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South Caucasus and Central Asia: The Belt and Road Initiative Uzbekistan Country Case Study

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This Country Case Study was prepared by the South Caucasus and Central Asia MTI team in collaboration with the staff from other World Bank Global Practices covering the two sub-regions. The main objective of the Country Case Studies is to provide an informed view of the potential impact of the Belt and Road Initiative over the countries of Central Asia and Caucasus and policy recommendations to reap the benefits and mitigate risks. The main authors of the Country Case Study were Kazi Matin and Evgenij Najdov, with support from the Central Asia and Caucasus MTI team. The team is grateful for the guidance from Sandeep Mahajan (Practice Manager), peer reviewers Michele Ruta, Abdulaziz Faghi and Paul Valley and for useful comments from Sascha Djumena and contributions from Violane Konar-Leacy, Victor Aragonés and Ian J.D. Gillson.

Acronyms and Abbreviations

BRI	Belt and Road Initiative	MSR	Maritime Silk Road
CAC	Central Asia and Caucasus	O&M	Operations and Maintenance
EU	European Union	PIM	Public Investment Management
FDI	Foreign Direct Investment	SOE	State-Owned Enterprise
GDP	Gross Domestic Product	SREB	Silk Road Economic Belt
ICT	Information and Communication Technology	WTO	World Trade Organization

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Executive Summary

Uzbekistan is well placed to be one of the biggest beneficiaries of the Belt and Road Initiative (BRI) provided it makes rapid progress in reforms that complement BRI transport projects. Until recently, the Uzbek economy was relatively closed and state-dominated with border closings frequent and unpredictable. However, reforms over the last three years have been inspiring. With the largest and youngest labor force in the region and considerable agricultural and manufacturing capacity, the potential for significant BRI dividend is high. But to realize that potential, Uzbekistan must progress in reforming trade facilitation and logistics, opening-up trade and private investment and removing sector-specific constraints to expansion in agriculture and manufacturing, so that FDI and exports can respond to BRI improvements. Also, to reduce the spatial concentration of benefits from BRI, policies must encourage worker mobility and expand access to services across the country.

The financing and support for building common cross-border transport network provided by BRI is a boon to Uzbekistan's transport connectivity. As a double landlocked country, it benefits from additional financing, including from China, for its own transport infrastructure and for those of its neighbors. Two of the BRI routes pass through Uzbekistan connecting eastward to China through either Kazakhstan or the Kyrgyz Republic; west and southward those two routes merge in Tashkent and transit in Turkmenistan to reach Iran, West Asia and India, the latter connected from Iranian ports. Uzbek shippers can also connect to Europe, the Caucasus and Turkey by accessing the train services on two other routes passing through Kazakhstan.

The fall in shipment time and the rise in exports arising from the completion of BRI transport projects can be magnified by reforms in trade facilitation and logistics. BRI improvements in transport infrastructure are estimated to reduce Uzbek shipment time by almost 15 percent, the largest reduction among BRI countries. Falling shipment time will in turn raise Uzbek exports by between 13 and 23 percent. The higher estimated increase is the combined effect of completed BRI transport projects and reforms that halve border-crossing-delays.

Estimates also show that the BRI boost from lower shipment time is much greater for more time-sensitive items like agriculture, processed food, textile and leather products and processed metals. As these items line up well with Uzbek comparative advantage, the potential for these exports to grow is high, as long as the sectors are able to attract foreign investors with the requisite technology to produce competitively and reforms facilitate expanded domestic supply.

The benefits from BRI are likely to be distributed unevenly within the country though policies could reduce the degree of spatial inequality. Developed urban hubs closer to border crossings typically gain more. In Uzbekistan, the eastern areas including Tashkent and the Fergana valley are likely to benefit the most. This spatial inequality in the distribution of BRI benefits can be reduced by reforms that encourage greater worker mobility and expand access to services across the country.

Uzbekistan is well placed to invest more in infrastructure without endangering its medium-term debt sustainability. As a country with low risk of debt distress, it has the fiscal space to invest additional funds in BRI projects within its territory over the next few years. The fiscal risk of scaling-up Uzbek investments in BRI infrastructure is relatively low, especially if the country continues to strengthen its fiscal institutions, including adoption and implementation of a medium-term expenditure framework and improvements in public investment management.

Stronger regional cooperation is needed to reap the benefits of improved physical infrastructure. There has been no lack of cooperation initiatives in Central Asia and Caucasus (CAC), though these appear to have had only limited usefulness, including due to selective coverage of trade and transport issues,

complex rules, as well as lack of functioning dispute resolution mechanisms. In the case of Uzbekistan, significant gains are available from joining the World Trade Organization (WTO) and ensuring regional integration efforts are done in line with good international practice. Closer cooperation with neighbors through harmonizing procedures could go a long way to improve the reliability of the transport corridors.

While the COVID-19 pandemic is reshaping supply chains, the integration agenda will remain a key ingredient of development strategies for countries like Uzbekistan. This note presents results of modeling exercises undertaken prior to the COVID-19 pandemic and does not capture the ongoing discussions about near-shoring production and reconfiguring global value chains. In fact, the role of global value chains in global trade had stalled even prior to the pandemic and COVID-19 has strained them further (World Bank, 2020). Still, a common transport infrastructure continues to make sense as the case for international trade, through differences in comparative advantage, specialization and economies of scale, remains strong. In fact, a number of the CAC countries, including Uzbekistan, could benefit from efforts of companies to diversify production from China. These countries will; however, need to pay more attention to debt sustainability and put more efforts in improving trade facilitation to better manage the risks from the slowdown of the global economy and ensure transport chains remain stable.

1. Introduction

- 1. Uzbekistan is a resource-rich country with a relatively young population of 33 million, the largest in Central Asia.** It is also a geographic pivot for the region, bordering all other Central Asian countries and Afghanistan, with transit connections in all directions. As a double landlocked country, it is uniquely dependent on these cross-border transport connections and on how well they work. It can also potentially be the largest market in Central Asia and given its sizeable young labor force and substantial agricultural and manufacturing capacity, a major regional exporter.
- 2. Uzbekistan has grown robustly for more than two decades without generating adequate employment for its growing working-age population.** This growth was driven more by harnessing its gas and mineral resources and less by harnessing its large labor force or its land more productively. Most of its economic activity in mining and manufacturing was carried on by public entities and its farmers were subject to planned land allocations for crops. Though the state-owned and resource sectors prospered, they were unable to create sufficient employment resulting in substantial emigration and domestic unemployment. GNI per capita (Atlas method) was US\$2,020 in 2018 while poverty is estimated to affect around 9.2 percent of the population (measured at the PPP US\$3.2/day international definition for lower middle-income countries).
- 3. The country, however, has a large industrial labor force with good manufacturing skills, better than most countries in the region.** This was developed on the back of a large state-run protected manufacturing sector that was not very competitive internationally. Nevertheless, manufacturing was well-diversified, including producing chemicals, fertilizer, cotton fiber and textiles, telecom equipment, motor vehicles, locomotive and aircraft assemblies and so on.
- 4. It also has a robust agricultural sector that grew at an average annual rate of more than 6 percent since 2003.** The strongest growth has come from crops other than wheat and cotton, mostly from horticulture. Despite restrictions on farmers' use of land for horticulture, horticultural products have become the second largest agricultural export after cotton. It also has a notable livestock sector and exports meat, mostly in the region.
- 5. Notwithstanding its rich resources as well as agricultural and manufacturing capacity, the country's trade performance has remained below its potential.** Total trade as a share of GDP has been on a downward trend since the global financial crisis, averaging only a quarter of GDP in 2015-16, though it has been recovering since. Thus, moving towards a more competitive manufacturing and agricultural sector could play an important role in tapping its full trade potential.
- 6. In 2017, a new government announced a dramatically different policy course by implementing reforms and promising further reforms to build a more open and market-oriented economy.** It depreciated the local currency, the som, and unified the exchange rate system. Prices of most goods were liberalized and administered energy prices were raised in several steps to more appropriate levels. The tax system is being reformed. The 2017-21 *National Development Strategy* includes specific commitments to WTO accession and the further simplification of customs tariffs and procedures. The government's current goal is to grow at an average annual rate of 6 percent to attain upper middle-income status by 2030 and to create 500,000 new jobs annually during that period. For this purpose, it plans to provide greater freedom to the private sector and to farmers and to liberalize its trade and FDI regimes. Reducing government involvement in the economy and strengthening infrastructure are among its several priority areas of action.
- 7. The transport infrastructure of Uzbekistan has been improving since 2000 and the BRI offers the prospect of improving it substantially.** Its cargo transportation depends more on road than rail because

of the difficult mountainous terrain. Inefficiencies and delays at its border crossings make for even longer transport times than its transport infrastructure warrants. The BRI envisages investments in transport projects along six BRI corridors connecting China by rail to cities in Russia, Europe, Turkey, Iran, West Asia, South Asia and South East Asia. Two of those BRI corridors transit through Central Asia and the Caucasus (CAC) region using five different routes to connect China to Europe, Turkey, Iran and West Asia. Of these, two routes pass through Uzbekistan connecting its cities to China and Iran faster than before. Tashkent can also use the other routes through Kazakhstan to connect more speedily to Europe.

8. Improved cross-border transport connections can provide an anchor for increasing growth and reducing poverty. The BRI infrastructure projects can be a potent instrument for increasing Uzbek exports, FDI, and GDP when they are accompanied by complementary policies. The fact that Uzbekistan is already implementing reforms and plans to continue doing so to build a more open and market-oriented economy augurs well for maximizing the benefits of BRI and minimizing its risks.

9. This note summarizes the potential impact of BRI over connectivity and the Uzbek economy. It looks at how, if implemented fully globally, the BRI contributes to better transport connections and greater economic integration of Uzbekistan, discusses improvements in Uzbek cross-border transport, electricity and ICT infrastructure to-date, and the potential impact of the completion of BRI transport projects around the world on lowering Uzbek shipment times. It further looks at the likely economic impact of BRI reductions in shipment time on its export and FDI, the within country regional distribution of that impact and how complementary policies can enhance that positive impact and mitigate potential risks. Finally, it also examines the fiscal risk of the Uzbek government scaling-up investment in BRI transport projects in the coming years.

Box 1: Quantifying the impact of BRI

The results presented in this Country Case study envisage the full implementation of all BRI transport infrastructure projects and as such are not an assessment of the impact or the cost and benefit of individual corridors or projects. The estimates were derived as part of the preparation of the World Bank's "Belt and Road Economics: Opportunities and Risks of Transport Corridors" report which uses empirical research and economic modeling to provide an objective analysis of opportunities and risks of BRI transport corridors. Estimates of the gains in shipment time were calculated by a combination of geographical data and network algorithms between 1,000 cities in 191 countries. The global network of railways and ports in 2013 is used to estimate the pre-BRI shipment times. The network is subsequently upgraded with planned infrastructure projects as part of the BRI to derive post-BRI shipment times. The projects were selected based on the criteria that the transport project is located on the corridor and that the project has been explicitly mentioned as part of BRI in an official document. This is neither exhaustive nor an official list of BRI transport projects. On the two corridors that go through CAC, the report identifies around two dozen of transport connectivity projects. Out of these, around half were operational in 2019, six were under construction and the remaining were proposed.

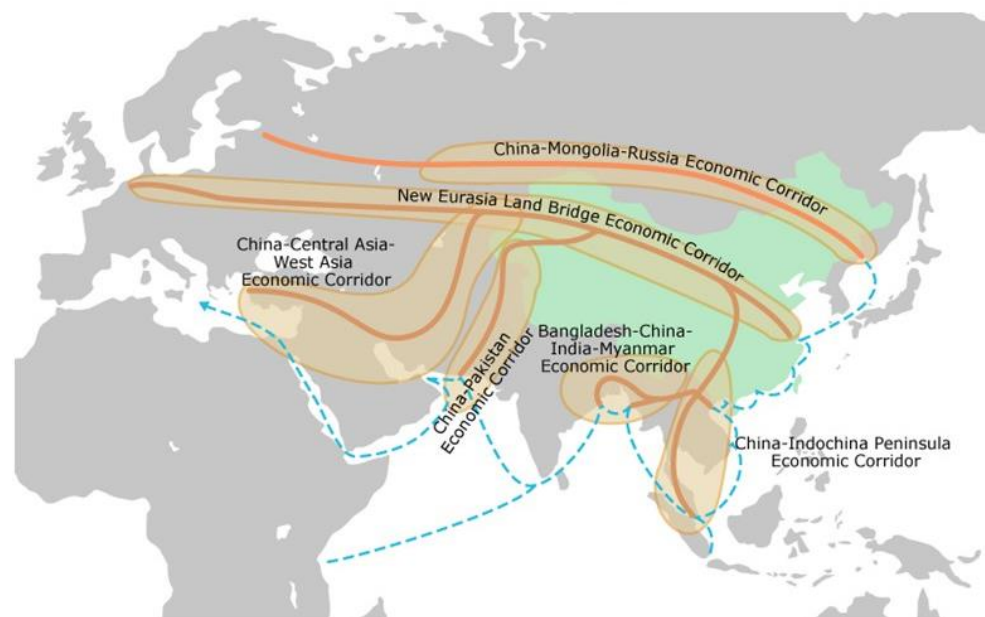
Next, sectoral estimates of "value of time", considering each pair of countries and each sector, transform the reduction in shipment time into reductions of trade costs. Importantly, the analysis does not assume that all infrastructure projects are good. In fact, in a separate analysis of 68 BRI projects globally, Reed and Trubetskoy (2019) show that half of them generate little value when built in isolation; however, when the entire network of projects is built, this share falls to around one-third. This confirms the inter-dependence of projects as well as the importance of proper project selection and appraisal. Finally, a range of models (computable general equilibrium, structural general equilibrium and gravity models) are used to estimate the impact of the reduced trade costs on trade, FDI and GDP.

2. The Belt and Road Initiative

10. The BRI, announced in 2013, is an ambitious multi-year Chinese effort to improve international transport infrastructure and increase economic integration. Its goal of better transport connections and greater economic integration is to be achieved through substantial Chinese financing of transport infrastructure and other complementary infrastructure in the BRI countries, better policy coordination among those countries, and larger flows of outward foreign direct investment (FDI) from Chinese private firms and SOEs, all aimed at promoting “orderly and free flow of economic factors, highly efficient allocation of resources and deep integration of markets” (NDRC et al 2015).

11. The initiative envisages implementation of a series of transport infrastructure projects along the *Silk Road Economic Belt (SREB)* land corridors and along the *21st Century Maritime Silk Road (MSR)* sea-routes. The SREB seeks to improve China’s transport overland to Europe, Russia, Central Asia, the Caucasus, Turkey, Iran, West Asia, South Asia, and Southeast Asia through six BRI corridors: i) the New Eurasian Land Bridge Corridor; ii) the China-Central Asia-West Asia Corridor; iii) the China-Mongolia-Russia Corridor; iv) the China-Pakistan Economic Corridor (CPEC); v) the China-Myanmar-Bangladesh-India (BCIM) Corridor and vi) the China-Indochina Peninsula Corridor. The MSR seeks to build or improve ports along the sea routes linking China’s coast, one crossing the South China sea through the Malacca strait to the Indian Ocean and extending to Europe, and another crossing the South China sea and extending to the South Pacific. The BRI envisages investments not only in the corridor infrastructure (rail, road and port projects to improve cross-border transport), but also in complementary infrastructure like power and ICT. The BRI builds on a number of other transport initiatives aimed at improving connectivity¹, though the time and money cost of cross-border transport in the Central Asia and Caucasus (CAC) region remains high.

Figure 1: BRI corridors



Source: Xinhua News Agency; Hong Kong Trade Development Council

¹ These include the Transport Corridor Europe Caucasus Asia (TRACECA) initiative, the Central Asia Regional Economic Cooperation (CAREC) program and the Special Program for the Economies of Central Asia (SPECA) program.

12. The two BRI corridors transiting through the CAC region connect China to Europe and China to Iran and West Asia, respectively. The first uses two rail routes to reach Europe; one through Kazakhstan, Russia and Belarus while the other, through Kazakhstan, the Caucasus and Turkey. The second uses three routes to reach Iran and West Asia, with two of those passing through Uzbekistan. One of the routes goes through Kazakhstan, Uzbekistan and Turkmenistan, the second, through the Kyrgyz Republic, Uzbekistan and Turkmenistan and the third, through the Kyrgyz Republic, Tajikistan and Afghanistan.

13. The proposed routes are potentially viable corridors. First, most of the completed, ongoing and planned transport projects in the region are along these routes and thus provide CAC countries with their most direct exposure to BRI. Second, at least one major city of each country² is on one or more of these routes and each country can thus connect faster to the large economies of China, Korea, Europe, Russia, Turkey, Iran, and West Asia, as well as to each other. Third, China's dependence on these routes for faster transport to the European cities and to cities in Iran and West Asia, means that both China and the CAC countries will have an interest to continually improve the operation of these corridors. Importantly, while the BRI focuses largely on the main transport corridors, improvements to the transport network at the lower levels (for example, secondary and feeder roads) are needed to ensure that the countries and populations benefit fully from the main corridors.

Box 2: BRI Corridors and routes passing through CAC

The **New Eurasian Land-bridge BRI Corridor** connects **China to Europe** using two routes:

- **Route 1: China** (various cities, Urumqi, Alashankou) – **Kazakhstan** (Dostyk, Mointy, Nur-Sultan, Petropavl) – **Russia** (Yekaterinburg, Moscow) – **Belarus** (Brest) – **Poland** (Małaszewicze) – **Germany** (Duisburg) and onwards to various European cities. (Note: all are operational rail connections).
- **Route 2: China** (various cities, Urumqi, Khorgas) – **Kazakhstan** (Altyntkol, Almaty, Shu, Zharyk, Zhezqazghan, Saksaulskaya, Shalkar, Beyneu, Aktau) – **Azerbaijan** (Baku/Alyat, Ganja, Beyuk Kesik) – **Georgia** (Gardabani, Tbilisi, Akhalkalaki) – **Turkey** (Kars, Istanbul) and onwards by rail/road to various European cities. (Note: all are operational rail connections except Aktau to Baku, which is the Caspian Sea ferry segment).

China-Central Asia-West Asia BRI Corridor connects **China to Iran/West Asia** using three routes:

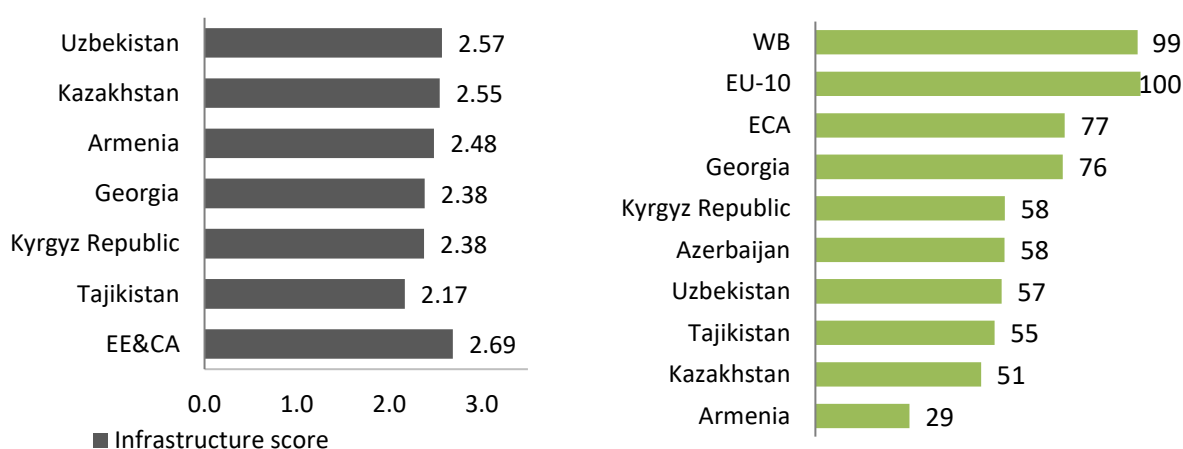
- **Route 3: China** (various cities, Urumqi, Khorgas) – **Kazakhstan** (Altyntkol, Almaty) – **Uzbekistan** (Tashkent, Samarkand, Navoi) – **Turkmenistan** (Farab, Mary, Serakhs) – **Iran** (Sarakhs, Mashad) and onwards to West Asian cities (also India through Bandar Abbas) (Note: all are operational rail connections).
- **Route 4: China** (various cities, Kashgar) – **Kyrgyz Republic** (Irkeshtam, Osh) – **Uzbekistan** (Andijan, Pap, Tashkent, Samarkand, Navoi) – **Turkmenistan** (Mary, Serakhs) – **Iran** (Sarakhs, Mashad) and to West Asia (also India through Bandar Abbas). (Note: the route is mainly rail, except Kashgar – Irkeshtam – Osh segment by road)
- **Route 5: China** (various cities, Kashgar) – **Kyrgyz Republic** (Irkeshtam, Sary Tash) – **Tajikistan** (Karamyk, Dushanbe, Vahdat, Yavan, Nizhny Panj) – **Afghanistan** (Shir Khan Bandar, Kunduz, Mazar-e-sharif, Herat, Ghurian) – **Iran** (Torbat-e Heydarieh, Tehran) to West Asia (also, India thru Bandar Abbas). (Note: route connected partly by rail with two large segments, Kashgar – Irkeshtam – Sary Tash – Karamyk – Dushanbe and Nizhny Panj - Shir Khan Bandar – Kunduz – Herat – that are connected only by road today).

² Armenia is the only exception because of the closed Armenia-Azerbaijan border and so Armenian cities could connect to China overland by rail through Russia, which is probably not competitive.

3. Improvements in Transport Infrastructure and Gaps

14. Uzbekistan’s double landlocked geography and deficient transport infrastructure has imposed high cost on its trade for a long time, but this is changing gradually. The Government has been investing systematically since 2005 to fill important gaps in its road and rail connections. The quality of its transport infrastructure today is similar to that of Kazakhstan and better than other CAC countries but short of the levels seen in other countries in the Europe and Central Asia (ECA) region. Outside urban areas, its road access is on par with the other countries in Central Asia, a region that scores poorly on rural accessibility, thus providing limited connectivity of hinterlands to markets. There remain big gaps in the quality and coverage of its cross-border transport infrastructure given its unavoidable dependence on the quality of transport network of its neighbors.

Figure 2: Infrastructure quality needs to improve ...
 Transport infrastructure quality (1=low to 5=high) Rural Access Index (in %)



Source: World Bank 2018 Logistics Performance Index

Note: rural people who live within 2 kms of an all-season road as a proportion of the total rural population.
 Source: Mikou et al (2019)

15. Inefficiencies and delays at its border crossings remain substantial. In 2019, it was ranked 152nd in the world on ‘Trading across Borders’ by Doing Business Report largely because of long times and high cost of document processing and 99th by Logistics Performance Index (LPI).³ Baniya and others (2018) find that the shipment time required by Uzbekistan to trade with BRI partners is more than 17 days and with China, 27 days; the latter is a long time given its relative proximity to China.

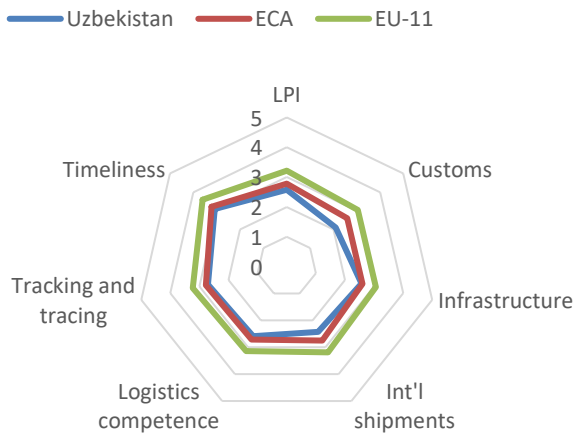
16. Trade policy has been liberalizing in recent years but remains the most restrictive in the CAC region. In 2015, its simple average MFN tariff rate was around 15 percent (applied rate 7.8 percent). Non-tariff measures like licenses, discriminatory taxes, technical barriers to trade (TBTs) add to the restrictiveness of the trade regime. However, discussions have intensified recently on Uzbekistan’s membership in the World Trade Organization (WTO) which is likely to lead to more liberal trade policy.

17. The government of Uzbekistan has been a big investor in recent years in the Uzbek segments of the two BRI corridor routes as well as in other cross-border rail links. The country is now better connected to China, Afghanistan, Iran and through Iranian ports to West Asia and India, as well as to neighboring Central Asian countries. The Tashkent – Almaty rail link in BRI corridor route 3 (Box 2) was

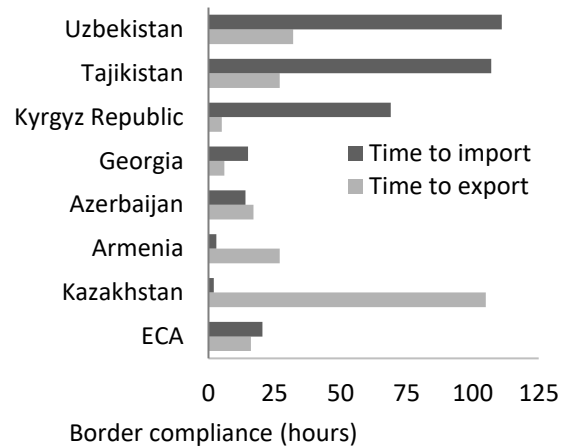
³ LPI’s rank for customs performance was significantly worse (140th) as also for ease of arranging competitively priced international shipments (120th).

upgraded to a high-speed connection. The Andijan – Pap – Angren – Tashkent rail segment of BRI corridor route 4 was improved with the building of the tunnel and the electrification of rail tracks in 2016. Its cross-border rail connection to northwest Kazakhstan, specifically to Beyneu and Aktau port, was upgraded to high-speed rail segments between Samarkand and Bukhara as well as between Bukhara and Miskin, on route to Nukus. The Samarkand – Qarshi – Termez rail connection to Hairatan and Mazar-e-Sharif in Afghanistan was electrified. The rail route from Saryasiya to Tursunzadev in Tajikistan and that between Tashkent and Balykchy in Kyrgyz Republic were also rehabilitated.

Figure 3: ... as should trade facilitation
Logistics Performance Index



Time to import and export



Source: Logistics Performance Index 2018

Source: Doing Business 2020

18. These recent investments also improved domestic rail and road connections among various parts of the country. Tashkent is now better connected by rail to its Ferghana valley in the east, to Jizzak, Samarkand, Bukhara, Miskin and Nukus in the southwest and west, and to Qarshi and Termez in the south. Most of these cities are also connected by road, some of them recently upgraded, like the Samarkand – Termez road and the Tashkent – Nukus – Beyneu (Kazakhstan) – Atyrau (Kazakhstan) road.

19. Uzbekistan can also access a much faster rail connection to Europe and Turkey through Almaty and Nur-Sultan. More than a decade ago, rail transport between China and Europe was no faster than by sea, but the first block train between Chongqing (China) and Duisburg (Germany) through Kazakhstan and Russia travelled in 16 days, half the time it took by sea (Arvis & Rastogi 2015, Shephard 2016); train travel time and costs per container has been coming down since. The frequency of China-Europe trains has risen to more than 10 a day. International and local logistics companies are offering varied services including refrigerated containers, less-than-full-container-load consignments, door-to-door deliveries and pre-announced schedules.⁴ This makes it possible for Uzbek shippers to reach the Caucasus, Turkey and European cities much quicker than before using these regular China-Europe trains.

20. There are infrastructure gaps still to be filled in its cross-border connections. First is the lack of rail tracks for the Kashgar – Irkeshtam – Osh – Andijan segment of BRI corridor route 4 and no agreement on whether or when it may be built. Second, infrastructure for the dry ports/terminals at Andijan and at

⁴ The China-Europe trains started as a ‘customer-driven’ model of full ‘block’ trains organized by companies but has evolved increasingly to a ‘retail model’ of regular trains based on agreements between international logistics companies and operators/agencies in transit countries, where logistics companies organize train schedules.

Angren on the same route will need to be upgraded as they are handling growing traffic that includes Uzbek import and export cargo as well transit cargo for other countries. Third, the dry port/terminal at Bukhara close to the Turkmen border on route to Iran needs modernization and expansion. They need to operate like effective international logistics centers with adequate warehouse space and container handling capacity to transfer and consolidate cargo efficiently.

4. Estimates of BRI Impact on Shipment Time and Trading Cost

21. The completion of BRI transport projects around the world⁵, together with those in Uzbekistan and the CAC region, will reduce Uzbek shipment time. The BRI transport projects in different parts of the world increase the number of rail⁶ and port connections in the global transport network, improve the speed of travel along the upgraded or newly-built rail segments and seaports of the network, and add to available route options for shippers to reach their destinations. Because all countries are linked to each other through the global transport network, any fall in a country’s shipment time in one region affects the shipment time of countries in other regions, as they are all part of the same global network. The shipment time of Uzbekistan is thus lower not only because of the BRI corridors in the country and in its region, but also because of similar projects in other regions within the global network.⁷

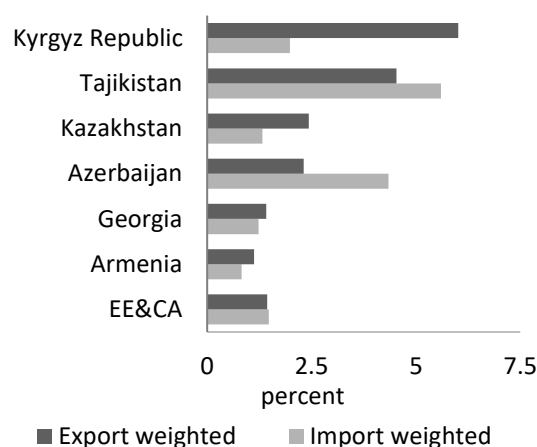
Table 1: Investments will lower the time to trade

	Average time to trade to		Reduction in time to trade	
	BRI	China	Lower bound	Upper bound
ARM	15.5	32.1	2.2	2.8
AZE	13.8	22.5	6.1	7.1
GEO	14.6	32.6	2.6	3.5
KAZ	15.4	12.0	4.4	8.3
KGZ	20.7	15.2	8.5	12.9
TJK	18.7	31.7	3.0	3.9
UZB	17.3	27.0	13.6	15.2

Lower bound refers to a scenario of preference for maritime links. In the upper bound, this preference is removed.

Source: Baniya et al 2019

Figure 4: as well as the costs of trade



Source: Constantinescu et al (2019), unpublished

22. The completion of ongoing and planned BRI transport projects is estimated to lower Uzbek shipment time by 15.2 percent (Baniya et al 2019) which is the largest reduction among BRI countries.⁸ Currently, it takes slightly above 17 days to trade between Uzbekistan and its BRI trade partners on average, and almost 27 days to trade with China. This means that shipment time is estimated to fall by more than 2.5 days for trade with BRI countries and by more than 4 days for trade with China. More importantly, the percentage reduction in Uzbek shipment time could be nearly twice the estimate above,

⁵ All BRI transport projects have been compiled into a list in De Soyres et al 2018 and Reed and Trubetskoy 2019.

⁶ Most international trade is carried by sea, with rail as the second most important mode of transport and so estimates of shipping time is based on the impact of BRI rail and port projects only.

⁷ The BRI is estimated to reduce the average shipping time for all country-pairs in the world from 22.9 days to 22.3 days (upper bound) i.e. a reduction of around 15 hours or of 2.7 percent including those countries that do not host any BRI transport projects.

⁸ Refers to upper bound scenario which assumes the ability to switch trade between different transport modes once transport projects are completed. Restricting trade to the same transport mode (lower bound) results in a reduction of time to trade of 13.6 percent.

if the completion of BRI transport projects is accompanied by reforms in trade facilitation and logistics that succeed in halving border-crossing delays (Baniya et al 2019, Figure 5).

23. Trade costs will fall too. Shipment time affects trade flows just as tariffs and freight costs do, because customers and firms' value accessing goods in a timely manner, and any delay in serving different markets reduces trade flows.⁹ Reductions in shipment time, either through improvement in transport infrastructure and/or in the efficiency of border-crossing, will lower Uzbek trade costs too,¹⁰ though no estimate of that decline is available.

Box 3: Electricity and ICT infrastructure and gaps*

The analysis in this note is focused on transport connectivity and economics; however, other infrastructure will also be important for countries to be able to reap the benefits of improved transport connectivity and this box provides some information on the infrastructure and gaps in energy and ICT.

Energy. The power sector has expanded to support economic growth, but inadequate investment over time is emerging as a constraint to the adequacy of supply and its reliability a problem. The generation mix is excessively dependent on gas thermal plants that provide more than 80 percent of the country's power generation; followed by hydropower and coal, with solar power having a negligible share in the total. Nearly two-fifths of installed generation capacity is past or close to the end of its operating life while the older thermal units continue to use gas inefficiently. There are bottlenecks in transmission with several grids past their service-life resulting in unreliable supply and large technical losses. Most of Uzbekistan's generation, transmission and distribution assets are owned and operated by numerous subsidiaries of a single state-owned holding company, Uzbekenergo. Uzbekistan is ranked as a relatively high 36 place in the world for "Getting Electricity" indicator of the 2020 Doing Business Report, reflecting relatively low number of procedures that are completed faster compared to peers in the ECA region. Reliability is high with low outages and an adequate institutional and oversight functions.

At the same time, investment needs can be reduced if existing inefficiencies in demand are tackled. The industrial sector is the largest consumer of electricity, followed by agriculture, and each use power rather inefficiently because of outdated and energy inefficient industrial machinery and water-pumping facilities. The residential and public buildings are also energy inefficient.

Investment in the Uzbek electricity sector has historically been publicly funded, but other options may have to be explored in future. Uzbekenergo has limited resources to invest given the tariff structure which could be below cost-recovery levels. Under the current institutional set up, the government is planning to introduce contract-based independent power producer projects through tenders for build-own-operate (BOT) arrangements to promote private funding of generation. China has financed several power generation projects in recent years, including a thermal power plant at Angren as well as substantial upgrading of three hydropower plants around Pakem river. Other investments in the sector are under discussion.

ICT. Uzbekistan's telecom market remains un-liberalized, and the state-owned Uzbektelecom has a monopoly on the international gateway. According to the Ministry of Information Technologies and Communications (MITC), the international internet bandwidth reached 1.2 Tbps by November 2018, but independent sources put this value at much lower levels. MITC also has reported that as of April 2019, the total length of fiber optic communication lines in the country reached 30,000 km. There are six transnational connections. There are no restrictions on licensing operators of domestic long-haul and inter-city networks, and some mobile network operators (MNOs) are building their own fiber networks, but the incumbent operator remains dominant.

The digital connectivity of Uzbekistan is limited. Around half of the population was connected to the internet in 2018, below the middle-income country average and better performing peers in the region, suggesting that many Uzbek are yet to be touched by the digital revolution. As a double landlocked country, Uzbekistan is entirely reliant on terrestrial links (satellite connectivity is not allowed). The domestic fiber optic network is still low for a country

⁹ Trade cost equals the sum of the cost of tariff, the cost of freight and cost of shipment-time, all expressed in ad valorem terms.

¹⁰ However, the same fall in shipment time in two countries can generate differing magnitudes of decline in trade costs because some goods are more time-sensitive than others and the composition of trade in respect of such goods may differ in the two countries.

its size. There is still no connectivity (mobile and fixed) in over 400 villages of the country and over 70 percent of all villages has only 2G/3G mobile connectivity, which limits further expansion of higher mobile connectivity (e.g. LTE) in those areas. MITC has announced plans to deploy 120,000 km of fiber optic infrastructure across the country during 2019-2021, to include connecting all public schools and hospitals by the end of 2021. Plans are to cover all settlements with 4G by 2023.

So far, there have been no Chinese investment in the sector, but this may change soon. The authorities have discussed with Chinese companies Huawei and CITIC Guoan Information Industry plans to invest over US\$1 billion in the development of Uzbekistan's digital infrastructure, including 5G technologies.

Uzbekistan needs a strategic plan or roadmap to guide transformation of its telecommunications sector during the country's transition to a market economy. The lack of such a document is resulting in a piecemeal approach that is impacting sector investment and development. The priority reform needed is liberalization of the international gateway access and allowing all operators direct connection with simplified notification-based licensing procedures. A multi-sector integrated and shared approach to planning and investment in essential telecommunications infrastructure that includes all network operators (including electricity, railway and other sectors), as well as shared use of telecommunications infrastructure owned in other sectors on an open access, non-discriminatory, transparent basis, are key. Simplification of the complex licensing procedures for MNOs and providing for the issuance of unified licenses to increase competition within the mobile sector is also important. A predictable tax and regulatory regime is required to attract investment into the sector. Assurances against arbitrary re-allocations of radio frequency spectrum, while ensuring efficient use of such resources within the sector is critical for development of mobile broadband.

*/ Energy information based on Aldayarov et al (2017); ICT on Raja (2019, unpublished)

5. Potential Economic Impact of the BRI

24. The BRI transport projects in the region and around the world will have a positive impact on Uzbek trade, FDI and GDP. The BRI-induced fall in shipment time and associated decline in trade costs will raise exports and also change its composition towards more time-sensitive items. Higher FDI inflows into increasingly profitable opportunities and greater access to imported inputs are likely to boost productivity and GDP. However, the benefits will not be equitable shared. The authorities could, however, magnify the impact of BRI improvement in transport on trade, FDI and GDP and mitigate potential risks through complementary reforms in several areas. Among them are the reforms that improve trade facilitation and cooperation with regional partners, promote better logistics and transport services, that liberalize the country's trade and business climate further, and/or policies that enhance the domestic supply of time-sensitive goods. In addition, complementary investments in power and/or in roads that connect better the hinterland to country's major transport hubs as well as expansion of education and health services and facilitating labor mobility around the country are also likely to widen the benefits from BRI. This note presents the results of the analysis undertaken prior to the COVID-19 pandemic and does not take capture the ongoing discussions about near-shoring production and reconfiguring global value chains. While the COVID-19 impact is likely to be profound, the case for international trade, through differences in comparative advantage, specialization and economies of scale, remains strong.

Recent Trade Flows

25. Prior to the COVID-19 pandemic, Uzbekistan's trade was growing. It expanded from around US\$4.7 billion to around US\$27.2 billion between 2000 and 2013. The impact of lower commodity prices reduced trade flows, but these have started to recover in recent years to reach US\$28.5 billion by 2018. Total trade accounted for only around a quarter of GDP during 2015-16 but has recently picked-up to around 50 percent, still suggesting limited trade integration of the country. Rapid growth of exports of

natural gas and minerals complemented the increase in imports. Total exports amounted to US\$11.2 billion in 2018 of which gas and metals and agriculture products accounts for a third each. The share of manufactures was around a quarter of total exports, mostly in garments, plastics and chemicals. Imports recovered robustly in 2018 (to reach US\$17.3 billion) after stagnating since the 2014 adjustment in commodity prices.

Table 2: Share of Major Trading Partners in Uzbek Trade
 (in % of total)

	EU		Russia		China	
	2000	2018	2000	2018	2000	2018
Total Trade	13.6	10.5	19.0	17.9	24.5	20.0
Total Imports	20.5	14.7	19.1	19.5	18.6	20.4
Total Exports	2.5	4.0	18.8	15.5	34.0	19.3

Source: IMF, Direction of Trade

26. There was also a redirection of Uzbek trade towards China in the same period, due in part to the greater improvement in its eastward gas network connections, though this reliance has diminished recently. China’s share in Uzbek trade peaked at around 27 percent in 2007; however, declining natural gas prices and demand from China lowered it to around 18 percent by 2016. It has since recovered to around 20 percent. Russia’s share dipped slightly as did the share of the EU. Other major destinations include Switzerland (where most of Uzbek gold is exported) and Turkey.

27. Energy products dominate the exports to China. China accounts for around a fifth of total Uzbek exports and fuels (petroleum gas) are above 60 percent of these. Manufactures account for close to 30 percent, mostly in textiles (cotton fiber and yarn), metals (copper) and chemicals. Agriculture products were a relatively minor 3.4 percent of total exports.

Impact on Exports

28. The completion of BRI transport projects is estimated to increase Uzbekistan’s exports by 13.2 percent (Baniya et al 2019).¹¹ This is one of the largest projected export increases among BRI countries and reflects the sizeable decline in the time to trade. In addition, if complementary reforms that halve border-crossing delays are implemented in parallel with the completion of BRI transport infrastructure improvements, Uzbek exports could increase by as much as 23.3 percent. Other scenarios, involving improvements in corridor management and decreases in congestion, can also have a more favorable impact on exports.

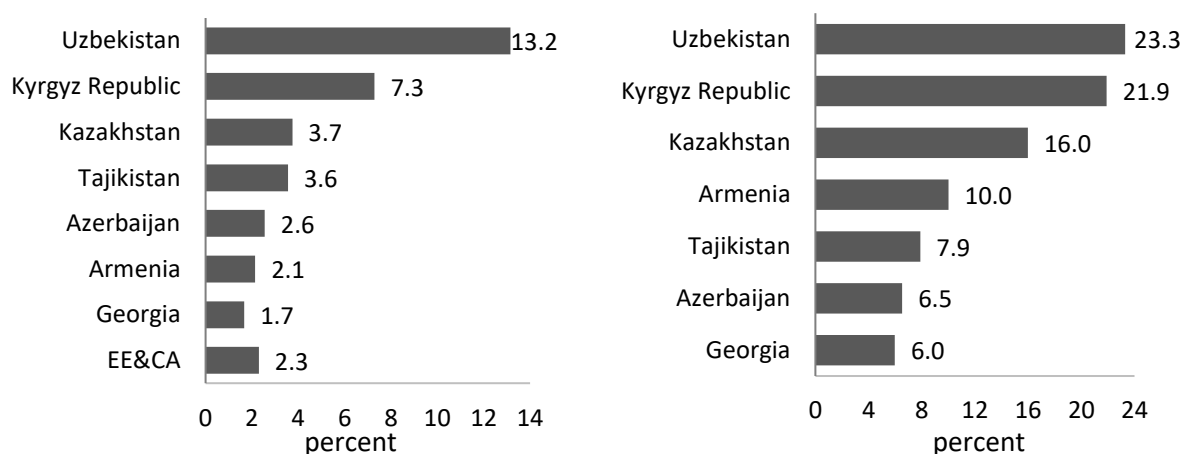
29. The reduction in shipment time is also likely to shift the composition of Uzbekistan’s exports towards more time-sensitive goods. Baniya and other (2018) use a gravity model to estimate the responsiveness of 15 different export groups of BRI countries to shipment time and find considerable variation among them. Presented in descending order in terms of degree of responsiveness to same reduction in shipment-time, the 15 product groups includes: wood products, glass products, vegetable products, mineral products, raw hides, skins and leather, animal products including meat, chemicals, metals, textiles, electrical machinery, transport equipment and footwear.

30. Notwithstanding the improvement in the competitiveness of some product groups due to lower shipment time, not all of them can translate into strong export growth items for Uzbekistan. That will

¹¹ Total exports between BRI countries are estimated to rise by 5.2 percent. These estimates here refer to upper-bound estimates based on the assumption that shippers can switch transport modes from maritime to rail when BRI improvements in transport infrastructure make such switching optimal.

depend on which groups/items line up well with the country’s comparative advantage given adequate external demand, and how favorable are domestic supply conditions to sustain such growth. In the case of Uzbekistan, agriculture, processed foods and various manufactured items line up well with its existing and potential comparative advantage. But there are likely to be significant constraints to expanding their supply competitively under current conditions. This is because Uzbek trade and investment regime may inhibit foreign investors and exporters from responding adequately to the fall in shipment time. Existing restrictions on farmers’ use of farmland limit their ability to move acreage to horticulture and/or livestock-fodder cultivation (World Bank 2019). In the near term, growth in manufactured exports may be similarly constrained; given today’s situation, adequate restructuring of its long-protected state-run manufacturing will take time to become competitive and to face rising competition from imports from China. However, aggressive reforms aimed at liberalizing the trade and investment regime, introducing more balanced allocation of farmland¹² to horticulture and other crops, and facilitating restructuring of the manufacturing sector could translate the BRI boost from lower shipment time into future growth of agricultural and manufactured exports.

Figure 5: Trade is expected to increase, but much more if complemented by trade facilitation reforms (in %) (in %, assuming 50 percent reduction in border delays and no maritime preference)



Source: Baniya et al. 2019

Impact on FDI

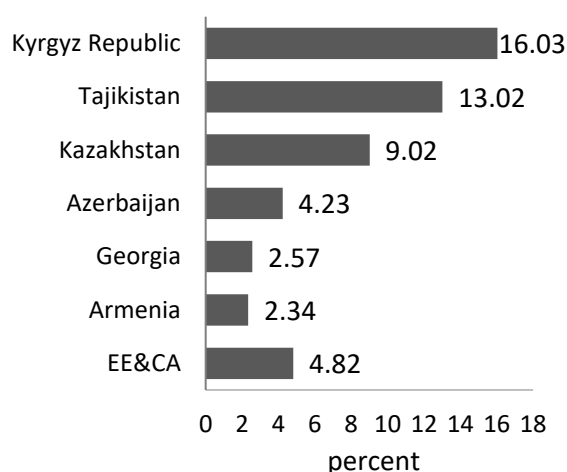
31. The BRI is expected to increase overall FDI inflows to BRI countries. A reduction in shipment time raises competitiveness of exports, especially of more time-sensitive ones, and thus encourages additional foreign investment. Also, under the BRI, FDI from Chinese enterprises to BRI countries are encouraged and are part and parcel of BRI efforts to catalyze trade and growth in these countries and promote deeper integration in general and with China in particular. Recent estimates of the BRI impact on FDI in BRI countries (Chen and Lin, 2018) find that a 10 percent reduction in shipment time increases overall FDI flows into BRI countries by 12 percent, on average, and Chinese FDI flows into them by 7 percent. While there is no country-specific estimate for FDI for Uzbekistan, a fall in shipment time and in trade cost will increase competitiveness of many time-sensitive exports and encourage FDI into some of them.

¹² A more balanced allocation of farmland could increase agricultural production by 51 percent, employ 16 percent more people, and save 11 percent water by 2030 (World bank 2019).

32. Uzbekistan’s gas and mining sectors have been attractive to both western and Chinese investors but since 2010 more of Chinese FDI has moved into manufacturing and agriculture. The data in the Global Investment Tracker (GIT) compiled by AEI & Heritage Foundation shows 14 individual Chinese investment transactions in Uzbekistan amounting to a total of more than US\$5 billion between 2010 and 2017; of these, four FDI projects were in gas exploration and production, four in real-estate, two in agriculture and two in chemicals. In chemicals and agriculture, Chinese FDI is found in soda and potash plants, various other fertilizer plants as well as in agricultural machinery (Kuchins et al, 2016).

33. China has been investing in special economic zones, free trade zone and industrial parks around the BRI corridors to catalyze investment, production and export in BRI countries. Uzbekistan has special economic zones (SEZs) in Navoi, Angren and Jizzakh, with the last built by a Chinese private investor in collaboration with the Uzbek government.¹³ A number of Chinese companies have invested in Jizzak and in Angren zones to produce mining equipment, ICT equipment (telecom, cell phones), building materials (plate-glass, ceramic tiles, high-speed elevators) and light manufactures (artificial leather, shoes, pet food, textiles).¹⁴

Figure 6: Increases in FDI
(in % from baseline)



Source: Chen and Lin (2018)

Impact on GDP

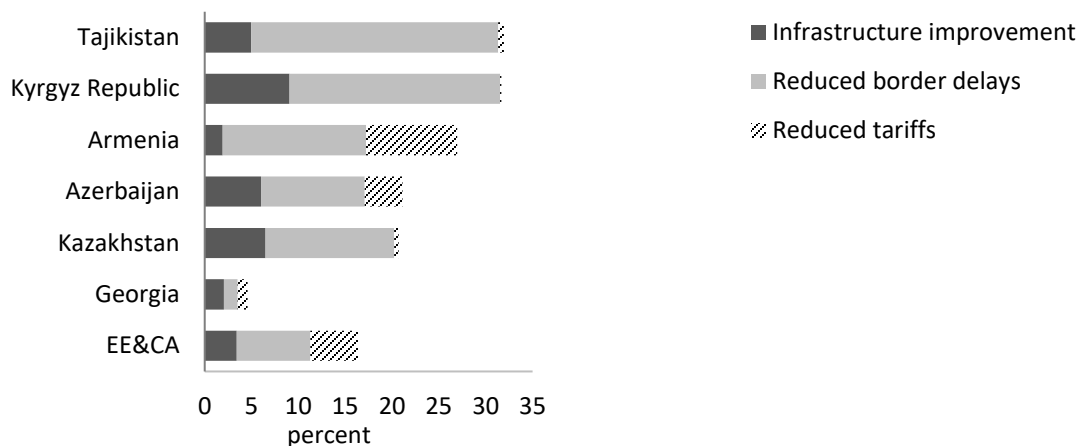
34. While there is no specific estimate for Uzbekistan, the potential impact on growth could be sizeable. Lower shipment time generates higher FDI and exports which in turn improves productivity and raises GDP. Lower shipment time can also reduce prices of imported inputs and production cost which when passed on to downstream industries results in reallocations of specialization within and across countries and raises productivity growth. There is no country-specific estimate for Uzbekistan on the magnitude of BRI impact on GDP, but a strong positive impact is likely given the large expected impact on Uzbek exports, especially more time-sensitive export groups. In most countries of the CAC region (Figure 7), the bulk of the impact on GDP comes from reforms in trade facilitation and logistics as well as liberalization of trade policy; this will be even more so for Uzbekistan, a late-reformer. Given the high cost of transport projects, complementary reforms that improve the integration gains and that strengthen

¹³ A Chinese private firm from Wenzhou invested in infrastructure, factory buildings and warehouses for the Pengsheng Industrial Park in Jizzak (China Daily 2017), which has attracted a large number of other Chinese investors in many subsectors.

¹⁴ Chinese firms Nang Yang Mulanhu, Henan Sine, Pinmian Co Ltd and Hebey An Feng Da Group invested around US\$56 million in six textiles projects (Lain 2016).

fiscal institutions and governance become even more important to ensure that welfare gains¹⁵ remain substantial.

Figure 7: Increases in GDP
(in % from baseline, SGE analysis)



Source: de Soyres, Mulabdic and Ruta (2019)

Spatial Impact

35. Spatial analysis suggests that benefits of improvements in transport are likely to be associated with regional concentration of economic activity. Economic growth is unbalanced (World Bank, 2009); for example, urban hubs that are closer to border crossings tend to gain disproportionately more while those farther away will be relative losers. At the same time, transport improvements alone cannot offset disadvantages of unattractive locations. Cities and regions with better amenities and a significant manufacturing sector can benefit substantially more because of the potential for increasing returns and agglomeration economies.

36. Similarly, improvements in BRI connectivity are likely to be associated with more spatial concentration, rather than dispersion of economic activity within countries. Most of the gains expected from the improved connectivity do not accrue from the direct impact of the reduction in trade costs, rather, they accrue from income gains related to the response of economic agents which tend to increase scale and to benefit from agglomeration by locating near other firms engaged in similar and related activities. The results of a spatial general equilibrium model for Central Asia suggest that economic adjustment generates gains overall, but also winners and losers.¹⁶ Under the baseline scenario (limited adjustment), the model finds that overall gains will be limited to the direct impact of reduced trade costs. However, some economic mobility (allowing firms to enter and exit) brings higher benefits for some countries, though overall gains are smaller. Finally, allowing firms and labor to adjust increases the overall gains for the entire region with some countries benefiting significantly more; however, some countries benefit much less.

¹⁵ In the SGE model, welfare is defined as total consumer revenues divided by the relevant consumption price index. Total revenue takes into account payments to factors of production, revenues derived from the portfolio share and from import tariffs, and the cost of the transport infrastructure.

¹⁶ The model analysis few scenarios of economic adjustment: a) Armington, where it is assumed that producers and consumers change behavior while number of firms remains unchanged; b) monopolistic competition where firms' entry and exit is allowed and c) increasing returns and labor mobility.

37. Given the Uzbek economic structure, this may mean more significant opportunities compared to peers. This reflects the potential for agglomeration gains, including a manufacturing base and a few large urban areas providing opportunities for specialization and clustering. The results of the spatial general equilibrium model suggest that without economic adjustment, the gains from the decline in transport cost are around 0.7 percent of GDP for Uzbekistan. The gains in real income increase slightly (to 0.8 percent) in a scenario of limited economic adjustment (i.e. Armington scenario). Expected gains increase further if assumptions allow for businesses to change location (to 1 percent) or assuming labor mobility and increasing return to scale in manufacturing (to 1.6 percent).

Table 3: Real income gains, by country

	Direct effect of transport cost decline	Average real income growth		
		Armington	Monopolistic competition	Increasing returns and labor mobility
China (3 provinces)	1.2	1.2	2.0	2.5
Kazakhstan	1.9	1.6	2.1	5.2
Kyrgyz Republic	1.6	4.9	4.4	4.6
Pakistan	1.5	1.8	2.3	6.3
Tajikistan	1.6	1.7	1.5	1.0
Turkmenistan	0.4	0.3	0.0	-0.3
Uzbekistan	0.7	0.8	1.0	1.6
Aggregate	1.4	1.4	1.0	1.6

Source: Belt and Road Economics

38. The differentiated impact also increases risks for parts of the population. In fact, industries that will face greater competition (for example, some manufacturing sectors) could lose jobs. In addition, while some districts reap large benefits from the fall in transport costs, other districts could see more limited gains. (Lall and Lebrand, 2019) estimates that several urban centers in Uzbekistan like Jizzak, Samarkand, Sirdaryo, Surxondaryo and Tashkent are likely to benefit more than others.

6. Complementary Policies to Accompany BRI Transport Projects

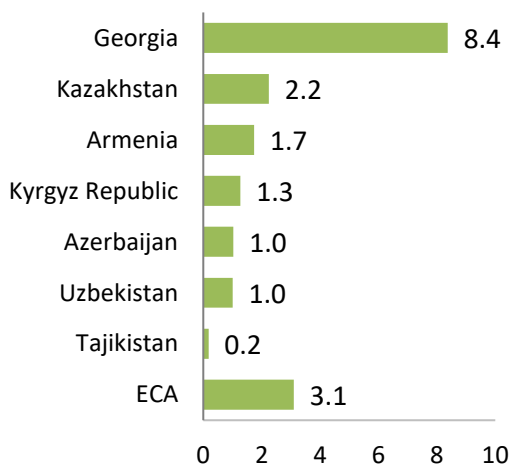
39. Notwithstanding the importance of better transport infrastructure for Uzbek trade and development, complementary policies are needed to maximize BRI benefits and mitigate risks. This is particularly relevant where border-crossing is very slow due to inefficiencies in trade facilitation and logistics or where the extent of private FDI or export response to lower shipment time is constrained by a poor investment and trade climate or where sector specific constraints prevent domestic supply from expanding for time-sensitive exports. This section identifies some of the measures that may be needed in these areas in Uzbekistan.

- a. *Reform trade facilitation and logistics to reduce border delays:* All estimates of BRI impact on exports and GDP highlight how the favorable impact of better transport is magnified by more efficient border crossing and Uzbek borders performs poorly in this respect. On trade facilitation, customs, documentary requirements need to be streamlined. The adoption of a single-window, automation of a paper-based process and the use of a risk-based system of clearance instead of full physical inspection can reduce delay significantly. Additionally, introducing Authorized Economic Operators and implementing pre-arrival processing of declarations can speed up trade processes. Uzbek logistics performance will need to improve too to reduce the high degree of unpredictability in the supply chain. Though there are many local logistics companies, they lack the skills to deliver integrated multimodal door-to-door services. Also, the infrastructure facilities at many of the dry ports/terminals are inadequate for efficient transfer and consolidation of cargo. The government could encourage entry of reputed foreign logistics companies (wholly

owned or joint ventures with locals) so that more value-added services can be offered to Uzbek shippers than is currently the case thereby making supply chain more reliable and Uzbekistan more successful as a transit corridor.

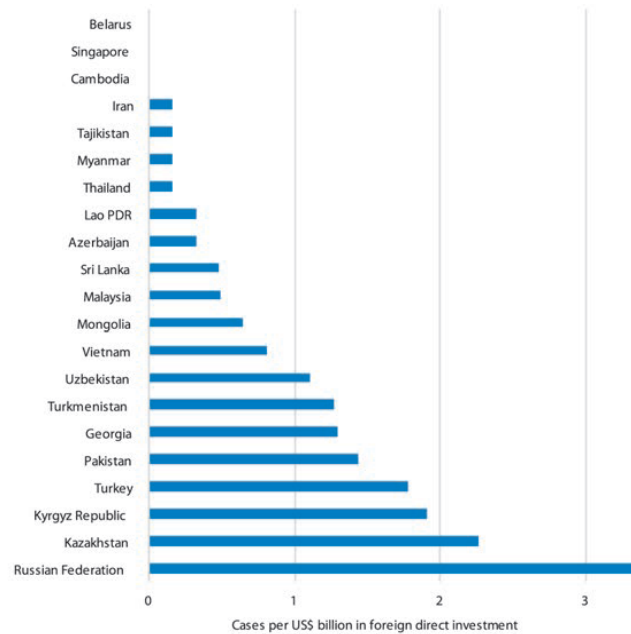
- b. ***Liberalize the climate for investment and trade:*** Uzbekistan ranks 69 in the 2020 Doing Business, a massive improvement from earlier years and reflecting robust reforms in recent years. At the same time, it is not yet a member of the WTO with a significant unfinished agenda in improving its trade and investment regimes. In addition, while the legal framework provides for reasonable investment protection, investor-state disputes are frequent suggesting significant weaknesses in the governance and rule of law arrangements. The government has already embarked on many of these reforms. Three new agencies have been established under the Ministry of investment and foreign trade to liberalize trade and FDI, like the Council on tariff/non-tariff regulation; the Agency for attracting FDI, and the Agency for transfer of advanced foreign technology. There is now also an operational one-stop shop for vetting and approving foreign investment proposals. It is also in negotiation for WTO accession. These reforms would be critical to unlocking the entrepreneurial potential of the Uzbek population and increasing firm entry as well as attracting reputable FDI. Reforming the network industries (telecommunications, power sector, rail) has the potential to considerably improve services while also attracting private sector investment.

Figure 8: Firm entry is low
 (firm entry per 1,000 working age population)



Source: World Bank
 Note: Data is for 2016.

Figure 9: Investor-state dispute are frequent
 (arbitrage cases per US\$ billion in FDI)



Source: Kher and Tran (2018), based on UNCTAD Investment Dispute Settlement Navigator.

- c. ***Stronger regional cooperation:*** The estimated gains from improved infrastructure are conditional on the improvements being undertaken on the entire transport network. This calls for stepped-up cooperation between countries. While there has been no lack of cooperation initiatives in South Caucasus and Central Asia, these appear to have had only limited usefulness. The CAC economies are parties to numerous trade and transport facilitation frameworks which aspire to

create frameworks for more efficient trade and economic integration.¹⁷ However, selective coverage of trade and transport issues, complex rules, as well as lack of functioning dispute resolution mechanisms have limited their effectiveness. To strengthen regional cooperation, countries will need to build on the existing arrangements, but also establishing new ones. In the case of Uzbekistan, significant gains are available from joining the World Trade Organization (WTO) and ensuring regional integration efforts are done in line with good international practice. Harmonization and standardization with corridor countries will result in interoperability which is imperative for efficient and effective trade and transport flows along a corridor.

- d. *Remove sector-constraints to agricultural production and diversification*: The existing farmland use in Uzbekistan is heavily skewed towards cotton and wheat, by the government's decision to allocate land for their production. In 2017, nearly two thirds of the irrigated agricultural land was under these two crops. While planned farmland allocation is likely to stay, reducing cotton and wheat allocation and shifting land to horticulture and other crops will be necessary to generate growth and diversification of agricultural output.
- e. *Restructure state-run manufacturing sector to make it more competitive*: Uzbekistan has the largest industrial labor force with significant manufacturing skills in the region. But history of protected state-run manufacturing has rendered a lot of it uncompetitive internationally. While ongoing price liberalization and tax reforms will create the incentives for many of these firms, it will be also important to restructure to smooth the transition; without the latter, time-sensitive manufactured exports may not grow substantially even with the BRI reduction in shipment-time.
- f. *Adopt policies to deal with the spatial impact of the BRI investments*, including mitigating the impact of job losses through re-skilling or social policy, facilitating labor migration (simplifying procedures and providing affordable housing) and preparing urban centers to accommodate the expected expansion (improving public services, city planning and so on).

7. Fiscal Risk of Scaling-Up Public Investment for BRI Infrastructure

40. The scale and bunching of BRI transport investments and the size of borrowing to finance such investment and their terms have raised questions about medium term debt sustainability of BRI countries. Uzbekistan has invested significant resources in recent years in improving its own infrastructure, including Uzbek segments of BRI corridor infrastructure,¹⁸ and plans to invest more in future. It has largely relied on its own surplus public resources, including resource rents, as well as relatively limited borrowing from bilateral and multilateral sources, including from China. Uzbekistan's fiscal risk stem less from the recent scale-up of its BRI infrastructure investments and more from the overall adjustment costs it is likely to incur from the recent and ongoing reforms and economic transition that is under way. Assessing BRI specific fiscal risk is, however, difficult. Though a host of Uzbek rail and road projects¹⁹ have either been recently completed or are ongoing, there is limited information on the Uzbek public investment spending on BRI infrastructure. Data on borrowing from China for transport

¹⁷ These include: the Eurasian Economic Community; the Shanghai Cooperation Organization; the Economic Cooperation Organization; the Transport Corridor Europe-Caucasus-Asia (TRACECA), the Central Asia Regional Economic Cooperation (CAREC) and so on.

¹⁸ BRI projects are investments in Uzbek segments of the BRI corridor routes (Box 1) irrespective of their sources of financing, as well as infrastructure investments outside the BRI-corridors only if they financed by China.

¹⁹ Using a list of completed, ongoing and planned Uzbek transport projects along BRI-corridor routes, De Soyres et al (2019) uses a bottom-up method to estimate that Uzbekistan will have spent a total of more than \$5 billion on BRI transport projects, when they are all completed. Section 3A mentions some of BRI-investments in 2014-17.

infrastructure could be used as a good proxy, however, it is unclear how much of it was used for BRI infrastructure.

41. With over a decade of fiscal surpluses since the start of the 2000s, Uzbekistan has sufficiently strong public finances to underpin the significant economic transformation, though the COVID-19 pandemic is putting a strain on fiscal accounts. The country's fiscal surplus has ranged between 1.5 and 10 percent of GDP since 2003. This position has weakened somewhat since the start of the transformation in 2017 because of higher spending to offset adjustment costs on the economy and vulnerable people. The economic impact of COVID-19 is likely to push the fiscal balance to a deficit of almost 6 percent of GDP

42. Still, public debt, most of which is external, is relatively low in Uzbekistan. It rose from 8.3 percent of GDP in 2014 to 20 percent in 2017, largely due to a weakening of the Uzbekistan som, which was unified with the parallel market in 2017. Since then, the Government has increased its bilateral and multilateral external borrowing to finance public investments linked to ongoing reforms, including a US\$1 billion from the sovereign bond market in early 2019 pushing debt to around 29 percent of GDP. With growth plummeting and the fiscal balance deteriorating in 2020, debt is expected to reach close to 35 percent of GDP.

43. Uzbekistan maintains a low risk of debt distress. The fiscal balance is expected to recover as the impact of the pandemic subsides helping to keep debt at around one third of GDP over the medium term. According to the latest Debt Sustainability Analysis (DSA), all debt indicators remaining below the relevant thresholds under the baseline and under most stress tests, though the impact of the pandemic exacerbates the risks of weaker exports and remittances, higher fiscal deficits and government guarantees for state-owned enterprises.

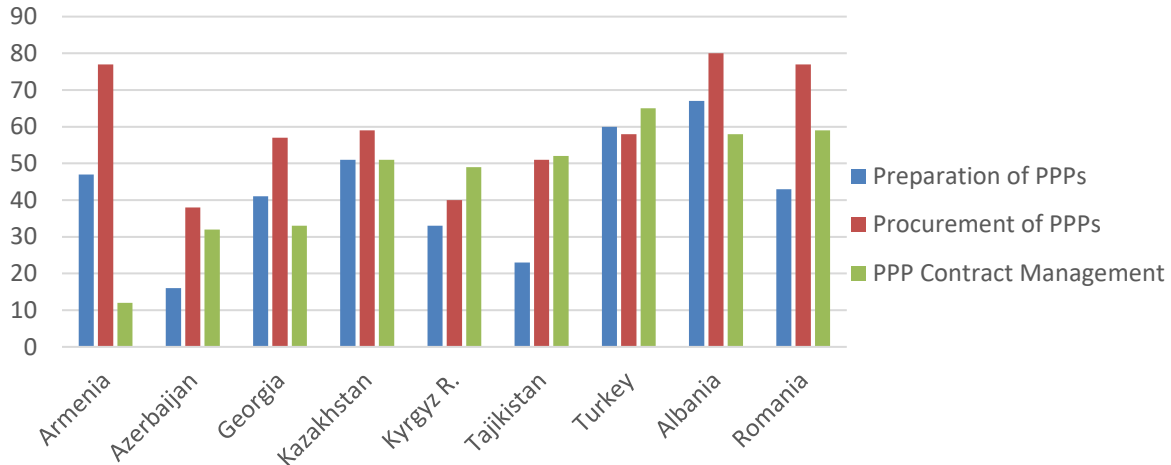
44. Against this background, and once the impact of the COVID-19 pandemic subsides, the country has some fiscal space to increase government investment in BRI infrastructure without undermining debt sustainability. Additional BRI investments are unlikely to generate sufficient additional growth to prevent a deterioration in the debt indicators. (Bandiera and Tsiropoulos, 2019) estimate that implementation of all BRI related projects in Uzbekistan over the next five-year period will add between 2.7-3.6 percent of GDP to investment per year and generate additional GDP growth of between 1.2-1.7 percent a year. There may also be fiscal risks associated with BRI investment projects (e.g. cost overruns, delays, overestimated benefits and so on). But the debt situation and the fiscal position of Uzbekistan is sufficiently strong to sustain these investments and maintain medium term debt sustainability.

45. To minimize the risk of fiscal instability from a scale-up in public investments, including BRI-related investments, Uzbekistan's authorities are also strengthening its fiscal institutions along several dimensions. First, given the multi-year implications of scaled up infrastructure investments and their recurrent spending requirements, the Government is establishing medium-term budget frameworks to reduce reallocations and/or delays in project execution because of the need to re-prioritize investment. Second, the government is in the process of strengthening its fiscal and debt management frameworks, including through a new proposed Budget law which will include clearer and more transparent coverage of the government's intentions to raise further public debt. The Government is also in the process of developing a medium-term debt strategy to ensure sustainability in its use of public debt. The government is also investing in better fiscal risk management tools as it explores the greater use of PPPs and guarantees.

46. The authorities are also implementing measures to encourage private sector participation in infrastructure provision. Uzbekistan's experience with private sector infrastructure provision has been more limited than others. The World Bank's database on Private Participation in Infrastructure lists only

six cases, three in telecommunications and one in each of water, rail and electricity. As part of the ongoing transformation, the Government is deregulating its monopoly over infrastructure sectors to increase private investment and participation. Simultaneously, it has begun to establish legal, regulatory, and institutional frameworks to enable the use of PPPs and other modalities to attract private investment in infrastructure provisions. The authorities are also aware of the increased fiscal risks associated with this shift and are working with development partners to implement improved public investment management frameworks and fiscal risk management practices.

Figure 10: Quality of PPP processes
(score, on a scale from 0 to 100, higher values indicate better performance)



Source: World Bank Procuring Infrastructure Public-Private Partnership

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Annex: BRI Transport Projects in the Central Asia and Caucasus Region

BRI Transport Projects	New, Upgrades and Expansion	Countries	Status: Operational, Ongoing, Planned
Urumqi-Khorgas rail proj.	Urumqi-Khorgas new rail link	China	-2012
Khorgas New Dry Port	New Rail Terminal, Truck Terminal, Logistics Center & Free Trade Zone	China, Kazakhstan	-2012 (partly) -2015 (fully)
Moscow-Kazan rail proj.	Moscow-Kazan High Speed Rail upgrade	Russia	-Under construction
Khorgas-Aktau Rail Project	-Khorgas-Zhetigan (293 km) -Jezkazgan-Saksaulsky (546 km) -Beyneu-Salkar	Kazakhstan	-2014 -2014 -2016
Aktau Seaport Expansion	-Sealink -Container port -Expansion of Port Facilities	Kazakhstan	-2000 -2014 -Under construction
North South Uzen-Gorgan rail proj.	-Uzen-Bolashak -Serkhetyaka-Bereket- Iran border -TKM border-Gorgan	Kazakhstan Turkmenistan Iran	-2013 -2014
Baku-Alyat seaport	-Sea-link to Aktau -Sea link to Turkmenbashi	Azerbaijan, Kazakhstan Turkmenistan	-2014 -2016
Baku-Tbilisi-Kars-Istanbul rail proj.	Baku-Tbilisi upgrade Tbilisi-Kars new rail segment	Azerbaijan, Georgia Georgia, Turkey	-2016 -2017
Marmaray Tunnel	Marmaray rail project	Turkey	-Under construction
Kashgar-Pap Tashkent rail project	Kashgar-Irkeshtam-Osh rail proj Angren-Pap rail link to Tashkent	China, Kyrgyz Republic Uzbekistan	-Proposed -2015
Samarkand-Mashad rail	Samarkand-Mary-Saraks-Serakhs-Mashad upgrade	Uzbekistan, Iran, Turkmenistan	-2016
Mashad-Tehran rail Upgrade	Mashad-	Iran	-Ongoing
Kashgar-Dushanbe rail proj.	Kashgar-Irkeshtam-Karamyk-Dushanbe new rail link	China, Kyrgyz Republic, Tajikistan	-Proposed
SherKhan_Herat rail	SherkhanBandar-Kunduz-MazareSharif-Herat new rail & upgrade	Afghanistan	-Under construction
Dry ports and hubs			
Atyrau, Shymkent, Astana, Almaty		Kazakhstan	Except for Astana, proposed for modernization & expansion
Andijan, Samarkand, Bukhara		Uzbekistan	
Bishkek, Osh		Kyrgyz Republic	
Tursunzade, NiznyPanj, Jirgital		Tajikistan	

Source: Reed & Trubetskoy (2018) compiled a list of BRI projects from which projects in the CAC region are cited.