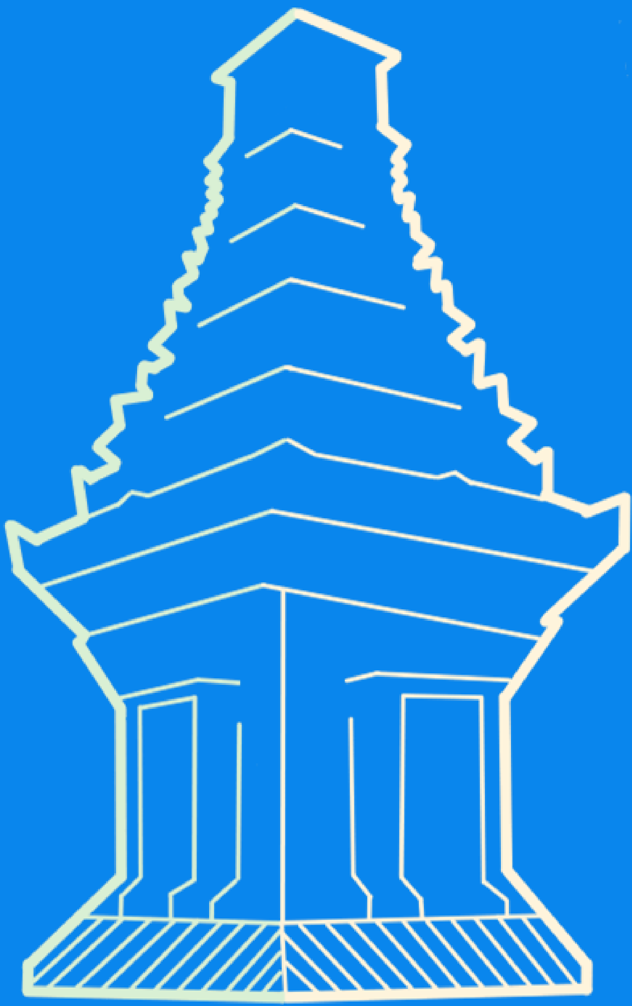

Unlocking Central Asia's Economic Potential: A Roadmap for Growth and Integration

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Executive Summary

Central Asia, a region with untapped potential and a strategic position between Europe and China, is poised for significant growth and development in the coming decade. The region's rich resources, young population, and improving infrastructure present numerous opportunities for investors, entrepreneurs, and policy makers. This white paper delves into four key policy areas to unlock Central Asia's potential, drawing insights from the experiences of the ASEAN region:

1. Economic integration through trade, finance, investment, and central banking.

2. Capital market development, facilitated by the implementation of best practices, pension laws, and tax incentives.

3. The application of industrial policy to leverage the region's resource wealth.

4. Promoting and investing in digital decolonization to enhance Central Asia's technological infrastructure and capabilities.

We also address the unique challenges and opportunities facing Central Asia, as well as the importance of regional integration, effective policy-making, and capital market development. By focusing on these four policy areas, Central Asia can realize its full potential for growth and development, attracting global investments and fostering innovation.

Introduction

Penataran Management, a Singapore-based investment advisor with over 30 years of experience in emerging and frontier markets, is turning its focus towards Central Asia. Recognizing the region's enormous potential for growth and development, we aim to explore opportunities for collaboration and investment. Central Asia, while currently lagging behind East Asia and ASEAN in some economic metrics, stands to benefit significantly from its strategic position over the next decade.

Central Asia, comprising Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, has a combined population of 74 million and a GDP of $335 billion. The region boasts immense resource wealth, including oil, gas, battery metals, fertilizer, and uranium. Despite the many challenges, Central Asian economies have grown faster than global averages, and the best is yet to come.

One of the primary drivers of Central Asia's future growth will be greater economic integration. The Central Asia Regional Economic Cooperation (CAREC) program, which focuses on transport, energy, and trade facilitation, is an important step toward regional integration. However, we recommend exploring a smaller grouping, similar to ASEAN in Southeast Asia, to address challenges specific to the region more effectively.

This white paper discusses four key policy areas that will help unlock Central Asia's potential for growth and development, drawing on lessons learned from ASEAN's successful trajectory.

Economic Integration

Central Asia can transform into a thriving economic hub through economic integration via trade, finance, investment, and central banking. Regional integration offers the prospect of a larger potential market and a wider resource base (including human resources), leading to increased competitiveness when facing enterprises from Russia, China, Europe, and other regions.

Leaders should establish clear medium-term targets for regional integration, bearing in mind the complexities of local stakeholders and historical legacies. Slow steps toward integration, such as tariff unions, central bank coordination, and educational and sports exchanges, can serve as important first steps.

Capital Market Development

The development of capital markets, facilitated by the implementation of best practices, pension laws, and tax incentives, is crucial for Central Asia's growth. ASEAN's capital markets are a prime example of how successful platforms can mobilize capital for local businesses and provide a suitable environment for the emerging middle class to deploy their savings. For instance, while Central Asia's stock exchanges were established shortly after gaining independence in 1993, their ASEAN counterparts have several decades more history. This experience has allowed ASEAN capital markets to become vibrant and strong platforms for mobilizing capital for local businesses and deploying savings for the emerging middle class.

Central Asia's resource wealth is vastly underrepresented in capital markets, with a total value of less than $10 billion or 2% of GDP. By contrast, the consolidated ASEAN equity markets are worth more than $1 trillion or 25% of GDP. Over time, we expect this disparity to change as Central Asia's capital markets mature and attract investment.

Industrial Policy

Central Asia can leverage its resource wealth by implementing industrial policies similar to those used by Indonesia. The Indonesian government's decision to restrict the export of raw materials and invest in downstream processing of its mineral wealth has led to financial and technological success. This approach has helped redefine globalization for the 21st century and serves as a model for policy makers in Central Asia.

By learning from Indonesia's experience, Central Asia can develop industrial policies that promote resource utilization and create sustainable economic growth. Central Asian governments should focus on building industrial estates and attracting investment for downstream processing, emulating the success of Indonesia's Morowali Industrial Estate (IMIP) and the affiliated Weda Bay Estate (IWIP). These efforts will lead to job creation, urbanization, and higher living standards in the region.

Digital Decolonization

Promoting and investing in digital decolonization is essential to enhancing Central Asia's technological infrastructure and capabilities. Currently, internet penetration in the region is lagging behind that of ASEAN countries.

Central Asia can unlock its potential by investing in digital infrastructure and nurturing innovative startups. With one "unicorn" or near-unicorn already present in the region, we expect many more to emerge over the next 5-10 years. Drawing inspiration from the more than 20 unicorns in the ASEAN region, Central Asia can become a hub for technology and innovation.

Comparison: ASEAN and Central Asia

A key difference between ASEAN and Central Asia is digital inclusion. In spite of roughly comparable levels of per capita GDP, only one country in Central Asia, Kazakhstan, has achieved internet penetration comparable to Indonesia or Vietnam (70%+). Tajikistan and Turkmenistan still fall behind Myanmar and Cambodia, at 20-25% penetration. Another significant difference between Central Asia and Asia is the simple fact of scale. Five Central Asian States between them make up 74 million people and a combined GDP of $335 billion, roughly 7% of ASEAN on a combined basis, and less than Indonesia, Thailand, or Vietnam on a stand-alone basis. This is the main reason why we believe that greater economic integration is going to be a key catalyst for the next stage of economic growth and development for Central Asia. Capital Market development likewise is an important difference. While Central Asia stock exchanges got started not long after independence in 1993, their ASEAN counterparts have several decades more history, including Thailand, Malaysia and

Singapore which date from the early 1960s, the Jakarta Stock Exchange from the 1980s, and the Manila exchange which dates back all the way to 1927.

Down streaming for Central Asia

In August 2013, the government of Indonesia announced plans to build a $1.5 billion industrial estate a morowali, an isolated village some 1700 km from the capital city and most of the existing industrial base. To encourage investment in downstream processing of the country's immense mineral wealth (worlds largest nickel reserve, top 3 in copper, tin, coal, top 10 in bauxite gold etc) the government began to steadily restrict the export of raw materials.

While this program has been controversial, attracting direct criticism from foreign mining companies and institutions such as the world bank and the IMF, the program has met active support from Asian investors and is widely considered to have been a success financially and technologically. Indonesia today boasts a trade surplus with China and a mountain of foreign exchange reserves over $100 billion. The Morowali industrial estate (IMIP) today employs 80,000 Indonesian nationals and the affiliated Weda Bay estate (IWIP) employs about 60,000.

These districts, previously among the poorest in the country, are now rapidly urbanizing and enjoy higher average per capita living standards than Jakarta. We believe that the Indonesian government, through decisive leadership from a popular, reform minded government, has managed to confront vested interests in such a way as to redefine globalization for the 21st century, a model that is of analytical relevance for policy makers elsewhere, including Central Asia.

Regional Integration

One of the key challenges for policy makers in Central Asia in particular but also other post-colonial societies is the fact of critical mass: post-colonial economies in general are less prosperous than their former colonial masters, making it difficult for local companies to achieve economies of scale and therefore competitiveness.

Regional integration, whether for ASEAN or Central Asia or even Africa, offers the prospect of a larger potential market and a wider resource base (including Human Resources), implying more competitiveness when facing enterprises from Russia, China, Europe etc. Regional integration is not easy. ASEAN has been working on this for two generations now. Policy makers have to confront vested interests, sometimes very entrenched, and deal with the legacy of history.

That said, as the European Union has proven, the whole is generally worth more than the some of the parts, and even some of the most bitter historical legacies can be overcome with diligence, creative thinking and leadership. Central Asia was often unified in the pre-Soviet era and will likely be unified again. Slow steps towards integration such as a tariff union, central bank coordination and educational and sports exchanges can be important first steps.

ASEAN Capital Markets

We would argue that the ASEAN capital markets are one of the less celebrated factors in the relative success of the region in the face of economic volatility, great power rivalry, and the volatility of commodity prices. While some of the largest and most valuable companies from the region (Sea Ltd, PLDT, Freeport) still prefer to list overseas, markets such as Singapore, Jakarta and Bangkok have emerged over the years since the Asian Financial Crisis (1997-98) as vibrant and successful platforms to mobilize capital for local business, as well as appropriate environments to deploy savings for the emerging middle class.

ASEAN companies, banks and governments can access capital close to home at rates quite competitive with their peers from China or the West; sometimes not quite as cheaply to be sure but at far better rates than their peers elsewhere in the emerging world (including of course Central Asia). These markets take decades to build, of course, with markets like Thailand and Malaysia dating back to the 1960s. But the project is definitely worthwhile and can prove an important factor for economic resilience at a time when globalization itself is significantly challenged.

Conclusion

Central Asia's strategic position, rich resources, and young population present a unique opportunity for growth and development in the coming decade. By focusing on the four key policy areas discussed in this white paper, economic integration, capital market development, industrial policy, and digital decolonization, the region can unlock its full potential.

Investors, entrepreneurs, and policy makers should work together to foster innovation, attract global investments, and create a thriving economic hub in Central Asia. The experiences of the ASEAN region serve as valuable lessons for Central Asia in its pursuit of sustainable growth and development.