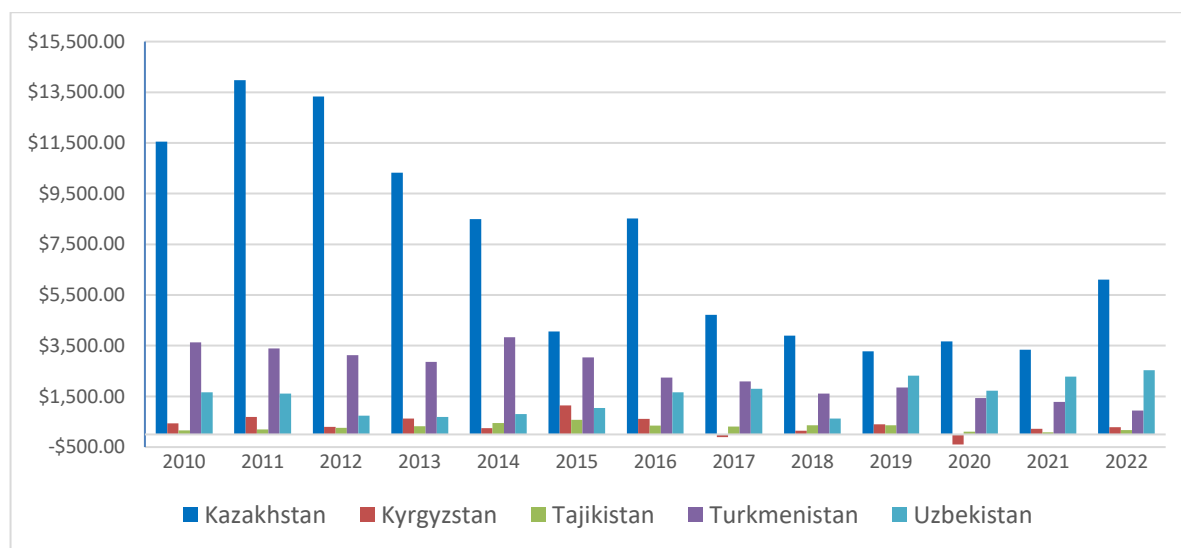


Figure 3. Foreign direct investments: Inward flows, annual (in USD millions at current prices).

Source: UNCTADstat. <https://unctadstat.unctad.org>

¹ United Nations Conference on Trade and Development. (2023). The World Investment Report 2023. <https://unctadstat.unctad.org>



Exploring the Economic Ties: Germany's investment and trade relations with Central Asian Countries Kazakhstan

Since establishing diplomatic relations in 1992, Germany and Kazakhstan have cultivated a dynamic partnership, underscored by a robust framework for political, economic, and cultural cooperation. With the German Embassy in Astana and a Consulate General in Almaty, the two countries have developed regular consultation formats that span a broad spectrum of mutual interests. A landmark achievement came in 2012 when they inaugurated a partnership focusing on raw materials, industry, and technology, highlighting their commitment to deepening bilateral ties. Kazakhstan emerges as Germany's premier trading partner in Central Asia, with bilateral trade soaring to €8.7 billion in 2023 (Figure 4). German imports from Kazakhstan accounted for €5.5 billion, while exports to Kazakhstan reached €3.2 billion, illustrating a significant economic exchange. The presence of approximately 350 German companies in Kazakhstan, supported by Germany Trade and Invest (GTAI) in Almaty and a dedicated German business association and chamber of commerce abroad, underscores the vibrant business engagement between the two nations.

The cultural and educational partnership between Germany and Kazakhstan is marked by the activities of the Goethe-Institut and the Central Agency for Schools Abroad, which includes the secondment of five German teachers to Kazakhstan. The integration of 15 Kazakh schools into Germany's "Schools: Partners for the Future" global network and the support of approximately 90 Kazakh students annually by the DAAD exemplify the educational exchange between the two countries. The Kazakh-German University (DKU) in Almaty stands as a beacon of bilateral cooperation in higher education. Furthermore, the joint declaration of intent signed during Federal President Steinmeier's visit in June 2023 to support the Kazakh-German Institute of Engineering at Yessenov University in Aktau adds another layer to their collaborative efforts. The deep human connection, embodied by the migration of around 800,000 ethnic Germans from Kazakhstan to Germany and the German minority residing in Kazakhstan, acts as a special bridge fostering close ties.

Kazakhstan's active participation in regional German development cooperation projects within Central Asia is pivotal. These initiatives aim to advance vocational training systems, promote good governance, spur sustainable economic development, enhance environmental and energy efficiency, and bolster disaster prevention efforts. The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), with its offices in Astana and Almaty, plays a crucial role in facilitating these programs.

The presence of the Konrad-Adenauer-Stiftung, Friedrich-Ebert-Stiftung, and Rosa-Luxemburg-Stiftung foundations in Kazakhstan further exemplifies the depth of German Kazakhstani relations. These institutions contribute significantly to the political, social, and economic discourse in Kazakhstan, strengthening the fabric of bilateral relations.

The economic and educational ties between Germany and Kazakhstan are exemplary of a comprehensive and forward-looking partnership. Recognized as one of Germany's top 50 economic allies and a key oil supplier, Kazakhstan has benefited from substantial German investment totalling US \$6 billion, with the majority channelled towards the non-resource sector.



This investment underscores the breadth of bilateral relations beyond natural resources, with about 1,000 companies in Kazakhstan now boasting German capital².

Germany's prowess in technology and high-quality education shapes the focus of this bilateral cooperation, especially in sectors pivotal for Kazakhstan's development, such as energy, mining, and agriculture. The collaboration extends into significant research and education initiatives, propelled by mutual respect and understanding, further cemented by the presence of large diaspora communities in each country—approximately 226,000 ethnic Germans in Kazakhstan and over one million Kazakhs in Germany.

Several high-profile agreements highlight the economic dimensions of this partnership. Notably, projects with Siemens and in the realm of rare metal ores exploration underscore Germany's commitment to Kazakhstan's industrial modernization. Additionally, the enhancement of oil supply agreements with KazMunayGas illustrates the strategic importance of Kazakhstan in Germany's energy diversification strategy.

A groundbreaking US \$50 billion deal on a green hydrogen project positions Kazakhstan at the forefront of renewable energy, with the ambitious goal of becoming a leading green hydrogen producer. This project not only signifies a leap towards sustainable energy but also strengthens bilateral ties by aligning Kazakhstan's potential with Germany's technological and environmental expertise.

The educational cooperation between the two countries is equally robust, with over 178 active education agreements supplemented by new initiatives. The establishment of institutes focused on sustainable engineering and science and technology in Kazakhstan, through collaboration with German universities, promises to elevate the quality of education and research in critical fields. These institutions are set to play a pivotal role in training the workforce required for burgeoning sectors like green hydrogen, thereby fostering innovation and technological advancement.

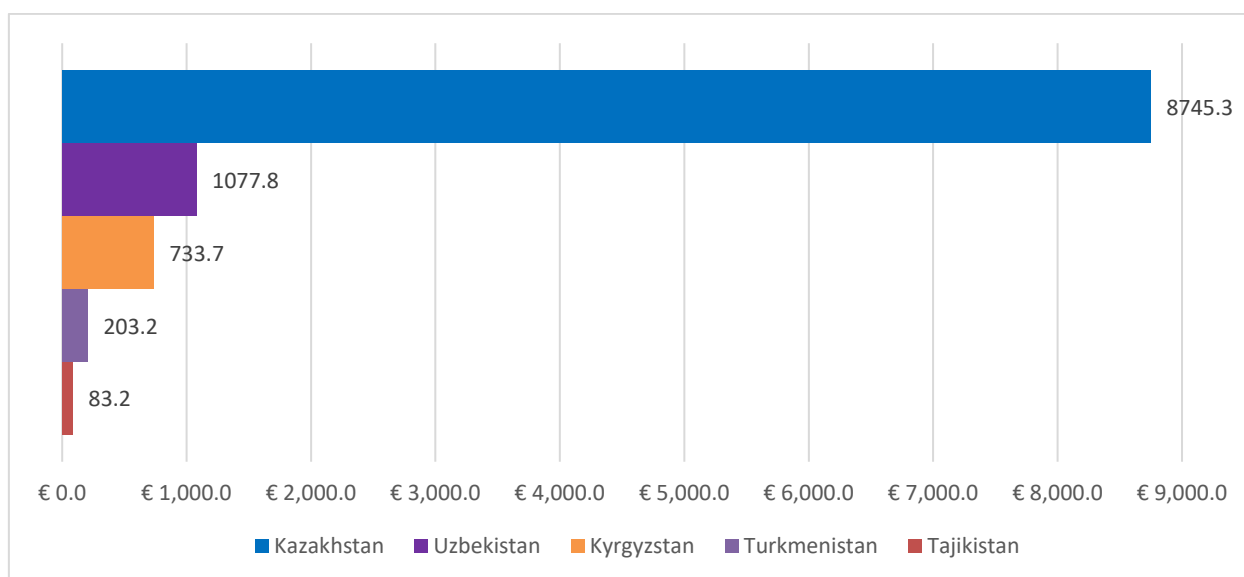


Figure 4. Germany's trade turnover with Central Asian countries in 2023 (*Exports + Imports, in million euros*).

Source: Statistisches Bundesamt (Destatis), 2024.

² Caspian Policy Center. (2023). *Kazakh-German Relations: A Strategic Partnership Driving Investments*.



Uzbekistan

The economic and investment ties between Germany and Uzbekistan have significantly deepened over the past years, marking a period of vibrant trade relations and collaborative ventures that underscore the strategic partnership between the two nations.

Over the last two years, German investments in Uzbekistan have approached nearly \$2.1 billion. This financial infusion has supported over 100 joint ventures, with projects valued at more than \$10 billion currently in progress. The collaboration spans across various sectors, including the successful launch of large-scale initiatives involving world-renowned German companies such as MAN, CLAAS, Lemken, Knauf, and Deutsche Kabel. These projects have brought advanced technology and expertise in manufacturing modern trucks, agricultural machinery, building materials, and cable products to Uzbekistan.

The landscape of German Uzbek cooperation is further evidenced by the presence of 113 enterprises with German investment in Uzbekistan. This includes 27 enterprises operating with 100% foreign capital and the accreditation of 36 German firms and companies at the Ministry of Foreign Economic Relations, Investments and Trade (MFERT) of Uzbekistan. Notably, the number of enterprises with German capital in Uzbekistan has nearly tripled in the last six years, reaching a total of 200, including 17 joint ventures initiated in the first half of 2023 alone.

The trade-economic and investment cooperation between Uzbekistan and Germany is a cornerstone of their bilateral relations, facilitated by mechanisms like the Intergovernmental Working Group on Trade and Investment and the Germany-Uzbekistan Business Council. Germany enjoys the most favored nation status in trade with Uzbekistan, reflecting the priority placed on economic engagement. As of mid-2023, Germany had ascended to the sixth rank among Uzbekistan's trading partners, with trade volume reaching approximately 1.07 billion euros.

Beyond economic ties, Germany's involvement in Uzbekistan extends to the realms of education, healthcare, and cultural exchange. Institutions such as the Goethe-Institut, Konrad Adenauer and Friedrich Ebert Foundation, and others have been instrumental in implementing significant projects. In 2023, Germany allocated about \$21 million to Uzbekistan and six other countries, highlighting its commitment to supporting development initiatives. Moreover, an international health forum between the two countries led to the signing of over 70 agreements and memoranda with German entities, valued at over \$100 million.

The dynamic relationship between Uzbekistan and Germany is characterized by robust investment cooperation, expanding trade relations, and joint ventures across a multitude of sectors. With Germany emerging as a key trading partner, and the establishment of various German enterprises and cultural institutions in Uzbekistan, the partnership is set to foster mutual economic growth, technological exchange, and cultural collaboration. This multifaceted relationship not only enhances bilateral ties but also contributes significantly to Uzbekistan's development agenda, underlining the strategic importance of German Uzbek cooperation in the broader context of international relations and economic diplomacy.

Conclusion

In conclusion, the comprehensive analysis of Germany's investment strategy in Central Asia, focusing on Kazakhstan and Uzbekistan, illuminates the pivotal role that economic engagement and foreign direct investment play in shaping the region's future. Germany's approach, characterized by a keen interest in both nations' economic landscapes and a strategic investment



in a diverse range of sectors, showcases a commitment to fostering sustainable growth and development in Central Asia.

Kazakhstan and Uzbekistan, with their strategic geographical positions, abundant natural resources, and ongoing economic reforms, emerge as central figures in Central Asia's evolving economic narrative. Germany's investments and bilateral partnerships in these countries not only signify a recognition of their potential but also a desire to engage in a mutually beneficial economic relationship that promises to elevate the region's global economic standing.

This engagement is further evidenced by the substantial German investments in non-extractive sectors, highlighting a strategic move towards diversifying economic relations beyond natural resources. The emphasis on technology, education, and sustainable development aligns with Central Asia's goals of economic modernization and diversification, marking a new chapter in the region's development.

Moreover, the analysis underscores the importance of foreign direct investment and international cooperation in overcoming geographical and infrastructural challenges that have historically hindered Central Asia's economic progress. Germany's strategic investment in Kazakhstan and Uzbekistan not only facilitates their integration into the global economy but also enhances regional connectivity and cooperation, essential components for sustained economic growth and stability in Central Asia.

As Central Asia continues to navigate its path towards economic prosperity, the role of strategic international partnerships, exemplified by Germany's investment strategy, will remain indispensable. These collaborations, rooted in mutual interests and shared goals for sustainable development, are key to unlocking the region's full potential, thereby contributing to a more prosperous, interconnected, and resilient Central Asian economy.

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