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株式会社 INPEX ソリューションズ

**当社企画調査部・篠原上席研究員が、中央アジア関連の共著英語論文を発表しました**

2月16日、当社・篠原上席研究員が筑波大学のティムール・ダダバエフ教授および筑波学院大学のニコラ・ドジャリロヴァ助教と共著した論文、"A Review of the Japanese Corporate Presence in Central Asia: Two Waves of Japanese Business Entry into the Central Asian Region"が、オランダの出版社 Brill の発行する"Central Asia Affairs (CAA)"誌の下記サイトに掲載されました。

[A Review of the Japanese Corporate Presence in Central Asia: Two Waves of Japanese Business Entry into the Central Asian Region in: Central Asia Affairs](#)

シルクロードを通じ日本にもなじみが深い中央アジアは、1991年の旧ソ連崩壊後にウズベキスタン、カザフスタン、キルギス、タジキスタンそしてトルクメニスタンの5ヶ国が独立。日本政府が政府開発援助（ODA）の供与を通じ、各国そして地域全体の成長と安定を支援すると共に、多くの日本企業が新たなビジネスチャンスを求めて参入しました。

2022年ロシアによるウクライナ侵攻後は、ロシアでビジネスを失った日本企業が新たな事業機会を開拓する場として、更に中国からロシアを迂回して欧州に至る輸送ルート(Middle Corridor)の重要な経路地域として、中央アジアが改めて注目を集めています。

篠原上席研究員は、外務省で中央アジアを担当して以来、INPEX入社後もこの地域に20年以上、直接または間接的に関わってきました。2022年に、日本における中央アジアの著名専門家であるダダバエフ教授より本論文の共著について提案頂き、今般の共著論文公開に至った次第です。

本論文では、これまでまとまった形で書かれたことのなかった中央アジアにおける日本企業の動きを、ODA関連のインフラビジネスを中心とした第1期、銀行や運輸、IT企業等に広がりを見せ始めた第2期に分けて、事実関係を元に記述すると共に、日系企業がこの地域に進出する際の問題点として、①海港からの距離の遠さ、②市場やビジネス関連法規制等の情報不足を挙げました。また、日本政府が当該地域でも脱炭素化を推進しようと様々なツールを準備しており、日系企業の投資拡大につながる可能性があると指摘しました。

本論文の本文は、別添の通りです。中央アジアにご関心を持たれる方々のお役に立てば幸いです。

**なお、出版社 Brill との著作権に関する取り決めにより、当社の事前の承諾なく別添論文全体あるいは一部の引用あるいは開示、第三者への転送は決してなさないよう、お願い致します。**

以上

(Attachment)

February 2023

## **A Review of the Japanese Corporate Presence in Central Asia: Two Waves of Japanese Business Entry into the Central Asian Region**

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### **Abstract**

This paper reviews the history of Japanese corporate penetration in the CA region. It identifies two waves of Japanese corporate entry into the CA region over the last 30 years. The first wave started with Japanese companies entering energy-related projects and infrastructure development based on ODA (Official Development Assistance). In the second wave, in the 2010s, Japanese corporate interests were more diverse, and the Japanese business community members in CA entered new areas, such as financing by megabanks, international transportation, and digital technologies.

This paper divides the problems faced by Japanese companies into those related to the logistics of the region and those related to a lack of economic infrastructure. Among the logistic problems are the size of the market and the difficulty of transportation due to the location of the region, with no access to major seaports.

### **Keywords**

Japanese Foreign Policy, Asia, Central Asia, China, Russia, digital, decarbonization, renewable energy

## 1. Introduction

Japan has been one of the most proactive countries in supporting Central Asian (CA) states' independence since the time of their independence in 1991. At the time of the collapse of the Soviet Union and the gaining of independence of CA states, Japan had the second-largest economy in the world and was well-positioned to play an active role in filling the gap left by the Soviet Union.

As described in this paper, the Japanese government was among the first to recognize and support the independence of CA states in 1992. The amount of ODA disbursed to the CA region reached approximately 601.7 billion yen in yen loans, approximately 105.7 billion yen in grant aids and 63.2 billion yen in technical cooperation by 2019, ranking Japan among the most generous supporters of CA states' development<sup>1</sup>. Such proactive political engagement created expectations of a large economic presence of Japanese corporations in the CA region, as indicated in various public polls.<sup>2</sup> However, the presence of Japanese corporations in the region has been very modest, amounting to less than 100 corporations in total. This number contrasts significantly with the much greater numbers of Japanese corporations present in Europe, East Asia, and other emerging markets. The areas that interest Japanese corporations also remain largely ambiguously explained in the previous literature. Some authors interpreted Japanese interest in CA in the 1990s and 2000s as a way to participate in the contest for energy resources across the Silk Road, on par with other major players,<sup>3</sup> referring to it as "*shigen gaiko*" (resource diplomacy)<sup>4</sup> or in other cases "energy diplomacy".<sup>5</sup> They directly link the corporate presence of Japan in the

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<sup>1</sup> JICA, "Central Asia and Japan's ODA Loans," [https://www.jica.go.jp/uzbekistan/english/office/others/c8h0vm0000bm5e96-att/archive\\_06.pdf](https://www.jica.go.jp/uzbekistan/english/office/others/c8h0vm0000bm5e96-att/archive_06.pdf). Also, see MOFA, "Japan's Assistance in the Central Asia and Caucasus. White Paper on Development Cooperation," <https://www.mofa.go.jp/files/000406644.pdf>.

<sup>2</sup> MOFA (2015).; Timur Dadabaev (2016) *Japan in Central Asia: Strategies, Initiatives, and Neighboring Powers*. (NY: Palgrave Macmillan) and Timur Dadabaev, (2013) Japan's Search for Its Central Asian Policy: Between Idealism and Pragmatism, *Asian Survey* 53(3): 506–532.

<sup>3</sup> Irina Komissina, "Yaponiya i kavkaz: soedenit li ih velikij shelkovyi put," *Central Asia and the Caucasus* 3, no. 3 (2002). Mirzokhid Rakhimov, "Central Asia and Japan: Bilateral and Multilateral Relations," *Journal of Eurasian Studies* 5, no. 1 (2014): 77–87.

<sup>4</sup> For more on as "Shigen gaiko" (resource diplomacy), see Nikolai Murashkin, *Japan and the New Silk Road Diplomacy, Development and Connectivity* (Oxon: Routledge, 2020), pp. 141-145.

<sup>5</sup> Dobrynskaya O. 2008. "Energeticheskaya diplomatiya Yaponii v Tsentralnoi Azii [Energy Diplomacy of Japan in Central Asia], *Yaponiya*. 2011. Volume 40, <https://cyberleninka.ru/article/n/energeticheskaya-diplomatiya-yaponii-i-tsentralnoy-azii>.; Manabu Shimizu, "Central Asia's Energy Resources: Japan's Energy Interests," *In*

CA region to interest in the diversification of energy resource supplies to the country.<sup>6</sup> However, the issues related to the difficulties of delivering energy resources to Japanese consumers and the distance of the region from Japan are often cited as the largest problems for the successful participation of Japanese companies in energy-related projects in the region.<sup>7</sup> In addition, these authors hint at the tensions between China and Japan and between Russia and Japan as another impediment preventing the construction of energy resource transportation infrastructure in these countries.<sup>8</sup> The authors who approach this topic from a comparative perspective suggest that the areas where Japanese corporations have been the most successful, such as East Asia, are vitally important for Japan, while the CA region is not.<sup>9</sup> They suggest that in those areas, ODA has been the first stage of corporate presence followed by larger private investments, while in CA, ODA does not necessarily play such a role.<sup>10</sup> Previous studies also point to alternative areas for the Japanese corporate presence, considering the interest in connectivity infrastructure for Japanese producers to deliver their goods to the European market through CA.<sup>11</sup> The authors who focus on Japanese business communities' perceptions provide certain useful information about their engagements in the region and offer recommendations on how to encourage Japanese businesses to move beyond energy resources.<sup>12</sup>

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*Islam, Oil, and Geopolitics: Central Asia after September 11*, eds. Elizabeth Van Wie Davis and Rouben Azizian, (Lanham, MD: Rowman & Littlefield, 2007), 107–22.

- <sup>6</sup> Esen Usubaliev, "Politika yaponii v stranah tsentralnoi azii v kontekste vozmozhnogo poyavleniya novogo tsentra sily," *Prudent Solutions*, 9.1.2009, <https://prudentsolutions-analitika.org/2018/01/09/>; Andrei Kazantsev, *Bol'shaya igra's neizvestnymi pravilami: mirovaya politika i tsentral'naya aziya* (Moscow, Russia: Nasledie Evrazii, 2008).
- <sup>7</sup> See, for instance, Dobrynskaya, 42–50. Also Oleg Paramonov and Olga Puzanova, "Tokyo's Diplomacy in Eurasia: Successes and Failures (1997–2017)," *Journal of Eurasian Studies* 9, no. 2 (2018): 134–42.
- <sup>8</sup> Dobrynskaya, 50; Takeshi Yuasa, "Central Asia in the Context of Japanese-Russian Relations," *China & Eurasia Forum Quarterly* 8, no. 2 (2010): 119–35.
- <sup>9</sup> Nikolay Murashkin, "Japanese Involvement in Central Asia: An Early Inter-Asian Post-Neoliberal Case?" *Asian Journal of Social Science* 43, no. 1-2 (2015): 50–79; Nikolai Murashkin, "Tsenrtral'noaziatskoe turne Shinzo Abe: resursnaya diplomatiya ili partiya v 'bol'shoy igre'," 1.12.2015, [russiancouncil.ru/analytics-and-comments/analytics/tsentralnoaziatskoe-turne-sindzo-abe-resursnaya-diplomatiya-/?sphrase\\_id=236295](http://russiancouncil.ru/analytics-and-comments/analytics/tsentralnoaziatskoe-turne-sindzo-abe-resursnaya-diplomatiya-/?sphrase_id=236295). Nikolay Murashkin, *Japan and Central Asia: Do Diplomacy and Business Go Hand-in-Hand?* (Paris, France: Etudes De l'Ifri, 2019).
- <sup>10</sup> Ibid.; Also see Timur Dadabaev (2016) *Japan in Central Asia: Strategies, Initiatives, and Neighboring Powers*. (NY: Palgrave Macmillan) and Timur Dadabaev, (2013) *Japan's Search for Its Central Asian Policy: Between Idealism and Pragmatism*, *Asian Survey* 53(3): 506–532.
- <sup>11</sup> Kazantsev, *Bol'shaya igra's neizvestnymi pravilami*, 235–6.
- <sup>12</sup> Manabu Shimoyashiro, "The Current Situation, Challenge and Perspective of the

According to these studies, the Japanese corporate interests and approaches suggested by previous studies vary significantly, with different factors being emphasized in them. Although these studies provide important information, there is little narrative of how the initial interest in energy resources relates to the contemporary approaches of the Japanese business community. In addition, the problems related to the distance of the region from Japan alone can hardly account for the lack of progress in the Japanese corporations' entry into the CA markets, as they have successfully performed in many distant locations, such as in Europe and Latin America.

In attempting to understand the Japanese corporate presence in the CA region over the past 30 years, this paper raises the following questions: What are the areas and sectors in which Japanese companies have been the most active in the CA region? What are the lessons learned from their past experiences?

This paper reviews the history of Japanese corporate activities in the CA region. It demonstrates that there were two waves of Japanese corporate entry into the CA region. The first started with Japanese companies entering energy-related projects and infrastructure development based on ODA. The second wave followed in the 2010s, with the diversification of the Japanese corporate interests and new areas covered by the Japanese business community members in CA, such as financing by Japanese megabanks, international transportation, and digital technologies.

The first wave projects were mainly in the sectors in which Japanese businesses have demonstrated expertise and experience, especially up to the early 2000s. The projects in the second wave of Japanese corporate entry from around the 2010s represent new opportunities for Japanese businesses, presenting them with both advantages and challenges, as explained in the last section of this paper.

As explained in this paper, the problems faced by Japanese companies can be divided into those related to the logistics of the region and those related to a lack of economic infrastructure. Among the logistic problems are the size of the market (the population is small compared to other Asian regions with which Japanese companies are familiar) and the difficulty of transportation due to the location of the region, with no access to major seaports. The problems that relate to the economic infrastructure primarily relate to the lack of information in Japanese or English regarding business-related legal systems (certification, tax, etc.) and regulations as well as products and services that are in high demand locally and the lack of a government-provided guarantee to use the funding for their projects. By pointing to these problems, this paper highlights the factors responsible for the limited presence of Japanese companies in the CA region despite the active stance of the government and generally Japan-friendly public opinion in the region.

This paper is composed of the following three main sections. The first section

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Economic Relations between Japan and Central Asia," *Roshia Toou Kenkyu (Russian and East European Studies)* 2020, no. 49 (2020): 82–91. Sabina Insebayeva, "Japan's Central Asia Policy Revisited: National Identity, Interests, and Foreign Policy Discourses," *Nationalities Papers* 47, no. 5 (2019): 853–67.

outlines the trends of Japanese companies in this region up to the middle of the 2010s. The second section considers Japanese corporate activities in the finance, international transportation, and digital technology sectors, which mainly describe the new movements of Japanese companies since the 2010s. This section is followed by a section outlining the main problems faced by these corporations and their potential solutions.

Methodologically, this paper builds on the analysis of the policies of the Japanese government regarding CA and the trends of Japanese companies in the region. The primary data and information on the Japanese corporate activities in the region are collected from the analysis of the corporate press releases of the most active Japanese companies (Inpex, NEC, Nippon Express, Kyushu Electric, etc.) and the Japanese banks (SMBC, MUFG, etc.) in the region and other publicly available information. The choices of companies whose reports we analyzed were largely limited by a very limited number of Japanese corporations present in the region, as described in the first section of this paper. We extracted their numbers and names from the MOFA and JETRO reports and analyzed their corporate reports for the themes of their corporate interests and motivations to enter the CA markets. On certain occasions, when the publicly available information was not sufficient, a few interviews were conducted to complement the data. Given the economically sensitive information sought during the interviews, the few interviews with public and corporate officials cited in this paper are anonymized. The statements obtained during these interviews with Japanese companies and government officials are quoted in the text below.

## **2. From Political Engagement to Economic Expansion**

In the early 1990s, the Japanese government proactively engaged the CA region in search of information regarding the foreign policy stances of these newly independent states and possible new opportunities for its business community. The Japanese government launched several initiatives to place Japan in the Eurasian political landscape.

In line with this, the Japanese government sought to implement its "Eurasian Diplomacy" (which is also known as "Silk Road region diplomacy") announced by PM Hashimoto in 1997, which targeted five CA countries and three countries in the Caucasus.<sup>13</sup> Faced with the task of paving the way for Japanese diplomacy in this little-known region, PM Hashimoto proposed developing relations with both the CA and the Caucasian region through (1) political dialog to strengthen trust and mutual understanding, (2) economic

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<sup>13</sup> Hashimoto, Ryutaro. 1997. "Address to the Japan Association of Corporate Executives." Tokyo, July 24, 1997. <https://japan.kantei.go.jp/0731douyukai.html>. ; Timur Dadabaev, "Silk Road" as foreign policy discourse: The construction of Chinese, Japanese and Korean engagement strategies in Central Asia", *Journal of Eurasian Studies*, Volume 9, Issue 1, January 2018, Pages 30-41; Timur Dadabaev, *Transcontinental Silk Road Strategies: Comparing China, Japan and South Korea in Uzbekistan*, (Oxon: Routledge, 2019); Nikolai Murashkin, *Japan and the New Silk Road Diplomacy, Development and Connectivity* (New York, NY: Routledge, 2020).

cooperation and cooperation for resource development, and (3) nuclear nonproliferation, democratization, and cooperation for peace and stability.<sup>14</sup> Regarding the Japanese economic interests, PM Hashimoto envisaged connecting Russian, CA, and Caspian energy resources, Chinese production capacities/cheap labor, and the technological strength of Japanese corporations to create a circle of interdependence between Russia, CA and Caucasian states, China and Japan and build on the Japanese economic power, financial strength and emerging partnership between it and the countries mentioned above. PM Hashimoto's understanding was informed by Obuchi's mission to CA and the Caucasus, which concluded that the region could become the next frontier for Japanese economic expansion. However, his short term in office did not allow for Hashimoto's ideas to materialize.

It was not until the time of PM Koizumi's administration (2001-2006) that Japan attempted to revitalize its engagement in this region. PM Koizumi's administration launched Japan's own region building effort in the CA region by setting up the Central Asia + Japan Dialog Forum<sup>15</sup>. In its current format, this region building was not to become a regional international organization but rather the practice of high-level talks to discuss the challenges of CA states and explore where CA regional concerns could be assisted by Japan.<sup>16</sup> In this way, the Japanese government became an important external economic actor, supporting CA's developmental agenda.

PM Abe (2013-2020) further dynamized CA-Japan relations during his visit to all CA republics in the region in 2015. Applying a pragmatic approach to the CA region, Abe urged the development of stronger corporate connections between Japan and CA regional states. He also actively lobbied for Japanese infrastructure projects along the lines of the concept of high-quality infrastructure, which he introduced as a discursive category to emphasize the qualitative difference between cheap Chinese infrastructure projects and qualitatively different Japanese infrastructure.

The most recent high-level Japanese engagement in the region is exemplified by the visit of Foreign Minister Hayashi to Kazakhstan and Uzbekistan in April-May of 2022 to strengthen the trust and understanding between Japan and CA states. This is also a part of the coordination of positions between these countries and Japan, as the Japanese government, according to certain MOFA officials,<sup>17</sup> is preparing to hold a Central Asian +

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<sup>14</sup> Hashimoto, Ryutaro. 1997. "Address to the Japan Association of Corporate Executives." Tokyo, July 24, 1997. <https://japan.kantei.go.jp/0731douyukai.html>.; T. Fujiwara, "Wagakuni-no-silk road chiiki gaikou (Silk Road Region Diplomacy)," *Kokusai Shigen (International Resources)*, (1998).

<sup>15</sup> Timur Dadabaev (2016) *Japan in Central Asia: Strategies, Initiatives, and Neighboring Powers*. (NY: Palgrave Macmillan, 2016)

<sup>16</sup> Christopher Len, "Japan's Central Asian Diplomacy: Motivations, Implications and Prospects for the Region," *The China and Eurasia Forum Quarterly* 3, no. 3 (2005): 127-49.

<sup>17</sup> At an interview with a Japanese diplomat in 2021.

Japan foreign ministers' meeting in Tokyo in late 2022 to mark the 30th anniversary of the establishment of diplomatic relations between Japan and CA countries. Along with carrying out this task, FM Hayashi sought understanding and support for the strong opposition and punitive measures undertaken by Japan and other G7 countries in response to Russia's invasion of Ukraine.

These initiatives greatly inform the contemporary approach of the Japanese government toward CA, which is based on three main pillars. Specifically, these are (1) cooperation to meet the developmental targets and goals of each country in the region, (2) cooperation with an emphasis on human development and human security concepts, and (3) deepening of human and cultural exchanges. The main items of the first pillar are attempting to break away from dependence on resource exports by offering Japanese contributions for industrial diversification and infrastructure development. The second and third pillars include but are not limited to human resource development (educational opportunities) and medical healthcare contributions.

The Japanese quantifiable advances in the region over these years have been clearly marked by large amounts of ODA assistance. The amount of ODA disbursed to the CA region reached approximately 601.7 billion yen in yen loans, approximately 105.7 billion yen in grant aids and 63.2 billion yen in technical cooperation by 2019, ranking Japan among the most generous supporters of CA states' development (see Table 1). In Uzbekistan, demographically the largest state in the region, JICA provided loans worth USD 2.52 billion over the period of 1993 to 2019. The number of Japanese government-financed scholarships for graduate education reached 329, while the number of Uzbek interns who received internships and training reached 2416 people over the same period of time<sup>18</sup>. In addition, Japan has sent 335 volunteers to facilitate Japanese language, computer literacy, business management, and other types of training.<sup>1920</sup>

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<sup>18</sup> For patterns of Uzbek Migration to Japan see Dadabaev, Timur and Jasur Soipov. (2020) Craving Jobs? Revisiting Labor and Educational Migration from Uzbekistan to Japan and South Korea, *Acta Via Serica* 5 (2): 111-140.

<https://doi.org/10.22679/avs.2020.5.2.005> (December 21); Dadabaev, Timur, Shigeto Sonoda and Jasur Soipov. (2021) A guest for a day? An analysis of Uzbek 'language migration' into the Japanese educational and labour markets, *Central Asian Survey* 40(3): 438-466. <https://doi.org/10.1080/02634937.2021.1942788> (July 15); Dadabaev, Timur and Mukaddam Akhmedova. (2022) A Home Away from Home: Migration, Identity and 'Sojourning' in the Life of Uzbekistanis in Japan, *Euro-Asia Studies*. <https://doi.org/10.1080/09668136.2021.2010660> (January 7)

<sup>19</sup> Abror Madimarov and Madina Aripova, "Uzbekistan - Japan: Traditional Friendship and Mutually Beneficial Cooperation," *Tashkent: Institute for Strategic and Interregional Studies*, 27.7.2020. <https://isrs.uz/en/maqolalar/uzbekistan-i-aponia-sotrudnicestvo-osnovannoe-na-vzaimovyygodnyh-interesah>.

<sup>20</sup> Timur Dadabaev eds., *The Grass is Always Greener?: Unpacking Uzbek Migration to Japan* (Singapore: Palgrave Macmillan, 2022).



**Table 1. ODA (cumulative up to 2019/ billion Yen / Data source: Ministry of Foreign Affairs Japan)**

	(a) Yen loan	(b) Grant Aid	(c) Technical Assistance
Kazakhstan	95.1	6.4	13.6
Uzbekistan	464.5	27.3	19.1
Turkmenistan	4.5	0.6 (*)	1.3
Kyrgyzstan	37.6	31.8	20.2
Tajikistan	0	39.6 (*)	9
Sub-total	601.7	105.7	63.2
<b>Grand total</b>	<b>770.6</b>		

(\*) include "Culture" and "Grassroots" grants.

Table 1. MOFA of Japan, the table compiled by the authors from the data available at: <https://www.mofa.go.jp/mofaj/area/europe.html> (last accessed on May 28, 2022)

This engagement led to widespread expectations among the CA public with respect to the further Japanese corporate and business presence in the region.

Against the backdrop of the proactive Japanese government initiatives mentioned above, the presence of Japanese companies in the CA region is modest, to say the least. There are only 36 companies registered in Kazakhstan, 29 in Uzbekistan, and 8 in Turkmenistan (see Table 2), compared to hundreds of Chinese, Russian, European and Turkish companies present in this region.

**Table 2 Number of Japanese companies operating in Central Asian countries (2020 / Data source: Ministry of Foreign Affairs Japan)**

	Number
Kazakhstan	36
Uzbekistan	29
Turkmenistan	8
Kyrgyzstan	14
Tajikistan	2
<b>Total</b>	<b>89</b>

Table 2. MOFA of Japan, the table is compiled by the authors from the data available at: "Survey on the number of Japanese companies expanding overseas" [https://www.mofa.go.jp/mofaj/ecm/ec/page22\\_003410.html](https://www.mofa.go.jp/mofaj/ecm/ec/page22_003410.html)

There are a number of studies that attempt to explain the Japanese engagements in the CA region through the lenses of public and corporate presence.

### 3. First Wave of Japanese Business Expansion into CA

For many Japanese enterprises, the CA region is an unknown territory because of its distant location, their lack of previous experience operating in such an environment, and the little information available on the economic and legal systems of the states in the region. In making their decisions on entry into the regional markets in the early years of CA states' independence, these corporations struggled to understand the needs of local governments and markets as well as basic information, such as local political and economic conditions and legal and tax systems. Although some scholars argue large companies like Mitsui & Co., Ltd benefitted from the "heritage of Soviet-era operations"<sup>21</sup> in approaching post-Soviet states, the majority of the Japanese companies entered the CA region after the collapse of the Soviet Union and had little to no experience in these emerging markets.

From the late 1990s to the 2010s, the two main business pillars of Japanese companies in CA were energy and resource-related projects and infrastructure development based on ODA. In regard to ODA loans, the Japanese yen loans for infrastructure presented a mutually beneficial channel of developmental financing both for regional governments and the Japanese corporations involved in them, as these enterprises regarded such projects to be risk-free given the availability of a reliable source of financing from the Japanese government.

The initial interest of the Japanese government was turned toward the enormous amount of oil and natural gas resources available in the area around the Caspian Sea, in line with Hashimoto's Eurasian diplomacy in 1997, as mentioned above. Accordingly, the Japanese government actively worked with Japanese companies to secure those energy resources. This interaction between the government and private sector however does not need to be understood as if the Japanese companies' interests are an extension of the Japanese governmental intentions. Rather, the Japanese private companies possess an agency of their own, and the nature of their interactions with public institutions is complex influenced by calculations of risk factors and governmental incentives to overcome these risks. For example, INPEX acquired a share in the Kashagan oil field in the Kazakh territorial waters in the northern part of the Caspian Sea in 1998. With the participation of other major oil companies, production began in this oil field in 2016.<sup>22</sup> Furthermore, from 2006 to 2007, two consortia led by the Japanese trading companies Sumitomo and Marubeni and electric power companies participated in a uranium mine development project in Kazakhstan.<sup>23</sup> Marubeni received orders for the first phase (2001) and the third phase (2011) of the refinery renovation project in Atyrau, western Kazakhstan, by

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<sup>21</sup> For this interesting yet rather provocative point see, Nikolai Murashkin, *Japan and the New Silk Road Diplomacy, Development and Connectivity* (Oxon: Routledge, 2020), pp. 149.

<sup>22</sup> INPEX, "Eurasia: Main Projects," <https://www.inpex.co.jp/english/business/nis.html>.

<sup>23</sup> Reuters, "Sumitomo Kazakh Uranium Plant to Start Up Soon," 31.5.2007, <https://www.reuters.com/article/uranium-sumitomo-kazakhstan-idUKT2172120070531>; Marubeni, "Sustainable Development Report," 30.12.2011, [https://www.marubeni.com/jp/dbps\\_data/news/2011/111230.html](https://www.marubeni.com/jp/dbps_data/news/2011/111230.html).

facilitating the Japan Bank for International Cooperation's (JBIC) loan to the Kazakh counterpart in the project.<sup>24</sup>

Regarding infrastructure-related projects, Japanese corporations have been involved in a number of modernization projects related to transportation infrastructure, such as railroads and roads, in this region.<sup>25</sup> As a part of the interest of the Japanese corporate and public institutions in infrastructure development in this region, the Japanese government provided support for strengthening the connectivity of CA by promoting road development in collaboration with the Central Asia Regional Economic Cooperation (CAREC) established by the ADB in 1997. In a similar manner, Japanese corporate participation and public financing were channeled to power sector improvement and irrigation facility rehabilitation projects in the region.

In the 2000s, Japanese companies diversified their interests to complement their portfolios thus far dominated by energy, resource development, and infrastructure development projects.

It was during this period of time that Japanese manufacturing (automobile), retail (convenience stores), international transportation, and travel-related companies entered CA.<sup>26</sup> The attractiveness of the CA market for Japanese enterprises was then defined by the following conditions. CA regional states had maintained relatively high growth rates, led by resource-rich Kazakhstan.<sup>27</sup> The population of the region had also increased, driven by Uzbekistan, which has the largest and fastest-growing population in the region. In total, the CA population and thus the market had seen growth from approximately 55 million in 2000 to approximately 60 million in 2008, eventually reaching approximately 75 million in 2020<sup>28</sup> (see Table 3).

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<sup>24</sup> Marubeni, "Order for Phase 3 of the Kazakhstan Atyrau Refinery Modernization Received," 30.12.2011, [https://www.marubeni.com/jp/dbps\\_data/news/2011/111230.html](https://www.marubeni.com/jp/dbps_data/news/2011/111230.html).

<sup>25</sup> Timur Dadabaev, *Transcontinental Silk Road Strategies: Comparing China, Japan and South Korea in Uzbekistan*, (Oxon: Routledge, 2019).

<sup>26</sup> For instance, HIS, "Financial Results Briefing Materials for the 2nd Quarter of the Fiscal Year Ending, Company release," <https://www.his.co.jp/wp-content/uploads/s0611c.pdf>. Marubeni, "Order for Phase 3 of the Kazakhstan Atyrau Refinery Modernization Received," 30.12.2011, [https://www.marubeni.com/jp/dbps\\_data/news/2011/111230.html](https://www.marubeni.com/jp/dbps_data/news/2011/111230.html).

<sup>27</sup> IMF, "Real GDP Growth: Annual Percent Change," *World Economic Outlook*, 4.2022, [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/WEO\\_WORLD/KAZ/KGZ/TJK/TKM/UZB](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/WEO_WORLD/KAZ/KGZ/TJK/TKM/UZB).

<sup>28</sup> World Bank, "Population, Total/ Data," [https://data.worldbank.org/indicator/SP.POP.TOTL?name\\_desc=false](https://data.worldbank.org/indicator/SP.POP.TOTL?name_desc=false).

**Table 3 Area, population and population per square kilometer of Central Asian countries (Data source: Ministry of Foreign Affairs, United Nations Population Fund)**

	(a) Area (km <sup>2</sup> )	Share in total	(b) Population (in million)	Share in total	Population per square kilometer of land (= (b)/(a))
Kazakhstan	2,724,900	68.1%	19.0	25.2%	7.0
Uzbekistan	447,400	11.2%	33.9	45.0%	75.8
Turkmenistan	488,000	12.2%	6.1	8.1%	12.5
Kyrgyzstan	198,500	5.0%	6.6	8.8%	33.2
Tajikistan	143,100	3.6%	9.7	12.9%	67.8
<b>Total</b>	<b>4,001,900</b>	<b>100.0%</b>	<b>75.3</b>	<b>100.0%</b>	<b>18.8</b>

**Japan**                      **378,000**                      **126.1**                      **333.6**

Table 3. Compiled by authors using the data of the MFA of Japan and the United Nations Population Fund

During this period, Japanese companies mainly focused their business engagements on economically more open Kazakhstan instead of Uzbekistan, which at the time maintained strict governmental controls over the economic activities of private enterprises. Rich energy resource reserves, a more attractive investment climate, and a freer economic environment attracted Japanese businesses to Kazakhstan. In addition, Uzbekistan's geographic location as a double landlocked country, with the need to pass through two countries to reach major seaports, further disadvantaged it in comparison to Kazakhstan, making its products difficult to transport to Japan and internationally. Furthermore, former Uzbek President Islam Karimov's (1991-2016) economic policies of promoting exports of cotton and natural gas while keeping strict governmental controls over foreign currency transactions and limiting foreign borrowing and imports also decreased the attractiveness of Uzbekistan in the eyes of Japanese corporations.

In terms of particular Japanese corporations active in CA in this period, Japanese enterprises involved in manufacturing, retail, and logistics, such as Itochu, Isuzu, Toyota, Senko, and a few others, stood out. The trading company Itochu and automaker Isuzu started knockdown production of buses and trucks in Uzbekistan in 2007,<sup>29</sup> while Toyota started small-scale knockdown production in Kazakhstan in 2014.<sup>30</sup> The Uzbek plant continues its operations, but the Toyota plant discontinued its assembly line in 2016 due to poor sales performance, as customers often preferred to import used Japanese Toyota cars from Japan over buying expensive locally assembled cars. In 2010, Senko, a major logistics company, announced the construction and operation of a logistics center in Khorgas on the Chinese border in eastern Kazakhstan in collaboration with a Kazakh company. However,

<sup>29</sup> Nikkei, "Isuzu Begins Production of Minibuses in Uzbekistan" *Nikkei XTech*, January 23, 2007.

<sup>30</sup> Shimoyashiro, "The Current Situation, Challenge and Perspective."

the company did not obtain the necessary permits for customs inspection from Kazakhstan and China and eventually withdrew from the project in 2018.

Senko also tried to enter the retail business in Kazakhstan. In 2012, the company established a JV with a Japanese convenience store Ministop and a Kazakh company, and in 2013, it opened the first Ministop store in Kazakhstan. However, in 2014, the Kazakhstan central bank suddenly devalued the currency tenge by 19%, causing turmoil in the domestic economy. In response to this situation, Kazakhstan's partner companies announced that they would withdraw from convenience store management, forcing Ministop to suspend its business in Kazakhstan<sup>31</sup>.

There are a few reasons for the failures of Japanese companies during this period. Although countries in the region, such as Kazakhstan, occupy a large territory and potentially have large markets, the consumer markets of these CA countries are considerably smaller than the market of Japan (see Table 3 above). Regarding economies of scale, CA markets do not yet have a large enough consumer market to enable mass production to lower the price and promote mass consumption.

In addition, Japan's remote geographic location disadvantages it when compared to the nearby production capacities of China. In addition, consumers often prefer Japanese cars made in Japan over those assembled in Kazakhstan under the Japanese brand. The cheap costs of labor in China compared to Japan further contribute to the disadvantages of the Japanese corporations in the CA region.<sup>32</sup> For instance, when considered comparatively, as of 2019, China was Kazakhstan's second export destination and import source, with 13.6% of Kazakhstani exports and 17.1% of imports, while Japan represented only 1.5% and 1.6%, respectively.<sup>33</sup> In the same manner, from 2001 to 2019, Kazakhstan's imports of consumer goods from China grew at an annual rate of 21.9%, nearly three times the growth of imports from Japan. As of 2019, Kazakhstan's imports of consumer goods from China were approximately 1.94 billion dollars, seven times more than the imports from Japan (approximately 280 million dollars).

#### **4. “Late Newcomers” - Finance, International Transportation, and Digital**

The 2000s brought new Japanese corporate actors into CA markets. These were Japanese megabanks, transportation companies, and enterprises working in the fields of

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<sup>31</sup> Nikkei, "Ministop Withdraws from Kazakhstan. Joint Venture Dissolved Due to Rising Prices", *Nikkei Shimbun*, 26.6.2014.

<sup>32</sup> According to the "investment-related costs" announced by JETRO, the wages of ordinary workers in the manufacturing industry in China as of 2021 are approximately half in Japan. See JETRO, "Investment Cost Comparison," <https://www.jetro.go.jp/world/search/cost.html>.

<sup>33</sup> WITS, "Kazakhstan Trade. WITS (World Integrated Trade Solution) Data," *Kazakhstan Trade*, <https://wits.worldbank.org/CountrySnapshot/en/KAZ>.

digital technologies. As was the case with many Japanese corporations mentioned above, they started their activities in the resource-rich area of Kazakhstan. In 2008, the two megabanks jointly arranged a syndicated loan for the country's state-owned oil company KazMunayGaz. In the same year, Mitsubishi UFJ (MUFG) opened a representative office in Almaty, Kazakhstan. This office remains the only Japanese megabank office in the CA region to date. Since then, megabanks have gradually but steadily accumulated knowledge of the region and regional business assets through co-financing with the JBIC of projects related to state-owned enterprises and state funds.<sup>34</sup>

Sumitomo Mitsui Banking Corporation (SMBC) has been very active in Uzbekistan. One of the possible reasons why SMBC has a strong interest in Uzbekistan is that Sakura Bank, the predecessor of SMBC, had an office in Tashkent in the early 2000s. In addition, the successful operations of the banks, which facilitated borrowing and trade, and other operations in the country, further contributed to the trust of the Uzbek government toward SMBC<sup>35</sup>. SMBC has been strengthening its business alliance with the National Bank for Foreign Economic Activity of the Republic of Uzbekistan (NBU) since, signing a memorandum of understanding on strengthening its trade finance alliance in 2011.<sup>36</sup> It was then followed by the expanded cooperation with other Uzbek Banks such as Asaka Bank which also signed a memorandum of understanding to promote trade finance in 2012 and agreed to further enhance the current alliance with SMBC in 2020 by expanding the scope of collaboration to comprehensive banking transactions such as deposits and yen settlement operations<sup>37</sup>.

The liberalization of the financial markets in Uzbekistan started in 2016 under current president Mirziyoyev opened up the economy of Uzbekistan and offered new opportunities for banks, such as SMBC, to manage new projects with foreign capital.

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<sup>34</sup> Three mega banks have not disclosed the loan balance to CA. As of September 2021, the balance of the three banks to Russia was 0.4 to 0.8% of the total balance of overseas loans. Since the number of Japanese companies operating in the region is much smaller than the number of companies operating in Russia, the share of loans to the region is probably less than the share to Russia.

<sup>35</sup> According to the press release of the bank, the activities of the Bank in Uzbekistan focused on “Various trade finance mainly related to trade between Japan and Uzbekistan, provision of financial services to Japanese companies and local companies in Uzbekistan, acquisition of new business opportunities in the environmental field such as development projects and emission transactions in Uzbekistan as well as strengthening of the collaborative system for yen settlement operations”. See SMBC, "Conclusion of Memorandum of Understanding with the Bank of Foreign Economic Activities of Uzbekistan," Press Release, 8.2.2011," [https://www.smbc.co.jp/news/j510056\\_01.html/](https://www.smbc.co.jp/news/j510056_01.html/)

<sup>36</sup> SMBC, "Conclusion of Memorandum of Understanding with the Bank of Foreign Economic Activities of Uzbekistan," *Press Release*, 8.2.2011," [https://www.smbc.co.jp/news/j510056\\_01.html](https://www.smbc.co.jp/news/j510056_01.html).

<sup>37</sup> SMBC, “Sumitomo Mitsui Banking Corporation partners with 3 Uzbekistan banks Collaborate in trade finance to expand transactions with client companies”, Company Press release, January 23, 2020. <https://www.mitsuiipr.com/news/2020/0123-2/>

SMBC held Uzbekistan investment seminars in Japan in December 2019, triggered by the Uzbek President's first visit to Japan. In the same month, the bank entered into a business alliance with three banks in Uzbekistan, including NBU,<sup>38</sup> as well as a business alliance with the EBRD to financially support the low carbonization of Uzbekistan.<sup>39</sup> In 2020, SMBC undertook the Eurodollar bonds issued by NBU for the first time with other banks through a subsidiary securities company.<sup>40</sup> Finance became the third pillar of business for Japanese companies in CA after energy and resource development and ODA.

Along with Japanese financial institutions, transportation companies showed increasing interest in the CA region. The tailwind for Japanese companies in CA was the strengthening of the "China Railway Express", the rail transport between China and Europe running mainly through Kazakhstan, Russia, and Belarus. Japanese logistics companies began to use this railroad to carry freight to CA and to Europe via CA.

NYK Line, Japan's largest shipping company, invested in a local car transportation company in 2009 in Kazakhstan, where car sales were increasing. In 2010, the company set up a representative office in the country.<sup>41</sup> In 2014, the company announced that it would make Kazakhstan's automobile logistics subsidiary a wholly owned subsidiary and transport vehicles from China and Russia.<sup>42</sup> Furthermore, in 2020, the company made a Russian automobile logistics subsidiary a wholly owned subsidiary to meet the needs for transporting finished vehicles in CA.<sup>43</sup>

Another major company, Nippon Express, which is Japan's largest transportation company, started a cross-border rail transportation service connecting China and Europe mainly through China Railway Express in November 2015.<sup>44</sup> In 2017, the company partnered with Kazakh National Railways to start operating regular freight trains

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<sup>38</sup> SMBC, "Conclusion of Memorandum of Understanding on Business Alliance with the Bank of Foreign Economic Activities of Uzbekistan," *Press Release*, 16.12.2019, [https://www.smbc.co.jp/news/j601966\\_01.html](https://www.smbc.co.jp/news/j601966_01.html).

<sup>39</sup> Nikkei, "Sumitomo Mitsui Banking Corporation Expands Lending to Uzbekistan with the Opening of European Banks and Memorandum of Understanding," 12.12.2019, <https://www.nikkei.com/article/DGXMZO53270080S9A211C1EE9000/>.

<sup>40</sup> NBU, "The First Eurobonds of the National Bank of Uzbekistan are Floated in the International Capital Market," 15.10.2020, <https://nbu.uz/en/news/the-first-eurobonds-of-the-national-bank-of-uzbekistan-are-floated-in-the-international-capital-mark/>.

<sup>41</sup> NYK, "The Group Establishes First Representative Office in Kazakhstan," *NYK Line Press*, 26.2.2010, [https://www.nyk.com/news/2010/NE\\_100226.html](https://www.nyk.com/news/2010/NE_100226.html).

<sup>42</sup> NYK, "Making Kazakhstan's Vehicle Logistics Company a Wholly-Owned Subsidiary –To Provide International Logistics Services with China and Russia," *NYK Line Press*, 17.1.2014, <https://www.nyk.com/news/2014/003158.html>.

<sup>43</sup> NYK, "Makes a Vehicle Logistics Subsidiary in Russia a Wholly-Owned Subsidiary and Changes Its Name to LLC NYK Auto Logistics (Rus)," *NYK Line Press Release*, 4.11.2020, [https://www.nyk.com/news/2020/20201104\\_01.html](https://www.nyk.com/news/2020/20201104_01.html).

<sup>44</sup> Nippon Express, "International Cargo Profile," <https://www.nittsu.co.jp/railfreight/>.

connecting the coastal areas of China and Europe in 2018.<sup>45</sup> In 2019, the company opened a representative office in Kazakhstan.<sup>46</sup>

Although these engagements proved to be very successful for the Japanese and CA businesses, Russia's invasion of Ukraine, which broke out in February 2022, may have a considerable impact on the operation of the China Railway Express that passes through Russia and is used by the abovementioned Japanese companies. In this situation, some alternative routes are currently being considered to bypass Russian and Ukrainian rail infrastructure, such as the "East–West Transport Corridor", which crosses the Caspian Sea from Kazakhstan by freighter and heads from Baku in Azerbaijan to Georgia's Black Sea coastal ports by railway. In May 2022, Nippon Express started to provide a new transportation service using the Corridor.<sup>47</sup>

The third area of corporate interest for engaging the CA region that emerged in the late 2010s is the area of digital technologies. There are two areas, related to digital communication modernization and training, that Japanese corporate communities find attractive in the region.

Regarding the former, NEC, a major Japanese electrical equipment manufacturer, received two orders for ODA loan-related projects related to the development of communication networks in Uzbekistan in 1997 and 2002 and opened an office in Tashkent in 1997.<sup>48</sup> Furthermore, in 2019, NEC, in partnership with Toyota Tsusho, received funding from JBIC and SMBC and acquired an order for backbone communication systems from the state-owned Uztelecom. This system would significantly improve the communication environment in Uzbekistan and support the growing use of mobile phones and the internet.<sup>49</sup>

As described below, the area of educational services in the digital sector was

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<sup>45</sup> Nikkei, "Nittsu Trains Freight across Central Asia in Partnership with Kazakh Railways Anticipate 'Belt and Road' Demand, *Nikkei Newspaper*, 16.9.2017, [https://www.nikkei.com/article/DGXLASDX15H0W\\_V10C17A9FFE000/](https://www.nikkei.com/article/DGXLASDX15H0W_V10C17A9FFE000/).

<sup>46</sup> Nippon Express, "Nippon Express Opens Representative Office in Kazakhstan," *Nippon Express Press Release*, 22.8.2019, <https://www.nipponexpress-holdings.com/ja/press/2019/20190822-1.html>.

<sup>47</sup> Nippon Express, "NX China Launches New Multimodal Transportation Service from China to Europe via the Caspian Sea," *Nippon Express Press*, 11.5.2022, <https://www.nipponexpress-holdings.com/ja/press/2022/20220511-2.html>.

<sup>48</sup> K. Minda, "NEC no Uzbekistan ni okeru torikumi (NEC's Efforts in Uzbekistan)," *Japan Institute for Overseas Investment (JOI)*, [https://www.joi.or.jp/modules/downloads\\_open/index.php?page=visit&cid=22&lid=1921](https://www.joi.or.jp/modules/downloads_open/index.php?page=visit&cid=22&lid=1921).

<sup>49</sup> NEC, "Toyota Tsusho and NEC Receive Order from Uzbek Telecom for Mission-Critical Telecommunications Systems Throughout Japan: Significantly Improving the Communication Environment in Uzbekistan to Respond to the Expansion of Mobile Phone and Internet Use," *NEC Press Release*, 13.3.2019, [https://jpn.nec.com/press/201903/20190313\\_01.html](https://jpn.nec.com/press/201903/20190313_01.html).



identified as among the most promising given the region's high literacy rates, developed general educational infrastructure, relatively cheap electricity costs, and young and growing populations.

The Japanese government has actively supported such education in various formats over the past 30 years since the independence of these republics. Among the leading Japanese capacity development institutions in CA are the Japanese centers initially established in Uzbekistan, Kazakhstan and Kyrgyzstan, which were later transferred to either local management (Almaty and Nur-Sultan in Kazakhstan) or the management of JICA (in the case of Tashkent in Uzbekistan and Bishkek in Kyrgyzstan). They serve as institutions providing business courses (sometimes called mini-MBAs) taught by representatives of the local and Japanese business communities, language courses, and cultural exchange initiatives.

Qualitatively different are the training and education provided by the Japanese educational service providers that aim to promote digital training education, exemplified by the Japan Digital University at the University of World Languages in Uzbekistan.<sup>50</sup> Although it appears to be an educational institution, the Japanese partner that established it is the Japanese Digital Knowledge company, which focuses on the provision of digital products for educational purposes.

Although student mobility in search of educational labor opportunities is a new trend in Uzbek-Japanese relations,<sup>51</sup> this is the first institution of its kind established in Uzbekistan by a private Japanese enterprise.

The purpose of this type of Japanese training institution in CA is to provide training to CA youth, who can then find employment as programmers either locally or in Japan after they graduate from the university. Accordingly, those who enroll in such educational schemes have an opportunity to start a part-time job (distance assignments) while in the 3rd and 4th years of their education without having to travel to Japan. Those who successfully graduate have a chance to gain full-time employment with Japanese digital employers.

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<sup>50</sup> Digital Knowledge, "'Japan Digital University', A New University Model That Realizes Educational Export Distribution," <https://www.digital-knowledge.co.jp/archives/26475/>.

<sup>51</sup> Timur Dadabaev and Jasur Soipov. (2020) Craving Jobs? Revisiting Labor and Educational Migration from Uzbekistan to Japan and South Korea, *Acta Via Serica* 5 (2): 111-140. <https://doi.org/10.22679/avs.2020.5.2.005> (December 21); Timur Dadabaev, Shigeto Sonoda and Jasur Soipov. (2021) A guest for a day? An analysis of Uzbek 'language migration' into the Japanese educational and labour markets, *Central Asian Survey* 40(3): 438-466. <https://doi.org/10.1080/02634937.2021.1942788> (July 15); Timur Dadabaev and Mukaddam Akhmedova. (2022) A Home Away from Home: Migration, Identity and 'Sojourning' in the Life of Uzbekistanis in Japan, *Euro-Asia Studies*. <https://doi.org/10.1080/09668136.2021.2010660> (January 7); Timur Dadabaev eds., *The Grass is Always Greener?: Unpacking Uzbek Migration to Japan* (NY: Palgrave Macmillan, 2022)

Students enrolled in this university have to bear the costs of their education. To cover these costs, the university also links its graduates with banks that offer educational loans, which the students have to repay over the years after graduation. This represents a win-win scheme for both the Japanese enterprise that organized this type of educational training and the students, who have a chance to receive digital-related skills and find employment. It will take a few years for the first students to graduate, at which stage there will be enough evidence to suggest whether this is a workable business model for Japanese enterprises in the Uzbek labor market.

In a similar manner, Kyrgyzstan has attracted a number of digital companies to its IT park, which was established in 2011 and started operating in 2013. As of 2019, it had attracted 81 foreign enterprises and had 761 digital specialists working on its premises. Ninety percent of these companies exploit the cheap and stable supply of energy and labor (with an average salary starting from 300 dollars/month) offered in Kyrgyzstan and operate BPO (Business Processes Outsourcing) services, with the remaining 10% involved in software development.<sup>52</sup> Accordingly, business revenues consist of software development (60.5%), technical support, such as software installation and testing (9.1%), YouTube support (9.3%), computer animation (16.6%), and others (4.4%). In terms of exports, the US accounts for 30%, followed by Ireland (20%), Kazakhstan (15%), and Japan (approximately 5%).

Finally, a traditional area of Japanese strength in CA remains the area of infrastructure modernization, which in recent years has seen signs of moving beyond dependence on the Japanese government's ODA financing. The most recent example of this is the new gas-fired power plant construction project in the Syrdarya region of Uzbekistan, which was agreed upon in early 2022 and led by Kyushu Electric Power with Japanese trading companies Sojitz, EDF (Électricité de France) and Nebras Power.<sup>53</sup> It is noteworthy that the major Japanese power company entered the CA infrastructure project in the form of a PPP (public-private partnership) rather than ODA<sup>54</sup>. Similar attempts have been made in the past. Most notably, in 2015, it was reported that a coalition of five Japanese companies, including JGC and Mitsubishi Corporation, intended to participate in a project for a gas refining facility worth 1 trillion yen in Turkmenistan. However, no progress has been made on this project.<sup>55</sup>

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<sup>52</sup> JETRO, "Flexible Response to Kyrgyz IT Human Resources and Japanese Customer Priority Mindset (Kirugisu IT jinzai, Nihon no kokyaku yūsen maindo ni mo jūnan ni taiō)," 3.2020, <https://www.jetro.go.jp/biznews/2020/03/7f8550bfa746ec20.html>.

<sup>53</sup> Kyushu Electric Power Co. Inc., "Kyuden Group to Participate in Gas-Fired Power Generation Project in Uzbekistan -Our First Power Project in Central Asia," 28.3.2022, [https://www.kyuden.co.jp/english\\_company\\_news\\_2021\\_h220328-1.html](https://www.kyuden.co.jp/english_company_news_2021_h220328-1.html).

<sup>54</sup> IFC, "Uzbekistan Signs PPP Agreement for Modern Efficient Thermal Power Plant in Syrdarya Region," *International Finance Corporation, World Bank Group*, 25.3.2022, <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26892>.

<sup>55</sup> According to a Japanese business official involved in the project, the main reason why this project has not been realized is that the pipeline for transporting the refined gas at

## **5. Challenges and Concerns of the Japanese Corporate Community in the CA Region**

While the advances of the Japanese corporate community in the CA region are obvious, this experience also presents Japanese enterprises with challenges and lessons to be learned. In sum, the problems faced by Japanese companies can be divided into the (1) logistics of the region, (2) lack of economic infrastructure, and (3) the size of the market (the population is small compared to other Asian regions with which Japanese companies are familiar). The issues that relate to the economic infrastructure primarily include the following: (a) the local licensing procedure is complicated and difficult to understand, (b) there is a lack of information in Japanese or English regarding business-related legal systems and regulations as well as products and services that are in high demand locally, (c) there is no government-provided guarantee to use the funding for their projects, and (d) there are issues related to compliance.

As an example of a case regarding licensing information, when Japanese companies attempted to export machinery to one of the CA countries (interviewed in 2020), they faced a complicated licensing procedure, and there were no local government officials able to provide clear explanations related to the types of certificates required to make such exports and the types of taxes that needed to be paid according to the certificates obtained. According to this company's official, there is an obvious need to have a single contact point (one-window office) where such information regarding permits and licenses can be accessed in English (and ideally in other foreign languages, such as Japanese). While the assistance of the Japanese government can be sought for establishing such offices through JICA and other types of funding, there is a need for CA governments to recognize this problem and provide a solution to facilitate the entry of more Japanese companies.

Generally, information on the socioeconomic conditions in CA states is widely available from various sources. Thus, access to such information is not a particular problem for Japanese corporate community members. However, according to interviews conducted with certain corporations interested in the entry of the CA market in 2021, challenges arise when there is a need for economically valuable information regarding the trends of the market, demand and supply equilibrium for certain segments and products, and tax regulations with respect to various products.

The challenges mentioned above differ depending on the size of the enterprise and the type of business. While the large Japanese corporations have certain experience operating in Russian and post-Soviet states and have Russian-speaking staff, they frequently operate from the regional offices in Turkey, Russia, and Europe, limiting their ability to grasp the sense of CA regional markets. These companies operate with the assumption that CA markets are similar to other post-Soviet states and rarely have staff

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this plant (Turkmenistan–Afghanistan–Pakistan–India Pipeline: TAPI) is not yet ready to be completed (interviewed in 2019)

members proficient in the local language and institutional settings. In addition, due to their large size, they opt to search for large-scale opportunities and a large margin of profits to justify their investments. For these large corporations to turn their attention to the relatively small CA markets, they need to be presented with economically valuable and all-encompassing information on tax, economic regulations, and preference regimes, preferably in the Japanese or English languages. While such information is available to them in the EU, East Asia, and other developed markets, it is missing in the case of CA regional states. Without such clear and ready-to-use information, their motivations to enter the CA markets are not high.

Different kinds of challenges relate to megabanks (MUFG, SMBC), which operate CA offices and have significant capacity to determine the needs of the markets. However, in most cases, megabanks operate according to the requests and interests of private Japanese enterprises, and they do not frequently initiate local investment projects. Their clients range from trading companies to engineering firms, and it is their clients' ability to grasp the essence of the markets and initiate projects requiring financing that matters to them. Megabanks do provide their potential clients with information and consulting, but at the end of the day, it is the role of private enterprises to initiate and conduct the projects.

For small and medium-sized enterprises, which in recent years have increasingly sought opportunities in the CA region, the challenges are more numerous. The primary motivation of these companies comes from the understanding that opportunities available in the domestic Japanese market are limited and show signs of shrinking due to the declining population in Japan and the maturity of the Japanese market. These companies search for overseas opportunities in an attempt to keep their businesses afloat. Their problems in entering CA markets range from lack of experience in responding to inquiries from overseas and in understanding trade practices, including dealing with export-related documents, especially in a foreign setting.

Their attitudes can be exemplified by the following statement of an SME owner: "Unfortunately, we don't know where CA is on the planet. But if we can get information on CA such as (1) what's selling there right now, (2) what business opportunities are there, (3) what kind of regulations there are regarding business, we can't make any promises, but we would like to consider doing business in the region."<sup>56</sup>

In relation to the lack of government guarantees for loans and Japanese investments, representatives of Japanese companies (such as those interviewed by the authors in 2020 and 2021) have frequently pointed out the difficulties of receiving guarantees from the government of Uzbekistan for loans to expand their business in the country. This is because Uzbekistan, in recent years, has acquired a great number of loans under government guarantees to attract foreign investment and loans since the deregulation of foreign exchange in September 2016. The total government guarantees for 2019 were \$2,684

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<sup>56</sup> According to interviews conducted in 2020.

million, up 17.6% from the previous year.<sup>57</sup> Government debt has also increased significantly due to increased imports of machinery and other technology necessary to reform the industrial base of the country, carried out by the new Mirziyoyev administration, as exemplified by the foreign debt increase of 19.7% from \$4.8 billion (January 2020) to \$29 billion (December 2020) in just one year.<sup>58</sup> Under such conditions, the ability of the Uzbek government as well as other governments in CA to provide extensive government guarantees for loans obtained by foreign companies to conduct business in the CA region is increasingly difficult.

To alleviate this situation, there are certain channels of the Japanese government and public institutions that can assist in the task of obtaining loans and credits for operation in CA without such guarantees being provided by CA counterparts. To exemplify this, the scheme of public–private funds (*Kanmin fando*) available to businesses, which was jointly established by the government and private companies under the second administration of PM Abe, is little known in Japan and in CA. The scheme offers financing to Japanese private corporations for business expansion and acquisition abroad by providing necessary funds if the projects are economically viable and promising. Because this scheme is recent and not well known to the business community in Japan and internationally, these resources are not currently utilized effectively to serve as a bridge between Japanese SMEs and corporate communities and their foreign counterparts.

For instance, JOIN (Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development) funds transportation infrastructure and urban development projects, such as railroads and ports, and JICT (Fund Corporation for the Overseas Development of Japan's ICT and Postal Services Inc.) provides financing for communications, broadcasting, postal and digital businesses. Neither of the above two funds has ever invested in the CA region, although they have great potential to do so.

In terms of environment-related financing, the Ministry of the Environment (MoE) plans to establish a new decarbonization-related public–private fund jointly with private companies in the near future.<sup>59</sup> The new fund will invest in and finance renewable energy-related businesses, including hydrogen and decarbonization-related businesses, and can serve as a channel of investments into the CA region, as renewable energy resources are prioritized in all CA countries.

The ministry's JCM (Joint Crediting Mechanism) along with these funds has great potential for supporting corporate cooperation between Japan and CA states, which has not

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<sup>57</sup> JETRO, "Uzbekistan Continues to Expand Government Guarantee Frames in 2019 to Attract Foreign Investment Loans," *JETRO Business Brief*, 16.1.2019, <https://www.jetro.go.jp/biznews/2019/01/913c1a669faee58c.html>.

<sup>58</sup> CABAR, "Uzbekistan: Government Debt Almost Doubled in Two Years," *Central Asian Bureau for Analytical Reporting (CABAR)*, 11.2.2021, <https://cabar.asia/en/uzbekistan-government-debt-almost-doubled-in-two-years>.

<sup>59</sup> MOE (Ministry of Environment of Japan), "The Establishment of a Decarbonization Support Mechanism is Being Considered," *Press Release*, 25.12.2021, [https://ondankataisaku.env.go.jp/carbon\\_neutral/topics/20211224-topic-19.html](https://ondankataisaku.env.go.jp/carbon_neutral/topics/20211224-topic-19.html).

been explored on either side. JCM started in 2013 when the Japanese government established and then implemented mechanism to appropriately quantify, acknowledge and provide greater international visibility to Japan's contributions to GHG emission reductions or removals achieved through the diffusion of low carbon technologies, products, systems, services, and infrastructure as well as the implementation of mitigation actions in developing countries and to use them to achieve Japan's emission reduction target.<sup>60</sup>

The Japanese government is utilizing this scheme to establish decarbonization and renewable energy as a new axis of CA diplomacy.<sup>61</sup> Japan has signed agreements on JCM implementation with 17 countries thus far. This year, marking the 30th anniversary of the establishment of diplomatic relations with Japan, the government aims to conclude new bilateral agreements with some countries in CA and the Caucasus, which are essential for the realization of JCM. The new fund of MoE, along with JCM, will be new funding tools for Japanese companies in the region.

## 6. Conclusion

This paper covers the evolution of Japanese corporate interest in the CA region. A significant number of studies focus on the public and governmental interest of Japan in the CA region. However, only a few focus on the successes and challenges of the Japanese businesses present in this region. This paper fills the gap by outlining the several waves of the Japanese corporate entry into CA and the challenges faced to date.

As depicted in this paper, the Japanese corporate community first entered the CA market in the 1990s with a focus on energy and resource development and infrastructure development based on ODA. This corporate interest later diversified, and Japanese companies gradually expanded their business fields to the areas of finance, international transportation, and digital technology.

This in a way reflects the changing international environment and the shifting priorities of these companies, which transitioned from focusing on energy and mineral resources toward services, digital technologies, and infrastructure. It is also an attempt to utilize the convenient geographic location and the young and well-educated workforce of the region to enhance the competitiveness of Japanese companies internationally.

As described in this paper, there are two main sets of problems faced by the Japanese corporations in the CA region. While the problems related to the size of the CA regional market and logistical difficulties related to the distance between Japan and the CA region are more difficult to overcome, the challenges related to the lack of information and the need for more transparent and easily available information are easier to deal with. As explained in the last section of this paper, this issue is particularly important for small and medium-sized enterprises, which often struggle due to inexperience with dealing in a

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<sup>60</sup> GEFCF, "Global Environment Centre Foundation Overview of the Joint Crediting Mechanism (JCM)," *JCM the Joint Crediting Mechanism*, <https://gec.jp/jcm/about/>.

<sup>61</sup> Anonymous interviews with a Japanese diplomat and MoE official in 2021.

foreign environment. To a great extent, compensating for the information and inexperience of Japanese companies will be one of the determining factors facilitating the emergence of a larger Japanese corporate presence in the CA region. While it is only hinted at in this paper, the channels offered by the Japanese government can be further utilized in establishing a new permanent mechanism to deal with the above problems and promote the advancement of Japanese companies into CA by utilizing existing government agencies (e.g., JICA, JETRO).

To overcome these challenges, this paper highlights the tools offered by the public and govern-affiliated institutions offering financing opportunities, collecting related information and disseminating it to Japanese companies, making offers to local government, and making up for their lack of information and experience regarding overseas business and trading practice.

This paper also pointed to the advantage of utilizing the decarbonization drive of the Japanese government and applying it to the new CA diplomacy centered on decarbonization and renewable energy utilization. If this new avenue of engaging the CA region through JCM and other environment-related initiatives is properly utilized, the motivation and gains of the Japanese companies in expanding their businesses into the CA region will only increase. In line with this, it is also expected that the policy formulated in 2013 to promote infrastructure exports, which has since been revised and developed (in December 2020) into the "Infrastructure System Overseas Expansion Strategy 2025", will also support the activities of Japanese companies in the region.

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