ASIA-PACIFIC NEWS BRIEF

№1 (12), MARCH 2019

EURASIA: SPACE FOR BUSINESS AND COOPERATION

ON THE OCCASION OF
THE RUSSIAN BUSINESS WEEK

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Produced by the
National Coordination Center for
Developing Economic Cooperation with
The Countries of Asia-Pacific Region

NCC APR was established by RSPP in partnership with interested Russian companies, business associations and governmental authorities in 2014 as a non-commercial partnership. The Center`s members include representatives of leading Russian companies and business associations: RSPP, Chamber of Commerce and Industry of the Russian Federation, Business Russia, OPORA Russia, RENOVA, Russian Direct Investment Fund (RDIF), RUSAL, Vnesheconombank, VTB, Summa Group, Metalloinvest, Barkli.

NCC APR main activities include:

- coordination of elaborating and promoting Russian businesses positions at the Asia-Pacific summits and fora;
- coordination of activities of bilateral business councils, dialogues and other bodies engaged in cooperation with the Asia-Pacific countries;
- development of practical business proposals for Russian governmental authorities to boost cooperation in the Asia-Pacific.

NCC APR encourages Russian companies working in the Asia-Pacific to join the Center.

CONTACTS
P17, Kotel'nicheskaya naberezhnaya, Moscow, 109240, Russia
Tel.: +7 (495) 663–04–04 ext. 1232
Email: GubinaAV@rspp.ru, aprcenter@rspp.ru
Web: http://aprcenter.ru/en/

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Editor–in–chief:

Dr. Maria LARIONOVA, *Vice President – Managing Director for International Relations, Russian Union of Industrialists and Entrepreneurs (RSPP); Head of the Center for International Institutions Research (CIIR), Russian Presidential Academy of National Economy and Public Administration (RANEPA)*

Production editor:

Anna GUBINA, *Expert, National Coordination Center for Developing Economic Cooperation with the Countries of Asia-Pacific Region*

WELCOMING SPEECH OF RSPP PRESIDENT ALEXANDER SHOKHIN

The Eurasian continent consists of countries hugely diverse in economic terms, which is reflected in their key macroeconomic indicators including GDP growth rate. According to the International Monetary Fund, developing countries in Asia will show robust growth in 2019–2020 (at 6.3% and 6.4% respectively) in spite of the slowdown of the Chinese economy to 6.2%. Indian GDP over the same period will grow by 7.5% and 7.7% respectively. Developed economies in the region will post considerably lower growth rates. In the Euro zone, the rate of economic growth in 2019–2020 are expected to be 1.6% and 1.7% respectively, with the Russian economy also forecast to increase by 1.6% and 1.7% over this year and the next.[1]

That being said, all the countries on the continent are facing common global challenges which curb economic development and have an immediate impact on the business environment on both a regional and global level. Geopolitical tensions, uncertainty and distrust of government financial policies, the emergence of new barriers to global trade, insufficient availability of investment in quantitative and qualitative terms, as well as digital era threats – these are factors that negatively affect the prospects for growth and the business climate throughout the continent.

Open trade and investment regimes can ensure economic growth and job creation and the active involvement of businesses, especially small and medium–sized companies, in global value chains. Data suggests that countries employ insufficient efforts to offset negative trends. The WTO estimates that the growth in cross–border trade in 2018 was lower than previous forecasts at 3.9% compared to 4.4%. In 2019, trade growth is expected to slow further to 3.7%. In Europe there is an upward trend in the volume of trade, but overall growth is below the global level; merchandize trade volume is forecast to increase by 3.2% in 2019 after rising by 2.9% last year. The opposite trend has been projected for Asia, where trade volume was up 5.5% in 2018, but is only expected to increase by 4.9% in 2019.[2]

The situation in foreign direct investment is even more downbeat. According to UNCTAD, FDI fell by 19% in 2018 year on year. Europe posted the worst result, with a 73% year on year slump in FDI inflow. The total volume of direct investment inflow in developed countries around the world fell to their lowest level since 2004. The situation is more stable in the emerging

1 World Economic Outlook Update, January 2019. IMF. URL: https://www.imf.org/en/Publications/WEO/Issues/2019/01/11/weo–update–january–2019

2 WTO downgrades outlook for global trade as risks accumulate. WTO. URL: https://www.wto.org/english/news_e/pres18_e/pr822_e.htm

markets, where 2018 saw an increase of FDI. The growth rate for emerging markets overall was 3%; and 5% for Asian countries.[3]

Comprehensive and internationally agreed measures are called for to improve the current state of affairs. Firstly, it is essential to ensure non-discriminatory access to government tools used to support trade and investment, and an equal, competitive environment for government–sponsored enterprises and private business. Secondly, it is important to curb the increase in non-tariff trade restrictions that lead to further fragmentation of global value chains and prevent the involvement of small and medium-sized businesses that play a vital role in many countries of the region. In addition to renouncing new restrictions at a national level, it is vital that the WTO increase its efforts in this area, in particular with regard to technical barriers, sanitary and phytosanitary measures, as well as the development of mechanisms to resolve trade and investment disputes and ensuring SME's have access to them. Thirdly, work should continue on coordinating investment policy on an international level, increasing its predictability and transparency, including within the framework of multilateral institutions such as the G20.

The key challenge for Eurasia is the insufficient level of capital investment, primarily of the so-called value-adding investment in infrastructure development and improving interconnection. Regardless of specific quantitative estimates, experts agree that in the next few years it will be the rapidly growing Asian economies that will account for the lion's share of this underinvestment. At the same time, given the important role that global infrastructure plays in overcoming barriers to the free movement of goods, services, capital and workforce, it becomes obvious that an uptick in investment will also benefit the developed European countries where the issue of underinvestment in infrastructure is not as pressing as in Asia.

Businesses are ready to partake in financing and implementation of infrastructure projects, but they want to see better profitability, creation of new instruments for participation of private capital and risk hedging, transparency of financial reporting, and establishment of a global market to increase the liquidity of related financial instruments, thus fostering the emergence of a separate category of infrastructure assets.

Among the general trends that affect the business climate in this region, innovation development and digitalization deserve a mention. The ability to make use of the benefits of implementing new technologies while mitigating the related risks will become a key factor in the establishment of a positive business environment in the years to come. Eurasian countries are among global leaders in almost all aspects of digitalization, but certain countries, especially the least developed Asian States, are lagging behind by a considerable margin. In order to narrow the digital and technological gap between the countries and within them, as well as to maintain the balance between the development of new technologies and mitigating the related risks, efficient measures are required in areas such as: development of educational systems that satisfy the demand for new skills and lifelong learning; eliminating the gap between the skillsets of workers' and qualification requirements of recently created jobs; investment in physical infrastructure; and regulatory reforms that encourage innovation. It is important to understand that the digitalization of the economy affects other areas as well. For instance, numerous risks and opportunities are linked to the development of digital infrastructure, the innovative potential of small and medium-sized enterprises, and digital trade.

Given the global nature of challenges in all the areas mentioned, international cooperation

3 Global Investment Trends Monitor no 31, Jan 2019. UNCTAD. URL: https://unctad.org/en/PublicationsLibrary/diaeiainf2019d1_en.pdf

in the Eurasian space is playing an increasingly important role, and integration processes are a driver. There are a number of challenges facing the further deepening of this integration, which has a significant impact on the business environment. These challenges are characteristic of not only Asia, but Europe too, despite the fact that the EU is the deepest form of economic integration among its peers. The escalation of geopolitical tensions is becoming key challenge, leading to a tendency towards greater regionalization and clouding of the prospects for the “integration of integrations”.

In this regard, it is vital to reduce the politicization of economic integration groups that should be aimed at stimulating growth and creating favorable business conditions for participating countries. It is important to reduce the risk of fragmentation in the international trading ecosystem and investment regimes associated with the increasing number and poor transparency of regional trade agreements, as well as the lack of efficient mechanisms of coordination and international regulation of investment policy which lead to inconsistency and duplication of regulatory standards. Finally, given that integration associations include countries with different levels of economic development, there is a sharp increase in the risk of unfair competition which sours the business environment. I hope that in spite of these challenges, businesses in Eurasian countries will continue to align their positions and foster cooperation both bilaterally and multilaterally, while state policies will be based on the principles of justice and equality, ultimately providing access to the benefits of integration and cooperation, creating favorable conditions for businesses and sustainable economic growth of our countries.

INVESTMENT IN THE PEOPLE'S REPUBLIC OF CHINA (PRC): INVESTMENT MAP, ESTABLISHMENT OF THE COMPANY, TAX SYSTEM AND REPATRIATION OF PROFIT

Overall trend

Despite the deceleration in China's GDP growth in recent years and its trade war with the US, China remains one of the most attractive markets for investment, as a production location with opportunities for subsequent export, and for the establishment of joint technological clusters, service chains, etc.

At the same time, more than 75% of Russian business professionals aiming to break into the Chinese market experience serious, and in a number of cases insurmountable difficulties in working with their Chinese partners. Many Russian companies, mainly industrial and food producers, manage to hold on in the market for 2–4 years before feeling compelled to leave. The main problems are as follows:

- poor knowledge of the specifics of the Chinese market, its internal logic and infrastructure;
- faulty initial calculations, the illusory perception of the Chinese market as open and accessible, non-fulfilment of obligations by Chinese partners or by Russian or Chinese intermediaries;
- lack of funds to successfully promote their product or services, unrealistic, underestimated cost of staying on the Chinese market.

The widespread erroneous opinion is that the almost all foreign companies have difficulty entering the Chinese market or, even if they do enter, it is next to impossible for them to continue for any lengthy period of time. However, with a well-designed strategy, good consultants and a willingness to prioritize long-term objectives without trying to make an operating profit in the first year (and this is a problem for many Russian companies), one can run a successful business in China.

E.g., according to KPMG research (published in November 2018), 81% of those surveyed in Australia, indicated China as one of the three leading countries for the implementation of short-term global investment plans. Moreover, two out of every three companies have continued to increase investments into China. This is also highlighted by the fact that more than 60% of the companies expect a personnel increase in 2018.

That being said, the Chinese market is indeed complicated. Some of the latest trends to be noted are as follows:

- rising labour costs, increased social benefits expenses;

– increased cost of entering the market for foreign businesses, rising ratio of production cost to product quality.

Window of opportunity' and new tariffs.

Theoretically, the rise of the tariff barriers between China and the USA will lead to fewer American products on the Chinese market (primarily food products), opening a window of opportunity for foreign producers, Russian producers among them. However, currently there's an inflow to the Chinese market of businesses from Vietnam, India, Chile, Argentina and other countries. Most of them benefit from the Free Trade Area agreement with China, or from preferential tariffs for their goods. China has announced a wide variety of new tariff and export duty cuts as an incentive to business in 2019. China stated that it would lower or remove tariffs for imports on 706 types of products; the measures kicked in on 1 January 2019.

China also cut export duties on 94 items on 1 January, as had been announced in a statement released by the Ministry of Finance on 24 December 2018 From 1 July 2019, China will also reduce the most-favoured nation tariff rates for 298 information technology products, including medical diagnosis machines, speakers, and printers. A further 14 information technology products will have their tariff rates temporarily lowered on that date.

The move represents China's third round of tariff cuts in 2018. China announced tariff cuts on 1,449 categories of goods in May 2018 and cuts on an additional 1,585 items in September 2018.

While China's first two rounds of tariff cuts primarily targeted consumer goods and industrial products, respectively, the latest round affects a wide variety of goods.

China will cut tariffs for a range of products including lithium-ion batteries, cotton, fur, and some pharmaceutical raw materials, and extend temporary tariff reductions on products such as aircraft engines, welding robots, and natural feeds. Furthermore, China will enact lower conventional tariff rates for 23 countries and territories, including New Zealand, Peru, Costa Rica, Switzerland, Iceland, South Korea, Australia, and Georgia. It is also evident that the US business that can take advantage of the preferential treatment will return to the Chinese market. The above factors, taken together, will create significant competition on the Chinese market in the next 3–4 years.

Meanwhile, export duties will be lowered or removed for chemical fertilizers, apatite, iron ore, slag, coal tar, wood pulp, and more.

New growth drivers

Since the growth deceleration has continued for a number of years, the investors are concerned that the growth of the Chinese market had practically stopped. China GDP growth in 2018 was 6.6%, 0.3 percentage points less than in 2017. A further decrease to 6.2% is forecasted for 2019.

However, it is internal consumption which plays a major role in China's economy. According to data published by the National Bureau of Statistics of China, in 2018 internal consumption accounted for 76.2 % of GDP growth, 18.6% higher as compared to the previous year.

China’s internal consumption is propelled by several major growth drivers:

- the appearance and increase of the middle class in the People's Republic of China, which currently numbers more than 300 mln people, raising the bar for the quality of the goods and services provided and making the environment a higher priority;
- continued urbanisation (currently 60%, as compared to 20% in 1980s), and the appearance of a special category of urban dwellers who demand a higher quality of life;
- the continued ageing of the population, a significant deceleration of the birth rate, and higher standards for supporting the elderly, compared with a decade ago;
- aspirations to lead a healthy lifestyle, eat organic food, ‘green’ technology, concern about air purity, water quality, and habitation. This is a major stimulus accounting for the growth in consumption among the urban population within the 35–40 age group.
- infatuation with high-tech and the implementation of the ‘smart cities’ and ‘smart homes’ concept, leading to a demand for many tech innovations and a massive shift in the consumer market.

China’s market for in-demand goods

Presently the foreign products which are the most in demand on the Chinese market are the following:

- ‘eco’ and organic foods;
- agricultural produce, incl. flour, wheat, soy, fruit and vegetables;
- sweets, chocolate;
- sugar and sugary products;
- new technology for microcircuits, printed circuit boards, new nanomaterials;
- tourism–related services (a license is required);
- medical services (a license and JV are required);
- primary, secondary and higher education services (a license is required, for higher education a JV is required);
- industrial and household equipment for water and air purification;
- sporting goods and health support services;
- high-quality alcohol;
- ‘green’ cosmetics and skin care products.

When entering the Chinese market, it is important to bear in mind that modern-day China puts an ever–increasing emphasis on quality over quantity on the market for consumer goods and services. Thus, the winners in the competition among foreign exporters for the Chinese market will be businesses that supply a higher-quality product at the same or at a higher price. As a rule, in order to promote your products on the Chinese market, it makes sense to work in a more expensive upper or premium segment of the market, instead of competing on a price basis with local goods.

Encouraged, restricted and prohibited investment areas

Investment into China, the presence of foreign companies in different market segments, falls into three categories:

- 'encouraged': areas open to companies with 100% foreign capital,
- 'restricted': only joint ventures with a local share of minimum of 25% are allowed,
- 'prohibited': presence of the foreign companies or joint ventures is prohibited.

The general trend is towards an increase in the number of encouraged ('open') segments of the Chinese market, and a decrease in the number of items on the negative list. At any rate, before attempting to enter the market, foreign businesses must first check if their type of business activity is among those contained in the lists of restricted and prohibited industries.

The Negative List, released by the National Development and Reform Commission, is generally updated twice a year. The current valid version is dated 25 December 2018. The new Negative List is applicable throughout the PRC, before that additional regional lists were applicable in some parts of the country, crea ting a lot of confusion for foreign investors. The new negative list is the first unified table of prohibitions and licensing requirements and will apply to both domestic and foreign entities throughout the country.

Industry sectors that are omitted from the list are considered 'permitted' industries, meaning that they do not have special requirements for investment.

Foreign businesses looking to enter the Chinese market must first examine the Negative List to check whether investment by a foreign entity or individual is permitted and, if so, what further licensing or certification requirements apply.

The new Negative List marks the first time the licensing and procedural requirements have been applied to both foreign and domestic businesses all across China and simplifies the requirements for founding joint ventures and companies which utilise foreign capital.

Still, this list stipulates 151 business activities and four industries that are completely closed to foreign capital and to a number of local private entities (only Chinese state owned entities are entitled to work in these areas). 147 business activities are restricted through licensing requirements. The four prohibited industries are:

- in which Chinese law bars foreign capital participation,
- in which projects are explicitly banned under banned industry restructuring,

- illegal financial activities,
- internet-related business activities.

The restricted and prohibited industries are more numerous, and categorised in 18 different sectors, including agriculture, utilities, construction, wholesale and retail trade, transportation, warehousing and postal services, the financial sector, information technology and software, scientific research, environmental, education, health and social work, as well as the sports, culture and entertainment industries.

What must one consider before entering the Chinese market

Before entering the Chinese market, one should do the following:

– choose the correct ownership structure for the market presence: joint venture, 100% foreign-owned company, etc.

– consider prospects for receiving preferential tax treatment when launching hi-tech production or founding a company in a developing region, technoparks, etc.

– conduct (or order) market research for the market segment you intend to penetrate. You should not necessarily trust what your Chinese partners are telling you; you need a full and precise overview. It has happened that businesses that initially seemed very promising had to be relocated to another country (usually in South-East Asia, where production quality is comparable and conditions are better) or completely abandoned.

– ensure an a priori (i.e. before entry to the Chinese market) defence of the patents and brand names, to take measures in order to protect technological secrets;

– calculate or order calculations of the cost of participating on the Chinese market, which can be quite significant;

– perform a careful study of all negotiation stages and practices, as well as China's specific national business psychology;

– have professional interpreters on hand with experience in this area;

– in case of hiring a consultant, it's best to avoid numerous small-scale intermediaries (this is currently a huge market in China), pay attention to how well these people or businesses are able to promote your business at the level of the regional government, ministries and agencies of the PRC.

Forms of entry to the Chinese market

Registered capital is the initial investment into the company, required for funding its operations until the company is able to cover its own expenses, i.e. until it starts generating an operating profit. The Company Law (which came into force on 1 March 2014) eliminated minimum registered capital requirements altogether with the exception of certain industries. The payment of the registered capital can be deposited in cash either as a down payment or in instalments. However, the yuans, received in local currency, cannot be used for registered capital – the money is to be deposited by a foreign investor from outside of the country. The instalment plan should be included into the Charter and after the money is paid, it cannot be returned.

Ratio of Investment to Minimum registered capital	
Total investment, US dollars	Minimum registered capital
Less than 3 mln	7/10 of total value
3–4.2 mln	2.1 mln
4.2–10 mln	1/2 of total value
10–12.5 mln	5 mln
12.5–30 mln	2/5 of total value
30–36 mln	12 mln
More than 36 mln	1/3 of total value

Representative office

Companies must keep several main goals in mind when creating a representative office in China. First and foremost, one possibility is to understand the Chinese market from the inside and to establish long-term business relationships. A representative office also allows for the legalisation of the presence of a company's representative on the territory of China for a long period of time and gives the opportunity to officially conduct business negotiations.

A representative office is the simplest possible structure for starting business activities in China. However, it is important to understand that it is fairly limited in business scope: a representative office is not allowed to perform any activity related to profit-making. A representative office can legally participate only in the following types of activity:

- market research, product promotion and advertising activities, related to the company's product or services;
- networking activities that relate to company product sales, the provision of services, and domestic procurement and investment.

In essence, the representative office is an extension of the parent foreign enterprise and does not constitute a separate legal entity. A representative office is often used by foreign companies to assist with business activities in China, such as establishing contact, market monitoring, quality inspection of the incoming or outgoing goods, etc. In contrast to more complicated structures (such as a JV or WFOE) the representative office does not have legal personality, and as such cannot independently assume civil liability and has limited hiring capabilities. Local staff can be hired only via state recruitment agencies and the number of representatives per representative office is limited to four.

Nonetheless, a representative office is subject to taxation; the taxable base is equal to the total expenses related to maintaining the representative office (since legally, a representative office cannot have profit or revenue). The tax typically amounts to 8% of the total expenditures of the representative office.

Joint venture (JV)

A JV is usually a limited liability company founded by a Chinese company and a foreign investor: either a legal entity (company) or an individual. As a rule, the foreign investor should own no less than 25% of the total number of shares. Please note that a Chinese individual typically cannot be a shareholder in a JV (only a legal entity), with the exception of several special circumstances. In particular, a private person, who is a citizen of the PRC can be part of JVs registered in certain special zones or technological parks, e.g. in a JV registered at Beijing's hi-tech zone Junguantsun or as the result of a merger or an acquisition of a company, in which an individual is a shareholder.

There can be different reasons for creating a JV in China:

- a foreign company hopes to invest in a 'restricted' industry segment, i.e. a segment where the only type of legally permissible investment existing is via the creation of a JV with a Chinese partner;
- a foreign investor hopes to make use of the sales channels and the network of its Chinese partner, which has knowledge of the local market and established contacts;
- a foreign company has zero experience working on the Chinese market and seeks swift channels for product distribution and promotion;
- a foreign company seeks to establish joint scientific research with Chinese partners and sell its products on the Chinese market.

Note that China recognizes two forms of JV partnerships, which differ mainly in terms of distribution of profit and loss.

1. Equity Joint Venture with limited liability (合资企业):

- profit and loss are distributed between the parties in proportion to their share in the JV;
- as a rule, the foreign partner should own no less than 25% of the shares in the registered capital of the JV,
- however , the Chinese legal entity has limited liability.

2. Cooperative Joint Venture (or Contractual Joint Venture 合作企业)

In this case, the profit and loss are distributed evenly between the parties in accordance with the specific articles of the Charter or contracts within the framework of the JV, i.e. the profit and loss distribution does not depend on the amount of investment into the registered capital. This type of JV can function both as a limited liability company and as a non-legal entity.

Wholly Foreign Owned Enterprise (WFOE)

A wholly Foreign-Owned Enterprise is a company which is 100% owned by a foreign investor, that is, a company with 100% foreign capital. A WFOE is often a limited liability company, fully belonging to a foreign investor.

Unlike a representative office, a WFOE can generate income and issue invoices denominated in the local currency to its suppliers. Moreover, the liabilities of the shareholders behind the WFOE are limited to the assets they have injected into the business. A WFOE can also hire local staff directly, without relying on recruiting agencies.

Investors can found a WFOE for any industries which are not listed in the Special Administrative Measures for the Access to Foreign Investment (better known as "the Negative list"). That is to say, a WFOE is only permissible for the industries which are neither 'restricted' nor 'prohibited' by the Negative List. However, the number of restrictions in the Negative List is constantly being reduced, i.e. China is becoming more open to foreign investment.

It should be noted that in the various special economic zones of China, such as pilot–free trade zones, special rules can apply.

There are three types of WFOE:

- The services (or Consulting) WFOE;
- The trading WFOE (или «Коммерческое предприятие с иностранными инвести–циями»);
- The manufacturing WFOE

Despite the fact all three types have the same legal structure, they can vary significantly in terms of management procedures, expenditures and range of commercial activities they are allowed to undertake. The trading WFOE and the manufacturing WFOE must generate most of their income through their core activities (trade or manufacturing, respectively), but they can also provide related services.

The Consulting WFOE is also allowed to conduct commercial activities related to its services.

Foreign Invested Commercial Enterprise (FICE)

A 'foreign-invested commercial enterprise' can exist in the form of a WFOE and in the form of JV. It is a special type of company for retail, franchising or distribution. For these purposes, a WFOE or a JV can be established solely as a FICE or can combine FICE activities with other types of activities such as manufacturing or services.

Establishing a FICE is relatively simple and inexpensive. This type of company is highly useful, since it can combine purchasing on the internal market and the quality inspection of the purchase with its export activities. This ensures improved control and a better ability to react promptly when searching, as compared to searching for a product or a partner from a foreign head-office. A FICE is also the best choice for foreign companies that are looking to purchase Chinese products for further resale on China's domestic consumer market. Without a China-based trading company, the alternative would be to purchase the goods from outside the country, ship them from China and then resell them back to China, which would result in additional logistic expenses, custom duties and VAT.

Foreign Invested Partnership Enterprise (FIPE)

A FIPE has certain advantages, not present in a WFOE, above all, the possibility of simultaneous ownership of domestic and foreign assets (both individual and corporate), easier management and a higher degree of autonomy in terms of how the partners want to work together. The disadvantage of the structure is the unlimited liability of the general partner, who is responsible for everything with his capital. This problem can be bypassed, by establishing a foreign corporate entity as the main partner, first registering the partnership as an LLC, thus the unlimited liability would be terminated due to limited liability of the founder.

Foreign Invested Joint Stock Company

Foreign invested joint stock companies are similar to typical Western corporations. This structure offers the advantage of joint share ownership between the Chinese and foreign companies and a relative freedom of share transfer (as opposed to WFOE) and even the possibility of an IPO. However, founding a foreign invested joint stock company is associated with stricter auditing and the managerial procedures are more complicated.

In addition to the above mentioned options, in a number of cases it might make sense to invest in China via an M&A. Acquisition of capital and assets requires approval of the local Ministry of Commerce, as well as registration in its local investment agency. Before a merger or acquisition is considered, one should first conduct a thorough legal check of the companies with the help of an auditing firm.

Advantages and disadvantages of different company types			
Company type	Why	Pros	Cons
Representative office Market research;	Market research; liaison with the Head office.	The easiest way to be present on the Chinese market. Simple registration procedure.	Cannot receive a profit or issue invoices in Yuan, Significant up-keep cost without any direct income. Complicated procedure of closing. Staff can be hired only through authorised agencies.

Joint venture	Work in industries, restricted for 100% foreign capital enterprises; Possibility to use the experience and connections of the Chinese partner.	Allows companies to operate in restricted activities.	Governed by two parties– risk of dispute. Significant risk if transfer of technology involved, impossible to keep a commercial secret.
WFOE (wholly foreign–owned enterprise)	Provision of services; production trade.	Extremely wide range of activities. Possibility to ensure full control over the enterprise and keep technological and commercial secrets.	For a number of industries, a significant amount of registered capital may be required. Takes significant time to set up.
FICE (foreign investment commercial company)	Excellent opportunity for purchase and export of goods.	Possibility for both local and foreign ownership.	Unlimited responsibility of the main partner.

Using holding companies to conduct business in China

Many companies prefer to create holding companies under Hong Kong or Singapore law in order to manage their business in China. Having such holding companies establishes an additional layer between the parent company and the Chinese subsidiary, thus protecting the investment to a certain extent from the potential risks and obligations of a PRC subsidiary. If the investor desires to sell the Chinese business or introduce a third party or a new shareholder into the structure, the administrative changes can also be implemented at the level of the holding company, and not at the Chinese level, where the legislative procedures are much more complicated and the proceedings are more time-consuming.

Taking into account the specifics of the Hong Kong and Singapore banking systems, a holding company created under any one of these laws is a popular option for storing profit generated in China outside of the country (offshore) and hedging it. If needed, the profit can be reinvested back into China or can be used for the further extension of business activities in other parts of Asia. Additionally, holding companies based in Hong Kong and Singapore provide a number of tax advantages, including lower income taxes on repatriated profit and a limitation of tax revenue related to the augmentation of capital. This method can also be used for deferring tax payments by foreign companies that, having generated a profit in PRC, for some reason, do not seek to repatriate it.

How to set up a company in China

Theoretically speaking, you can set up a business in China on your own and Chinese registration bodies will be able to provide you with expertise on all matters. However, if you wish to establish a complex structure or intend to choose the best-suited structure for your needs, it is preferable to turn to a professional consulting agency that does not hold any interest in your company or that in your Chinese partner. The incorporation procedure can prove quite challenging. Although changes can be introduced to the organisation’s charter or even to the ownership structure afterwards, in practice you will find it to be an incredibly complicated process, so it is best to determine everything correctly from the outset.

Creating an enterprise using foreign capital in China usually takes from three to four months and entails contact with the following state bodies:

- Ministry of Commerce of the PRC and its local offices (in every city or in every city district);
- State Administration for Industry and Commerce and its local offices;
- State Administration of the Foreign Exchange and its local offices;
- State Administration of Taxation and its local offices;
- General Administration of Customs and its local offices;
- Bureau of Quality and Technical Supervision at the local level;
- National Bureau of Statistics and its local offices.

The process of establishing a business can vary, depending on the chosen investment structure and scope of the planned enterprise. For instance, a manufacturing WFOE must first complete an environmental impact assessment, whereas for incorporating a trading WFOE one should pass through a customs and goods inspection.

Key positions in a Foreign Invested Enterprise

Key positions in a Foreign Invested Enterprise vary depending on the structure and the investment amount.

A representative office should appoint a Chief Representative with the authority to sign on behalf of the company. In addition to the Chief Representative, three more ordinary representatives may be appointed.

The key positions in a WFOE and a JV include shareholders, an Executive Director (or Board of Directors), a supervisor(s), a general manager and a legal representative.

Shareholders and Executive director (or Board of Directors)

For a WFOE, the shareholder(s) are the highest authority of the company, and their business decisions set the agenda for the Executive Director or the Board.

For a JV, the Board of Directors is the highest authority. The Board of Directors should have no fewer than three directors appointed by the parties of the JV, with the ratio between Chinese and foreign-appointed directors determined through consultation between the two parties.

Supervisor(s)

WFOEs and JVs should have at least one supervisor to control the execution of company duties, as well as duties by the directors and senior management personnel. To ensure that there are no conflicts of interest, directors and senior management personnel cannot concurrently serve as supervisors. When a company has a relatively small number of shareholders and is relatively small in scale, it can have one or two supervisors. For larger companies, a board of supervisors composed of no fewer than three members is required.

General Manager

Both WFOEs and JVs need a general manager, who is responsible for the company's day-to-day operations. The executive director or a member of the Board of Directors can concurrently serve as the general manager. For JVs, several deputy general managers can also be appointed; collectively this group is referred to as the management office.

A director of the Board can concurrently hold the post of general manager, deputy general manager, or any other senior management position; these also include the CFO and any other senior executive position designated as such in the company's Charter.

Legal representative

Every company incorporated in China, both foreign and Chinese, must nominate a legal (official) representative, i.e. a responsible person who performs the duties and powers on behalf of the company. A legal representative is one of the most influential people in a foreign–invested enterprise. However, this power comes with great responsibility. The right to the position of the legal representative depends on the company's structure:

Legal representatives in different structures		
	Foreign Invested Enterprise	Joint Venture
Executive Director	X	0
Chairman of the Board	X	X
General Manager	X	X

Company relocation

The general rule is as follows: office relocation must always be avoided as much as possible, especially when this entails moving the company to another city, since it is usually a waste of time and money. It thus makes sense to very carefully consider the choice of a geographical location for your head office right from the start. Cities such as Shanghai, Beijing, Guangzhou and Shenzhen offer excellent conditions for operating a business, as well as remarkable business and residential infrastructure; however, they are very expensive. In a number of cases, it is better to register your company in one of the capitals of the provinces (i.e. Xian, Zhengzhou, Chengdu), where the present business infrastructure is well-developed and it is possible to receive tax breaks. Even better preferential taxation policies are offered by the developing regions of the North-West of China, Inner Mongolia and Xinjiang (such regions must be verified on a case-by-case basis); although you may be able to take advantage of tax breaks and save up to 30–50% in company maintenance costs, sacrifices are to be expected in terms of comfort.

Relocating a company within the confines of the same tax district is a relatively easy matter, but relocation between districts is much more complicated and requires several months to complete. Problems pertaining to the relocation process are mainly due to China's decentralised taxation system. Taxes are managed directly by local tax authorities and in order to transfer to a different tax district, a foreign investor should literally coordinate the work of the taxation bodies in both districts. Those are often competitive and no tax inspector wants to lose profit by allowing a profitable company to move out. In accordance with the licensing policy, the companies moving to a new tax district should first close the tax account in their local tax bureau, and then apply to open a new one in a different tax district. Additionally, relocation is often accompanied by labour disputes, since workers are generally not keen on moving to another city.

If the relocation is very challenging, in order to avoid a pause in business operations, it might be best to first register a new company and then to shut down the old company. It is also possible to open a branch office in a new location. Branch offices are easier to manage and maintain, but they have numerous limitations, such as, for instance, the inability to act beyond the business capacity of the parent company.

Taxation

Corporate income tax (CIT)

All companies generating income from their business activities must pay a corporate income tax (a tax on 'net' profit). This CIT in China is settled on an annual basis, but is often paid quarterly, with adjustments either partially amended, totally refunded or carried forward to the next year. The final calculation is based on a year-end audit.

Since the adoption in 2008 of the new law on income tax and unified taxation approach to foreign and domestic companies, tax is levied at a rate of 25%. However, there are reduced rates for small and low-profit enterprises (at 20% of annual income), and a special reduced a rate of 15% for "encouraged" high and new technology enterprises.

Individual income tax

PRC residents[4] are taxed on their worldwide income. Non-residents are taxed only on the amount of income generated inside PRC.[5]

Individual income tax is levied on:

- Employment income, income derived from independent services, author's remunerations and royalties (cumulatively referred to as "a comprehensive income") at a progressive rate varying from 3% to 45%;
- Income from operations at a progressive rate ranging from 5% to 35%;
- Income from interest, dividends and income from rents or property transfer at a fixed rate of 20%.

Monthly taxable income is calculated after a standard monthly deduction of 5,000 yuan both for foreign and for Chinese employees, and a deduction for payments to the social

4 A PRC resident is a PRC-domiciled individual or a non-PRC domiciled individual who resides in China for more than 183 days in total in a given fiscal year

5 A PRC non-resident is a non-PRC domiciled individual who doesn't reside in PRC and a non-PRC domiciled individual who resides in China for less than 183 days in total in a given fiscal year.

welfare fund. Other tax-deductible expenses include costs for children's education, continuing education, medical costs for serious diseases, mortgage interest, housing rent payments and expenses incurred from caring for the elderly.

Value Added Tax (VAT)

VAT taxpayers are categorised into general taxpayers and small-scale taxpayers based on their annual taxable sales amount. Taxpayers with annual taxable sales exceeding the annual sales ceiling set for small-scale taxpayers must apply for general taxpayer status.

VAT payers whose annual taxable sales are below the ceiling, as well as those who have recently established their business, can voluntarily apply for general taxpayer recognition provided that they are capable of fulfilling the following conditions:

- have permanent place of work;
- set up legitimate, valid, and accurate bookkeeping.

Additional unwritten requirements also commonly influence the local tax authorities' verdict on the supplicant's request for general taxpayer status (such as availability of registered capital, office size, and number of employees).

Audit

An annual audit of compliance with the acting legislation of the PRC is a mandatory requirement for all foreign invested enterprises (FIEs) in China. Failure to comply with this requirement or a failure to meet the audit deadlines may result in extra expenses, penalties, or even the revocation of business licenses.

FIEs typically start preparing for China's annual audit in January. However, tax advisers usually suggest that enterprises start the process earlier, in November or December. The early start allows for a more comprehensive analysis of the company's internal control systems, and allows for an evaluation of the efficiency of the company's financial workings.

Also, the annual audit process is required to detect potential bookkeeping mistakes before the tax reconciliation deadline,[6] which minimises the risk of non-compliance with China's taxation laws.

Some procedures and aspects of the annual audit can slightly vary, depending on the region and type of company structure. Consequently, in order to ensure full compliance with local laws, it is necessary to contact local authorities trying to clarify the details of the audit procedure. However, the work primarily involves producing the audit report, consolidated corporate income tax reconciliation report and a report to AIC.

Preparing an annual audit report

The annual audit report consists of:

6 The tax bureau may compare the information in the corporate income tax reconciliation report with that in the annual audit report.

- a Balance sheet;
- a Profit and loss statement;
- a Cash flow statement.

To ensure that foreign invested companies meet Chinese financial and accounting standards, the annual audit report must be conducted by external licensed accounting firms and signed by an independent accountant registered in China. On average, the audit procedure takes about two months, and the audit report should be completed before the end of April in order to meet the tax reconciliation deadline.

Consolidated Corporate Income Tax Report (tax returns)

In China, a CIT is issued on a monthly or quarterly basis, in accordance with the figures shown in the accounting books of the company. Companies are required to file CIT returns within 15 days of the end of the month or quarter. However, due to discrepancies between China's accounting standards and tax laws, the actual CIT taxable income is usually different from the total profits shown in the accounting books. As such, the State Administration of Taxation (SAT) requires companies to submit an Annual CIT Reconciliation Report within five months of the previous year's end to determine if all tax liabilities have been met, and whether the company needs to pay a supplementary tax or apply for a tax reimbursement.

Normally, every year (in March) the local Tax Bureau issues guidance on CIT reconciliation. Moreover, companies that conduct frequent transactions with related parties should also prepare an Annual Affiliated Transaction Report on transfer pricing issues as a supplementary document to the Annual CIT Reconciliation Report.

The deadline for submitting the CIT Reconciliation Report to the Tax Bureau is 31 May every year, but the investigation of the tax compliance could last until the end of the calendar year, and companies should be prepared to provide supporting documents upon demand from the tax authorities.

Annual reporting to AIC (State Administration for Industry and Commerce)

Each year, from 1 January to 30 June, all FIEs should submit an annual report for the previous fiscal year to the AIC. The submitted report should cover the following information:

- the mailing address, post code, telephone number and email address of the enterprise;
- information regarding the status of the enterprise;
- information relating to any investment by the enterprise to establish companies or purchase equity rights;
- information regarding the subscribed and paid-in amount of the capital, time and ways of contribution of the shareholders or promoters thereof, in the case that the enterprise is a limited liability company or a company limited by shares;

- equity change: information about any equity transfer made by the shareholders of the limited liability company;
- the name and URL of the website of the enterprise and of its online shops;
- information of the number of business practitioners, total assets, total liabilities, warranties and guarantees provided for other entities, total owner's equity, total revenue, income from the main business, gross profit, net profit and total tax;
- information regarding the Annual Customs report for the companies, subject to Customs administration.

Annual combinative reporting to the Ministry of Commerce (MOFCOM), Ministry of Finance (MOF), State Administration for Taxation(SAT), State Administration of Foreign Exchange (SAFE) and National Bureau of Statistics (NBS)

Due to various specifics of operational behaviour, the above government bureaus exclusively play the role of supervisors and have no right to make any decisions regarding the activity of the company.

The deadline for this combined report can vary depending on the year. In 2017, the deadline was extended to July 15. And in 2018 the reporting period is from 1 April 1 till 30 June.

Tax Concessions and Deductions

Starting from 2019, the minimum threshold for a personal income tax exemption is 5,000 yuan (about 48 thousand rubles). For small and medium-scale enterprises the real tax is reduced from 24% to 12% from 2019, and it is possible that China will facilitate the tax burden.

On 21 December 2018, the PRC's State Administration of Taxation announced a new set of measures, geared to alleviate the tax burden on the population. (came into force starting from 1 January 2019). These measures are valid for all tax residents of the PRC, including foreign nationals.

Tax deductions starting from year 2019 for individuals (incl. foreign citizens)			
Category	Applied to	Tax deduction amount	Type
Children's education	• preschool; • school and university education if receiving diploma.	1,000 per child per month(or 12,000 per child per year).	• Standard tax deduction; • Is divided 50/50 between parents or 100% for 1 parent.
Continuing education	School and university education if receiving a diploma.	400 yuan per month or 4,800 per year for a period of 2 years maximum.	Standard tax deduction. When a diploma is received, parents can apply for this option of tax deduction instead of the tax deduction from the taxpayer (i.e. their child).
	Receiving a professional qualification.	Up to 3,600 yuan per year, on the condition that the certificate is received.	
Medical insurance in case of serious diseases	Medical insurance costs.	More than 15,000 yuan, up to 80,000 yuan.	Based on costs incurred.
Mortgage loan	First mortgage loan for the purchase of housing property in the name of the taxpayer or their spouse.	Up to 1,000 yuan per month or 12 months per year, for the period of up till 240 months or 20 years.	Standard tax deduction. Can be applied 100% only to one of the spouses.
Costs associated with elderly relatives' support	Supporting parents over age 60. Other officially registered dependants.	2,000 yuan per month or 24,000 yuan per year.	• Standard tax deduction; • Cannot be multiplied by number of elderly relatives; • Must be divided between all the dependants, and each child can't make a claim for more than 12,000 yuan per year or 1,000 per month.

Housing rent	Taxpayer and his spouse do not own the apartment in the city where they work. Three tax deductions are possible depending on taxpayer's place of work.	1,500 yuan or 18,000 yuan per year or 1,100 yuan per month or 13,200 per year or 800 yuan per month or 9,600 per year.	• Standard tax deduction; • Must be applied 100% to only one of the spouses if they are working in the same city; • Both spouses can apply, if they work in different cities and own housing in neither of them.

The recently-added tax deductions are available both for local and for foreign employees. Earlier, all foreign employees had a right to certain tax concessions (for example, pertaining to housing rents or purchases, laundry services, hiring household staff, education, etc.). In accordance with the new law, all foreign nationals can still benefit from these concessions, but only until the end of 2021. During the transition period (of three years, spanning from the beginning of 2019 and until the end of 2021) the expatriates should choose either to use the aforementioned tax concessions or to apply for up to six special tax deductions, as shown in the table above. However, once having made the choice, the decision cannot be changed for the duration of one calendar year. Moreover, after 2022, the expatriates shall no longer be able to enjoy the tax concessions and shall be covered by the same tax laws as the Chinese employees.

How to repatriate profits from China

China maintains a strict system of foreign exchange controls, which tightly restrict the flow of capital into and out of the country. Acting legislation, tax regulations, as well as China's transfer pricing policies serve as an additional barrier to repatriation. Nevertheless, there are several profit repatriation channels from the PRC, including remitting profits as dividends.

Remitting profits as dividends

Mandatory tax payments:

- 25% CIT must be paid prior to profit distribution;
- 10% withholding CIT at distribution.

A Foreign invested enterprise (FIE) can only repatriate profit after its registered capital has been injected within the time limits set out in the company's Charter.

A FIE generally can only repatriate profit once per financial year, after the completion of the annual audit and all relevant tax compliance procedures.

No profits can be distributed before the losses accumulated in previous years have been paid off.[7]

7 The loss incurred in a tax year is deductible from corporate income before tax, and can be carried forward to the subsequent five years to be set off if the current year's profit is not enough to make up for the losses. After that, the

It should be noted that dividends paid to foreign investors are subject to an additional 10% CIT tax deduction. However, there are exemptions to this rule:

1) If a double tax avoidance agreement is available, and the parent company qualifies as the beneficial owner, a preferential withholding CIT rate of five percent or even lower may apply.

2) If non–resident enterprises have decided to re-invest the dividends derived from FIEs into projects encouraged by the Chinese government, the withholding CIT on this part of the dividends can enjoy tax breaks if they fulfil certain conditions.

Nevertheless, there are several limitations on the repatriation of profit by a company that has completed all due checks and inspections. For example, a wholly foreign-owned enterprise (WFOE) has to place 10 percent of its annual after-tax profits into a mandatory surplus reserve fund until it reaches 50 percent of the FIE's registered capital. Not all profits can be repatriated after tax clearance.

Paying intercompany fees to foreign investors

Mandatory tax payments:

Service fees

- 6.72% VAT and surcharges
- 25% of deemed profit in the event of a provision of services with the Permanent Establishment (generally in the range from 3.75% to 12.5% of the total cost of the service)

Licensing fees:

- 6.72% VAT and surcharges
- 10% withholding CIT
- import taxes (tariff, import VAT, import consumer tax) – in case of import

Another possible channel for profit repatriation is via intercompany payments. This is mostly achieved by charging for additional expenditures on human resources (e.g. training), information technology or intangible assets (such as trademarks or patents) provided to Chinese affiliates.

This method has a serious advantage, since an FIE can make intercompany payments without going through the annual audit and tax compliance process. Furthermore, there is no limitation on the possible number of intercompany payments, so they can be made whenever needed.

While the intercompany transactions are subject to taxation: VAT applies, and so do some surcharges and CIT, these can be deducted from the CIT taxable income if certain requirements are fulfilled.

loss still needs to be recovered before profits are distributed, but it can only happen after tax clearance

In addition, the tax efficiency of this method could be further impacted by the fact that a permanent establishment of the company on the territory of China. In such a case, the service fees will be subject to a 25 percent tax on the deemed profit, unless a tax exemption applies under a double taxation avoidance agreement. The tax usually includes VAT and city tax for service and construction.

Moreover, intercompany payments can end up in a special tax investigation. Chinese tax authorities put special scrutiny on intercompany payments related to foreign investment. This is particularly the case when the payment lacks business substance (e.g. the payment is large, or the recipient organisation has a permanent low profit).

Loans to a foreign affiliated company

Mandatory tax payments:

- no tax implications for loan extension;
- 10% CIT and 6.72% VAT plus surcharges related to interest.

This is one of the most regulated profit repatriation channels. When a loan extended to a foreign entity, FIE must report to the local branch of the People's Bank of China and to the State Administration for Foreign Exchange (SAFE).

A company can only extend loans to a foreign company with which it has an equity relationship, and the creditor company must have been established in China for at least one year. It is important that both companies have good credit records complying with the foreign exchange rules.

The overseas lending is further limited to 30 percent of the owner's equity, as shown in the latest financial report. For the simplification of the procedure, if the loan is in compliance with the aforementioned, the FIE can go through a standard registration in SAFE. For offshore lending, which is over the limit, a case-by-case SAFE examination and approval will apply, and after the approval, the FIE will not be allowed to extend any new loans until the loan ratio falls to the level designated by the administration.

In both cases, the interest rate should be above zero and the usual repayment period is five years.

ENTERING THE INDIAN MARKET: INVESTMENT, TAX, AUDIT, SETTING UP A PRODUCTION FACILITY

At present, India is one of the fastest growing economies in the world and offers great prospects for investment. In 2009, the Indian government established the National Investment Promotion and Facilitation Agency of India, also known as Invest India, to attract investment in the country. The agency, which has stepped up its activities in recent years, develops marketing strategies, explains the peculiarities of entering the Indian market and provides assistance in searching for local partners.

Irrespective of this assistance, given the national peculiarities of doing business in India, it would be wise to develop your strategy for entering the Indian market on your own or with the help of other consulting agencies.

The federal system of government in India means that the country does not have a single unified business environment, with each state having its own economic strategy and business climate. Therefore, in order to succeed on the Indian market, you must take the local legal system into account and work hand in hand with the local business elite. While some states have established policies that encourage investment, other states are still affected by outdated strategies that may create obstacles for foreign investors.

In 2019 a general election will be held in India. The government has significantly increased spending to support the domestic market, with $14 billion set aside in the budget for 2019. A large part of this money will be used to support local farmers, especially those that own less than 2.5 hectares of land, by covering their outgoings on planting, harvesting and interest payments to banks. India is also launching a number of new initiatives aimed at attracting foreign investors in hi-tech sectors.

Russia and India are working together to increase the prospects for cooperation and create new mechanisms to develop trade and economic relations between the two countries. Moscow and New Delhi are developing local currencies settlement systems, which are already in use for deals in the arms industry. Despite the largely successful cooperation with India in defense and politics, relations are falling short of their potential in terms of small and medium-sized enterprises, joint enterprises and production. The Indian government has stated that it aims to increase the volume of bilateral trade to $30 billion and investments to $15 billion from both sides by 2025. India is also interested in creating new jobs by establishing major contracts with Russia, particularly in I.C.T., the space industry, aircraft manufacturing and final processing of agricultural products. Other areas of particular promise are the establishment of joint educational institutions and personnel retraining in India.

Setting up a production facility in India

Most promising locations and sectors of the Indian market

Each Indian state has unique economic features that can create problems for any foreign investor. Therefore, the situation in each territory should be taken into consideration when assessing their investment potential. The states of Gujarat, Maharashtra, Karnataka, Andhra Pradesh and Tamil Nadu stand out in terms of their GRP and overall contribution to India's GDP. These states were identified in the 2018 report by the National Council of Applied Economic Research (NCAER) as having the greatest investment potential.

India's leading industrial state Gujarat, which has a population of 60.4 million, of which 42.6% live in urban areas, has a higher economic growth rate than India overall (9.9% against 6.9%). Gujarat has a strategically beneficial location on the West coast of India and serves as a gateway to states in the North of the country that do not have access to the sea. Industry accounts for around 45% of the regional economy, while agriculture accounts for just 17%. By comparison, in Andhra Pradesh agriculture accounts for 34% of the state's GRP, while industry accounts for 21%.

State	Regional benefits	Investment opportunities
Gujarat	• Convenient location for trade routes to the African continent and the Persian Gulf; • Around 25% of India's sea freight passes through the state; • Main access point to the northern states of the country; • Constantly ranks first in the country for ease of doing business; • Well-developed agriculture, automotive and pharmaceutical industries.	• Infrastructure – roads, ports, urban infrastructure, energy, architectural and design services, 'green' buildings; • Renewable energy sources, bioenergy (energy waste, landfill gas); • Agriculture – goods, gardening, technology and services for agriculture, dairy technologies; • Water – wastewater treatment and water technologies; • The food industry, logistics.
Maharashtra	• Strategically located on India's West coast; • Favorable business environment can be used as a site for launching a business; • High concentration of headquarters of leading corporations and key sources of finance, leading location for foreign direct investment; • Competitive banking and financial spheres as well as services.	• Financial services; • R&D– cooperation and commercialization; • Infrastructure – construction of railroads, underground rail, development of settlements, ports, and embankment; • Water– wastewater management; • Agricultural business– food and drinks, dairy technologies and services.

Karnataka	• Local government supports investors by simplifying procedures and offering transparent governance; • Good links with major national and international markets; • Excellent state-of-the-art fiber optic telecommunications system across the state; • Home for public sector enterprises in heavy industry, aeronautics, precision engineering, telecommunications, healthcare, and pharmaceutical industry; as well as software development; • Leading manufacturer of automotive components, machinery, and heavy electrical tools; • Global competitiveness in IT services and business process outsourcing (BPO).	• Information technology and software development; • Startups; • Electronics, electronic equipment; • Pharmaceutical products; • Infrastructure and urban planning; • Agriculture – honey, food industry, dairy technologies, and gardening; • Resources and energy – mining, mineral processing, renewable energy sources – solar energy, mini–hydroelectricity, wind, river rejuvenation, waste disposal.
Andhra Pradesh	• More than 950 kilometers of coastline, the largest major port in India and several smaller ports; • Strategically located on the Indian East coast, offering excellent trade links with major Asian markets such as China, Hong Kong, Japan, and Singapore; • Located in a delta region which has fertile river plains and robust agricultural production; • Immense mineral reserves that contribute to large ore exports; • Diverse industrial base covering aerospace, food, IT, precision technology and semiconductors; • Home to leading software and IT centers.	• Fintech technology center; • Resources and energy – mining, mineral processing, great potential for renewable energy technologies, in particular, solar and wind energy; • Infrastructure and urban development – investment in power transmission lines, architectural services, road safety, and transportation technologies.

Tamil Nadu	• Strategically located on the Southeast coast of India with access to Southeast Asia; • Chennai is the main port for agricultural imports and exports and the second largest location for software exports in India; • A major producer of sugar, corn, gardening product, chemicals, fertilizers, cement, paper, and steel; • Leading generator of solar and wind energy, with one of the largest installed capacities in India; • A mature industrial environment with regionally-competitive manufacturing industry; • The largest number of existing special economic zones in India.	• Fintech technology center; • Resources and energy – mining, mineral processing, great potential for renewable energy technologies, in particular, solar and wind energy; • Infrastructure and urban development – investment in power transmission lines, architectural services, road safety, and transportation technologies. • Infrastructure – roads, ports, urban infrastructure, architecture and design services; • Education – training and skills development; research partnerships; • Energy sector – wind and solar energy, gas network and transmission; • Advanced manufacturing technologies, automotive industry, and aftermarket.

Production placement

The Indian government has created several Special Economic Zones (SEZ), the full list of which can be found on India's Trade Ministry website. Key factors in selecting a location for production facilities are easy to access to commodities and straightforward export logistics.

Here are a few benefits of establishing production facilities in Indian SEZs:

- Tax-free import and domestic purchasing of goods for the development, operation, and maintenance of your company.
- 100% Exemption from profit tax on earnings from exports during the first five years, 50% during the following five years, and 50% tax relief on reinvested export earnings during the following five years. These stimuli are expected to be revoked on April 1, 2020.[8]
- Exemption from goods and services tax (GST) and state duties. Supplies to SEZ are zero-rated according to 2017 IGST Act, which means that they not taxable.
- External Commercial Borrowings (ECB) of up to $500 million per year are allowed without limitations. The ECB channel may be used after government approval and only with the purpose of creating infrastructure objects within the SEZ. However, this sort of financing

8 The issue of extending tax benefits is currently part of government agenda.

will not be granted for the development of integrated urban and commercial property within the SEZ.

- Permission to manufacture products outright if the goods produced relate to a sector that allows 100% FDI.

The area of land given to a foreign company is limited according to the type of SEZ. There are several types of SEZ:

- Multi-sector SEZ (1,000+ hectares of land);
- Sector-specific SEZ (100+ hectares);
- Free Trade & Warehousing Zone (40+ hectares);
- Tech, handicraft, non-conventional energy, gems & jewelry SEZ (10+ hectares).

Potential challenges

Here are some possible challenges you may face when entering the Indian market:

– Selecting an Indian partner to supply necessary raw materials, since this affects the quality of products and impacts upon the company's reputation;

– Legal difficulties in terms of both federal and local law, due to national peculiarities (India is still in early stages of optimizing business processes).

Options for entering Indian markets for foreign businesses

Permanent account number (PAN)

The Permanent account number (PAN) is a very important part of Indian business culture. The tax department uses the number, issued in the form of a card, as a universal identification key to tracking financial transactions that might have a taxable component, in order to prevent tax evasion and support compliance of applicable tax laws.

The PAN also serves as an invaluable means of photo identification for individuals and is accepted by all government and non-government authorities in the country. Using a PAN is mandatory for any transaction that can yield profit and for high-value financial transactions, including opening a bank account, receiving taxable income, and buying or selling of assets, such as sale or purchase of immovable property valued at Rs 1,000,000 (US$14,056) or more, and purchase or sale of any goods or services (including jewelry) which exceed Rs 200,000 (US$2,811) per transaction.

A foreign investor can establish an enterprise in India in the form of non-corporate legal entity (i.e. a company that is not a subsidiary enterprise) or an affiliate company. Non-corporate entities are allowed to do business in India by establishing a representative office, a branch office, a project office, or WOS.

Representative office and Branch office

Citizens of the vast majority of states are allowed to set up companies, branches and representative offices without additional conditions. However, citizens of Bangladesh, Sri Lanka, Afghanistan, Iran, China (including Hong Kong and Macau) and Pakistan must first register with the police. As a result, they should receive a ‘Certificate of approval’.

Liaison Office (LO) or a representative office cannot engage in commercial activities and is fully funded by the parent company. In legal terms, a representative office is understood as a foreign company, it is taxed at a 40% rate (for Indian companies the tax rate is 30%). In order to establish a representative office in India the parent company must have profitable operations within the past three years (in the country where the company was established). The total net asset value shall be at least $50,000 (confirmed by the latest verified balance sheet or account statement). The name of the representative office must be the same as the foreign parent company.

To open a branch office in India, a company should have profitable operations in the country where it was established over the 5 years preceding the establishment of an enterprise in India, and also have a minimum net capitalization of $100,000 confirmed by the latest balance sheet or account statement. If an applicant represents a division of a company, a parent company can provide the Letter of Comfort (LOC). This branch is considered as a foreign company subject to an increased tax rate of 40%.

The name of the branch office must be the same as the foreign parent company. A foreign company wishing to open a new branch office must submit a new request to the central office of the Reserve Bank of India (RBI) for approval. Branch offices are entitled to make internal corporate money transfers to their parent companies, but they must provide an audit report confirming that the office can fulfill its tax obligations.

The process of creating a branch office is similar to the process of establishing a representative office. The difference is only in the permitted forms of work (the representative office has no right to make a profit) and in the capital requirements of the parent company.

Legalization of documents. It is necessary to collect a package of documents from the parent company, including its certificate of registration, the decision of the Board of Directors to open a branch or representative office, the charter of the company and the documents of the official representative of a liaison office who will be authorized to conduct the registration process in the future. Documents must be legalized either through the Embassy of India or apostilled in accordance with the Hague Convention.

Filing the FNC form with the Reserve Bank of India (RBI) through an Authorized Dealer category 1 Bank (AD Bank 1)

Application for registration of a branch or representative office of a foreign company is submitted in the prescribed form (FNC) to the Reserve Bank of India (RBI) through any Authorized Dealer category 1 Bank (Authorized Dealer Category-I Banks or AD Bank). After that, the AD Bank plays a major role, since all communications with RBI must pass through it. The permit remains in force for six months, and you can apply for its extension if necessary.

Receiving confirmation from a bank of the parent company

After the FNC form is submitted to the AD Bank, the request for verification of documents is sent to the bank of the foreign company. If necessary, the RBI/AD Bank may request any additional document which must be submitted.

Obtaining approval from the RBI for branch registration in India

Usually, the AD Bank issues its own approval for the establishment of a branch, in rare or controversial cases such approval may be issued by the RBI. The confirmation process after the first check takes a week.

Branch registration of a foreign company in the Indian Registrar of Companies (ROC)

After the RBI approval of the establishment of a branch in India, an application in the form of FC-1 for registration of a branch or representative office of a foreign company is submitted within 30 days. If the company has Indian Directors, it is necessary to provide their personal identification numbers (Director Identification Number, DIN), as well as the digital signature of the authorized person. All this information is electronically sent to the ROC for their approval.

To register with the police

A branch or representative office must be registered with the state police (usually in the office of the superintendent of Police).

Obtaining a PAN card, tax deduction at source (TDS) and opening a bank account

The Income Tax Department allocates a unique 10-digit alphanumeric number as a permanent account number, also known as the PAN.

Project office

A project office can be created if a foreign company has obtained a contract to work with an Indian company to carry out a project in India and has an appropriate source of funding or government permission in this regard. To obtain permission for creating a project office, you must meet one of the following criteria:

- The project is funded directly by internal money transfer from the foreign parent company;
- The project is funded by a bilateral or multilateral international financial agency, such as the World Bank or the IMF;
- The project has been approved by the relevant Indian authorities;
- An Indian company that carries out the contract has received a term loan for the project.

If a company does not meet any of the above criteria, a foreign company wishing to open a project office in India must submit a request to the central office of the Reserve Bank of

India (RBI) for approval.

Project offices may open an interest-free bank account in a foreign currency for expenses and project crediting and may have both a foreign currency account and an account in Indian rupees. Project offices are entitled to make internal corporate money transfers to their parent companies, but they must provide an audit report confirming that the office can fulfill its tax obligations. Once the project is completed, the office can repatriate any excess capital after all tax liabilities have been paid, the audit of project accounts has been completed, and a document confirming the balance has been provided.

WOS

Wholly-owned subsidiaries (WOS) are the most appropriate and widely used form of business organization for foreign investors in India, since they ensure full control over business operations, provide limited liability and have fewer restrictions on doing business than representative offices and project offices.

Foreign investors can create a wholly–owned subsidiary in the form of a private limited company if they operate in a sector that allows 100% foreign direct investment (FDI).

Taxation and audit

Personal income tax

Personal income tax is applicable to all income of the country's residents received in any country of the world,[9] and to the income of non-residents received in India, at a progressive rate in accordance with the level of income. Income of less than 250,000 Indian rupees ($3,867) is not taxable. A 3% education tax is levied in addition to the progressive rates.

Income level	Tax
Rs 250,000–500,000 ($7,734)	5% of total income
Rs 500,001–10,000,000 ($15,470)	12,500 Rs ($193.48) + 20% of total income
Over Rs 10,000,000 ($15,470)	112,500 ($1584.12) + 30% of total income

Corporate Income Tax (CIT)

India has a single 30% tax on corporate income, plus duties on health insurance and education. CIT is applied to resident companies including wholly-owned subsidiaries of foreign companies. The duties rates vary from 7% to 12% depending on the earnings of a non-resident company.

CIT for non–resident companies is 40% plus health and education duties. The level of such duties varies between 2% and 5% depending on the earnings of a non-resident company.

Alternative Minimum Tax

The alternative tax of 18.5% (plus stamp duty) is applied to companies with a tax liability

9 Residents for tax purposes in India are considered to be local residents or people who have spent in the country at least 182 days per year or 365 days over the past four years.

of less than 18.5% of their pre-tax profit.

Capital Gains Tax

There are two types of capital gains tax: the tax rate is 10% in cases where a company has owned an asset for less than 3 years; in the case of long-term gains, the tax rate is 20%.

Dividend Tax

The current effective tax rate is 20.36% (15% plus extra charge and tax).

Value Added Tax (VAT)

The value added tax includes general VAT rate (4–5%) and residual rate (12–15%) which may vary from state to state. Moreover, there is a goods and services tax (GST) which includes most indirect taxes. It is important to note that this duty is a single value added tax levied on the production, sale and consumption of both goods and services at a national level, based on a single tax rate for goods and services throughout India, and is payable at the point of consumption. At each stage of sale or purchase in the supply chain, the tax is levied on value-added goods and services through a tax credit mechanism (or initial credit mechanism).

Stamp duty

According to Stamp Duty Law in India and its states, the duty is applied to all financial instruments, real estate and other deals within the range of 0.5–7%.

Tax deductions and credits

Tax deductions can reach up to 200% if a company carries out in-house research in certain areas, or finances similar activities by other organizations. If a company works in the agricultural sector or in the field of staff development, tax deductions can reach 150%. Companies that are established in special economic zones may be fully exempt from export profits taxes, subject to certain conditions.

Audit

In India, there are two types of financial audit: mandatory and internal. Mandatory audits are conducted to provide the Indian government and shareholders with insight into the current state of the company's finances and accounts. Such inspections are carried out by qualified independent auditors. Mandatory inspections of all companies are conducted every fiscal year (from April 1 to March 31) and mainly consist of a tax audit. The tax audit report must be completed before November 30 following the end of the previous fiscal year.

Internal audits are conducted at the instruction of a company’s management in order to check the state of the company's finances and analyze the operational efficiency of the organization. Internal audits may be conducted by an independent party or a company's own employees. The internal audit system is mandatory for all companies that are listed on the stock exchange.

The main aspects of an audit are:

– A balance sheet report, which includes reports on the company's revenues and expenses, trading activities, and assets (real estate, deposits, etc.), and additional documentation for some specific types of business activity. The retention period for a company's data is 8 years.

– Financial statements which reflect all the financial aspects of a company's activities (including information on tax payments, payments to shareholders, repatriation of profits) which cover the entire fiscal year but do not exceed 15 months. For new companies, these statements must be prepared no later than 9 months before the Annual General Meeting and no later than 6 months before for all other firms. The report is sent to the Register of Companies 30 days in advance. If necessary, a request can be submitted to the Register to extend the term of the financial reporting period by 18 months.

– A brief statement outlining the company's structure and specifying company's details, information about directors and their resignations, secretaries and their resignations, equity capital, nominal value and number of issued shares, shareholders and number of shares belonging to them.

HR, labor market, personnel

Main requirements and special considerations when hiring foreign employees:

India issues two types of working visa – the employment visa and the business visa. In order to issue these visas, Indian authorities request documents from the applicant as well as from the applicant's employer. Candidates and employers should be aware that the preparation of the documents required will take at least a week.

Officially, foreign individuals who intend to visit India for business purposes must apply for a business visa. Depending on the applicant's citizenship, a multiple entry business visa can be issued for up to five years. However, the maximum permissible stay per visit is determined by the Indian consulate.

To apply for a business or employment visa, each paper submitted by the employer must be an original document on the company's letterhead, signed by a senior manager and bearing the company's official seal. The only exceptions are the Certificate of Registration and the PAN card, copies of which are allowed.[10]

Foreign employees coming to India must meet the following criteria:

1. Be at least 18 years of age;

2. Be in good health;

3. Their skill level must be higher than that of their Indian counterparts;

10 Employers must be ready to send the original documents if necessary.

4. An invited employee cannot engage in administration of business processes;

5. Annual salary must be at least $25,000 (with the exception of language teachers, ethnic cuisine cooks, embassy staff and volunteers).

Main requirements and special considerations when hiring local employees:

Companies should establish a strict personnel selection system for hiring local employees, since the qualification of specialists is often much lower than that required.

In addition, employers should be aware of the various regulatory requirements of federal and state authorities in India. The vast majority of labor laws are enacted at the federal level, but there are significant differences in labor legislation in different states.

Employers who are not familiar with Indian labor laws should hire a law firm or professional services company to ensure conformity to the laws and regulations which apply to their business.

Indian labor laws provide for basic guarantees and benefits for all employees, and employers must take into account that these laws supersede the provisions of labor contracts.

Employment contracts vary greatly, but the most common practices are permanent labor contracts, fixed-term labor contracts, and temporary employment contracts.

When preparing employment contracts, employers should pay special attention to the Industrial Disputes Act;[11] Shops and Establishments Act,[12] as well as several laws on the amount of salary and remuneration that regulate payment of salary and additional the payments and which require equal pay for men and women.

Any policy related to the termination of an employment agreement stipulated in such an agreement must be reviewed for compliance with current legislation prior to its conclusion.[13] Employers face a number of legal and reputational risks which can arise from cases of illegal dismissal or violation of procedure.

There is no standard employee dismissal procedure in India. An employee may be dismissed in accordance with the individual employment contract concluded between an employee and an employer, if the contract specifies the procedure for dismissal. Employers should be aware, however, that labor laws supersede the provisions of employment contracts. In cases where no employment contract has been concluded, or an employment contract does not specify a procedure for its termination, the employer must adhere to the laws of the State. In order to dismiss an employee in this case, the employer must comply with the relevant Indian State legislation and any industry-specific labor laws.

Information technologies prospects

The Indian information technologies (IT) sector is thriving. The sector is now in a transitional stage, but has managed to retain its competitive advantage. The country offers a

11 Ensures protection for workers

12 Regulates salary payments, vacation leave, working terms and other labor conditions.

13 For instance, companies employing less than 100 people need government approval for employees dismissals.

well–developed infrastructure focused on technology, world-class opportunities for outsourcing and software development, as well as skilled and relatively cheap labor.

Key areas of the IT industry in India are social media, mobile applications and system support, data analysis, and cloud computing.

The sector is developing rapidly as new technologies come to the fore, which creates new demand in line with added competencies in terms of services.

Some specific features of the Indian IT sector:

- An abundant and skilled workforce

It is well-known that State institutions such as the Indian Institute of Technology (IIT), Indian Institute of Management (IIM), and Indian School of Business (ISB) provide a high-level education with a focus on STEM (science, technology, engineering, mathematics) and a wide range of different skills.

- Global quality standards

Indian IT vendors adhere to best practices and have adopted several global quality certification standards and models for evaluating the efficiency of company processes, such as ISO 9000, TQM, Six Sigma, and Customer Operations Performance Center (COPC), confirming the ability to deliver high-quality software in a timely manner.

- Low servicing and labor costs

Depending on the type of service, India can help companies save between 40% and 60% on service and labor costs, in comparison with leading software markets such as the US or Europe. Hiring an Indian software developer costs only $15–45 per hour.

- Federal policy, tax incentives and infrastructure development

As part of the Digital India government campaign, $20 billion is being invested in improving the country's Internet infrastructure, as well as promoting online payment systems and e-government, among other things. In the meantime, the Startup India initiative supports technology startups that are critical to the growth and development of SMAC capabilities in the IT sector.

Exports are zero rated, which means that input taxes paid for the export of services will be refunded. In addition, the government has decided to lower the tax rate on royalties and fees from technical services from 25% to 10%.

In addition to creating software technology parks, the government has provided a global SWAN network with a minimum bandwidth of 2 Mbit/s for all 29 states and six union territories.

VIETNAM: MARKET ENTRY, BUSINESS AND ENTREPRENEURSHIP IN VIETNAM

Assessment of Vietnam's investment climate

Today, foreign companies are discovering more and more opportunities for doing business in the Vietnamese market. In particular, the number of sectors open to free investment is growing, and the number of sectors in which investment is prohibited or restricted is shrinking. Despite greater openness of the market, many foreign investors still find it challenging to do business in Vietnam due to inadequate knowledge of business traditions, bureaucratic procedures and ignorance of local legislation. In fact, by 2010, the market had become relatively open and transparent, with straightforward rules for doing business.

The main advantages of the Vietnamese market are:

- Low cost of labour, property rental and production facilities.
- Numerous tax and investment incentives for foreign companies;
- Significantly lower production costs for most products compared to China with comparable quality and lead–time;
- Low penetration of the domestic market by many high-quality goods and services means competition is limited;
- The gradual formation of a middle class with higher levels of need and demand, as well as a willingness to consume more expensive goods.

The main difficulties are bureaucratic procedures that foreigners find confusing and a protracted negotiation process that seems to apply in all circumstances. Generally, these issues can often be resolved by involving well-informed consultants and choosing an appropriate form of corporate structure.

For many reasons, it is more productive today to establish a company in Vietnam than in China, primarily due to a cheaper, less competitive market and the availability of high-quality goods and services.

However, the savings from lower production costs do not come to investors without a price. The lack of developed infrastructure, limited access to skilled workers and the ineffectiveness of many government activities are an everyday reality of operating in rapidly emerging markets, and Vietnam is no exception: foreign investors cite issues such as worker qualifications and regulatory unpredictability as some of the most significant obstacles to doing business in the country.

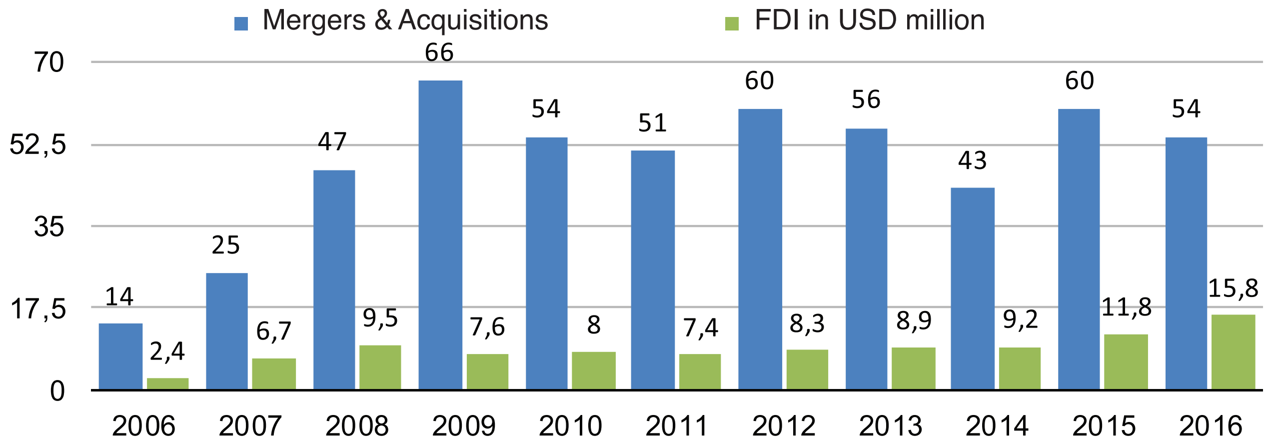
These measures led to significant changes in the economy: in 2016, state-owned enterprises accounted for 28.6% of Vietnam's total GDP, while foreign and private companies accounted for 18% and 43% of GDP respectively.

There are many opportunities for foreign companies to enter the Vietnamese market. Vietnam Laws on Entrepreneurship and Investment, adopted in 2015, stipulate all possible options for entering the market.

The inflow of foreign direct investment (FDI) amounted to $11.8 billion by the end of 2015, representing more than 6% of Vietnam's GDP, this significantly exceeds the relative performance of regional competitors, such as China, India and Thailand, where FDI for the same period amounted to 2.25, 2.10 and 2.32% of GDP.

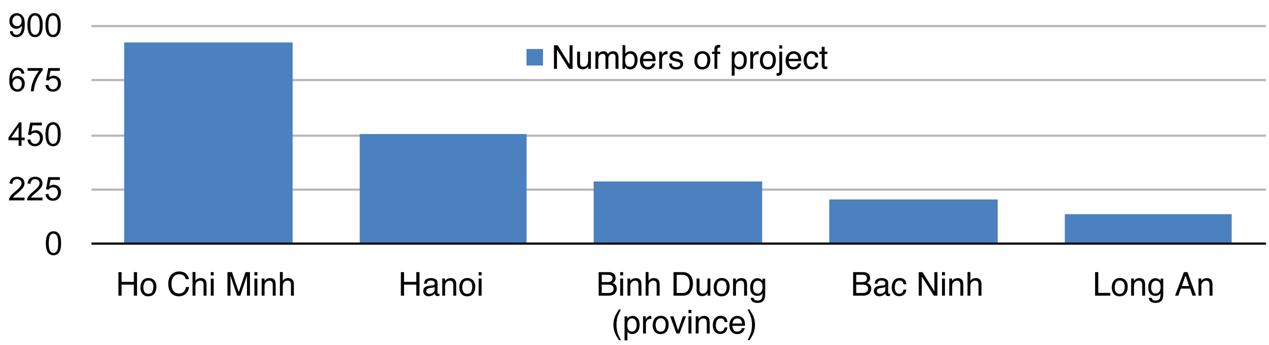
According to forecasts, these factors could help to keep the GDP growth rate above 5% at least until 2050.

Correlation between M&A quantity and FDI volume in Vietnam



Source: General Statistics Office of Vietnam

The largest investors in the Vietnamese market from its nearest neighbours are the Republic of Korea, Japan, China, Singapore and Hong Kong. The United States and France are also constantly building-up their shares.



Source: Ministry of Planning and Investment

General trends of modern development

1. Sustainable growth

Vietnam's GDP grew by 6.8% in 2017 vs 2016, a growth of 0.6% compared to 2016 (6.2%); additionally, it is also higher than the projected 6.3–6.7%. This was mainly achieved thanks to strong growth in several key and emerging industries in Vietnam. Thus, since 2017, production and service supply grew year-on-year by 7.67% and 7.2%, each year.

The GDP index in monetary terms in 2017 amounted to $223,864 million. Vietnam is 47th in the GDP rankings of 196 countries. Vietnam's absolute value increased by $22,555 million compared to 2016.

In 2017, Vietnam's GDP per capita amounted to $2,343, $171 higher than in 2016 ($2.172). (For comparison, Vietnam's per capita GDP in 2007 was just $920).

According to GDP per capita, Vietnam ranks 138th out of 196 countries while population income remains at a relatively low level.

2. Outside investment inflow

Against the background of this growth, foreign direct investment in the country grew significantly in 2016 and 2017. In 2016, Vietnam sourced 2,556 new foreign investment projects worth about $15.8 billion, a significant leap forward compared to 2015; while the number of projects increased by 27% and capital inflow by 9%. Of the newly registered capital, 64.4% went to the manufacturing industry, and the Republic of Korea used to be the largest investor, with more than $5.5 billion.

3. High competitiveness of exports

Since Vietnam became a serious global trade player, its trading performance has shown a comparatively positive improvement. After an impressive 29% growth in 2015, exports continued to grow by 8.6% in 2016, reaching $176 billion. This resulted in a trade surplus of $2.68 billion, the highest figure in the last six years. The export-to-GDP ratio is about 90%. As far as trading partners are concerned, the EU is the largest export market for Vietnam, followed by the USA.

4. Consumer market growth

Vietnam's middle class is one of the fastest growing in Southeast Asia. Thirty million medium and affluent consumers are expected in the country by 2020. Along with Vietnam's growing consumer class, the country's per capita income is expected to increase from the current level of $2.343 to $3,000 by 2020.

Promising export–import areas for Vietnam

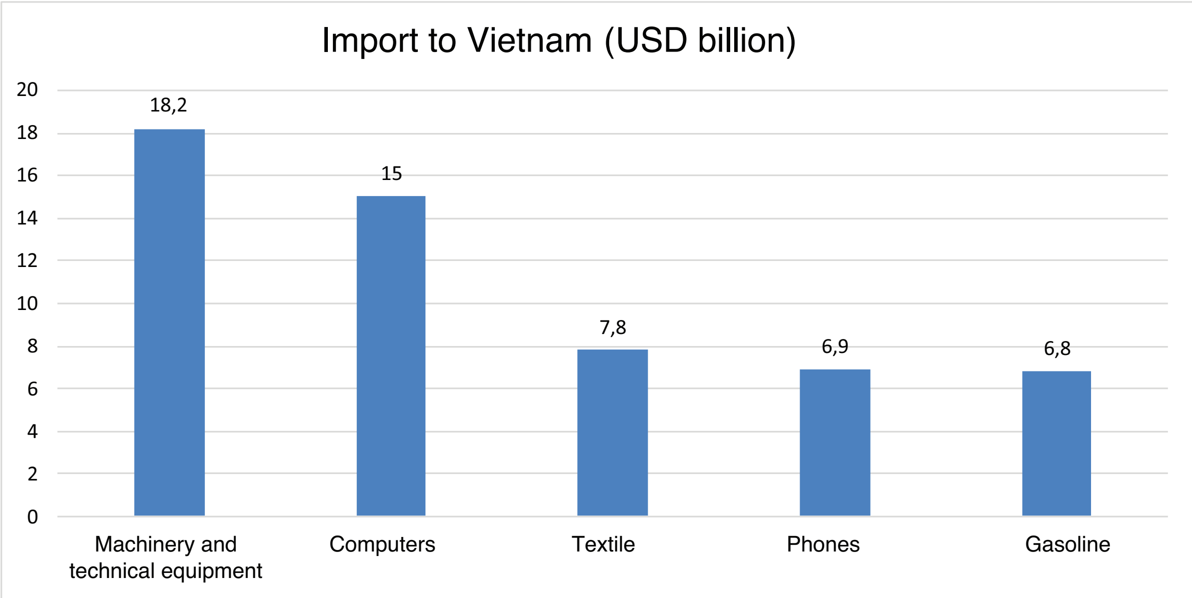
The most promising areas of Russian imports to Vietnam are:

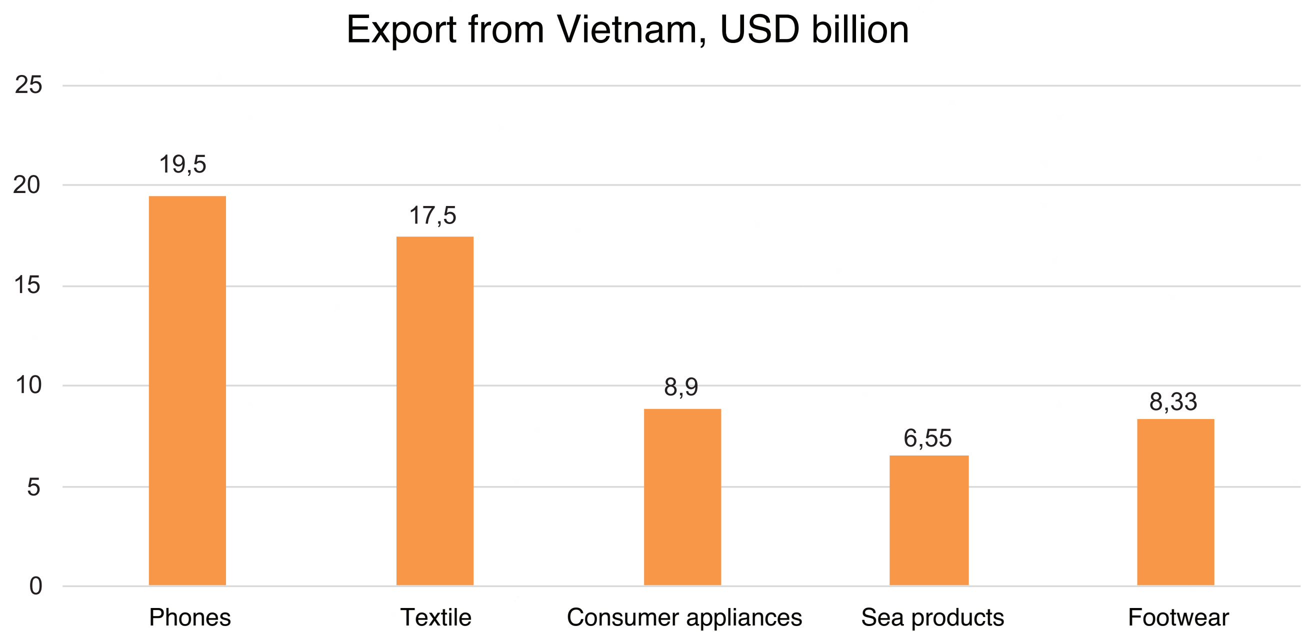
– Machines, equipment,

- Agricultural equipment supply, including tractors, harvesting machines, small-scale mechanisation,
- Luxury goods (e.g. cosmetics),
- Electrical products,
- Medicines (the Vietnamese pharmaceutical market shows 14–16% growth in recent years, while spending on medicines has increased almost 5.5 times),
- Elite alcohol,
- Waste treatment technology, including those aimed at reducing chemical fertilisers,
- Plant and seed protection,
- New medical technology, equipment supplies, the establishment of joint ventures for advanced treatments, and medical equipment,
- Everything related to new information technology; software and hardware solutions.

It makes sense to ship the following goods from Vietnam:

- Footwear (2nd place globally in the shoe supply, after China),
- Rubber and rubber products (Vietnam ranks 3rd in the world),
- Textile products: high-quality and inexpensive clothing and textile industry goods,
- Silk Fabric and products, such as clothing & bed linen,
- Seafood, including tuna, pangasius (shark variety), tilapia, sole, shrimps, squid, crab, octopus,
- Dried, candied & fresh fruit,
- Coffee and tea, including exotic and rare coffees.





Setting up a relationship

It is advisable to consider the following factors when doing business in Vietnam:

– Do take into account the language environment: it is almost impossible to develop business relationships in Vietnam without knowledge of Vietnamese (or without a translator).

– Avoid intermediaries (but not consultants), work directly and double-check partners very carefully: Finding a partner or manufacturer with real experience of working with international companies is very difficult.

– Terms and forms of work: it takes at least 3–4 months to establish business contacts with Vietnamese partners, and about a year to conclude a full-fledged contract. There are exceptions, but in general, business development with Vietnam is not a fast process. If a foreign company, including a Russian company, enters the Vietnamese market, it will take up to 1.5 months to establish its legal entity, but this does not include the negotiation process with potential partners, and so on.

In this regard, it is necessary to elaborate on the following issues (partially reflected in this document):

A. When opening your own company (branch, JV, LLC, JSC, etc.):

– Establishment terms, as well as obtaining the necessary licenses;

– Select optimal taxation mode, to utilise the benefits, study business location zoning carefully (many benefits are linked explicitly to a location in specific regions)

– Means of extracting (repatriation of) earned profits.

B. When exporting goods to Vietnam:

– Reliable delivery logistics both by sea and land via China;

– Acquire reliable contracts with large Vietnamese retailers and trading associations

The investment environment in Vietnam features a unique element: it is always necessary to sign contracts and even minor agreements in writing (i.e., on “hard copy”), because all e-mail discussions, including scanned documents, are seen as less important than “paper” documents. In the event of a conflict between an electronically signed document and a physical copy, the latter will always prevail over any other type of agreement or arrangement.

It is advisable to consider procedures and deadlines for obtaining the necessary documents from authorities or investors when assessing the simplicity or complexity of a transaction. In some cases, the difficulty of obtaining documents is a key success factor for further undertakings on the Vietnamese market.

Using industry-specific associations

The most important channel of interaction is to take advantage of the various trade associations in Vietnam, which are divided by production sectors. If you want to export something from Vietnam, it makes sense to start by negotiating with these associations the largest of which merit mentioning:

- Viet Nam Textile and Clothing Association – VITAS: textiles and apparel
- Vinatea: tea & tea exports
- Vicofa: production and export of coffee and cacao

- VASEP: production, processing and export of sea products
- Vietnam Fruit & Vegetables Association (Vinafruit): fruit and vegetable production
- VICRAFTS: handicrafts and craft products, including items made by private artisans and small communities
- Vietnam Plastics Association: production of plastics and plastic goods

When placing orders directly in Vietnam, it is essential to be very careful in selecting factories. Many Vietnamese and foreign (including Russian) intermediaries charge for this service, they do not always guarantee quality. Personal checks are therefore required of both the product quality and the reliability of the prospective Vietnamese company itself.

Regional specifics: Vietnamese economy and economic zones

The Vietnamese government has now created four “key economic regions” (KER), which cover almost the entire country. These include the large provinces in the northern, central, southern and Mekong regions and include all significant economic and investment centres.

For interaction with Vietnam, KERs represent a generally attractive base, making it possible to compare the benefits and complexity of cooperation in different regions.

Below is a brief overview of each region, as well as some of the limitations that foreign businesspeople face when choosing where to start their business.

Most often, many foreign companies prefer to start their businesses in Northern Vietnam, which offers more favourable conditions and lower labour costs compared to China. Today, many production facilities, headquarters and company offices are moving to this region from China. For example, large cities, such as Hanoi and Haiphong, because of their geographic proximity to China, have become attractive sites for headquarters and investments by companies like Chevron and Bridgestone, which remain quite active in China.

Northern Vietnam KER

Vietnam's Northern KER covers the cities and provinces of Hanoi, Haiphong, Quang Ninh, Hung Yen, Hai Duong, Bac Ninh and Vinh Phuc. These collectively are home to approximately 16.2% of the total population of Vietnam, and constitute 4.7% of its land area.

The most important advantage of the Northern KER is that leading manufacturing companies, which deliver products to China, are located here meaning that well-established logistics links exist. The usual model of production is China +1, so the majority of products go to China; some are sold on the regional market, whereas supplies to China ensure reliability for the entire production scheme. The location of production facilities in North Vietnam is primarily due to its geographic proximity to China’s borders, as well as a simplified cross-border transfer of goods.

A shortage of land for production and accommodation and resultant high rental costs is a challenge in Northern Vietnam. Although overall rental rates in the North are lower than in the South, in cities like Ho Chi Minh City for example, it will be important for foreign businesses to explore different land leasing or purchase options before launching any business operations, especially in the North.

At the same time, there is no shortage of skilled labour in the northern regions. In particular, cities such as Hanoi and Haiphong have an adequately supplied skilled workforce compared to other cities in the northern region. Most skilled workers in the north are concentrated in heavy industry and natural resource extraction, which makes the region different from Central and Southern Vietnam, where the workforce is more diverse.

Central KER

Vietnam's Central KER covers the cities of Da Nang, Thua Thien-Hue, Quang Nam, Quang Ngai and Binh Dinh. According to the latest census data, the region accounted for approximately 7% of the country's population.

The central KER is distinguished by its ability to provide foreign businesspeople with a relatively less competitive environment compared to more developed and more investment-attractive centres in the north and south of the country. In recent years, Da Nang, the largest city of the region, has become a centre for seafood and food processing.

Apart from the production industry, Da Nang in particular benefits from rapid urban development, which goes faster than in many other cities of Vietnam. Such investors as IBM, GE and Cisco, are actively involved in the modernisation of telecom networks of these cities.

Da Nang lacks skilled labour. Another feature of this area is its scarce population, which may have an impact on retail trade profits. Finding suitable employees for a specific job in Central Vietnam may be more problematic than in other regions. Workers with technical skills often find better opportunities in the North or South and are likely to leave the Central region, even if they were educated there, the centre also struggles to attract talent from other parts of the country for the same reason.

However, many Vietnamese people value the opportunity to improve their living standards and are likely to stay or move to the Central KER if employers are offering good job opportunities that compete with more developed labour markets in, for example, Hanoi or Ho Chi Minh City.

Mekong region

The Mekong region includes the provinces of An Giang, Ca Mau and Kien Giang and lies to the southwest of Ho Chi Minh City.

Today, the Mekong region does not offer greater investment opportunities compared to other parts of the country. As of 2017, the General Statistics Office of Vietnam reports only about 12 new investment projects in Mekong KER; this contrasts sharply with projects implemented in other KERs: Northern – 569, Central – 73 and Southern – 793.

There is limited urbanisation, low workforce qualification levels, and a lack of modern infrastructure in the Mekong region. Although these indicators have improved in recent years, serious reasons to invest here remain scarce.

Southern KER

The Southern KER comprises the provinces of Binh Duong, Bingh Phuoc, Long An, Ho Chi Minh, Tay Ninh and Dong Nai. This region attracts the highest number of foreign investors and partners; 793 new projects started here in 2017 alone.

The Southern KER's economy is strongly diversified. In this regard, almost any project, even in niche areas, can be launched here that would not fit in other Vietnamese regions. There are several state initiatives designed to support joint projects with foreigners in this particular area, and Vietnamese companies are ready to sign contracts in almost any field. There is also a good balance between support for large and small investments. For this reason, Ho Chi Minh City, in particular, has, in recent years, become a centre for technology start-ups and tech parks.

Strong consumption is another of the Southern region's principal advantages. For this reason, Ho Chi Minh City is the preferred destination for companies that promote food and beverages, pharmaceuticals and luxury goods on Vietnam's domestic market.

There are many large technological and polytechnic universities in and around Ho Chi Minh City, making it the best region for quality labour resources in Vietnam. Additionally, competition for the supply of services is very high. It should, however, be noted that staff salaries here tend to be 20 to 30% higher than in other parts of Vietnam.

In contrast to its Northern neighbour, the Southern KER is a long way from China making it less appealing to investors who plan to sell products into China or set up joint assembly facilities or even deliver products directly to Russia by rail through China.

Establishing enterprises and working in Vietnam's industrials zones

Most of the time, poorly developed infrastructure is the main obstacle to foreign investment in Vietnam. This primarily concerns poor access to communication services, transportation, transit networks, and logistics chains. These inconveniences though can be offset, in part by tax incentives related to foreign enterprises locating in special economic zones.

Vietnam has created "industrial zones" (IZ), which should partially solve the problem. An IZ is, in essence, one of the methods open to foreign companies of making serious cost savings in Vietnam.

IZs are mainly located close to ports and other transport hubs, including railways, some might actually be cargo ports. IZs were created with the primary goal of tying production facilities to the most affordable means of delivering goods both inside Vietnam and abroad.

Foreign investors can enjoy preferential tax rates in these regions. Benefits are determined for each zone individually and apply to both corporate and personal income taxes. Many indirect taxes can also be reduced, including VAT and the special consumption tax.

Usually, an IZ means higher employee salaries and higher living expenses. However, this is generally offset by preferential tax rates.

Another critical advantage of IZs is the availability of highly skilled labour. Many qualified Vietnamese experts come in search of enhanced career opportunities and higher wages. Furthermore, the Vietnamese government often announces various development projects within IZs, which attract even more specialists.

Industrial zones are noticeably different from each other in local specialisation and infrastructure. Attention should first be paid to a zone's speciality, as this will later determine any associated tax benefits. This also applies to labour “clustering”: choosing the right zone will significantly increase the likelihood of finding employees with suitable experience in the required areas. Large IZs can even include educational institutions to provide a steady source of personnel for projects based within them.

Main industrial zones

Dinh Vu industrial zone

The most famous industrial zone, Dinh Vu (DVIZ), is near the city of Haiphong, and currently hosts more than 420 investment projects with capital totalling more than $10 billion.

This zone is home to the Chevron and Tamada facilities. Construction of the Lach Huyen Deep seaport is approaching completion and will soon be capable of receiving ships up to 100,000 tons. The Diammophos production facility is here, and Vinachem is constructing the plant with a projected annual production capacity of 330 thousand tons.

Dinh Vu specialises in petrochemicals, and heavy industry, Chevron, Petrolimex, Petro Vietnam, Nakashima and Bridgestone are among the investor companies in this park. Exporters benefit from the zone's proximity to Cat Bi International Airport, recently built on Highway 5 and not far from the border with China.

All Dinh Vu zone investors are entitled to a four-year tax holiday for corporate income tax, and for the following nine years pay just 50% of the prevailing tax rate. In addition, enterprises exporting 100% of their products to international markets may apply for 100% exemption from import and export duties, as well as zero VAT on certain purchases.

Hoa Khan industrial zone

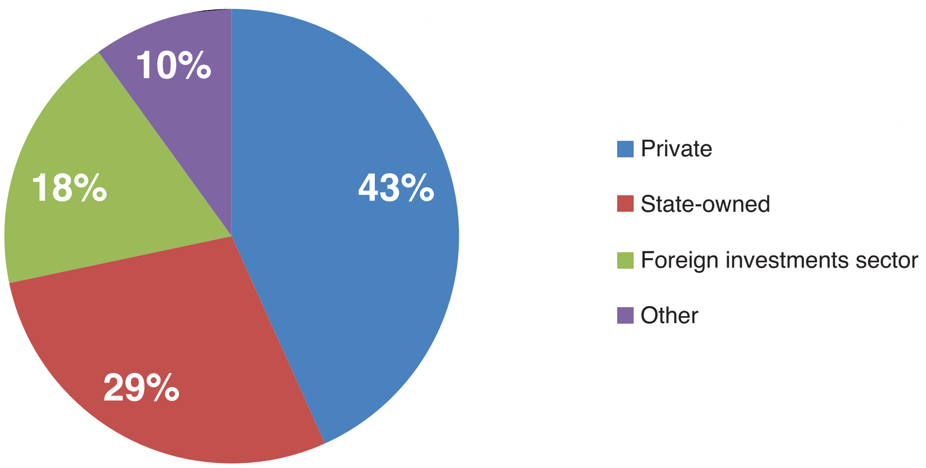
Hoa Khan Industrial Zone (HKIZ) is in Central Vietnam and specialises in mechanical assembly and electronic appliance manufacturing, it hosts companies such as Seto Vietnam and Truong Giang Electric. There are also several petrochemical, clothing and agricultural companies. The zone hosts more than 48 large projects, including Mabuchi Motor, Truong Giang Electric and Seto.

It is generally considered most expedient to site clothing and electronics production facilities here.

In addition to the 5-year tax holiday, investors may enjoy exemption from certain other payments, as well as from import duty on essential equipment.

Routes into Vietnamese market and starting companies

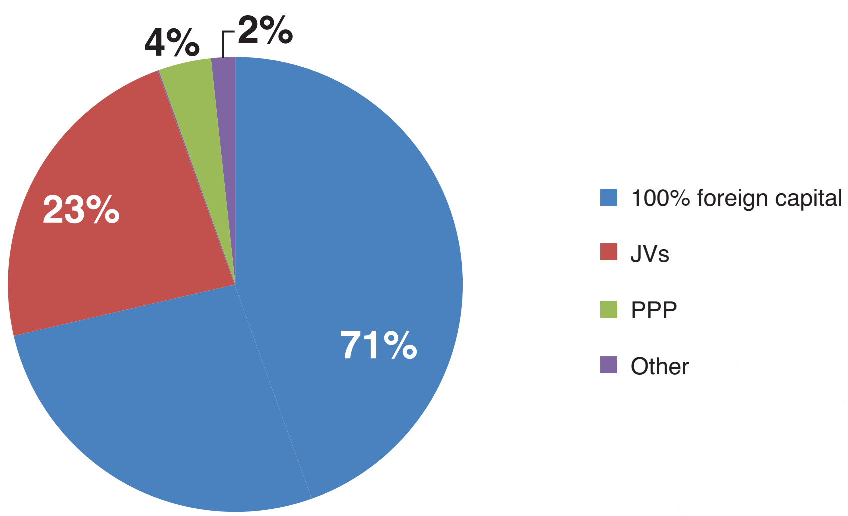
Different forms of company in Vietnam (2017)



The following means of operation are available in Vietnam to foreign individuals and legal entities:

- Representative office;
- Company with 100% foreign capital;
- JV in various forms.

Forms of presence of foreign companies in Vietnam (% number of projects)



PPP with the participation of Vietnamese governmental institutions

Representative Office

A Representative Office (RO) is the simplest means for a foreign company seeking to become established on and gain more detailed knowledge of, the Vietnamese market.

This is one of the most common first stage options for interaction with Vietnamese partners and often precedes the build-up of a more significant presence in the country.

A Representative office might have the following goals:

- Marketing research;
- Liaison on behalf of the parent company;
- Assisting the head office by arranging meetings and other events leading towards developing the business at a later stage.

A crucial detail to bear in when establishing an RO is that *representative offices are not allowed to undertake profit-making activities.*

Capital volume requirements

Today, Vietnam's Ministry of Planning and Investment does not specify capital requirements when opening representative offices. Although the Ministry does not impose capital requirements, parent companies must demonstrate sufficient cash contributions to finance local operations. As a result, potential investors should be willing to devote at least $10,000 to fund their operations.

Establishment terms

Establishing a representative office should take between six and eight weeks. Given that the representative office in the country cannot be profit-making and due to the associated licensing requirements, there are no serious bureaucratic procedures to register a representative office making the process easier than establishing other forms of foreign enterprise.

Advantages

Representative offices are not subject to many requirements that apply to other forms of legal entity and companies are not subject to income tax if they work within a representative office.

Constraints

Representative offices are strictly limited in the business activities they are permitted to conduct, market research, for example, is allowed.

At the same time, representative offices are subject to several restrictions making them less efficient for companies planning to establish an operational footprint in the country.

Representative offices are legally dependent on the parent company, which retains responsibility for all of its activities in Vietnam.

The types of profit-based activity denied to Representative Offices in Vietnam are:

- execution of contracts;
- cash inflow;
- the sale of goods and
- the provision of services.

Company with 100% foreign capital

The following types of company with 100% foreign capital are allowed in Vietnam:

- Joint stock companies;
- Limited liability companies (LLC);
- Subsidiaries.

Limited liability companies (LLC) in Vietnam are the most common form of operation for foreign players due to low capital requirements and limited financial liability. LLCs can exist in various ways:

- Single owner;
- Several owners (co-owners).

Owners and co-owners can be either individuals or legal entities or a combination.

Another means by which a company can operate in Vietnam is to open a subsidiary, but it's an option that should be approached with extreme caution as the parent company retains full and sole responsibility.

Joint stock companies have relatively high capital requirements and are best suited to investors who want to enter the Vietnamese stock exchange.

Required establishment terms

To establish a company with 100% foreign capital would, on average, take two to three months in the manufacturing sector while service companies can take up to 4 months to establish.

Advantages

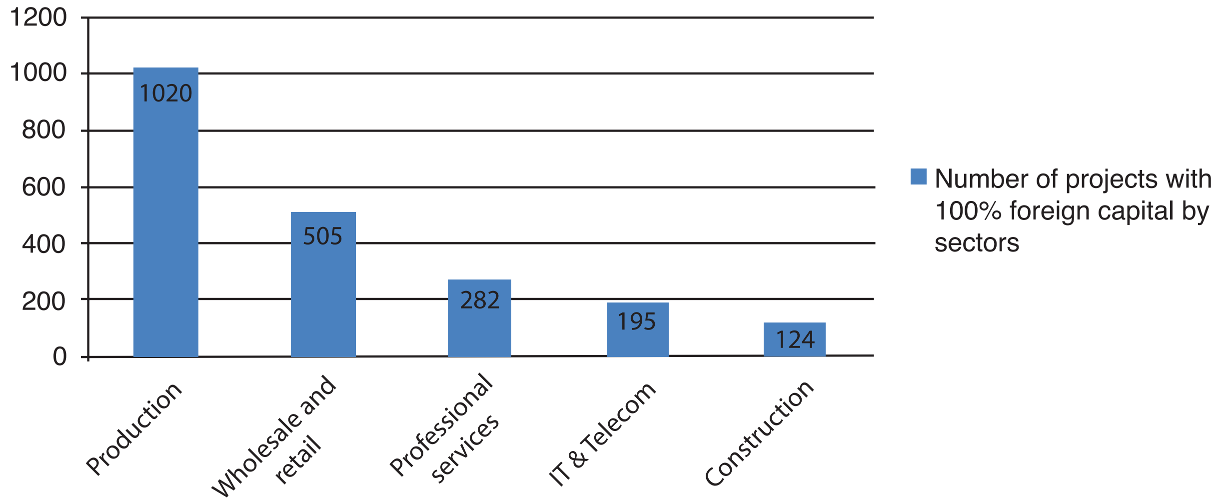
This type of company provides the highest level of access to the Vietnamese domestic market and the greatest working flexibility. Unlike a representative office, in the case of a fully-fledged company, foreigners can engage in income-generating activities in all investmentsectors.

A company with 100% foreign capital allows foreign actors to retain full control over their Vietnamese enterprise while limiting local employees' access to commercially sensitive technology.

Constraints

Although a 100% foreign capital company is often one of the most effective strategies for entering the Vietnamese market, it may not allow foreigners to invest in certain sectors of the Vietnamese market.

Five leading sectors for foreign investors (by number of projects)



Joint Venture

A Joint Venture (JV) is a form of partnership between companies or individuals for the realisation of a specific business goal.

Joint ventures may differ by type of incorporation and may be incorporated as an LLC (the most common option) or joint stock company (JSC). The latter option applies if the company plans to go for a Vietnamese IPO and operate on the Vietnamese stock market. For foreign investors who buy shares in state-owned enterprises, which are listed on Vietnamese stock exchanges, it is mandatory to establish a joint stock company. When entering the Vietnamese market, foreign investors can choose several options, for example:

- as a majority shareholder (more than 50% share);
- as a minority shareholder (less than 50% share).

Capital requirements

Capital requirements for a joint venture are the same as for a company with 100% foreign capital.

In most sectors, there are no particular minimum capital requirements when establishing a JV. However, the Ministry of Planning and Investment applies industry-specific capital requirements in many sectors (so-called "conditional" or limited sectors) where the minimum possible capital to enter the market is negotiable.

Proportions of share ownership and thus the amount of capital are the most important indicators in assessing capital requirements for a joint venture in Vietnam.

Today there are regulations that a foreign participant's share in a JV must amount to at least 30%, there are also restrictions concerning the maximum amount of foreign investment for certain industries (100% foreign ownership is not permitted, so say without participation of domestic Vietnamese company) The government also sets a minimum stake for Vietnamese investors according to the specific industry.

Required establishment terms

The registration term for joint ventures is usually 2–4 months, and in general, they are very similar to those for companies with 100% foreign capital. However, it is necessary to take into account the time required to negotiate with Vietnamese partners regarding the share of investments and profits, product selling methods, JV management forms, and so on. Sometimes, such negotiations are considerably slower (there have been cases of negotiations taking 8–12 months), this time should also formally be included in the enterprise establishment period. This significantly increases the lead-time needed to begin the standard registration process.

Advantages

The JV's main strength is its ability to provide foreign companies with unprecedented market access. Investors gain access to limited (or "conditional") market sectors, which often impose restrictions on a foreigner's ownership and participation share. Investor access to conditional sectors depends on the business area (see below).

The second potential benefit of a Joint Venture is an access to a local company's knowledge and experience. For foreign investors entering the Vietnamese market for the first time, local partners can provide greater access to suppliers, customers, and sometimes enhance the reputation of an international brand on the domestic market.

Constraints

Foreign companies participating in a joint venture cannot be as independent as with the alternative models. Decision-making on issues such as expansion, transfer (repatriation) of profits, or liquidation can result in significant differences between foreign and local partners. Although such issues can and should be resolved, or at least foreseen, during the initial negotiations, differences of opinion and cultural barriers can often slow down a company's development.

Allowed activities			
	Requirements to foreign enterprise ownership	Minimum capital requirements	Restrictions for certain operations
Market research	No	No	Yes
Profit taking	No	Yes	Yes
Investment in limited sectors	Yes	No	Yes

Subsidiary

A subsidiary is a daughter company and not, under Vietnamese law, an independent legal entity. In contrast to the representative office, a subsidiary has the right to conduct business in Vietnam within the scope of its parent company.

To open a subsidiary, the parent company must have a track record of no less than five years of doing business in its home country.

Partner companies

A partner company is a legal entity established by at least two persons who are partnership members and enterprise co-owners. They are General Partners and bear responsibility for all partnership obligations without restriction.

On top of that, a partner company may consist of members with limited liability (individuals or legal entities) that contribute only to a part of the capital and have limited liability and limited rights in the company's operation.

Foreign capital companies in Vietnam			
Form of foreign capital enterprise	Legal independence	Pros	Cons
LLC	Independent legal entity.	Liability is limited by equity stake; No limitations for activity areas.	Cannot issue shares; Maximum of 50 share-holders.
JV	Independent legal entity.	Liability is limited by equity stake; No limitations on activity areas; Can issue shares and become public No limitations on maximum number of shareholders.	• Three or more shareholders required; • Supervisory board required for most JVs, depending on quantity and type of investors.

Partner company	"Semi–independent" legal entity. Normally used for professional services provided by individuals (e.g., architects, designers).	One partner may be excluded from unlimited liability.	At least two joint partners required that are individually responsible for the partnership's debts without limitation.
Representative office	Not a standalone legal entity, carries out marketing research, tied to its foreign parent company, auxiliary activity.	A straightforward registration procedure.	Cannot conduct profit-making activities; Parent company bears full responsibility.
Subsidiary (branch office)	Not a separate legal entity; Commercial activity is conducted only within the parent company.	May conduct commercial activity within the scope of parent company's operations.	Activities are limited by the scope of parent company; Parent company bears full responsibility.

Public–Private Partnership agreements in Vietnam

Public–private partnerships (PPP) provide for cooperation between a foreign or Vietnamese enterprise, on the one hand, and the government, on the other hand, for the development of key infrastructure projects. Vietnamese authorities are actively promoting PPPs for various infrastructure projects as a means of filling gaps resulting from shrinking state participation in developing major projects, as well as growth in urbanisation.

PPP agreements types

The following types of PPP agreement are permitted under Vietnamese law:

- Build–Transfer–Operate (BTO): after project completion, the investor transfers ownership to the state. The government then grants the investor rights to operate the facility for an agreed period to recoup invested funds and make a profit.

- Build–Transfer (BT): after the construction of a facility is completed, the investor transfers it to the state. Then the government ensures conditions for the investor to implement other projects to make a return on the investment, to profit from other facilities, or the government makes stage payments to the investor as contracted.

- Build–Operate–Transfer (BOT): the investor builds and then operates the infrastructure facility for an agreed period. On the due date, the investor transfers the facility to the state with no compensation.

- Build–Own–Operate (BOO): after the construction of a facility is completed, the investor may own the facility and has title to its commercial operation for an agreed period.

- Build, Transfer and Lease (BTL): after construction, the investor transfers the facility to an authorised state body, but at the same time is afforded the right to provide agreed commercial services throughout an agreed period.

Each of these models includes many subtle nuances, so new players on n the Vietnamese market are advised to work closely with local consultants who can help determine which of the available options are best suited to their needs on the Vietnamese market.

Bidding procedure

PPP mechanisms are subject to competitive bidding in which prospective investors compete for government contracts. Bidding and tender procedures, in general, are stipulated by legislation (Law on Tendering, No. 43/2013 / QH13), they are also described in detail in a series of rulings.

Advantages and constraints of various company types in Vietnam			
	100% Foreign Company	Joint Venture	Representative Office
Optimal for:	Companies that take part in unlimited sectors seeking to maintain full control over their activities.	Investors seeking access to conditional sectors as well as Vietnamese consumers or logistics chains.	Companies willing to explore the Vietnamese business environment to further expand or support parties outside of Vietnam.
Capital requirements	Depending on the company's business, as well as the intended operational structure, which is transferred to the Vietnamese authorities as part of the establishment process.	Depending on industry. Minimum capital requirements applicable to limited sectors may have their effect too.	Today capital requirements do not exist. Instead, the company must prove that there is enough capital to provide the representative office operation.
Required time	2–4 months.	From two to four months + time for negotiations.	6–8 weeks.
Responsibility	The responsibility is limited only by the company registered in Vietnam, and it does not apply to the parent company.	Specified in articles of association.	The parent company bears full responsibility.
Controlled by:	Foreign party.	Foreign and Vietnamese party.	Foreign party.

Limitations on Areas of Activity

There are several sectors in Vietnam in which foreign people and companies may participate but with some restrictions. They cannot, for example, own 100% of shares and must receive special permission from the government. All sectors in which restrictions are imposed on foreigners are referred to as "conditional" or limited sectors. These areas of the Vietnamese economy remain largely untapped by foreign capital and represent the best opportunities for investors to enter a new market with little competition.

However, opportunities for participation in these sectors are balanced by a number of restrictions related to state control, activity formats and total capital. Each restricted industry is associated with a specific set of limits and all foreign companies planning to operate within these sectors should, without question, study the restrictions in detail. A complete list of conditional sectors and industry requirements can be found on the Vietnamese Ministry of Planning and Investment's portal.

There are three types of limitation:

- By ownership,
- By invested capital,
- By licensing

Limitation by ownership

For a number of industries, in which foreign company participation is generally possible, restrictions are placed on the scale of investment. At the same time, this condition does not limit the company's ability to control its investment fully. In general though, it does provide that operating on the Vietnamese market should occur through a joint venture and not through an enterprise with 100% foreign capital.

Minimum capital requirements

In addition to foreign ownership restrictions, the Vietnamese Ministry of Planning and Investment also imposes capital requirements with relation to several conditional industries. These requirements stipulate that a foreign company must invest a minimum prescribed amount for market entry.

Business activity limitation by licensing

The Vietnamese government may apply additional business restrictions to foreign companies operating in "conditional" fields. In essence, this is a requirement to obtain licenses or various permits. Licensing is usually required by all enterprises, including Vietnamese owned companies. However, foreign businesses are subject to extended requirements. This primarily concerns professional service provision (e.g., consulting), education, tourism, real estate market, and other similar fields.

Activity	Forms of intellectual property rights	Minimum capital requirements	Any limits for operations
Professional services	No	No	Yes
Real estate	No	Yes	Yes
IT services	Yes	No	Yes
Education	No	Yes	Yes

Tourism	Yes	No	Yes
Recreation	Yes	Yes	No
Agriculture	Yes	No	Yes

Intellectual property rights protection in Vietnam

In 2005, the National Assembly of Vietnam passed a Law on Intellectual Property Rights, providing a basis for the protection of all types of intellectual property.

In September 2010 and October 2013, to strengthen intellectual property rights protection, the government adopted more stringent administrative sanctions for industrial property rights violations. This followed achieving WTO membership and the conclusion of a bilateral trade agreement with the United States. Significant changes to Vietnam's IP protection rules were also introduced.

The government body dealing with these issues is the Agency for Intellectual Property Rights, operating under the auspices of the Ministry of Science and Technology, which undertakes the government's administrative functions in the field of intellectual property services. This includes registration of industrial designs, trademarks, brand names and other intellectual property, as well as conducting a legal assessment to resolve intellectual property disputes.

Intellectual property rights protection in Vietnam			
		Protection in Vietnam	International treaties
Industrial rights	Patents; Trademarks.	• Law on Intellectual Property (enforced by the National Agency on Intellectual Property Rights); • Criminal Code of Vietnam.	• Paris Convention; • Madrid Agreement; • WIPO; • Patent Cooperation Treaty.
Copyright	Copyright; Related rights.	• Law on Intellectual Property (through Copyright Agency of Vietnam); • Criminal Code of Vietnam.	• Geneva Universal Copyright Convention; • Berne Convention; • WTO utilising the Agreement on Trade–Related Aspects of Intellectual Property Rights.

In addition to these treaties, Vietnam has recently signed several trade agreements, including the Trans–Pacific Partnership (TPP) and a Free Trade Agreement between the EU and Vietnam (EVFTA).

Taxation in Vietnam

Basic taxes in Vietnam

All taxes in Vietnam are collected nationally; there is no local, state or provincial taxation. Enterprises are required to pay taxes in the regions where their head offices or registered branches are based.

The following basic taxes are obligatory for most companies and foreign investors:

1. Business license tax,
2. Corporate income tax (corporate tax) – 20%,
3. Value Added Tax – usually 10%,
4. Special consumption tax,
5. Foreign contractor tax,
6. Customs duties.

There is 0% tax on dividends for non-residents.

Foreign investors in Vietnam can optimise tax efficiency by using double taxation treaties between Vietnam and other countries. As of January 2017, Vietnam has signed DTAs with more than 70 states and territories, including France, China, Italy, Germany, Singapore and Hong Kong.

Personal income tax

Income tax is applied on a graduating scale depending on the level of personal income. For example, the highest paid managers are likely to be taxed at 35%, the top rate of tax in Vietnam, while low paid staff members are likely to be taxed within the 5 to 10% range.

Business license tax

The business license tax is an indirect tax payable annually for each calendar year of operation by any enterprise conducting business in Vietnam. All companies, organisations or individuals (including branches, shops and factories), as well as any foreign investor managing enterprises in Vietnam, are subject to this tax.

Business license tax for economic entities	
Registered capital (Vietnamese Dong billion)	*Annual tax (Dong)*
Above 10	3 million
Below 10	2 million
Branches, representative offices, commercial organisations, public services providers, other economic entities	1 million

Business license tax for households and individuals	
Registered capital (VND million)	*Annual tax*
Above 500	1 million
From 300 to 500	500 thousand
From 100 to 300	300 thousand

Value–added tax

There are three different rates of Value Added Tax (VAT) imposed on goods and services: 0%, 5% and 10%, the latter being the standard rate.

VAT rates	
0%	Goods and services for export or sales in non-tariff zones
5%	Total of 16 goods and service categories, for example; Fertilisers; Medical equipment and instruments; R&D services; Cultural, exhibition and sporting activity.
10%	Other

Special consumption tax

The SCT is a form of excise tax applying to the production or import of 11 product and six service types that fall under the "luxury goods" category or are considered insignificant.

The selling price plus SCT form the basis for VAT calculations. For imported goods, VAT is imposed on the customs value + import duties + SCT. Companies are responsible for SCT at both the time of import and sale. However, to prevent an excessive tax burden, SCT paid on imports is deducted from the SCT payable on sale.

In some instances, SCT returns are also possible for exported goods at the taxpayers' request, e.g. for goods temporarily imported for re-export. If SCT has already been paid on the constituent materials from which the goods (if subject to SCT) are made, the amount of SCT already paid will be deducted from the final tax liability.

Currently, SCT rates range from 7% for gasoline to 70% for cigarettes. In the coming years, there are also plans to increase SCT rates on alcohol and tobacco products.

Foreign contractor tax

Foreign enterprises are considered foreign contractors if they do business or earn income in a country under contract with local organisations or individuals. As a rule, foreign contractors are the winners of auctions or tenders organised by the Vietnamese government or local organisations and may act as original contractors, general contractors, partner contractors or subcontractors.

Foreign contractors working in Vietnam may be subject to the same tax rates that apply to local companies; including import and export duties, income and other taxes required by the authorities.

Customs duties

Most goods exported or imported across Vietnam's border or passing between the domestic market and a non-tariff zone are subject to export or import duties. There are exceptions as follows: transit goods, goods exported abroad from a non-tariff zone, goods imported from abroad and used exclusively within a non-tariff zone, goods moving between non-tariff zones.

Most exported goods and services are exempt from tax. Export duties (ranging from 0 to 40% and calculated based on "free on board" (FOB) prices are only charged on a few items, mainly scrap metal and natural resources, such as minerals and logging products.

Consumer goods, especially luxury goods, are subject to high import duties. Whereas, machines, equipment and materials necessary for further production, especially items that are not produced domestically, have reduced or even zero import duty rates. Rates on imported goods include preferential tariffs, special discounted tariffs and standard rates depending on the origin of goods.

Tax benefits and incentives

Motivating factors in corporate taxation

The Vietnam Investment Act stipulates three forms of incentive that are available to companies operating in the country; the following types are listed in Section 1, Article 15.1:

- Lower corporate income tax rate over a fixed period or during project execution;
- Exemption or reduction of import tax on imported goods as fixed assets for raw materials, materials and parts required for project implementation;
- Exemption or reduction of land rent.

For most investors, corporate income taxes are an important consideration in estimating costs in Vietnam compared to regional competitors. Vietnam currently offers corporate income tax relief in two categories:

- Preferential rates;
- Tax holiday.

Company structure and activity are the main deciding factors in selecting which rate to apply.

Preferential rates

- 10 % throughout the project delivery time;
- 10 % for 15 years from first year of profit;

- 17 % throughout project delivery time;
- 17 % for 10 years from first year of profit.

Tax holiday

- 4 year tax exemption followed by 50 % reduction for 9 years;
- 4 year tax exemption followed by 50 % reduction for 5 years;
- 2 year tax exemption followed by 50 % reduction for 4 years.

Incentives to work in unfavourable and extremely unfavourable regions

The Vietnamese government is aware of various problems related to underdeveloped infrastructure and is working on improving the business environment by creating easier and cheaper access to the domestic market. New legislation has been adopted in recent years to facilitate investments and operations for foreign enterprises, as well as to promote significant public–private partnerships to improve domestic infrastructure.

The Vietnam Investment Act, and its subsequent clarifications, highlights the types of project that qualify for tax and other benefits. The most common tax incentives are those related to business regionalisation in some areas, mainly those with severe climate or insufficient infrastructure development.

Investor benefits in unfavourable regions

Foreign investors can now choose between "unfavourable" and "extremely unfavourable" regions. Investment in both is beneficial in terms of preferential corporate income tax, as well as tax holidays. The level of incentive is directly proportional to the inconvenience experienced in these regions.

Unfavourable regions	Extremely unfavourable regions
• 17% corporate tax for 10 years *; • 2-year tax exemption for company **; • 4-year 50% tax reduction.	• 10% tax for the whole project delivery time; • 4-year tax exemption **; • 9-year 50% tax reduction.
* from first year of income ** from first year of profit Note: investment projects in these economic zones may be considered differently	

Incentives for operation in Vietnam economic zones

Vietnam encourages the creation of so-called “economic zones” (actually FEZs) across the whole country.

Business development incentives with FEZs in Vietnam	
Conventional economic zones	Economic zones in extremely unfavourable regions
From 2 to 4 years * of tax exemption ** From 4 to 9 years * 50% CIT reduction	• 10% corporate tax for the whole project delivery time • 4 years of tax exemption ** • 9 years 50% CIT reduction
* rates to be determined individually ** from the first year of profit	

Incentives for priority industries

Vietnam is expanding investment incentives for a number of industries and projects that, in its opinion, are of strategic value to the country.

Priority business areas and projects subject to tax incentives in Vietnam		
Hi-Tech*	Large-scale	Social value
• Information technologies biotech; • New material technologies; • Automation technologies; • Support for hi-tech products; • Research and development; • Software.	Production projects with minimum invested capital of VND 6 billion and one of the following: a) annual income of VND 10,000 billion by the fourth year of operation; b) employment of at least 3000 workers; Production projects ** with minimum investment capital of VND 12,000 billion and hi-tech use.	Education; Vocational training; Healthcare; Culture; Sport; Ecology.
* See the complete list of priority sectors in Decision № 66/2014 / QD-TTg and № 13/2017 / QD-TTg ** Excluding sectors subject to special consumption taxes and projects related to natural resources extraction Note: 1. Investment projects in these economic zones may be estimated differently. 2. The list of sectors described above is not exhaustive. A detailed description of each of the above sectors is provided in the Ministry's documents. Companies wishing to receive benefits should consult with the Ministry of Planning and Investment or involve a professional company to understand better the prospects for obtaining various benefits.		

Salary, personal income tax and social payments

Minimum wage

Minimum wage rates in Vietnam play a significant role in observing the "fair" wages requirement, as they provide the basis for calculating individual income tax and for social assistance such as compensation (insurance) payments.

There are currently two minimum salary types

- General (usual) minimum wage;
- Regional minimum wages in the private sector.

Minimum salary

The general minimum income is used to calculate wages for the employees of government institutions and state-owned enterprises, as well as social security payments for all entities. Set on July 1, 2017, the general minimum wage is VND 1,300,000 (approx. 55.8 US dollars). The second minimum salary type applies to employees of all non-state enterprises and is based on regional payments determined by the government. On January 2017, the regions collectively reset basic compensation rates from VND 2.58 million ($ 110.7) to VND 3.75 million ($ 160.9). Unlike the general minimum wage, minimum compensation in the private sector is dependent on the employee's workplace.

These minimum salary rates apply only to Vietnamese employees in the performance of core duties and under normal working conditions.

Vietnam is divided into four 'wage zones' depending on the level of economic development of the region, while the 1st zone belongs to the most developed cities and provinces

Minimum salary by zones	
Zone	Minimum salary in VND and USD per month
1	4, 180,000 (USD 180)
2	3, 710, 000 (USD 160)
3	3, 250, 000 (USD140)
4	2,920, 000 (USD 126)

Personal income tax scale in Vietnam			
Scale	Annual taxable income (VND million)	Monthly taxable income (VND million)	Tax rate %
1	60 (≈ $ 2574 USD) or under	0 to 5	5
2	60 to 120 (≈ $2574 –5148 USD)	5 to 10	10

3	120 to 216 (≈ $5148–9266 USD)	10 to 18	15
4	216 to 384 (≈ $9266–16475 USD)	18 to 32	20
5	384 to 624 (≈ $16475–26768 USD)	32 to 52	25
6	624 to 960 (≈ 26768–41180 USD)	52 to 80	30
7	960 (≈ $41180) and over	Above 80	35

Personal income tax calculation

Taxable income assessment

Currently, the Vietnamese Tax Code allows the following tax deductions;

- A personal allowance in the sum of VND 9 million (US $386);
- Bonuses for dependents – VND 3.6 million (US $154.4);
- All compulsory social security payments to Vietnam's Social Fund, including social, health, and unemployment insurance;
- Voluntary contributions to employer insurance programs (subject to certain restrictions);
- Contributions to foreign insurance programs;
- Charitable donations;
- In rare instances, employees may contractually stipulate their final after-tax (take-home) pay. In these cases, employers are required to follow a particular set of rules to determine the correct pre-tax income level, as a basis for social insurance and individual income tax payments.

Accounting and reporting by foreign companies in Vietnam

There are specific statutory requirements with which foreign enterprises operating in Vietnam must comply.

These primarily relate two main areas:

1. Business accounting and reporting,
2. Annual audit.

Business accounting and reporting

Foreign companies can choose from two types of accounting document: one based on the local Vietnamese system and the other made specifically for the head office abroad. In practice, many foreign companies keep books according to Vietnamese standards and, every quarter, transfer financial statements to International Financial Reporting Standards (IFRS) for the foreign parent company's reference.

Vietnamese standards generally encompass the following requirements:

- Reporting shall be written in Vietnamese but may contain commonly used foreign terms;
- It is a requirement to use the Vietnamese Dong as the accounting currency, though 100% foreign capital companies are permitted to use their national currency as a parallel accounting currency;
- The Vietnamese account management and planning system should be observed;
- Numerous reports (specified in the rules), which should be compiled monthly, signed by the CEO and carry the company seal must be included in submitted documentation.

The reporting period in Vietnam usually matches the calendar year, January 1 to December 31. However, 12-month periods starting from the first day of each quarter may also be accepted (subject to the agreement of the local tax department), e.g., April 1 to March 31; July 1 to June 30; or October 1 to September 30.

Annual reporting

All enterprises with foreign investment are liable for the annual financial audit by an independent auditing company. Statutory audits in Vietnam are conducted according to Vietnamese (not international) auditing standards.

The financial statements audit and filing for extra tax payments must be completed within 90 days of the end of each fiscal year. After performing these procedures and notifying the local tax authorities at least seven working days in advance, foreign investors can redistribute profits and transfer them abroad.

Annual compliance for representative offices is different from the requirements for other company types with foreign investment. Representative offices shall report the operational results to the local department of commerce by the last business day of January of the following year.

Late payment of taxes shall attract a penalty; the full amount outstanding plus an additional 0.03% of the payable tax amount **for each day of delay**. Taxpayers, who file incorrect declarations, thereby reducing the amount due or increasing the value of a tax refund, will be required to pay the full amount or repay the surplus tax refund and are subject to a penalty amounting to 20% of the unpaid tax or the excess tax refund in addition to the late tax payment penalty. A taxpayer found to have committed such (or any) fraudulent acts in respect of taxes must pay the full tax amount plus a penalty of between one and three times the total amount of tax payments due.

ARMENIA'S TRANSFORMATION CONTINUES

The earthquake of 1988, the conflict with Azerbaijan over the Nagorno-Karabakh region, and the disruption of energy supplies in the 1990s led to a drastic decline in the Armenian economy. Both this and the continuing isolation due to closed borders with Turkey and Azerbaijan created a heavy burden on the economy of the newly independent Armenian state.

Despite the hardships, the Armenian government managed to carry out wide privatization and price liberalization projects in the 1990's, and in 2001 initiated IMF-sponsored reforms focusing on the fiscal, energy, and banking sectors.[14] The country joined the WTO in 2003 and made important steps towards the improvement of its economy. The fact that the country's GDP quadrupled between 2000 and 2017 shows its commitment to economic development.[15] In 2015 Armenia acceded to the Eurasian Economic Union (EEU).

May 8, 2018 opened a new chapter in Armenia's recent history. The new Armenian Prime Minister, Nikol Pashinyan, declared the fight against corruption in all areas. Improving the living conditions of the population and achieving an economic upturn are some of his other goals.

The new government plans profound changes, particularly in combating corruption, enhancing the independence of the judiciary, free economic competition and facilitating dissolution of monopolies, as well as socio-economic development. After winning the parliamentary elections on December 9, 2018, Pashinyan stated that his alliance "My Step" will continue the reforms backed by a 70 per cent majority in Parliament.[16]

Key Figures Armenia (Page 1)

Population: 3 Million
GDP: 11,5 billion US dollars (current prices)
GDP per capita: 3.857 US dollars (current prices)
Export ratio as a share of GDP: 38%
Import ratio as a share of GDP: 50%
Inflation rate: 3%
Unemployment rate: 18%
World Bank Doing Business Report (2019): 41

Important economic sectors

Agriculture is Armenia's main economic sector, and an average annual growth slightly less than eight per cent has been recorded over the last five years.[17] This sector is a key

14 Gelbard E., McHugh J., Iradian G.,Beddies C., and Redifer L. (2005). Growth and Poverty Reduction in Armenia: Achievements and Challenges, IMF. Retrieved from https://www.imf.org/External/Pubs/NFT/2005/Armenia/growth.pdf

15 Statistical Committee of the Republic of Armenia. Retrieved from https://www.armstat.am/en/

16 The Guardian (December 10, 2018). Armenia election: reformist PM Nikol Pashinian wins convincing victory. Retrieved from https://www.theguardian.com/world/2018/dec/10/armenia-election-reformist-pm-nikol-pashinian-wins-convincing-victory

17 World Bank database: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?end=2017&locations=AM&start=2013

contributor to the country's economy, accounting for 15 per cent of the country's GDP. It provides Armenia with about 18 per cent of all export earnings, as well as up to 35 per cent of all employment in the country.[18]

Besides agriculture, the food, beverage and tobacco industry, featuring around 900 companies, is Armenia's second largest economic sector. With a1.2 billion US dollars output in 2017 it accounted for 60 per cent of the country's GDP.[19] Further significant sectors of the manufacturing industry are the jewelry, plastics, and rubber industries (2017 output: 160 million US dollars).

The third-largest economic sector is the mining and the metallurgical industry (2017 output: 696 million US dollars). The industry is dominated by ten companies in the production, preparation and processing of copper and precious metal ores.

Perspective industries include tourism and the IT, with a focus on software development. Armenia's tourist industry is developing into an important pillar of the economy. Between 2013 and 2017, Armenia recorded a 13 per cent average annual increase in visitors' numbers.[20] The government expects at least 2.5 million visitors in 2020.[21] Citizens from more than 60 countries travel visa-free or under a simplified visa regime. According to Bloomberg, Armenia is among the top ten fastest growing tourist destinations in Europe.[22]

Important tourist projects are to be implemented primarily in the capital Yerevan, in the southern Armenian region of Syunik, in Gyumri, the second largest city in the country, and in the northwest of Armenia (Tavush region), the Tsaghkadzor ski resort and Lake Sevan.

The IT sector is booming as well. Its share in GDP has increased to 6.5 per cent in 2017, which corresponds to about 15 per cent of Armenia's exports.[23] The turnover of the IT industry grew from about 80 million euro in 2008 to about 650 million euro in 2017. In 2013, the "Alliance" technological economic zone was established in the capital Yerevan. It is located on the site of RAO and the Research and Development Institute for Mathematical Machines, a former manufacturer of armaments and printed circuit boards. In 2017, more than 650 companies were established in the IT sector.

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18 The GlobalEconomy. Armenia: employment in agriculture. Retrieved from https://www.theglobaleconomy.com/Armenia/Employment_in_agriculture/

19 Statistical Committee of the Republic of Armenia

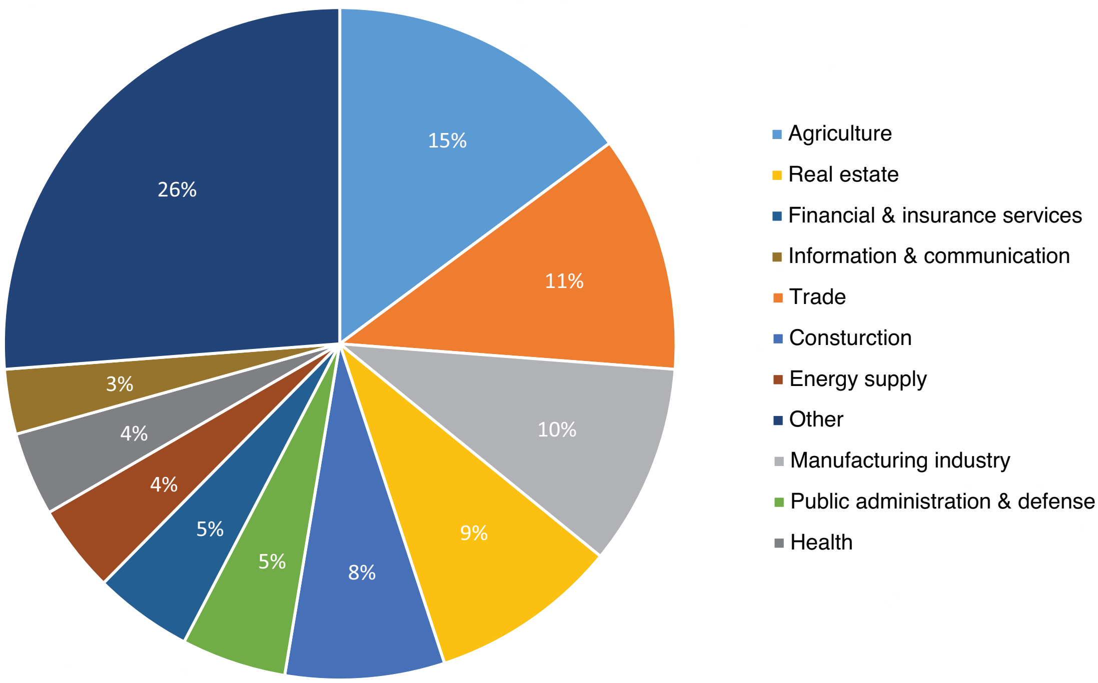
20 GTAI Wirtschaftsausblick– Armenien, September 2018. Retrieved from https://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/Wirtschaftsklima/wirtschaftsausblick,t=wirtschaftsausblick--armenien-september-2018,did=1993358.html

21 Armenpress (July 10, 2017). By 2020 Armenia may host over 2.5 million tourists a year. Retrieved from https://armenpress.am/eng/news/898124/by-2020-armenia-may-host-over-25-million-tourists-a-year.html

22 Armedia (September 24, 2018). Bloomberg: Armenia in the top ten fastest growing tourist destinations in Europe (Bloomberg: Armeniia v desiatke samykh bystrorastushchikh turisticheskich marshrutov Evropy). Retrieved from https://armedia.am/rus/news/64233/bloomberg-armeniya-v-desyatke-samiykh-biystrorastushchikh-turisticheskikh-marshrutov-evropiy.html

23 Own research

Sectors share-to-GDP



Source: GTAI, 2017

Business Environment

"Never before has investment interest in Armenia been the same as it is today. Our government aims to transform this interest into an investment boom. But this requires serious reforms, which we are now working on," said Pashinyan in summer 2018.[24] Over the years of independence, Russian investments in Armenia's economy have amounted to more than 2.6 billion US dollars, ahead of Germany (830 million), Cyprus (584 million) and France (523 million).[25]

Liberal economic and legal environment attract investment into Armenia. Other factors of attractiveness are low production costs (for energy and wages) and tax advantages for foreign investors, which vary depending on the sector and investment volume. The labor market is flexible, and employees are well educated, while the monthly minimum wage in the country is about 115 US dollars (55.000 Armenian drams). However, this amount is a minimum, and not very prevalent, as the average wage depends on the calculation of commissions, bonuses, and other income, which is regulated by the labor code.

Gross investment in Armenia is expected to reach 2.2 billion US dollars in 2018 and 2.4 billion US dollars in 2019.[26] The government's reform efforts strengthen the economy's

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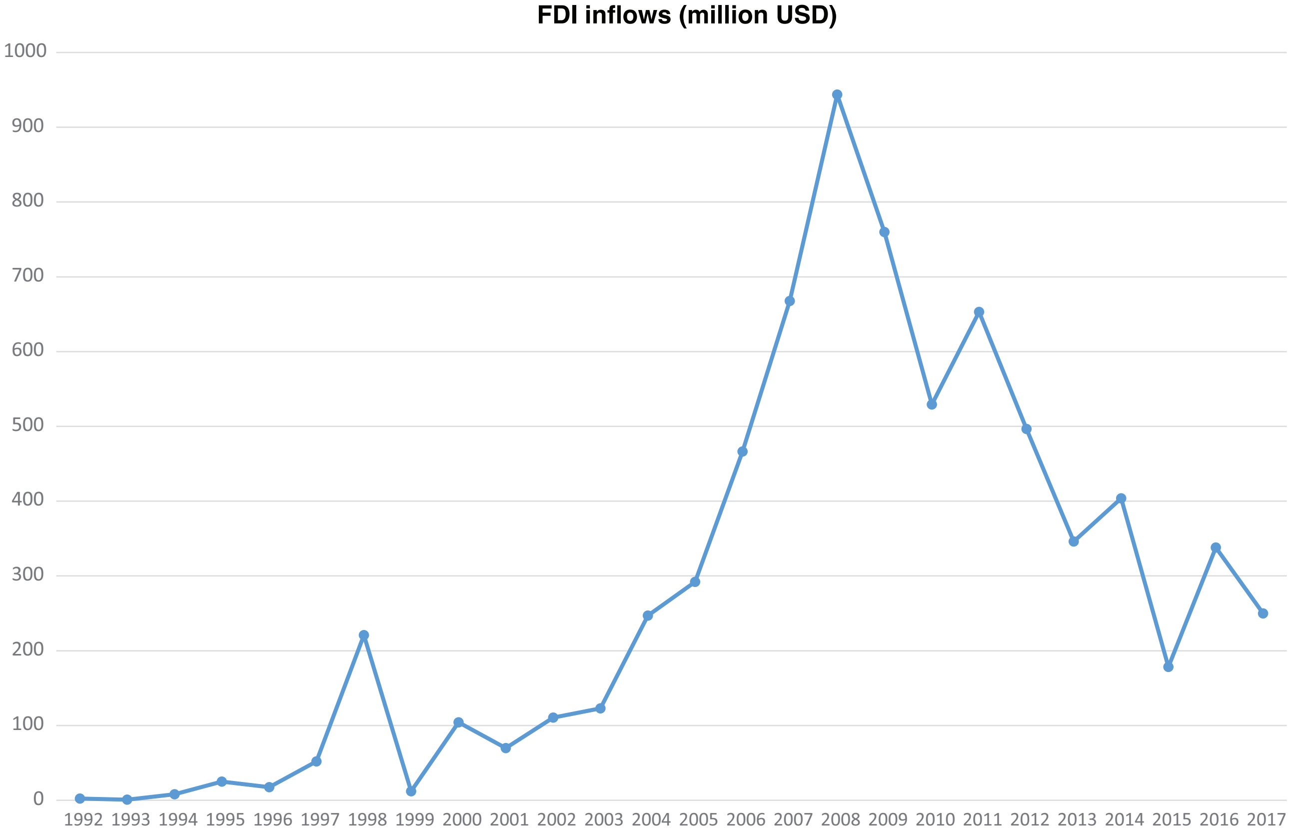
24 Vestnik Kavkaza (June 15, 2018). Armenia is expecting an investment boom, will Russian gas be replaced by Iranian gas? Why will Nairit have a second life? Analysis of Armenian media for June 8-14 (Armeniia zhdet investitsionnogo buma, pomeniaiut li rossiiskii gaz na iranskii, zachem "Nairitu" vtoraia zhizn' - Analiz armianskikh SMI za 8–14 iiunia. Ekonomika). Retrieved from http://vestikavkaza.ru/analytics/Armeniya-zhdet-investitsionnogo-buma-pomenyayut-li-rossiyskiy-gaz-na-iranskiy-zachem-Nairitu-vtoraya-zhizn-Analiz-armyanskikh-SMI-za-8-14-iyunya-Ekonomika.html

25 Ministry of Economic Development and Investments of Armenia

26 GTAI Wirtschaftsausblick – Armenien, September 2018. Retrieved from https://www.gtai.de/

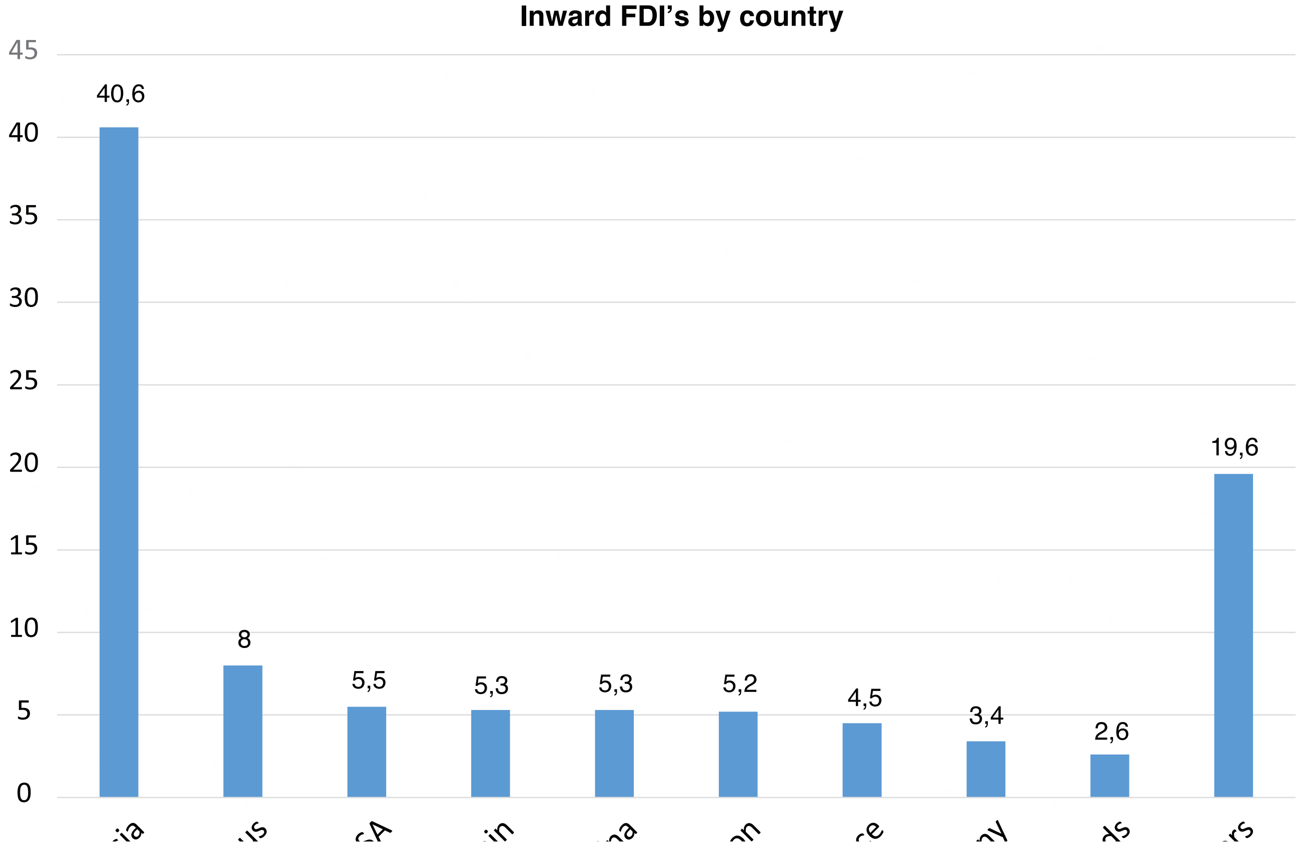
confidence in the feasibility of new projects. This is evidenced by the increasing use of banks' own funds and financial assistance from foreign institutions to lend to companies. For example, the European Bank for Reconstruction and Development (EBRD) has supported new SME projects with 17 million US dollars.[27]



Source: World Bank, 2017

GTAI/Navigation/DE/Trade/Maerkte/Wirtschaftsklima/wirtschaftsausblick,t=wirtschaftsausblick--armenien-september–2018,did=1993358.html

27 Strategeast (August 29, 2018). EBRD to provide Armenian ACBA–Credit Agricole Bank with $17 million on supports of SMEs. Retrieved from https://strategeast.org/ebrd-to-provide-armenian-acba-credit-agricole-bank-with-17-million-on-supports-of-smes/



Source: GTAI, 2016

Additionally, the Armenian government has introduced some changes in the tax system as of January 2019. The income tax in Armenia currently ranges from 23 per cent to 35 per cent, depending on the level of income. The government is going to introduce changes, making the tax 23 per cent for everybody. A reduction in the amount of dividend payments to 5 per cent has also been promised by the government. Currently nonresidents are taxed at 10 per cent (5 per cent for residents). A change of the social security tax has already been approved which will keep the current level (10 per cent) but redistribute how it is paid between employees and the government. Currently, 7 per cent is paid by the employee and 3 per cent is paid by the government. In 2019, employees will pay 5 per cent and the government will pay 5 per cent. The special status of start-ups was also extended until 2022.

Armenia ranks 41st in the World Bank's "Doing Business Report 2019". The country was ranked 8th and 14th in the indicators of business start–ups and property registration respectively. On the other hand, there is considerable potential for improvement in resolving insolvencies, dealing with construction permits and paying taxes (ranked 95th, 98th and 82nd, respectively).[28]

Special economic zones: Key to success?

The Armenian government is increasingly focusing its economic policy on establishing special economic zones. The tax breaks are intended to attract foreign investors and promote local projects. Companies located in the five Armenian free zones pay no taxes on profits and dividends, no VAT, land tax or wealth tax, and are exempt from customs duties.

28 World Bank Ease of Doing Business. Retrieved from www.doingbusiness.org/.../doingBusiness/.../a/armenia/ARM.pdf

The first free economic zone, the Alliance, has been in operation since August 2013, and has 13 residents. The investment programs of the zone participants accounted for investments of 163.7 million US dollars. It was planned to create 1540 jobs, but so far only 100 million US dollars have been invested and 314 jobs have been created.

The Meridian Special Economic Zone was inaugurated in Yerevan in 2014, centered on the production of jewelry products and high-quality watches, as well as diamond processing. Originally, investments of 56.3 million dollars and the creation of 355 jobs were announced. However, as of September 2018, only six companies were registered in the zone, 500 thousand dollars have been invested and 181 jobs created.[29] Nevertheless, new companies interested in producing primarily for export to third countries will find favorable investment conditions in the zone.

In December 2017, the Meghri Free Economic Zone was opened in Agarak in southern Armenia, on the border with Iran, just a few kilometers from the large Iranian free trade zone of Aras. The new north-south corridor provides good transport links to the zone. The Meghri Free Economic Zone is intended to develop into a bridge between the EEU and Iran. The operator of the Meghri Free Zone has already agreed to cooperate closely with the administration of the Aras Free Zone.

In 2018 the Armenian government announced plans to create two more free economic zones. One of which will be located in Hrazdan, in central Armenia, and will focus on the IT sector, especially crypto-currency mining, block technologies, and cloud systems. The Armenian government expects around 50 million US dollars to be invested in the Hrazdan free economic zone.[30]

Investments in the first phase of the project amounted to 2 million US dollars. At the end of 2018, the government decided to rapidly implement the next expansion phase, with an estimated cost of at least 25 million US dollars. Numerous companies from Russia, Iran and western countries have already expressed their interest in entering the Meghri Free Zone.[31] They want to implement projects in food processing, production of high-tech products, trade, logistics and tourism. The business plan for the construction of the industrial park is based on private investments of up to 150 million US dollars and annual exports of goods and services of 300 million US dollars in the medium term.

Potential risks and tips (Page 5)

- Highly dollarized economy (over 60% of bank deposits)
- Frozen conflicts (precarious ceasefire with Azerbaijan and inexistentdiplomatic ties with Turkey)

29 Sputnik Armenia (September 10, 2018). They made a promise, but did not keep it: what became of the free trade zones in Armenia? (Poobeschali, no ne sderzhali: chto stalo s zonami svobodnoi torgovli v Armenii?). Retrieved from https://ru.armeniasputnik.am/economy/20180910/14369833/v-armenii-net-ehffektivnyh-zon-svobodnoj-torgovli.html

30 Arka news agency (August 30, 2018). Some $50 million to be invested in Armenia's fourth free economic zone in Hrazdan. Retrieved from http://arka.am/en/news/technology/some_50_million_to_be_invested_in_armenia_s_fourth_free_economic_zone_in_hrazdan/

31 Arka (December 18, 2017). Meghri free economic zone opened in Armenia. Retrieved from http://arka.am/en/news/economy/meghri_free_economic_zone_opened_in_armenia/

- Armenian is the only official language. Cooperation with a local consultant can greatly facilitate the registration and administrative procedures. Accountancy by a local company is also advisable.

Who are the investors?

The Russian companies Gazprom and Tashir Group lead the current investment activity in the electricity and gas sectors.[32] Companies from Russia also invest in telecommunications (MTS, Rostelekom), the financial sector, rail transport and manufacturing.

The investments from the EU (mainly France and Germany) are concentrated on the companies Pernod Ricard (spirits), Credit Agricole (finance) and Veolia Water (drinking water supply) and Cronimet Mining AG (mining). Following the acquisition of 60 per cent of the shares of the Zangezur copper combine, Cronimet made significant investments amounting to 13 million US dollars.[33] The remaining investments from Germany are in the finance, construction and agricultural engineering, clothing industry and electrical engineering sectors.

The traditionally developed IT sector in Armenia has been attracting important investments as well. In 2018 SAP launched a Next-Gen Lab in the Lori region, while IT giant Synopsys has been present in IT education for many years. The US IT corporation National Instruments, present in Armenia since 2007 and cooperating with the Faculty of Radiophysics of Yerevan State University, is engaged in projects related to 5G communication, self-driving cars, and the industrial internet of things.[34]

Problems faced by foreign companies (Page 5)

- Partially non-transparent tax and customs procedures that increase costs;
- Misclassification of imported goods during customs clearance
- Major sectors controlled by well-connected businessmen enjoying government-protected market dominance
- Alleged unfair tender processes and preferential treatment
- Corruption

32 Tashir Group official website (November 20, 2017). “Tashir” presented an investments program in Armenia (“Tashir” predstavil investitsionnuiu programmu v Armenii). Retrieved from http://www.tashir.ru/media/news/2017/tashir-predstavil-investitsionnuyu-programmu-v-armenii.html

33 CRONIMET official website. Retrieved from http://cronimet–mining.am/en/locations/cronimet-mining-in-armenia/

34 Arka telecom (May 29, 2018). SAP launches Next–Gen Lab at COAF Smart center in Armenia. Retrieved from http://telecom.arka.am/en/news/development/sap_launches_next_gen_lab_at_coaf_smart_center_in_armenia/. and Synopsys official website. Retrieved from https://www.synopsys.com/company/contact-synopsys/office-locations/armenia/about-synopsys-armenia.html. and Itel.am (2018 September 06). National Instruments Armenia to operate in Engineering City. Retrieved from https://itel.am/en/news/10082

Foreign trade

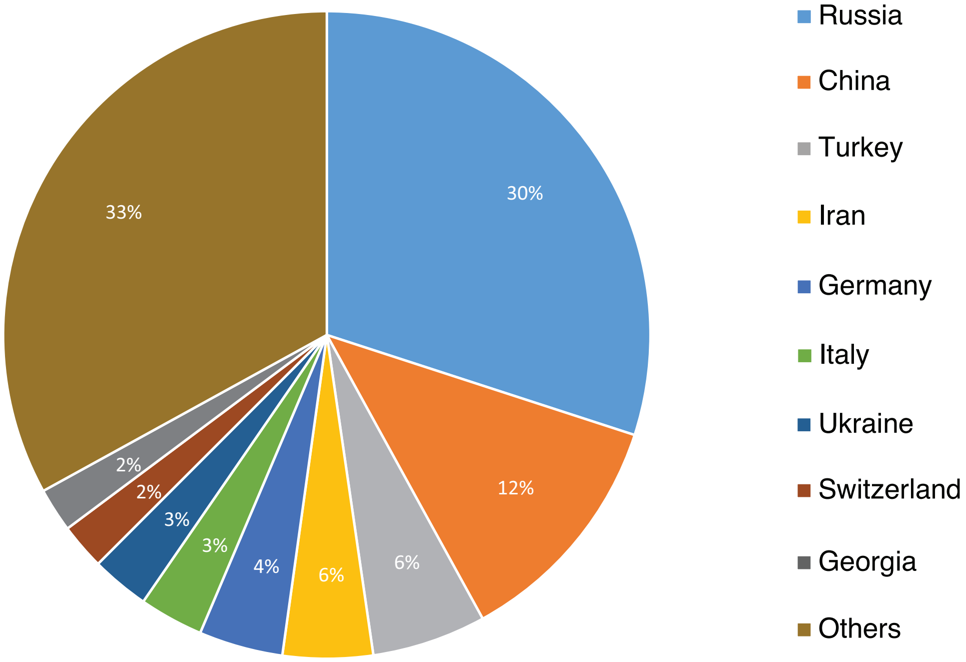
Foreign trade is one of the main drivers of the economic boom in Armenia. Imports were expected to reach a volume of around 4.4 billion US dollars in 2018, with almost all product groups showing an increase over the previous year.

The year-over-year growth from January to July 2018 in imports of machinery and equipment (+72 per cent to 512 million US dollars), means of transport (+100 per cent to 210 million US dollars) and many consumer goods, including food and textiles/clothing is remarkable. In the first seven months of 2018, the main supplier countries were Russia (779 million US dollars), China (200 million US dollars), Germany (145 million US dollars) and Iran (128 million US dollars).[35]

Export growth in 2018 focuses on clothing, food (primarily fruit and vegetables) and metals. In the first seven months of 2018, Russia (340 million US dollars), Switzerland (189 million US dollars), Bulgaria (143 million US dollars) and Germany (93 million US dollars) were the main customer countries.

Trade turnover between Armenia and the EEU countries increased by more than 30 per cent year-over-year in January–July 2018, amounting to about 350 million US dollars. This was noted by the acting Prime Minister of Armenia Nikol Pashinyan, speaking at the opening of the "Eurasian Week" International Exhibition Forum, which was held in October 2018 in Yerevan.[36]

Import partners

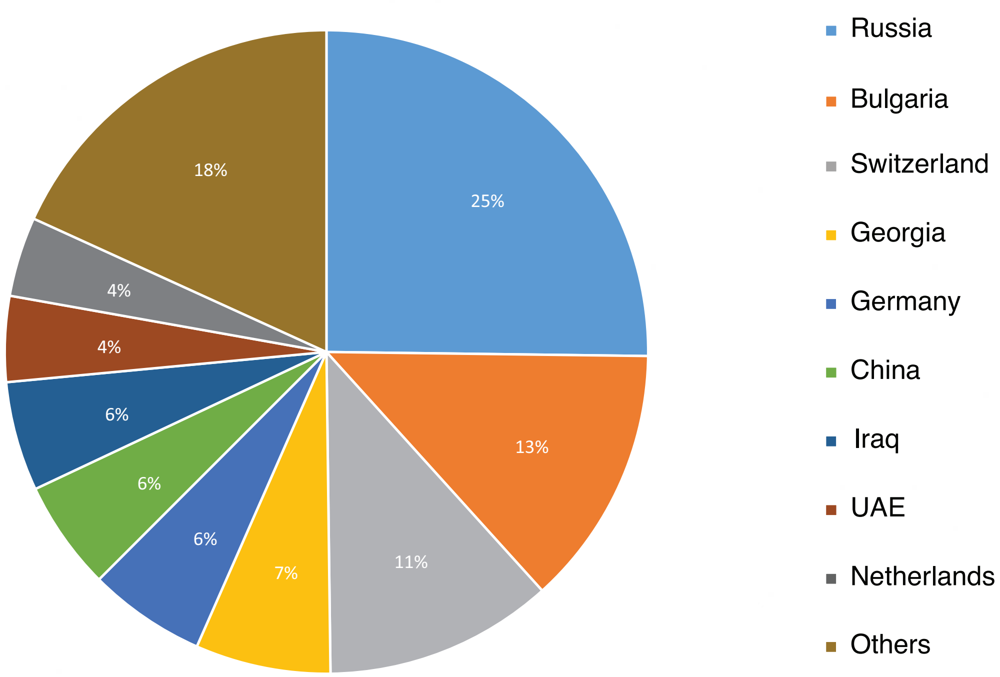


Source: World Bank, 2017

35 Statistical Committee of the Republic of Armenia. Retrieved from https://www.armstat.am/en/

36 Sputnik Armenia (October 22, 2018). Armenia exhibits stable growth rates in trade volume with the EEU - Pashinyan (Armeniia pokazyvaet stabil'nye tempy rosta obemov torgovli s EAES --Pashinian). Retrieved from https://ru.armeniasputnik.am/politics/20181022/15241510/armeniya-pokazyvaet-stabilnye-tempy-rosta-obemov-torgovli-s-eae-hs---pashinyan.html

Export partners



Source: World Bank, 2017

Relations with the EU

Despite a very strong orientation of the Armenian economy towards Russia and its membership in the Eurasian Economic Union, Armenia tries to strengthen ties with the EU. Trade turnover between Armenia and EU accounts for around 23.6 per cent of Armenia's total trade. The EU is Armenia's biggest export market (with a 26.7 per cent share in total exports) and the second-biggest source of Armenian imports (with a 22 per cent share in total imports). The comprehensive and enhanced partnership agreement (CEPA) concluded between Armenia and the EU at the end of 2017 provides the foundation for development of cooperation. It is being gradually implemented since January 1, 2018. A key issue is further liberalization of trade and services in mutual economic relations. The EU is funding reforms and priority infrastructure projects with 170 million euros between 2017 and 2020.[37]

The EU has included Armenia into its Generalized Scheme of Preferences (GSP+) since 2009. Thus Armenia can export 7,200 products to the EU with no customs duties. In the framework of this trade scheme Armenia fully complies with the 27 core international conventions on sustainable development and good governance included in the GSP Regulation. The total value of preferential imports from Armenia into the EU under the EU's GSP+ has increased from 42 million euros in 2014 to 108 million euros in 2016.[38]

37 EuFoa. Armenia-EU relations. Retrieved from http://eufoa.org/armenia-eu-relations/
38 European Commission. Retrieved from http://ec.europa.eu/trade/policy/countries-and-regions/countries/armenia/

Conclusion and outlook

Armenia's economy is expected to grow by around four per cent in 2019.[39] Good export prospects in the traditional sales markets, growth in the manufacturing industry, the construction sector, agriculture and above all in incoming tourism, as well as a revival in private consumption provide evidence for the positive outlook. However, much depends on the reforms implemented by the new government. The first successes in unbundling oligarchic structures and curbing the market-determining entrepreneurs' influence on economic policies are visible. However, there is still a long way to go towards a fair competition, restriction of the shadow economy, and a noticeably improved social situation for the population.

One cannot deny that the business environment in Armenia is still far from reaching European standards. The main reasons are a small market, a difficult economic and social situation in the country, and closed borders with neighbors Azerbaijan and Turkey. Georgia in the north and Iran in the south are the only contact points between Armenia and the international economy. The blockade is hampering Armenia's integration into international trade and superregional projects. It makes transport more expensive for imports and exports. Another remaining central task is the reduction of corruption. Economic and political elites are closely intertwined. The large monopolies and lack of competition in some sectors are also problematic. The World Bank reports that monopolies and oligopolies account for a 60 per cent of the Armenian market.

However, all the aforementioned issues are improving with the new government, and already now all necessary steps have been taken to strengthen the protection of foreign investors and modernize the legislative framework for foreign investments.

At present the situation with the major sectors, owned by several dominant businessmen who possess the greater share of the market can only be resolved by large investments into the sectors.

Nevertheless, there are investment opportunities in many sectors, such as the IT sector, the food industry, mining and light industry. Armenia has a liberal business climate and low production costs. In order to accelerate the diversification of the economy, Armenia urgently needs a noticeable boost in investment.

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39 World Bank Global Economic Prospects Report. Retrieved from http://www.worldbank.org/en/publication/global-economic-prospects

DOING BUSINESS IN KAZAKHSTAN

- The world’s largest landlocked country
- One of only two landlocked countries in the world that extends into two continents (the other is Azerbaijan)
- One of the largest producers of oil, coal, copper, zinc, chromium
- One of the world’s top 10 exporters of grain
- Largest reserves of barite

Kazakhstan has a land area equal to that of Western Europe but one of the lowest population densities globally. Strategically, it links the large and fast-growing markets of China and South Asia and those of Russia and Western Europe by road, rail, and a port on the Caspian Sea.

Kazakhstan's vast hydrocarbon and mineral reserves form the backbone of its economy. Geographically the largest of the former Soviet republics, excluding Russia, Kazakhstan possesses substantial fossil fuel reserves and other minerals and metals, such as uranium, copper, and zinc. It also has a large agricultural sector featuring livestock and grain. The government realizes that its economy is affected by overreliance on oil and extractive industries and has undertaken measures to diversify its economy by investing into development of such sectors as transport, pharmaceuticals, telecommunications, petrochemicals and food processing. It also adopted a Subsoil Code in December 2017 with the aim of increasing exploration and investment in the hydrocarbon, and particularly mining, sectors.

Kazakhstan is landlocked and depends on Russia to export its oil to Europe. It also exports oil directly to China. In 2010, Kazakhstan joined Russia and Belarus to establish a Customs Union in an effort to boost foreign investment and improve trade. The Customs Union evolved into a Single Economic Space in 2012 and the Eurasian Economic Union (EAEU) in January 2015.

To attract investors and support the stock market the Astana International Financial Center (AIFC) and the Astana International Exchange (AIX) were established. AIX was officially opened on July 5, 2018. In 2018 AIFC was ranked the 61st in The Global Financial Centres Index and the second among the Eastern Europe and Turkestan financial centers.

Kazakhstan jumped from 36th last year to 28th position in the 2019 World Bank Doing Business Report. The country improved in three areas of the Ease of Doing Business (EODB) score, including enforcing contracts, starting businesses and trading across borders. The contract process was simplified by automation of legal procedures. The introduction of an electronic case management system made possible the generation of performance measurement reports. Court decisions rendered in commercial cases on all levels also began to be published publicly.

In starting new businesses, Kazakhstan improved from 41st to 36th place. It simplified the process to start a new business by cutting the number of post-registration procedures, such as tax registration, social security registration and licensing. Thus, the time spent on opening a business reduced from nine to five days.

In international trading, Kazakhstan improved from 123rd to 102nd place. The world's largest landlocked country introduced the ASTANA–1 IS electronic customs declaration system and reduced customs administrative fees, making trade across borders easier. The changes reduced the time and costs documents processing for export transactions.

Kazakhstan is ranked 59th out of 140 countries in the Global Competitiveness Index 2018. According to the report, the country's advantages are the labour market (30th place) and dynamic business (37th), while it is weaker in its financial system (100th), healthcare system (97th) and innovation potential (87th).

The economy's vulnerability to external shocks remains the main challenge to achieving stable and sustainable development. External demand from China and the Russian Federation, Kazakhstan's main trading partners, as well as global oil demand and prices, are likely to continue to be the key external factors impacting Kazakhstan's economic performance. Domestically the pace of implementation of structural and institutional reforms will remain the key factors.

While growth slowed to about 1% in both 2015 and 2016, a moderate recovery in oil prices, relatively stable inflation and foreign exchange rates, and the start of oil production at Kashagan helped push 2017 GDP growth to 4%. According to preliminary estimates, in January–December 2018 GDP growth was 4,1% compared to the corresponding period of 2017.

COUNTRY OVERVIEW

GEOGRAPHY

- **Location:** small part of the territory west of the Ural River in easternmost Europe.
- **Area:** 2,724,900 sq. km (9th in the world)
- **Administrative divisions:** 14 provinces and 2 national status cities
- **Border countries:** Russia, Uzbekistan, China, Kyrgyzstan, Turkmenistan
- **Largest cities** (by urban population): Almaty (1.829 million), Astana (1.068 million), Shimkent (0.982 million) (2018)
- **Natural resources:** major deposits of petroleum, natural gas, coal, iron ore, manganese, chrome ore, nickel, cobalt, copper, molybdenum, lead, zinc, bauxite, gold, uranium
- **Time zone:** UTC+6

POLITICAL SYSTEM

- **Government:** presidential republic
- **Capital:** Astana
- **Head of state:** President Nursultan Nazarbayev (1 December 1991)

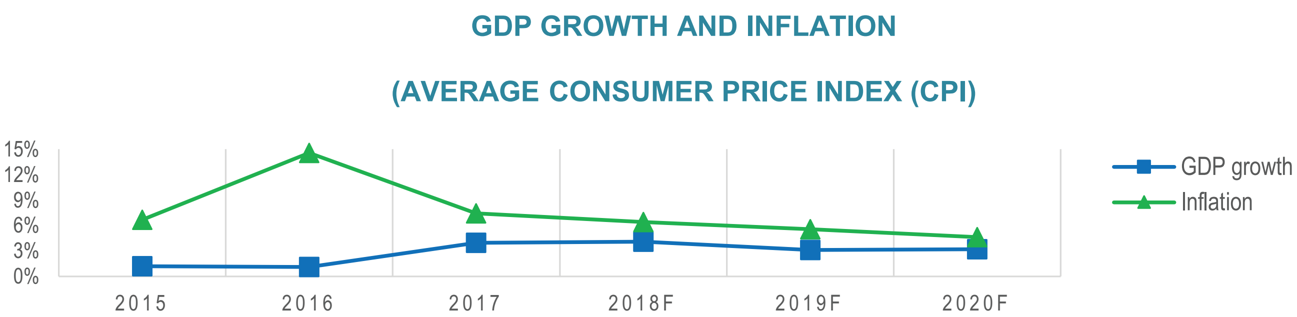
DEMOGRAPHICS

- **Population:** 18,556,698 (62nd in the world) (July 2017)
- **Urban residents:** 57.4% (2018)
- **Age groups:** 0–14 years: 25.9%, 15–24 years: 14.1%, 25–54 years: 42.4%, 55–64 years: 10%, 65 years and above: 7.6%
- **Median age:** 30.6 years
- **Unemployment:** 4.9% (2017)
- **Languages:** Kazakh (official) 74%, Russian (official, used in everyday business) 94.4%
- **Major religions:** mostly Muslim 70.2% and Christian 26.2% (mainly Russian Orthodox**)**

CURRENCY AND CENTRAL BANKING

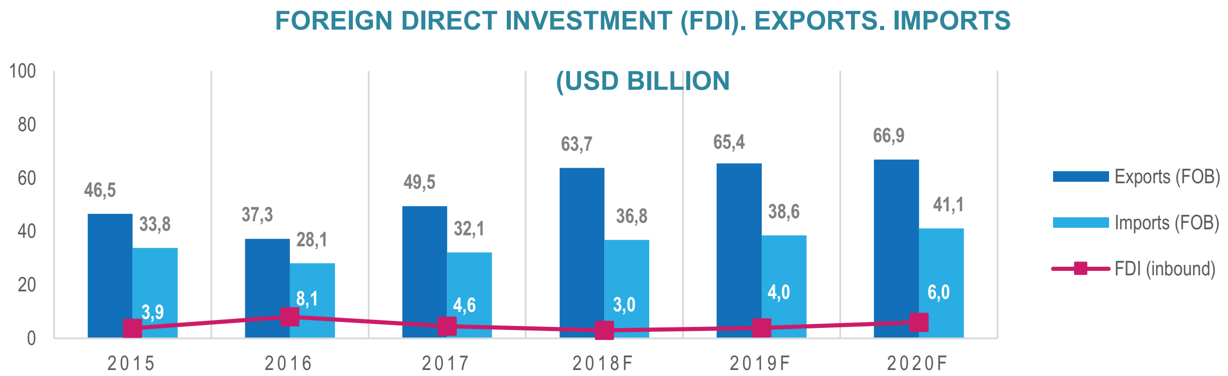
- **Local currency:** Kazakhstani tenge (KZT), 1 USD = 371,82 KZT (December 2018 average)
- **Stock exchanges:** Kazakhstan Stock Exchange (KASE)
- **Interest rate:** 9.25% (October 2018), 9% (Q3 2018), 9.25% (April 2018), 9.5% (March 2018), 9.75% (January 2018), 10.25% (Q4 2017)
- **Foreign exchange reserves (million USD)**: 15,820 (November 2018)
- **External debt (billion USD):** 164.4 (Q2 2018), 167.2 (2017), 163.3 (2016)

ECONOMIC SITUATION



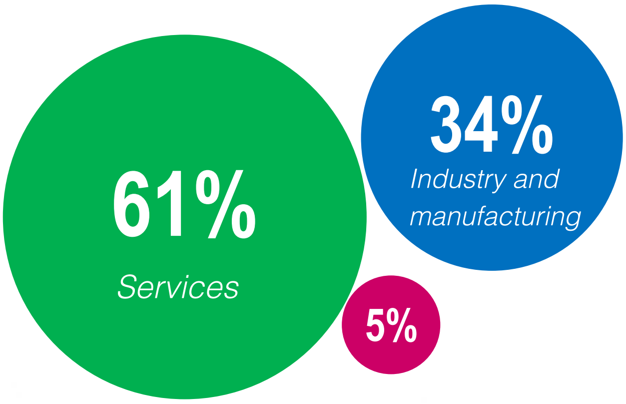
Source: International Monetary Fund

- GDP PPP in 2017 was USD 476.4 billion (41st in the world). Over the medium-term, the real GDP growth rate is expected to stay around 3 percent, as the contribution of the oil sector to economic growth declines relative to 2017–18 (when a structural shift in oil output occurred)
- Trade balance (billion USD): 59.8 (August 2018), 78.1 (2017), 62.1 (2016)



- Main export partners: Italy, China, Netherlands, Russia, Switzerland (2017)
- Main import partners: Russia, China, Germany, USA, Italy (2017)

KEY PRODUCTION SECTORS



Industry and manufacturing:

oil, coal, iron ore, manganese, chromite, lead, zinc, copper, titanium, bauxite, gold, silver, phosphates, sulfur, uranium, iron and steel; tractors and other agricultural machinery, electric motors, construction materials

Services:

rade, transportation and freight operations, finance, construction and engineering

Agriculture:

grain (mostly spring wheat and barley), potatoes, vegetables, melons; livestock

DOING BUSINESS IN KAZAKHSTAN

SPECIAL ECONOMIC ZONES (SEZ)

Kazakhstan has established 10 SEZs to facilitate the development and support of the economy sectors other than resources–oriented sectors. Companies operating in SEZ are exempt from corporate income tax, property tax and land tax. Sales of certain qualifying goods within SEZ are subject to VAT at a rate of zero percent. Legal entities operating within the Infomation Technology Park special economic zone are entitled to a 100 percent exemption from social tax for their employees for 5 years if the met certain conditions

CUSTOMS

Kazakhstan is a member state of the Eurasian Economic Union (EEU) with Russia, Belarus, Armenia and Kyryzstan. Import customs duty rates are established by the decision of the Eurasian Economic Commission of the United Customs Tariff of the EEU, while export customs duty rates are set by the Government. Most customs duties vary between 0 percent and 30 percent and are imposed on the transaction value of imported goods.

In 2015, Kazakhstan became a member of the World Trade Organization. In the frame of the WTO, import customs duty rates for a number of goods are below the rates established by the Unified Customs Tariff of the EEU. Taxpayers may import goods into Kazakhstan either at WTO rates, but without the right to export the imported goods from Kazakhstan, or at the rates established by the Unified Customs Tariff of the EEU with the right to export these goods into other member states of the EEU.

INVESTMENTS IN PRIORITY SECTORS

Several types of incentives are granted for investments in priority sectors of the economy on the basis of an investment contract concluded between the investor and the state:

- exemption from corporate income tax (up to 10 years), land tax (up to 10 years) and property tax (up to 8 years),
- reimbursement of up to 30 percent of the actual investments in fixed assets,
- stability of tax legislation.

The priority sectors of the economy include industrial infrastructure, processing industries, housing construction, the social sphere (education, medical, sports and entertainment facilities), tourism, communication, production of nuclear materials and agriculture.

RESTRICTIONS ON FOREIGN SHAREHOLDERS

Telecommunications. Foreign individuals and legal entities cannot directly or indirectly own, use, dispose and/or manage more than 49% of the voting shares in a legal entity carrying out activity as an operator of intercity and/or international telecoms, or owning ground communication lines.

Mass media. Foreign individuals and legal entities cannot directly or indirectly own, use, dispose and/or manage more than 20% of voting shares in a legal entity that owns Kazakhstan mass media.

Security services. Foreign individuals and legal entities are not entitled to perform security services activities or be shareholders or trustees of private security organisations.

Aviation. The shares held by foreign individuals and legal entities in an airline company cannot exceed 49%.

Currency control. Acquisition by a foreign individual or legal entity of a 10% or more shares in a local legal entity is subject to registration at the National Bank, if the sum of the transaction exceeds US$500,000.

Banks and insurance organisations. The founders and shareholders of banks/insurance organisations cannot be legal entities registered in certain offshore jurisdictions (for example, Andorra, the Commonwealth of the Bahamas, Cyprus, Cayman Islands or Grenada). This limitation does not apply to non–resident banks/ insurance organisations with a minimal rating from the rating agencies

FOREIGN INVESTMENT PROJECTS IN KAZAKHSTAN

Currently, focus areas for investments in Kazakhstan economy include manufacturing of construction materials, metallurgy, chemicals, petrochemicals, engineering, and food processing.

CONSTRUCTION MATERIALS MANUFACTURING

Major companies on the Global 2000 list who are already working in Kazakhstan comprise Heidelberg Cement (Germany) (Bukhtarma Cement Company, CaspiCement, Baikaz Beton, Bektas Group), Sika (Switzerland) (concrete additives, blended cements, industrial flooring materials, protective coatings for concrete and steel, sealants, etc.), Chevron (Chevron Munaigas Inc., Atyrau Polyethylene Pipe Plant, Atyrau Valve Plant). From amongst global majors who are not on the Global 2000 list, the following are present in Kazakhstan: Knauf (Germany) (gypsum construction materials) and Vicat Group (France) (cement company).

During 2015–2019, the national policy in the area of developing construction materials manufacturing will focus on the implementation of top-priority lines of flat-glass industry, creation and modernization of cement, dry building mixes, natural stone manufacturing and other projects.

METALLURGY

Presently, the following key global players on the Forbes Global 2000 list of multinational corporations are active in the sector: Posco (South Korea), ArcelorMittal (Luxembourg), Evraz Group (Russia).

During 2015–2019, the national policy in the area of developing ferrous metal industry focuses on the implementation of top-priority lines of high-grade stock production for steel making (granulated iron and hot-briquetted iron, growth in production and manufacturing of new ferroalloys), making of new steel types (tube steel, rust-resistant steel, heat-resistant steel, tool steel, ball-bearing steel, rail steel, and spring steel) and expansion of high alloyed steel varieties; scaling up of major metals production (copper, gold, titanium, aluminum); growth in manufacturing of the following goods: wire rod, wire, milled product, roller steel sections and alloys, foil, jewelry and articles and components for related industries.

RUSSIAN–KAZAKH PROJECTS

MCC EuroChem, since 2013 has been involved in the phosphatic rock mine production and fertilizer manufacturing project in Jambyl Province. Early in 2016, the first stage of the project was successfully completed, with the project reaching its full capacity of 640 thous tons of phosphatic rock per year. During the second stage MCC EuroChem intends to reach production output of 1.5 mln tons of phosphatic rock per year which is underpinned by its plans on the construction of a fertilizer manufacturing complex in Jambyl Province.

AVTOVAZ is successfully implementing its car assembly project via JSC "Asia Avto Kazakhstan". The project participants shares are distributed as follows: 75% of shares are owned by Bipek Avto Group, with the remaining 25% of shares owned by PJSC "AVTOVAZ" (Renault–Nissan alliance).

KAMAZ supplies automotive equipment and vehicle sets for further assembly at KAMAZ Engineering JSC Assembly Enterprise in Kokshetau (Kazakhstan).

Sollers supplies vehicles and vehicle sets to SaryarkaAvtoProm, LLP (Kostanay, Kazakhstan).

GAZ supplies LIAZ, PAZ, GOLAZ, URAL brand vehicles to Kazakhstan, as well as passenger cars of various brands, power trains, road–building machinery and railway cars manufactured by JSC "ELDIN".

Russian Helicopters supplies helicopter equipment to Kazakhstan and considers establishing a service facility for maintenance and repair of certain models of helicopters in Kazakhstan.

UC RUSAL mines at the coal basin "Bogatyr" (Bogatyr Coal, LLP) in Pavlodar Province, Kazakhstan.

VimpelCom ("Beeline") provides cellular communication services and expands its coverage area through KaR-Tel cellular operator.

LUKOIL, since 1995 has been engaged in a number of onshore production projects (Tengiz, Karachaganak, Kumkol), is a member of the Caspian Pipeline Consortium (CPC) and the largest Russian investor in Kazakhstan.

Transneft provides oil transportation services to Kazakh companies via Russian oil pipelines.

GAZPROM, in June 2002, on an equal footing with "National Company "KazMunayGas" CJSC, established "KazRosGas" CJSC, which is engaged in natural gas purchase transactions, marketing and gas processing at Russian gas processing plants.

SPECIFIC ASPECTS OF DOING BUSINESS IN KAZAKHSTAN

LEGAL MATTERS

- A foreign company can establish a business presence in Kazakhstan by either:
  - incorporating a company,
  - setting up a local branch or representative office, or registering a permanent establishment,
  - buying a share (100% or less) in an already existing local company.
- The local legislation lacks stability: acts of all levels (legislative and subordinate) are being revised and amended on a regular basis.

SOCIAL AND CULTURAL ENVIRONMENT

- In Kazakhstan, business greetings tend towards the formal. Handshakes are common greeting, especially between men. When greeting a woman, wait to see if she initiates a handshake, and if she does not, then a polite nod will suffice. Make sure to shake hands with every person if you are meeting with a group of people, and to do the same when leaving.

- In meetings, the traditional term of address of Mr/Mrs/Miss followed by a surname is the usual way of addressing your host, unless you are advised to do otherwise. In the traditional Muslim culture respect for the elderly and older people is universal. However, despite the predominance of Muslim culture, there is no ban on pork products or alcohol.
- Meals are an important factor in business, often opening the door to other, more formal meetings with potential partners. It is customary to be served several dishes, and it is considered a great honour if you are offered the sheep's head.
- It is a good idea to build up relationships and long-term partnerships that will generate the necessary mutual trust required to cement lasting business. Therefore, be prepared for lengthy negotiations, but also do not be surprised if they end abruptly and unexpectedly with a placed order or a proposed agreement.

Sources: EIU.com, CIA.gov, International Monetary Fund, World Bank, National Bank of Kazakhstan, UNCTAD, KPMG report "Doing business in Kazakhstan", stat.gov.kz, kazakhstan.ved.gov.ru, weforum.org, other sources

UZBEKISTAN ON THE WAY TO A DYNAMIC MARKET ECONOMY

When Uzbekistan achieved independence from the Soviet Union in 1991, foreign economists predicted a successful development for the country. Obvious facts spoke in favor of this assessment: with over 30 million inhabitants, Uzbekistan offers the largest consumer market in the region, and it is the only country directly bordering every country of Central Asia. The country possesses a wide range of mineral and agricultural resources, which allows for the expansion of the manufacturing industry. The capital, Tashkent, is an important regional transport hub. Due to these factors, many foreign companies chose Uzbekistan as the starting point for their activities throughout Central Asia in the early 1990s.

Key Figures Uzbekistan

Population: 32 Million
GDP: 48.8 billion US dollars (current prices)
GDP per capita: 1,520 US dollars (current prices)
Exports as a share of GDP: 29%
Imports as a share of GDP: 30%
Inflation rate: 19%
Unemployment rate: 7%
World Bank Doing Business Report (2019): 76

Phase of autarky

The opening and liberalization of Uzbekistan was abruptly stopped in 1997. The decrease of foreign exchange revenue from cotton exports and falling prices for gold exports led to the abolition of the convertibility of the national currency, sum, and the reintroduction of strict foreign exchange controls. Consequently, a parallel exchange rate developed alongside the official one. Economic relations with some neighboring countries also deteriorated significantly.

As a consequence, many Western companies left Uzbekistan. For example, foreign trade with Germany collapsed massively and German companies shifted their focus to Kazakhstan. In 2006, ten years after the introduction of forced foreign exchange control, bilateral trade with Germany amounted to 380 million US dollars, almost half of the previous level.[40] Price-adjusted, it then accounted for only a fraction of its former value. With a few exceptions – including the agricultural machinery manufacturer CLAAS, the cable producer Deutsche Kabel AG, the building materials producer KNAUF and the provider of commercial vehicles MAN Nutzfahrzeuge AG-direct investment by German companies in Uzbekistan was low. At the same time, Russian companies, mostly from the energy sector (e.g. Gazprom and Lukoil), have been developing their operations in Uzbekistan since the early 2000s. Additionally, China is interested in the fuel and energy sectors of Uzbekistan, and has maintained a continuous economic presence in the country since 2003. The Jizzaq special industrial zone began as a joint Uzbek-Chinese venture.[41] In the field of diplomacy, the two countries exchanged high-profile visits in 2004 (Hu Jintao visits Tashkent) and 2012 (Islam Karimov visits Beijing). China provided diplomatic support during the 2005 conflict between Uzbekistan and the West (triggered by the Andijan clashes between demonstrators and Uzbek police in 2005), and together with Russia saved Uzbekistan from global isolation.[42]

Compared to its neighbor Kazakhstan, Uzbekistan was severely falling behind in the competition for Chinese investments. The country's reliance on autarky also prevented it from becoming a member of the Eurasian Economic Union (EEU).[43] However, Uzbekistan is again coming into the focus of foreign business.

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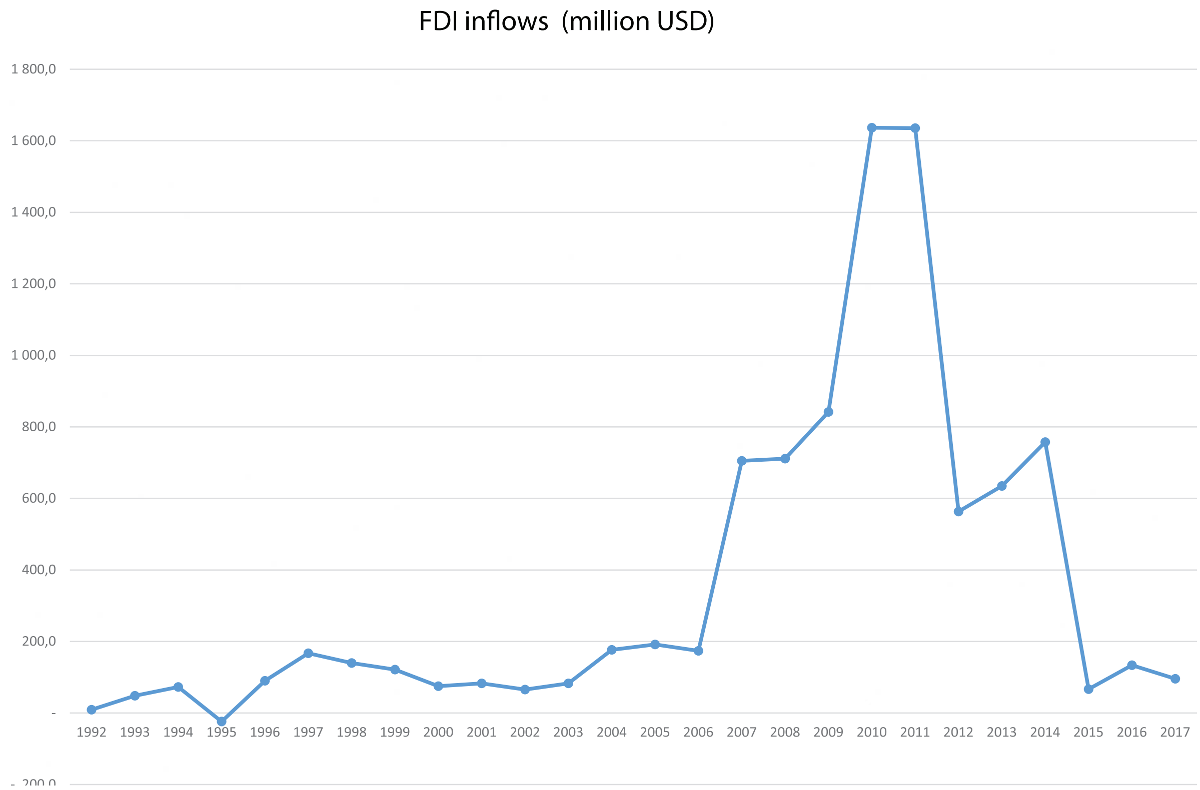
40 UN Comtrade

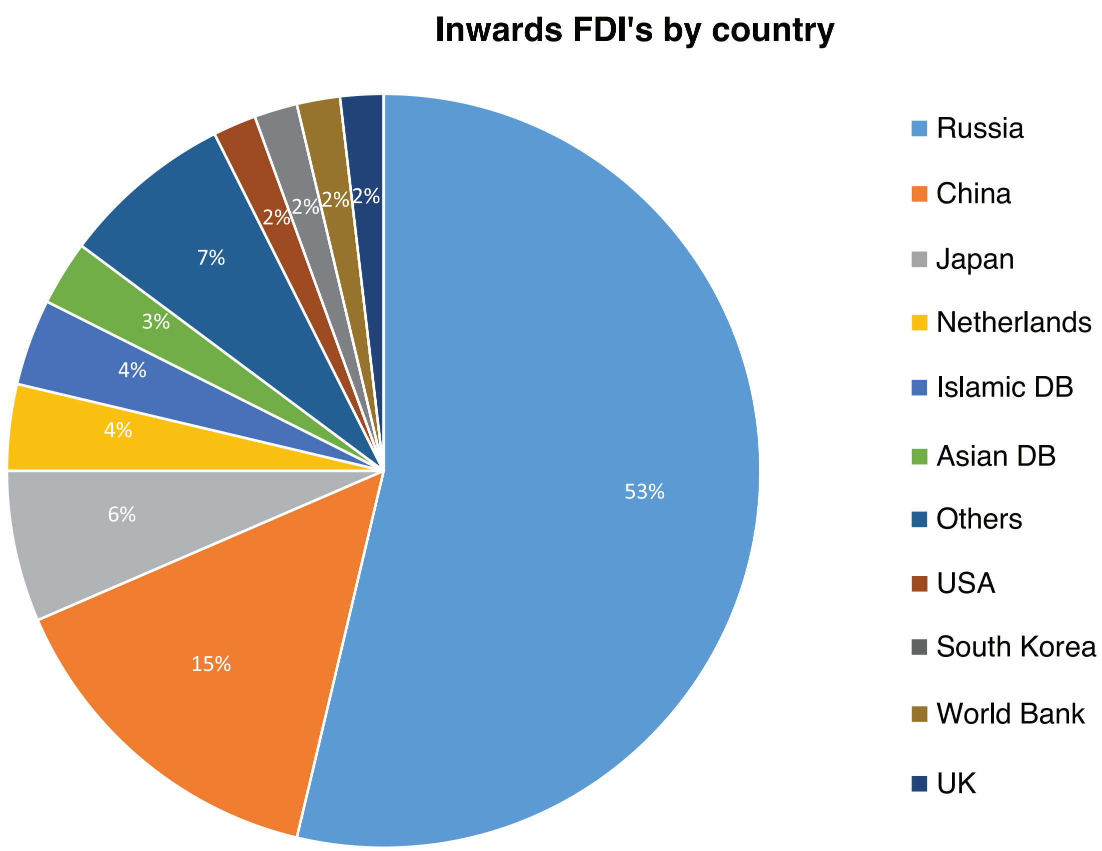
41 Paramonov V (February 10, 2014). China’s Economic Presence in Uzbekistan: Realities and Potentials. Retrieved from http://centralasiaprogram.org/archives/7839

42 Fazendeiro, B. T. (2017). Uzbekistan’s Foreign Policy: The Struggle for Recognition and Self-Reliance under Karimov. Routledge.

43 Friedrich Ebert Stiftung (December, 2014). Die Eurasische Wirtschaftsunion-Analysen und Perspektiven aus Belarus, Kasachstan und Russland (The Eurasian Economic Union-Analyses and perspectives from Belarus, Kazakh-stan and Russia).



Source: UNCTAD, 2017



Source: Statistical Committee of Uzbekistan, 2017

Improved business environment

The Uzbek government under President Shavkat Mirziyoyev and Prime Minister Abdulla Aripov, which has been in office since the end of 2016, is making serious efforts to accelerate the domestic economy and integrate it into the world economic order. The Government's National Development Strategy for 2017–21 aims to transform the country by liberalizing the economy, reshaping the role of the state in the economy, modernizing the agriculture sector, strengthening governance, creating markets – financial services included – enabling the private sector to grow, investing in human capital, and improving social protection and service delivery for all citizens.[44]

One of the biggest challenges to conducting business and attracting foreign investors was overcome on September 5, 2017: the official exchange rate of the national currency against the US dollar, which had been overvalued for years, was aligned to the parallel exchange rate. The massive restrictions on currency conversion and access to foreign exchange were lifted.

Significant tax policy reforms were announced in June 2018 (effective in 2019), including the transition to a low flat tax from a progressive personal income tax, the elimination of the turnover tax, and the reduction in tax rates on corporate income, property, dividends, and the payrolls of small firms.

Investment programs were launched in order to encourage big investments in priority sectors. Programs include 86 foreign direct investment projects totaling 1.8 billion US dollars, of which more than half is for the energy sector.[45]

As a result of the reforms, Uzbekistan ranks 76th out of 190 countries in the World Bank's 2019 Ease of Doing Business Index. In 2015, Uzbekistan ranked 141st. The World Bank ranks Uzbekistan among the top 10 most active reform countries worldwide.[46]

Most important industries

Raw material industries (oil/gas, ores, and coal) remain the most profitable and attractive sectors of the Uzbek economy. Initiatives aimed at expansion of the manufacturing industry, as well as extraction of raw materials for use in the construction industry have generated significant growth since 2017. In recent years, the consumer goods industry (especially food, textiles, and clothing) has also experienced above-average growth. In 2017 it accounted for almost 40 per cent of the total industrial production and 50 per cent of the output in Uzbekistan's manufacturing industry.[47] As of 2018, over 3 billion dollars of foreign direct investment flowed to Uzbekistan's 7,000 textile companies, 150 of which are under joint Uzbek and foreign control.[48] Foreign investors in the textile industry mainly come from South Korea, Switzerland, Singapore,

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44 Ministry of Foreign Affairs of Uzbekistan. Retrieved from https://mfa.uz/en/press/news/actionstrategy/

45 Santander Trade. Retrieved from https://en.portal.santandertrade.com/establish–overseas/uzbekistan/investing

46 World Bank Ease of Doing Business 2019. Retrieved from http://www.doingbusiness.org/content/dam/doingBusiness/country/u/uzbekistan/UZB.pdf

47 Statistical Committee of the Republic Uzbekistan

48 Regnum (September 04, 2018). V tekstil'nuiu otrasl' Uzbekistana investirovano bolee $3 mlrd. (More than $3 bil. were invested in Uzbekistan's textile sector). Retrieved from https://regnum.ru/news/2475495.html

Great Britain, Germany, and Turkey.[49] Mechanical engineering/vehicle construction, electrical engineering/electronics and metal processing have also grown strongly recently.

The automotive industry, which was affected by crises in 2015 and 2016 as a result of shrinking exports to Russia and Kazakhstan, now has renewed potential. In 2017, 135,471 cars rolled off the assembly line, compared with only 85,674 in the previous year.[50] Vehicle construction accounts for the lion's share of the country's total mechanical engineering output. It currently comprises the car manufacturer GM Uzbekistan (owned by UzAutoSanoat), two smaller vehicle manufacturers Samauto (minibuses and medium-sized trucks) and MAN Auto-Uzbekistan (heavy trucks and gas-powered city buses), as well as around 25 large and 180 smaller suppliers. Uzbekistan Peugeot Citroen Automotive intends to assemble transport vehicles of the Peugeot Expert and Peugeot Boxer models beginning in 2019. The South Korean companies Evergreen Motors and Posco Daewoo have plans to assemble Hyundai trucks. The Russian truck manufacturer KAMAZ plans to expand its assembly capacities.[51] Further cooperation with foreign partners is expected in the coming years as part of the de-monopolization of the automotive industry.

A new development in the automotive market concerns GM Uzbekistan, which has a market share of 90 per cent. The car manufacturer produces a range of cars that are mostly targeted toward local customers and neighboring markets (Russia, Kazakhstan, etc). In 2017 about 20% of the production was exported.[52] Their strategy is to produce cars in Uzbekistan in a late stage of product life circle (PLC) and about to be taken out of production lines in developed markets. According to some automotive analysts, GM created a monopoly in the Uzbek market which led to a low quality of products and extremely high prices. In September 2018, GM Uzbekistan announced its difficult financial situation, and in December 2018, it was finally announced that General Motors sold their 25 per cent interest in GM Uzbekistan to the Uzbek state corporation UzAutoSanoat. Now the Uzbeks have consolidated all 100 per cent of GM Uzbekistan shares in their hands.[53] The French automotive producer Peugeot–Citroen (PSA) signed a joint venture for the production of commercial vehicles in 2017. The factory, located in the free economic zone of Jizzaq, intends to produce 16.000 vehicles by 2019, 50% of which will be exported into the neighboring countries.[54]

Another promising sector is the pharmaceutical industry. In August 2018, Uzbekistan published its draft concept for the development of the pharmaceutical industry in Uzbekistan for 2018–2022.[55] The concept aims to overhaul the industry with a focus on increasing the

49 Uzbekistan Textile Expo 2018. Retrieved from http://iteca.uz/textileexpo/rus/PressCentre/news.php?ELEMENT_ID=35679

50 Avtostrada.uz (January 12, 2018). Zavod GM Uzbekistan vypustil 135 tysiach avtomobilei v 2017 godu (GM Uzbekistan factory produced 135 thousand automobiles in 2017). Retrieved from https://www.autostrada.uz/gm-uzbekistan-2017/

51 Avtostrada (November 3, 2017). Gruzoviki “Kamaz” budut sobirat’sia v Uzbekistane (“Kamaz” trucks will be assembled in Uzbekistan) Retrieved from https://www.autostrada.uz/gruzoviki-kamaz-uzbekistan/

52 Uzbek Embassy in India (2018 June 1). Uzbekistan exported 26800 cars in 2017. Retrieved from http://www.uzbekembassy.in/uzbekistan-exported-26800-cars-in-2017/

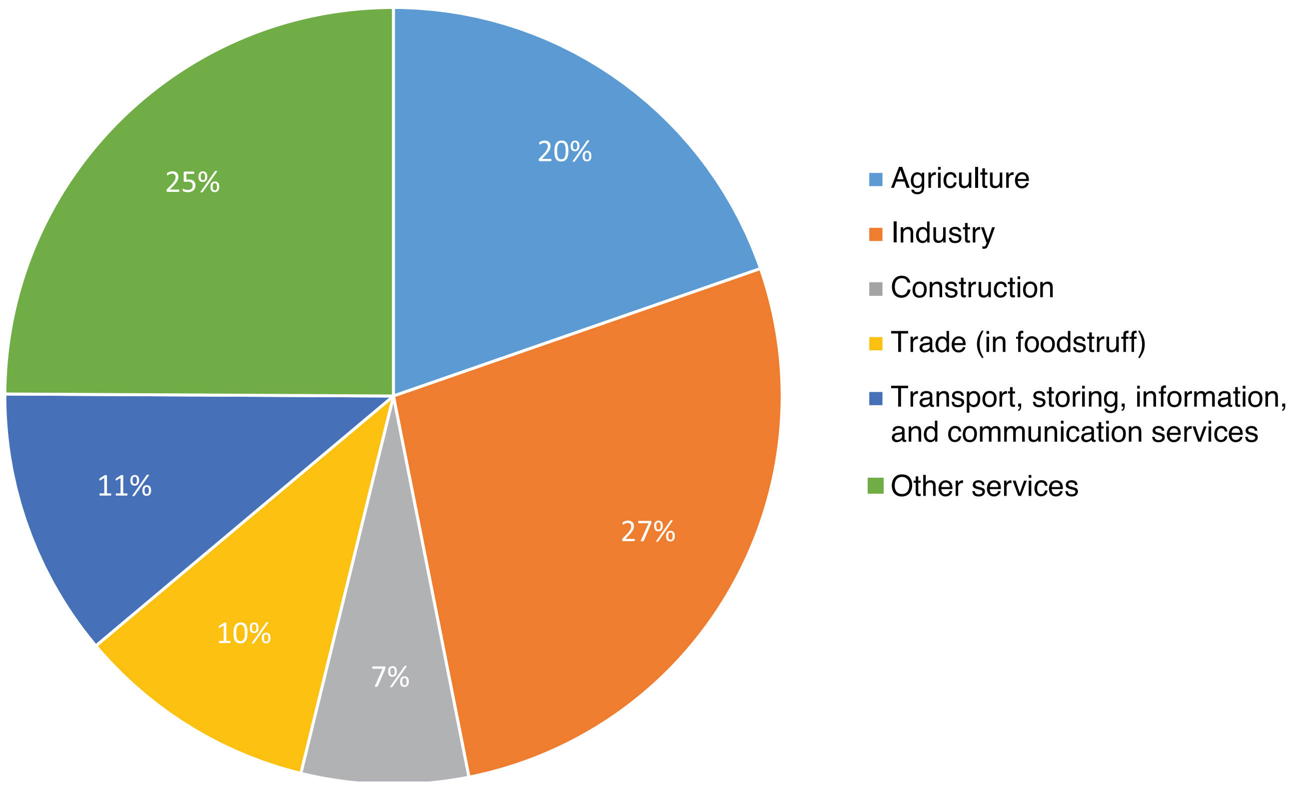
53 Drom.ru (December 21, 2018). General Motors prodal svoiu doliu v GM Uzbekistan (General Motors sold its share in GM Uzbekistan). Retrieved from https://news.drom.ru/General-Motors-GM-Uzbekistan-66207.html

54 Les Echos (May 17, 2017). PSA implante une micro–usine en Ouzbékistan (PSA sets up microfactory in Uzbekistan). Retrieved from https://www.lesechos.fr/17/05/2017/LesEchos/22447–080–ECH_psa–implante–une–micro–usine–en–ouzbekistan.htm and Novastan (2017 Mai 17) PSA s’implante en Ouzbékistan (PSA settled in Uzbekistan). Retrieved from https://www.novastan.org/fr/ouzbekistan/psa-simplante-en-ouzbekistan/

55 GMP News (August 21, 2018) Uzbekistan prepared its concept of pharma industry development. Retrieved from http://www.intellinews.com/uzbekistan-to-buy-out-general-motors-stake-in-gm-uzbekistan-142637/

availability of the locally produced medicines and medical products included in the list of socially important pharmaceutical products for the population and health institutions. The modernized domestic pharmaceutical industry should comply with the international standards for the development and production of medicines. At the same time, the concept also emphasizes the need for protection of its young industry and mentions import substitutions. Hence, foreign investors should consider local production opportunities, though it should be taken into account that Uzbekistan is not part of the Common Pharmaceutical market of the Eurasian Economic Union.

Sectors' share in the Uzbek economy



Source: Statistical Committee of Uzbekistan, 2017

Strengthening regional cooperation

Reopened borders for the exchange of goods, new and revitalized regional transport corridors, agreements with neighboring states on joint projects in the energy and agricultural sectors, and the new push to industry and tourism development have undoubtedly increased Uzbekistan's attractiveness as an economic and investment location. Progress in visa policy (introduction of the green customs corridor on entry, e-visa from summer 2018, and visa-free transit for stays of up to five days) will significantly facilitate travel to Uzbekistan. According to the Deputy Prime Minister of Uzbekistan Aziz Abdukhakimov, in 2018, about 4 million tourists visited Uzbekistan, over 50 per cent more than in the previous year.[56] Beginning from February 2019, tourists from 45 countries will be able to travel to Uzbekistan for 30 days without a visa. This decision was announced on January 5 by President Mirziyoyev in order to open the

56 Trend news agency (November 06, 2018). Chislo turistov vyroslo vdvoe, no Uzbekistan ne nameren ostanavlivat'sia (Number of tourists has doubled, but Uzbekistan does not intend to stop). Retrieved from https://www.trend.az/business/tourism/2976063.html

country to tourists from abroad.[57]

The bilateral trade with Tajikistan, which up until recently had been almost nonexistent, is expected to reach an annual volume of up to 500 million US dollars in the near future.[58] Uzbek companies have agreed upon several production cooperation projects with Kyrgyzstan, including the assembly of passenger cars in Osh. Additionally, both countries have agreed on the joint construction of the Kambar-Ata hydropower plant in Kyrgyzstan.[59] In spring 2018, Uzbek and Turkmen companies agreed on joint projects in industrial and other sectors of around 250 million US dollars.[60] In the Kazakh city of Kostanai, Uzbek-Kazakh production of Ravon Nexia cars started in 2017.[61] An agreement was also concluded on energy transfer from Turkmenistan to Kazakhstan and Kyrgyzstan through the Uzbek electricity grid. The annual commodity flows with Kazakhstan, traditionally Uzbekistan's most important economic partner in Central Asia, are expected to rise up to five billion US dollars by 2020.[62]

57 The Diplomat (January 9, 2019). Citizens of 45 More Countries to Get Visa-Free Access to Uzbekistan. Retrieved from https://thediplomat.com/2019/01/citizens-of-45-more-countries-to-get-visa-free-access-to-uzbekistan/

58 Azernews (August 17, 2018). Uzbekistan, Tajikistan eye to bring bilateral trade to $ 500 mln. Retrieved from https://www.azernews.az/region/136353.html

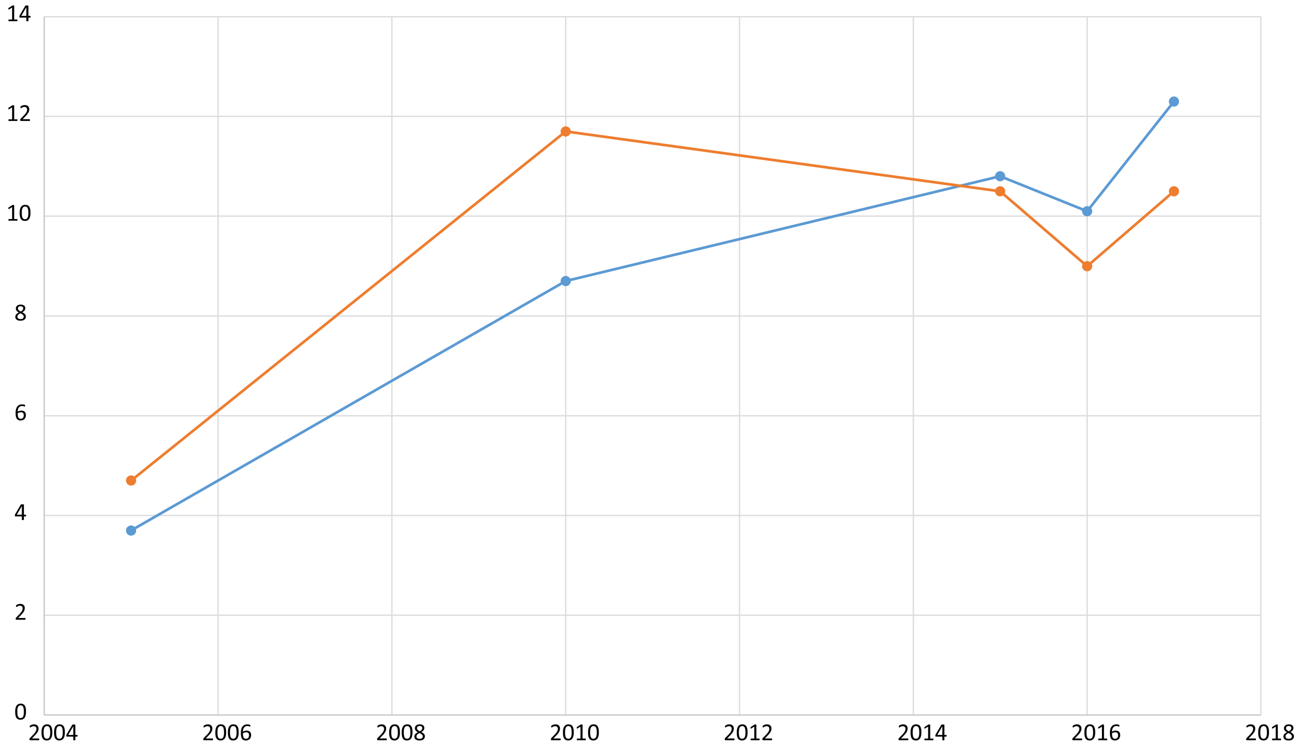
59 Asia–plus (December 28, 2017). Uzbekistan expected to participate in construction of Kambar-Ata-1 HPP in Kyrgyzstan. Retrieved from https://news.tj/en/news/centralasia/20171228/uzbekistan-expected-to-participate-in-construction-of-kambar-ata-1-hpp-in-kyrgyzstan

60 Ritm Evrazii (April 25, 2018). Uzbekistan i Turkmenistan podpisali kontrakty na 250 millionov dollarov (Uzbekistan and Turkmenistan signed contracts worth 250 million dollars). Retrieved from https://www.ritmeurasia.org/news--2018-04-25--uzbekistan-i-turkmenistan-podpisali-kontrakty-na-250-millionov-dollarov-36163

61 The Astana Times (April 08, 2017). Kazakhstan, Uzbekistan to produce Ravon Nexia R3. Retrieved from https://astanatimes.com/2017/04/kazakhstan-uzbekistan-to-produce-ravon-nexia-r3/

62 Kazinform (May 4, 2018). Kazakhstan i Uzbekistan namereny narastit' tovarooborot do 5 mlrd dollarov (Kazakhstan and Uzbekistan to increase trade turnover to 5 bil. dollars). Retrieved from http://lenta.inform.kz/ru/kazakhstan-i-uzbekistan-namereny-narastit-tovarooborot-do-5-mlrd-dollarov_a3242156

External trade dynamics (billion USD)



Source: UNCTAD, 2017

Relations with Russia, China and the European Union

Islam Karimov built Uzbekistan's foreign and trade policy around two pillars: keeping an equal distance to global centers of power and maintaining neutrality by not joining any military or economic block. The new Uzbek leadership does not intend to change this policy, as shown by Uzbek Foreign Minister, Abdulaziz Kamilov's statement in July 2017 that "Uzbekistan will not join the Collective Security Treaty Organization and the Eurasian Economic Union".[63] Although Uzbekistan has decided not to participate in the Eurasian Economic Union, it strives to build a pragmatic and mutually beneficial cooperation with Russia. The trade volume with Russia increased by 25 per cent and amounted to almost 3.6 billion US dollars in 2017.[64] By the end of 2018 this figure is expected to reach 6 billion US dollars.[65]

Over the last two years, the interest of Russian companies in Uzbekistan has been growing. The volume of investments in Uzbekistan from the Russian Federation in the first half

63 Ergashev B (August 09, 2017). Uzbekistan ne vstupit v EAES, no mozhet rassmotret' zonu svobodnoi torgovli-ekspert (Uzbekistan will not join the EEU, but may consider a free trade zone-expert).Eurasia Expert. Retrieved from http://eurasia.expert/uzbekistan-ne-vstupit-v-eaes-no-mozhet-rassmotret-zony-svobodnoy-torgovli-ekspert/

64 UN Comtrade

65 Katkova E. (September 19, 2018). Torgovyi marshrut: Putin vzial Tashkent investitsiiami (Trade route: Putin took Tashkent with investments). Gazeta,ru. Retrieved from https://www.gazeta.ru/business/2018/10/19/12027277.shtml

of 2018 amounted to about 591 million US dollars.[66] In October 2018, about 800 trade and investment agreements and memorandums worth 25 billion US dollars were signed between Russia and Uzbekistan. Both countries also signed a program of economic cooperation for 2019–2024.[67] In autumn 2018 an agreement on the construction of a nuclear power plant in the Navoi region of Uzbekistan was signed in Moscow. The construction project involves the construction of two power units. The first power unit of the plant is planned to be launched by the end of 2028.[68]

Common mistakes of foreign investors

- Neglecting the fact that it is still crucial to have connections with government officials for your business in Uzbekistan to be successful.
- Low labor costs make the Uzbek market attractive, but they also pose hidden risks. Hiring local specialists and service providers at low prices may lead to low quality results. The government is currently working on the improvement of the professional competences of local population; however, to ensure the required result, it is better to hire a highly experienced professional for a price comparably similar to world standards. It would also make sense to invest into employee education.
- Market analysis is not done properly. Due to the 25 years of isolation, Uzbekistan offers a very good growth potential for almost any type of business. However, neglect of a proper market analysis and developing specific approach to doing business in Uzbekistan may result to initial difficulties and even a failure for the business.
- Before entering the Uzbek market, it is advisable to use the services of experienced companies, preferably local representatives of foreign consulting companies with a good international reputation that will guide investors through the shortest and most profitable ways of doing business in Uzbekistan.

"The volume of accumulated Russian investments in the Uzbek economy is approaching 9 billion US dollars, but I think this is just the beginning," Russian president Putin said in October 2018 in the margin of the first Interregional Forum of the two countries in Tashkent.[69] Currently, Uzbekistan has more than 1,000 registered enterprises with Russian capital involved. However, Russia is forced to compete for a presence in Uzbekistan with China and the European Union.

66 Ritm Evrazii (August 31, 2018). Uzbekistan do kontsa goda planiruet realizovat' piat' regional'nykh investproektov (Uzbekistan plans to realize five regional investment projects by the end of the year). Retrieved from https://www.ritmeurasia.org/news--2018-08-31--uzbekistan-do-konca-goda-planiruet-realizovat-pjat-regionalnyh-in-est-proektov-38288

67 TASS (October 19, 2018). Russia and Uzbekistan sign economic cooperation program. Retrieved from http://tass.com/economy/1026844

68 Official portal of the President of Russia (2018 October 19). First nuclear power plant project launched in Uzbekistan. Retrieved from http://en.kremlin.ru/events/president/news/58859

69 Katkova E. (September 19, 2018). Torgovyi marshrut: Putin vzial Tashkent investitsiiami (Trade route: Putin took Tashkent with investments). Gazeta,ru. Retrieved from https://www.gazeta.ru/business/2018/10/19/12027277.shtm l

China became the most important exporter to Uzbekistan in 2015. China mainly purchases natural gas, cotton, fertilizers and some mineral products from Uzbekistan. An important milestone in the development of Uzbek-Chinese relations was President Mirziyoev's state visit to China in May 2017, during which more than 100 investment agreements and contracts with a total volume of about 23 billion US dollars were signed.[70] The progress in the construction of a new railway connecting China with Central Asia through Kyrgyzstan deserves a special mention. This route will enable the supply and development of the markets of Western Asia and the Middle East and will also be one of the shortest routes for freight transport from China to the European Union. According to the current plans, the route from East Asia to the countries of the Middle East and Southern Europe will be reduced by about 900 km, an equivalent of seven to eight days.

The Chinese companies invest into various industries. For example, in December 2017 Chinese Wanbang invested 500 million US dollars to implement projects in the agriculture sector of Uzbekistan. At the same time, Uzbekistan and China signed an agreement on the joint construction of a complex for the production of polyvinyl chloride (PVC), caustic soda, and methanol. The project, worth 440 million US dollars, is located on a 33 hectare area in the Navoi region.[71]

Another important Chinese player in the Uzbek market is the Yema Group, a Chinese export-import company. It has developed a marketing system and obtained dealership rights from several famous Chinese factories of industrial machinery and equipment. They provide Uzbek customers not only with high quality industrial machinery and equipment, but also provide financial support and aftersales services. For this purpose, Yema Group has created its own subsidiary responsible for granting mini credits and other financial support.

Problems foreign companies are faced with

- Bureaucracy affects the country business environment and might eventually slow down projects and investments.
- Absence of property rights over land creates problems for the localization of production facilities proposed by the Uzbek government. The 17 Free Economic Zones are an important part of the government's plan to overcome this problem in the next 2 years. There, investors are not only protected from land withdrawals and can benefit from free land, but are also offered significant incentives with tax and customs duty exemptions.
- Lack of local professionals. They are either very expensive to hire, or cheap but unprofessional.
- Successful ideas and products can be copied, and subsequently offered in the domestic market at a much lower price. To this end, the government is now finalizing an enhanced copyright protection scheme in Uzbekistan.
- Very limited options with internationally accepted payment systems (like: VISA,

70 Regnum (May 14, 2017). Uzbekistan i Kitai podpisali 105 soglashenii na summu okolo $23 mlrd (Uzbekistan and China signed 105 agreements amounting around $23 bil.).Retrieved from https://regnum.ru/news/2274485.html

71 UzDaily (October 02, 2013). Chinese Eximbank to issue US$300m to construction of PVC complex in Uzbekistan. Retrieved from https://www.uzdaily.com/articles-id-24953.htm

MASTERCARD, AMEX, etc). Uzbek banks work intensively to deploy the tools.

The European Union is Uzbekistan's fourth largest trade partner after China, Russia and Kazakhstan with a 12 per cent share of the country's total trade balance. In 2017 bilateral trade reached 1.9 billion euros. Among the EU Member States, Germany is Uzbekistan's biggest trade partner. Its trade with Uzbekistan was worth 542 million euros in the first 9 months of 2018.[72]

"Uzbekistan is currently undergoing rapid reforms, which German companies are very positive about. A promising market with over 30 million inhabitants is currently opening up here", said Michael Harms, Director of the German Committee on Eastern European Economic Relations

in April 2018. He added: "Chinese state-owned enterprises enter the Central Asian markets with increasing confidence, supported by the Belt and Road Initiative. Neither European politicians nor companies have yet defined a relevant strategy to respond to this phenomenon. Germany and Europe must not allow themselves to be left behind."[73]

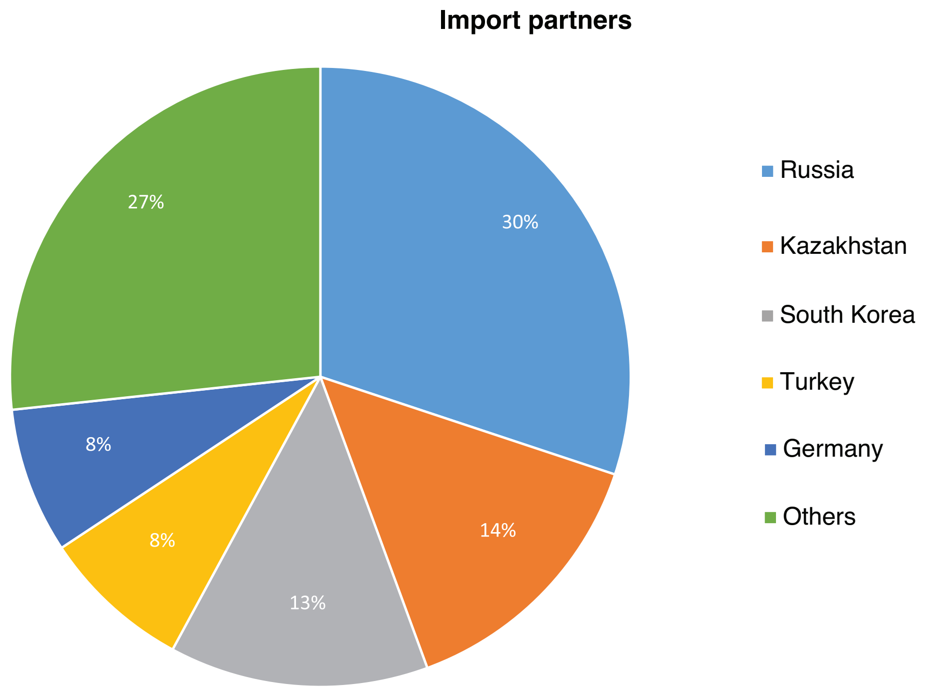
KNAUF is a good example of how a company can be successful in the Uzbek market. KNAUF is a German company producing goods from gypsum and is very well known in Uzbekistan. Due to one of the highest rates of construction in Central Asia, Uzbekistan's market for construction material is a perfect and high revenue location for such companies as KNAUF. Their success in the Uzbek market is confirmed by their 16 million euro investment into a production line in in Bukhara, which opened May 2018. Understanding that Uzbekistan has entered a stage of rapid development with construction taking place all over the country, KNAUF has a long-term strategy to supply the ever-increasing demand in the Uzbek market.

To consolidate economic cooperation, the EU and Uzbekistan undertake measures to stimulate bilateral trade and investments. The EU encourages exports of Uzbekistan's key products by removing barriers for their entry to the European markets. Namely, in December 2016 the European Parliament approved the Textile Protocol to the Partnership and Cooperation Agreement (PCA). The agreement is designed to improve trade in cotton and textile products reducing customs duties for this group of imported goods from Uzbekistan, thus facilitating their circulation in the EU single market.[74]

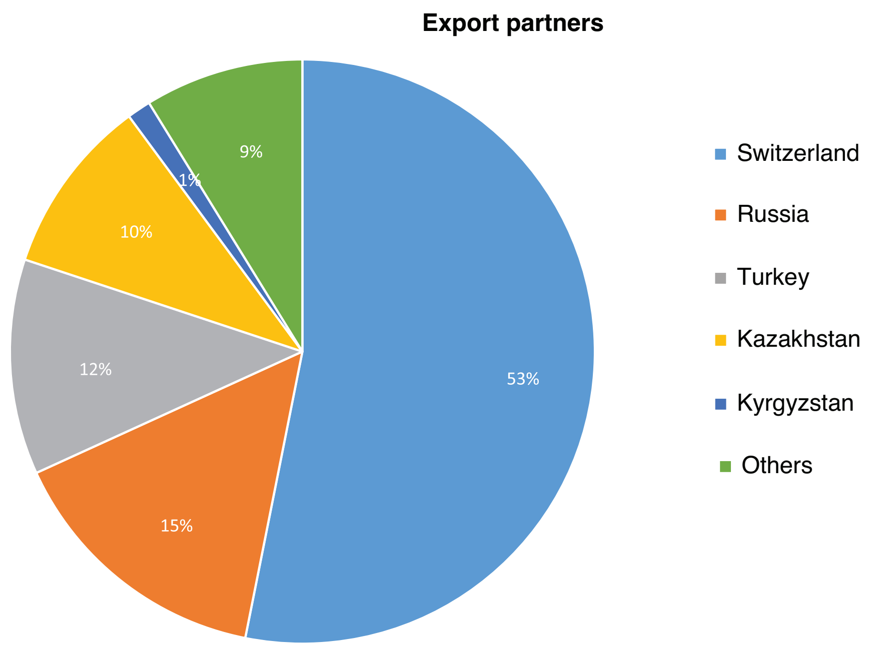
72 ASIA–Plus (January 15, 2019). Uzbekistan and Germany agreed in Berlin for $4 billion (Uzbekistan i Germaniia dogovorilis' v Berline na $4 milliarda). Retrieved from https://www.news.tj/ru/news/centralasia/20190115/uzbekistan-i-germaniya-dogovorilis-v-berline-na-4-milliarda

73 OAOEV. Record–delegation to business talks in Uzbekistan and Kazakhstan (Rekord–Delegation zu Wirtschaftsgesprächen in Usbekistan und Kasachstan). https://www.oaoev.de/de/rekord-delegation-zu-wirtschaftsgespraechen-usbekistan-und-kasachstan

74 European Union External Action Service (January 17, 2017). Ambassador Stiprais speaks about EU–Uzbekistan trade and investment cooperation. Retrieved from https://eeas.europa.eu/headquarters/headquarters–Homepage/19358/ambassador-stiprais-speaks-about-eu-uzbekistan-trade-and-investment-cooperation_en



Source: UNCTAD, 2017



Source: UNCTAD, 2017

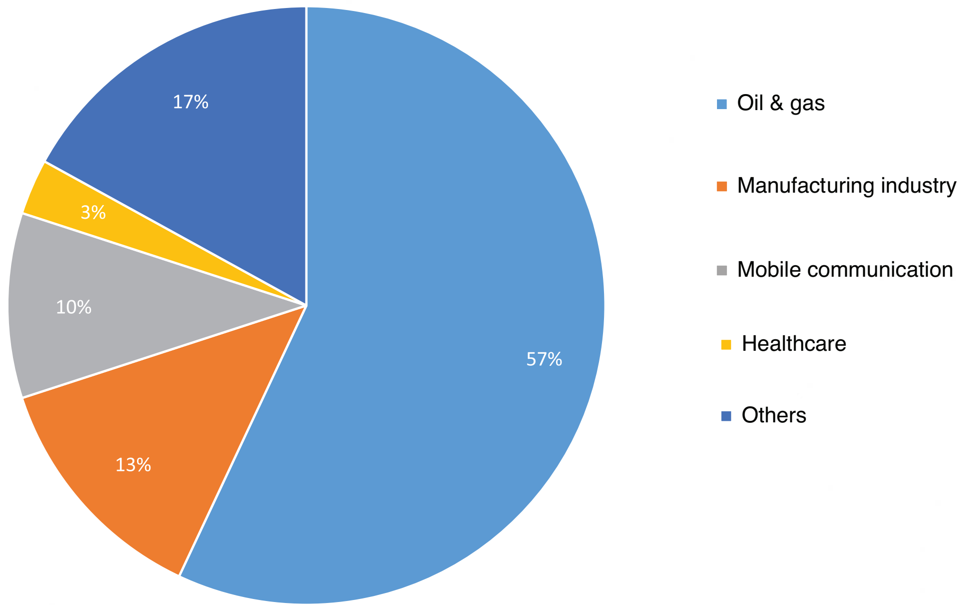
Foreign direct investments

Uzbek industry was the main recipient of foreign capital inflows in 2017. Those investments accounted for almost three quarters of the total capital invested. The production sectors with a focus on the oil and gas industries alone accounted for 57 per cent. The manufacturing industry received 13 per cent of the capital. The lion's share of the remaining foreign funds went to mobile communications (10 per cent) and healthcare (3 per cent).[75] A

75 GTAI Wirtschaftsdaten Kompakt, November 2018. Retrieved from https://www.gtai.de/GTAI/Content/DE/

new offensive for more investments in the textile industry is beginning to bear fruit. Uzbekistan is one of the world's largest producers of cotton and cotton fibers. Recently, foreign activities in agriculture (cultivation of fruit and vegetables, warehousing and logistics) have increased. In addition, there are vibrant activities in housing construction. In Tashkent a major project for the construction of a new attractive business and city center was started (Tashkent City – International Business Center). The project is estimated to cost up to 1.4 billion US dollars.[76]

FDI recipient sectors



Source: GTAI, 2018

An important development is the resumption of cooperation with the European Bank for Reconstruction and Development (EBRD), which is again funding important social projects in the country. The EBRD has already provided a credit line of approximately 190 million US dollars for small and medium–sized enterprises and trade finance, while it is considering twenty other projects in the areas of transport and municipal infrastructure, banking and small business, with a total cost of 1.5 billion US dollars.[77]

Partnership relations have also been established with the European Investment Bank (EIB), opening up new investment opportunities from Europe. Cooperation with the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), the Islamic Development Bank (IDB) and the Asian Infrastructure Investment Bank (AIIB) is also developing at a rapid pace.

Opportunities for foreign investors and outlook

The Uzbek government and international observers expect Uzbekistan's economy to

Trade/Fachdaten/MKT/2016/11/mkt201611222014_159890_wirtschaftsdaten-kompakt---usbekistan.pdf?v=

76 The Tashkent Times (July 05, 2018). Hi-Tech City renamed to Delta City. Retrieved from http://tashkent-times.uz/national/2578-hi-tech-city-renamed-to-delta-city

77 Aliyeva.K. (August 02, 2018). EBRD to allocate $ 600 mln to Uzbekistan. Azernews. Retrieved from https://www.azernews.az/region/135686.html

grow by about 5 per cent in 2019.[78] New industrial and construction projects, and the transport, trade, and agricultural sectors are driving growth in the country. The results for the year 2018 are impressive: A total of 1080 new projects with a value of 52 billion US dollars were agreed upon; of which 456 projects with a value of 23 billion US dollars in cooperation with foreign partners.[79] According to statistical data 2,385 new companies with foreign capital were registered from January to December 2018, an increase of 989, year-over-year.[80]

Foreign investors are welcome in all sectors of the Uzbek economy and discrimination against foreign investors based on nationality, place of residence, or country of origin is illegal. However, government control over key industries has discriminatory effects on foreign investors. As a result, the government retains strong control over all economic processes and maintains controlling shares of key industries, including energy, telecommunications, air traffic, and mining. It still regulates investment and capital flows in the raw cotton market and controls all silk sold in the country, dampening foreign investment in the textile and carpet–weaving industries. Partial state ownership and government influence are common in many key sectors of the economy.

However, delegations from foreign companies are lining up in Uzbekistan. Optimism about current developments in the country is well-grounded, but exaggerated euphoria is out of place: the state-controlled liberalization process cannot be compared to a free market economy. Foreign trading companies and investors should prepare themselves for the fact that the Uzbek reform model will continue to be characterized by many local peculiarities.

The government plans to massively expand the annual export volume to up to 30 billion US dollars by 2022 (2017: 14.6 billion US dollars).[81] More than 1,000 new companies will become exporters between 2018 and 2022 with the support of domestic and foreign investors. International organizations will provide financial support. In the coming years they will provide several billion US dollars for the co-financing of priority projects and for the promotion of small and medium–sized enterprises.

New industry programs in the mining (gas and ore extraction), electricity, textile, clothing, leather, chemical, metallurgy, construction materials, and other industries offer a wide range of opportunities. The 17 free economic zones and numerous business parks with tax-privileges are particularly attractive for foreign direct investments.

The agricultural sector deserves special attention in the diversification of the Uzbek economy – both domestic consumption and international markets (especially Russia and China) create opportunities for profitable development of agriculture in Uzbekistan. In a survey conducted by the German Committee on Eastern European Economic Relations, the agricultural sector is rated by German companies as by far the fastest growing sector in Uzbekistan. The construction industry ranks second, followed by raw materials and mining, oil & gas, as well as wholesale and retail trade. Around seven per cent of respondents see good opportunities for

78 Asian Development Bank. Retrieved from https://www.adb.org/countries/uzbekistan/economy

79 Regnum (December 29, 2018). V Uzbekistane realizuiutsia 456 proektov na obschchuiu summy$23 mlrd (456 projects of a total value of $23 bn are realized in Uzbekistan). Retrieved from https://regnum.ru/news/economy/2546894.htm

80 Sputnik Tajikistan (January 15, 2019). RF lidiruet po chislu sozdannykh v Uzbekistane inostrannykh predpriiatii (The Russian Federation is accounting for the most foreign enterprises founded in Uzbekistan). Retrieved from https://sptnkne.ws/kEtF

81 The Tashkent Times (December 28, 2017). Uzbekistan intends to increase exports up to US$ 30 billion by 2022. Retrieved from http://tashkenttimes.uz/economy/1877-uzbekistan-intends-to-increase-exports-up-to-us-30-billion-by-2022

renewable energies in Uzbekistan.[82]

Three factors in particular will determine the dynamics of economic development in the coming years: improvement of the business environment for the private sector, reorientation of state-owned industrial associations away from planning and regulation, and the pending restructuring of large state–owned enterprises. The progress of reforms suggests that new central and regional investment and sector programs and numerous projects with foreign partners will be successfully implemented.

82 OAOEV. Survey on the business climate of Kazakhstan and Uzbekistan (Geschäftsklima-Umfrage Kasachstan und Usbekistan 2018). Retrieved from https://www.oaoev.de/de/geschaeftsklima-umfrage-kasachstan-und-usbekistan-2018