

NEWSLETTER

INTERNATIONAL

 ENGLISH VERSION

UZBEKISTAN



UZBEKISTAN – NEW PLAYERS, NEW OPPORTUNITIES

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"THE WEST IS A PREFERRED ECONOMIC PARTNER"

How is the German economy represented in Uzbekistan today?

We have around 225 German companies on site, and their number is growing slowly but surely. Most maintain sales offices. But there is also a significant number of German companies currently investing in the region, among which are Knauf with its three plants in the building materials sector, Lemken and Claas in the agricultural technology sector, Volkswagen and MAN with production in Bukhara. Deutsche Kabel AG operates a plant in Tashkent and recently opened another location where fiber optic cables are produced.

The German economy has invested a good 800 million US dollars in the Uzbek economy, which puts it in fourth place after China, Russia and Turkey. German-Uzbek foreign trade last year amounted to 760 million US dollars, 90 percent of which was German exports.

Of course, the Uzbek side cannot agree with such a relationship in foreign trade and attempts are being made to promote exports, for example in the field of agricultural products. Germany mainly exports machines and plants, as well as chemical and pharmaceutical products.

To what extent has the interest of German business changed since the Russian attack on Ukraine?

Interest has changed, that's for sure. Central Asia as a whole has increasingly come into focus, for a number of reasons.

One of them has received a lot of coverage in the press: the relocation of German companies from Russia to Central Asia. These are not dozens of companies, but movements of this kind do take place selectively.

Other companies have worked closely with Russia and now have to look for new sales or purchasing opportunities. Incidentally, similar relocations are also taking place from Belarus. The number of corresponding inquiries at the AHK has increased again in recent weeks, probably because the hope of things returning to the way they were before is fading.

But I would also like to say clearly that the trend in Uzbekistan was positive before that. Under President Mirziyoyev there was a wave of reforms and significant economic liberalization that improved the framework conditions.

However, it should also be noted that this potential is largely seen by companies that were already active in the region.



Hovsep Voskanyan is the delegate of German business in Central Asia - he represents the interests of German companies in Uzbekistan, Kazakhstan, Turkmenistan, Tajikistan and Kyrgyzstan. Before that, he worked for Commerzbank in Frankfurt and Belarus for almost twelve years.

CENTRAL ASIA



UZBEKISTAN

Area
448.978 km²
Population
ca. 35 mln.

What opportunities lie in wait for German companies in Uzbekistan?

This question is difficult to answer in general terms. The reform agenda in Uzbekistan is being advanced across the board, many areas may be of interest. The country has 34 million people and a robust population growth, rising average incomes and an enticing domestic market. Due to the still low wages, Uzbekistan is a cheap production location, due to the long-term isolation policy under President Karimov, there are large catch-up effects that lead to high economic growth.

Uzbekistan offers fossil and sustainable energy sources and many other raw materials such as copper and gold. The country has the required budget to implement the necessary reforms, and therefore, offers opportunities in many areas. In addition to the textile industry, other noteworthy sectors include the mining and mining technology, metallurgy, chemical, pharmaceutical sectors, as well as the light industry.

More and more German companies are also starting to source staff in Uzbekistan: IT specialists, truck drivers and nurses, also because Eastern Europe, at this point, cannot satisfy the growing demand for talent in these areas.

What challenges do German companies face in Uzbekistan?

We are still at the beginning rather than the end of the reform process and bureaucracy remains an issue. The representatives of the state structures themselves do not always know the applicable norms.

Uzbekistan maintains a large bureaucracy with a number of ministries and many deputy ministers, and from the outside it is not always clear who is responsible for what.

The shortage of skilled workers is another obstacle. Those who have complicated processes should train themselves. We at the AHK are thinking about how dual training can be implemented. There are many young people with potential.

What recommendations would you give to a company looking to set up operations in Uzbekistan?

I would advise going into the country with support in any case. The AHK, consultants and also the German companies that are already in Uzbekistan are available for this purpose. Uzbekistan has its own Ministry of Foreign Trade and Investments, which supports investors, also through an appropriate agency. When working with these institutions, however, they should bear in mind that they not only represent the interests of the investor, but also those of the country.

Uzbekistan is one of the countries where knowledge of specific actors and their responsibilities in the branch and in the ministries is particularly important. Russian language skills will get you a long way here, but Uzbek is an increasing advantage, also in the business world.

In the investment preparation phase, the investment contract should be drafted with maximum care. Corresponding concessions are more difficult to obtain after the conclusion of the investment contract, hence, these should preferably already be included in the contract.

Uzbekistan has taken a neutral stance on the Russian war against Ukraine. From the Uzbek point of view, China and Russia are close, the West is far away. From this perspective, the West must certainly welcome and honor this neutrality. Uzbekistan wants to act multilaterally; the West is a preferred economic partner. We should take the offered hand of cooperation and not leave it to Russia and China.

"CENTRAL ASIA HAS MOVED UP THE PRIORITY LIST"

In terms of recruitment, what kind of assignments are you mandated with in Uzbekistan?

For most of our clients, Uzbekistan is primarily interesting as an export destination. The country is a major buyer of agricultural technology and also offers potential for a range of other consumer and capital goods.

Accordingly, our customers with business connections to Uzbekistan mainly pursue sales and service activities, the construction of production plants is still the exception. However, we expect that Uzbekistan, with its almost 35 million inhabitants and a favorable geographic location, will become a more important production location for the European economy in the future.

Up until now, many international companies have served Central Asia through their Russian subsidiaries. Given the current political and economic upheavals in Russia, this approach is no longer practical.

Therefore, we are seeing more and more companies looking after their Central Asian activities from their headquarters. As a result, Central Asia has also moved up the list of priorities for many. The more committed market support is certainly helpful in recognizing the potential of the region and being able to leverage it more effectively.

Most companies set up their Uzbek offices in Tashkent. The decision-makers of the local economy are concentrated here and the capitals of the neighboring republics of Kyrgyzstan and Tajikistan are within easy reach.

What are the prospects of finding qualified and motivated employees?

The conditions for recruiting qualified and motivated executives are relatively favorable in Uzbekistan. There is now a significant number of managers with professional experience in international companies, who have the language and intercultural skills to work in European companies.

The costs of setting up and maintaining a local sales organization are low compared to many other countries, including Russia or China. As of last year, the average gross salary in Uzbekistan was 510 euros per month. Of course, this statistical value should not be misleading - specialists and managers are in particularly high demand and their remuneration is many times higher.



Christian Tegethoff

Managing Director,
CT Executive Search

If specialists cannot be found locally, the recruitment of Russian workers is also an option. The upheavals in Russia have made cities like Tashkent, Bukhara and Samarkand attractive locations for many Russians. In the past few months, many Russians emigrated to Central Asia and are now principally available for the job market. Uzbekistan does not belong to the Eurasian Economic Union and Russian citizens need a work permit to work, which can usually be applied for without any problems.

Incidentally, expats with experience in Russia are also interested in assignments in Uzbekistan these days. This means that European candidates can also be considered for certain positions.

To what extent is Uzbekistan suitable as a production location from an HR perspective?

Uzbekistan offers a large reservoir of unskilled or low-skilled workers who are available for simple jobs. In fact, there is a massive labor surplus in this area. Currently, about 1.8 million Uzbeks work abroad. The remittances from these migrant workers are the livelihoods of many Uzbek families.

The salary level for these workers is very low in international comparison, even if salaries have consistently increased in double digits in recent years, above the respective inflation level. Income tax is 12 percent and the low non-wage labor costs also speak in favor of Uzbekistan as a production and outsourcing location.

However, companies that want to produce in Uzbekistan will generally not be able to avoid recruiting foreign specialists. The staffing level in the technical field is quite sparse. As a result, there is considerable demand for foreign experts, at least for a transitional period. Local workers can then be trained and qualified at the same time.

In addition to Russian specialists – Russian is still widespread as a second language in Uzbekistan – there are also Chinese experts who can be sent as expats from the company's own plants if necessary.

"A LOT HAS BEEN DONE IN THE LAST FIVE YEARS"

Deutsche Kabel AG has been active in Tashkent for many years. What made you decide to open another plant, Falk Porsche Fiberglass LLC, this year?

My family has been investing in Uzbekistan for over 25 years now. During this time, our company has steadily developed there, although of course there have been times that were extremely difficult for doing business in Uzbekistan. For example, for a long time, there was no normal conversion of the national currency into euros or US dollars, which was a serious obstacle to doing business.

However, in the last five years, the investment climate in Uzbekistan has improved significantly, the economy has been liberalized and globalized. An infinite number of new possibilities have also opened up within this reform process. Based in a country with a fast-growing economy, we have decided to invest in the production of high-tech fiberglass - roving and composites. For this purpose, we have brought new technologies from Germany to Uzbekistan and have continuously and consistently invested in development and expansion.

We see great market potential in Uzbekistan and Central Asia, combined with favorable conditions such as qualified personnel and the availability of local energy resources, including Uzbek gas.

It is extremely important, more so now, for Germany to diversify its supply chains for goods and other energy resources. I firmly believe that the production and delivery of high-tech and energy-intensive products from Uzbekistan to Germany can help reduce Germany's energy dependence on individual countries. Cooperation, especially between the large, energy-intensive industries in Germany and Uzbekistan, can and will be of enormous benefit to both countries.

How does Russia's attack on Ukraine affect your business in Uzbekistan?

Of course, the Russian war in Ukraine also had a strong impact on our business.

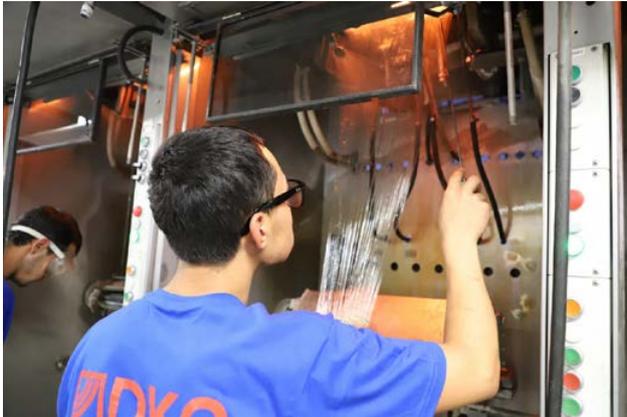
Numerous leading global companies, including many German firms, have historically worked with Uzbekistan through their Russian offices. In this way, "Uzbek issues" were often made dependent on Russian managers, who primarily took care of Russia's needs without dealing in depth with countries like Uzbekistan.

The sanctions imposed on Russia affected Uzbek companies as well, as it is often assumed, in error, that these sanctions extend to the CIS as well. We often have to prove that Uzbekistan is not Russia and that the sanctions do not apply to us. This is time and energy consuming. However, the situation to this regard seems to be improving.



Falk Porsche,

owner and shareholder of Falk Porsche Technik GmbH and Deutsche Kabel AG, which operates a cable factory in Tashkent and has just opened a new fiber optic factory.



In this context, the cooperation with Turkish companies that we need for the delivery of boron, a raw material for fiberglass, should also be criticized. Unfortunately, these frequent monopolists still reject a direct business connection to Uzbekistan and instead favor the sole processing via Russia. I don't want to speculate about the reasons for this, but they are noticeable.

In your opinion, how efficient is the Uzbek administration? What should be considered when working with the authorities?

As I said, there have been major reforms in Uzbekistan in recent years that have actually had a positive impact on the business climate. Various effective mechanisms have been and are being put in place to encourage investment. For investments above a certain amount - in certain industries and regions - one can get additional tax breaks, and the state can fully provide the external infrastructure such as energy, water and transport routes. That's a real relief. The fact that everything could go a little faster is probably a global phenomenon.

What experience do you have with the import and export of goods?

When importing equipment, components and raw materials, the state essentially exempts entrepreneurs from any duty payment, provided these goods are not available on the Uzbek market.

Duty-free import into the European Union is provided for many products manufactured in Uzbekistan.

So far, we haven't had any logistical difficulties traveling from Uzbekistan to Europe and back. Trucks with Uzbek license plates travel unhindered through all transit countries to Europe and back.

What can Uzbek politicians do to facilitate local business activity?

I think a lot has already been done in the last five years. Based on my experience, I would suggest that government officials try to get a deeper understanding of the

country's business environment and make decisions that will help companies thrive in Uzbekistan. President Mirziyoyev has often stressed that entrepreneurs are the driving force of the new era and deserve full support.

The Ministry of Interior Affairs should intensively protect the property of entrepreneurs. Growth can only come about through security and predictability.

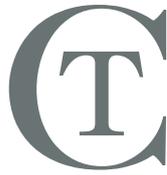
What would you recommend to an international company interested in the Uzbek market?

The global production and supply chains are being redefined today due to the changing geopolitical situation. Entrepreneurs are looking for alternative suppliers and growing markets.

We are ready to share our experience with regard to investment in Uzbekistan. This applies in particular to copper and glass fiber products, as well as various steel wire products.

We have a large infrastructure, knowledge of the local market and the prevailing mentality. Over the years, we have built up a good reputation in Uzbekistan and are happy to share our experiences with interested entrepreneurs.

Finally, I would also like to recommend getting in touch with the German-Uzbek Economic Council (Duwirat), the German Eastern Business Association and AHK Central Asia. They can certainly provide excellent answers to initial questions about Uzbekistan.



EXECUTIVE SEARCH



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