



## United States Chamber of Commerce



### AmCham Survey Investment Climate, Transport & Trade Facilitation February 2008

*While a majority of investors are optimistic about the business and investment climate in the region, nearly 60% of respondents believe that corruption is the biggest problem that businesses face. Regarding transport and trade facilitation, 75% indicated that they must devote additional human resources to deal with customs regulations and 76% believe that the level of transport and border security must be improved.*

#### INTRODUCTION:

Central Asia, the Caucasus, Ukraine and Turkey sit at a vibrant economic crossroads. The countries in the region collectively possess much of the world's mineral wealth and link together the world's fastest growing markets and the most important investment centers for American business: EU, China, Russia, India, Korea and the Gulf States.

In September 2006, the U.S. Chamber of Commerce launched a new initiative to provide the U.S. government and other relevant institutions with a strategic business outlook vis-à-vis the emerging markets of Central Asia, the Caucasus, Ukraine and Turkey. The initiative entitled, Eurasia Business Platform (EBP), also allows members to create and maintain dialogue, access and strategic interaction with Eurasia's government and business decision makers.

EBP fosters regional cooperation and integration with a particular focus on transport development and facilitating trade in a way that supports today's global supply chain security requirements. EBP promotes economic diversification and the adoption of transparent economic policies that protect foreign investment. In sum, the EBP allows the business community to contribute to the positive development of a strategically important part of the world.

An important part of the EBP network is our affiliated American Chambers of Commerce (AmChams) operating in the region. In November 2007, the U.S. Chamber launched this survey through our AmCham affiliates in Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Turkey, Ukraine, and Uzbekistan. The purpose of the



survey is to give a broad picture, from a regional perspective, of the business and investment climate in the region as well as investor's perceptions of the transport and trade facilitation regimes in the region.

Key regional organizations such as the Central Asia Regional Economic Cooperation (CAREC) program, the Asian Development Bank (ADB), the Organization for Security and Cooperation in Europe (OSCE) and private sector groups such as the International Road Transport Union (IRU) have all identified the development of transport and adequate trade facilitation as imperatives for regional economic growth. The U.S. Chamber of Commerce, together with affiliated AmChams in the region, is working to bring this message to the highest levels of government in the United States and in the region.

## **SUMMARY:**

Nine hundred ninety (990) companies doing business in Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Turkey, Ukraine and Uzbekistan were surveyed electronically in November-December 2007. A total of 202 responses were received for an overall response rate of 20.4%.

Regarding the business and investment climate in their country, respondents were quite optimistic with 57% indicating that the current business climate was 'good' and 60% believe that the situation will continue to improve.

As for the main challenges that businesses face, by far the biggest challenge that they face is corruption. One-third of all respondents indicated that corruption was their biggest problem and 58% ranked corruption in the top three challenges. The least problematic issue overall was credit access for local citizens. Finding qualified staff and protection of intellectual property were also ranked as not particularly problematic.

Regarding transport and trade facilitation, 75% of respondents believe that they must devote added human resources to deal with customs regulations; 64% believe that it is necessary to pay unofficial 'taxes' or bribes in order to clear customs, and 61% believe that travel times are slow due to poor road and rail conditions.

Respondents were also asked which changes would make the biggest positive difference for their business. Respondents identified more successful anti-corruption measures; simplification of national customs legislation, and improved transport infrastructure as the top three most important changes that would make a difference for their businesses. At the bottom of the list of important changes were the need for more reliable transport operators and less physical inspection of goods. How much better could business be?



Over half of all respondents thought that if successful measures were put into place their business would improve by over 50%.

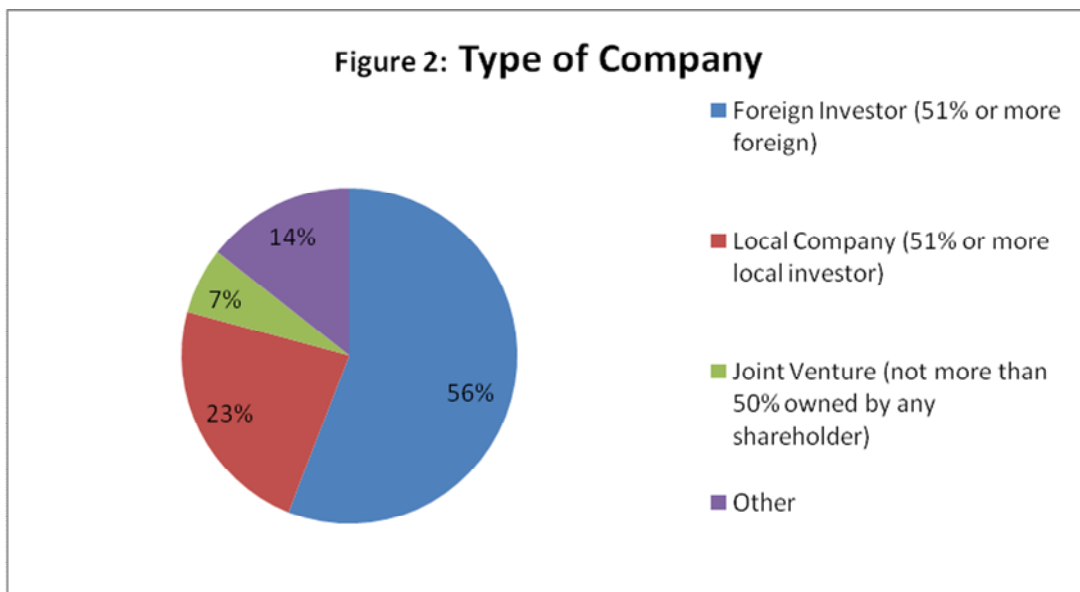
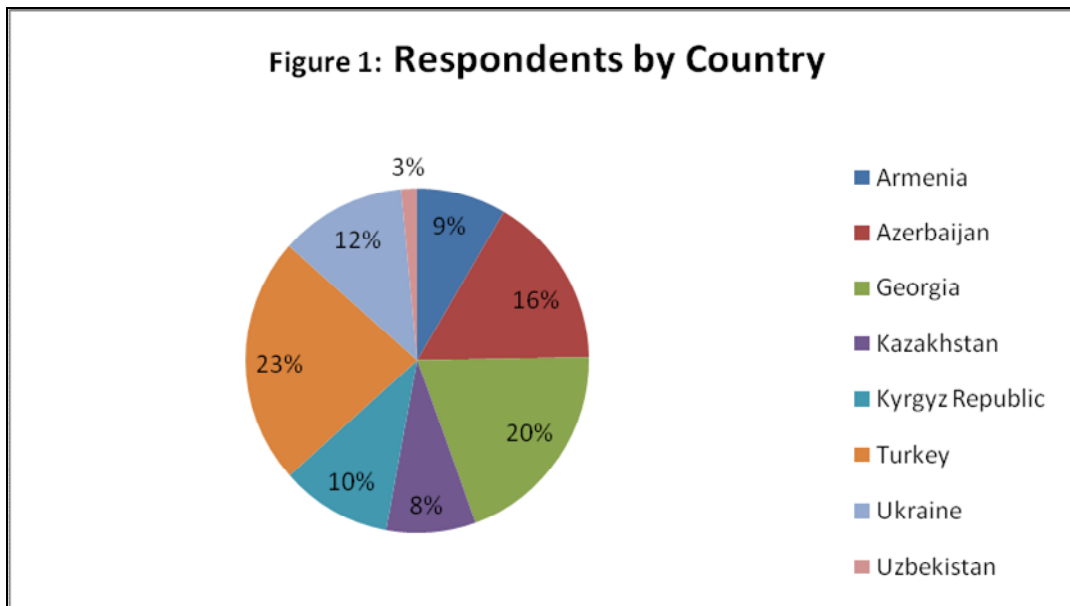
Since corruption was identified as the main overall business challenge in the region, respondents were asked to give their perception of the level of corruption within several government department or agencies. Overall, respondents indicated that customs, inland enforcement bodies, and special financial control bodies were perceived to have the highest levels of corruption. The lowest levels were attributed to warehouse and seaport administrations.

Respondents were asked to assess the level of transportation security within their country. Nearly all (76%) of respondents felt that the level of transport and border security needed to be improved.



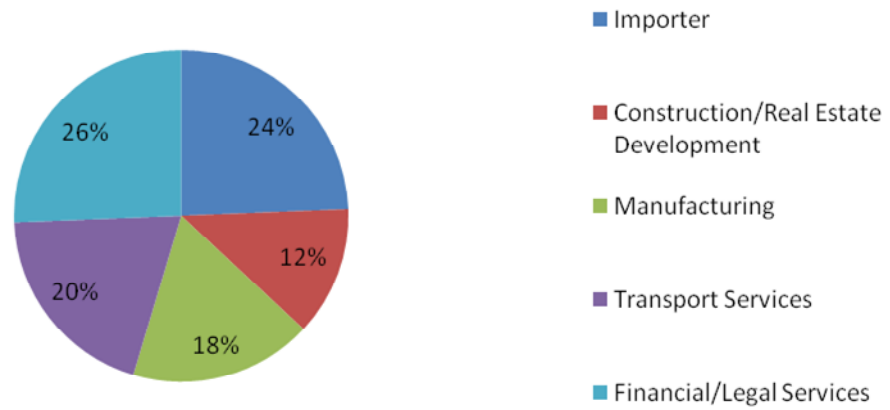
## SURVEY RESULTS:

- 1. Respondents:** Nine hundred ninety (990) companies doing business in Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Turkey, Ukraine and Uzbekistan were surveyed electronically from November-December 2007. A total of 202 responses were received for an overall response rate of 20.4%. The charts below illustrate the make up of the respondent population.

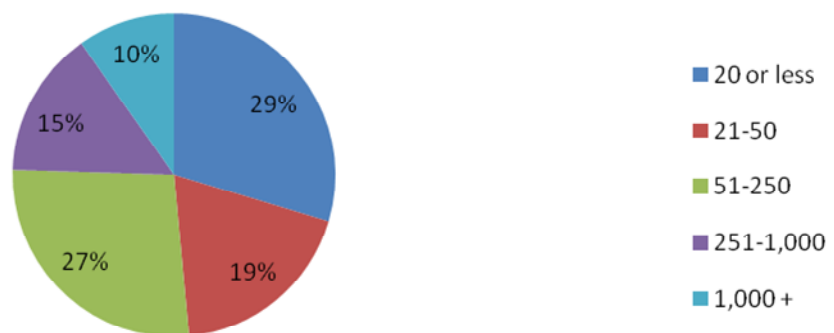




**Figure 3: Business Activity--Top 5**



**Figure 4: Number of Employees within Country**





2. **Business and Investment Climate:** Respondents were asked their perception about the business and investment climate in their country, how they see the trends in the future, and what they believe are the primary business and investment challenges. Overall, respondents were quite optimistic with 57% indicating that the current business climate was ‘good’ and 59.7% believing that the situation will continue to improve.

The tables below give the overall responses for the region and a breakdown by country.

**Figure 5: Perception of Current Business and Investment Climate**

Country	Poor	Good	Excellent
Armenia	52.9 %	41.2 %	5.9 %
Azerbaijan	26.7 %	73.3 %	0 %
Georgia	41 %	56.4 %	2.6 %
Kazakhstan	12.5 %	75 %	12.5 %
Kyrgyz Republic	52.6 %	31.6 %	15.8 %
Turkey	12.5 %	67.5 %	20 %
Ukraine	54.5 %	45.5 %	0 %
Uzbekistan	100 %	0 %	0 %
<b>Overall</b>	<b>34.9 %</b>	<b>57 %</b>	<b>8.1 %</b>

**Figure 6: Perception of Business and Investment Climate  
Future Trends**

Country	Getting Worse	No Change	Improving
Armenia	17.6 %	23.5 %	58.8 %
Azerbaijan	10 %	30 %	60 %
Georgia	17.9 %	25.6 %	56.4 %
Kazakhstan	6.3 %	43.8 %	50 %
Kyrgyz Republic	26.3 %	31.6 %	42.1 %
Turkey	2.5 %	17.5 %	80 %
Ukraine	4.5 %	40.9 %	54.50 %
Uzbekistan	0 %	66.7 %	33.3 %
<b>Overall</b>	<b>11.3 %</b>	<b>29 %</b>	<b>59.7 %</b>



As for the main challenges that businesses face, respondents were asked to rank the following challenges: protection of intellectual property; customs legislation and administration; corruption; obtaining needed licenses and permits; government adherence to rule of law; tax legislation and administration; transparency; credit access for local citizens; and finding qualified staff. By far the biggest challenge that companies face is corruption. One-third of all respondents indicated that corruption was their biggest problem and 58% ranked corruption in the top three challenges. The least problematic issue overall was credit access for local citizens. Finding qualified staff and protection of intellectual property were also ranked as not particularly problematic. The top three challenges are indicated in the table below for each country and overall.

**Figure 7: Business and Investment Climate: Main Challenges**

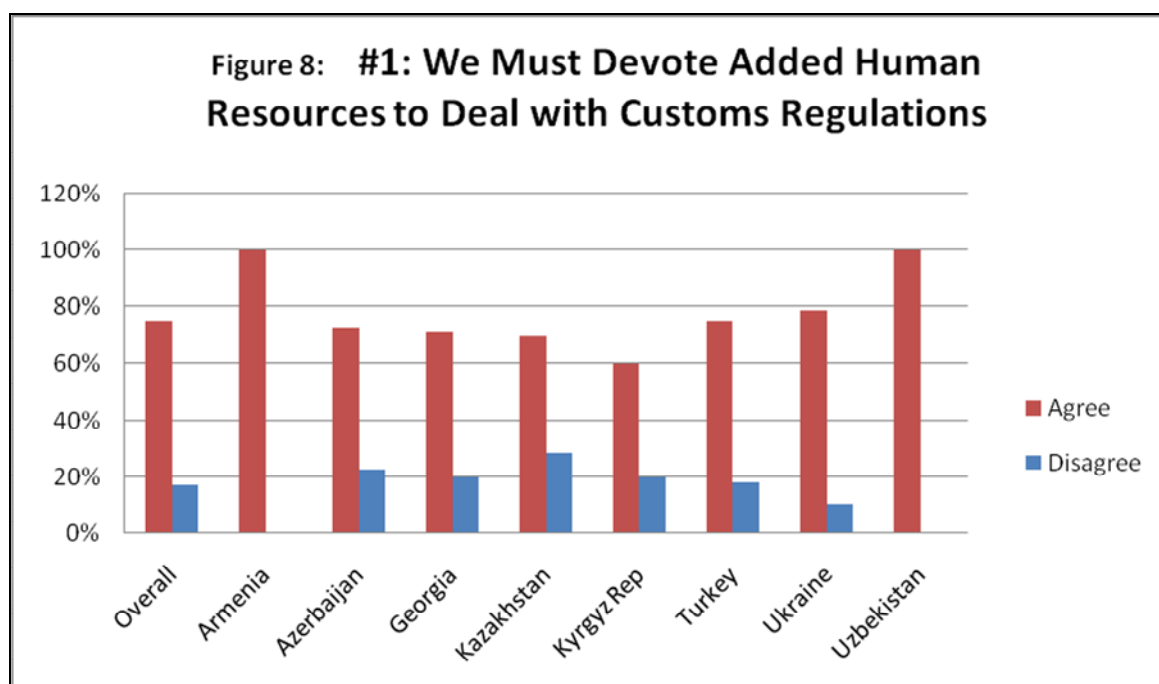
Country	# 1 Challenge	#2 Challenge	#3 Challenge
Armenia	Customs legislation and administration	Tax legislation and administration	Corruption
Azerbaijan	Corruption	Customs legislation and administration	Transparency
Georgia	Government adherence to rule of law	Finding qualified staff	Tax registration and administration
Kazakhstan	Corruption	Customs legislation and administration	Obtaining needed licenses and permits
Kyrgyz Republic	Corruption	Finding qualified staff	Government adherence to rule of law
Turkey	Tax legislation and administration	Obtaining needed licenses and permits	Customs legislation and administration
Ukraine	Corruption	Customs legislation and administration	Obtaining needed licenses and permits
Uzbekistan	Corruption		
<b>Overall</b>	<b>Corruption</b>	<b>Tax legislation and administration</b>	<b>Government adherence to rule of law</b>



3. **Transport and Trade Facilitation:** Regional cooperation in the areas of transport development and trade facilitation have been recognized by a number of international organizations, governments, and business groups (including the U.S. Chamber of Commerce) as indispensable for generating diversified economic growth and a regional marketplace. Therefore, an important part of the survey addressed issues and challenges relating to transport and trade facilitation.

**a. Impact on Business:**

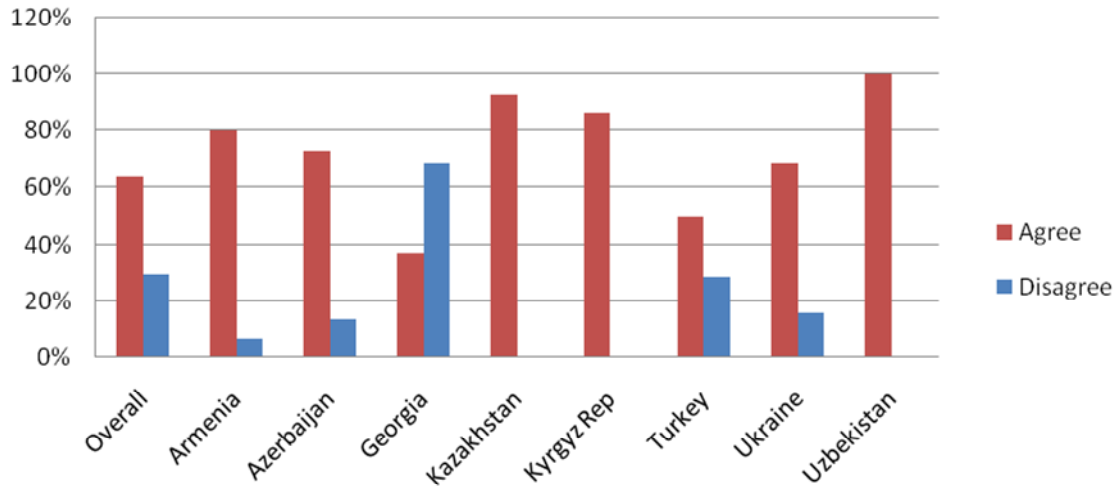
Respondents were asked whether they agreed or disagreed with a number of elements which directly impact their business operations. The elements included: human resources; inventory; travel times; delays in loading/off-loading of goods; and ‘unofficial taxes’ or bribes. The graphs below illustrate, for the top three overall issues, the extent to which respondents in each country ‘agreed/strongly agreed’ or ‘disagreed / strongly disagreed’ with each statement.



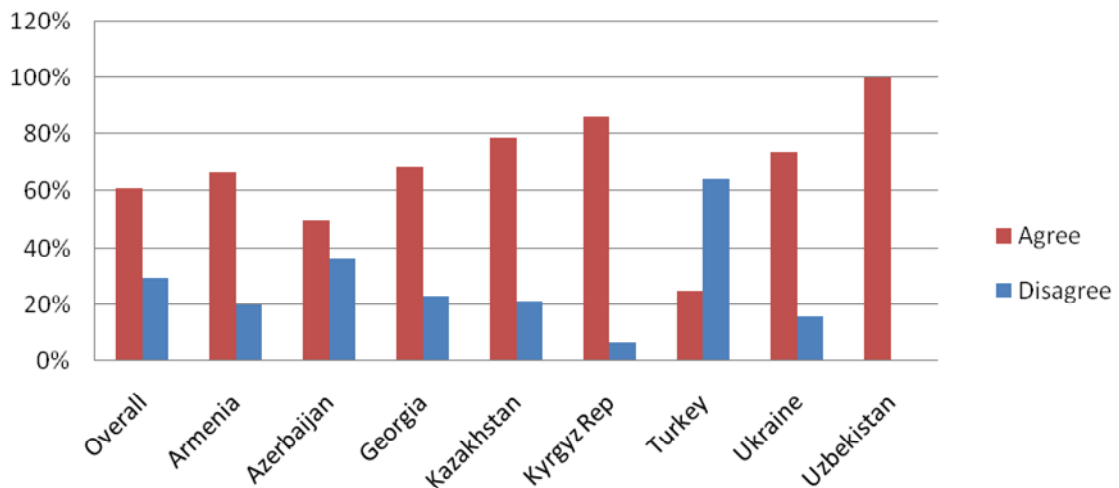




**Figure 9: #2: Unofficial 'Taxes' or Bribes are Required to Clear Customs**



**Figure 10: #3: Travel Times are Slow Due to Poor Road and Rail Conditions**





Respondents were also asked which changes would make the biggest positive difference for their business. They were asked to assess the following possible changes: more reliable transport operators; reduction of obligatory licenses and permits; national implementation of TIR and other international conventions; simplification of national customs legislation; more successful anti-corruption measures; improved transport infrastructure; reducing customs tariffs; computerization of customs documents; and less physical inspection of goods.

More than half of all respondents indicated that more successful anti-corruption measures would make the biggest positive difference for their business. At the bottom of the list of important changes were the need for more reliable transport operators and less physical inspection of goods. How much better could business be? Over half of all respondents thought that if successful measures were put into place their business would improve by over 50%.

The top three most important changes are indicated in the table below for each country and overall.



**Figure 11: Changes That Would Make the Biggest Positive Difference**

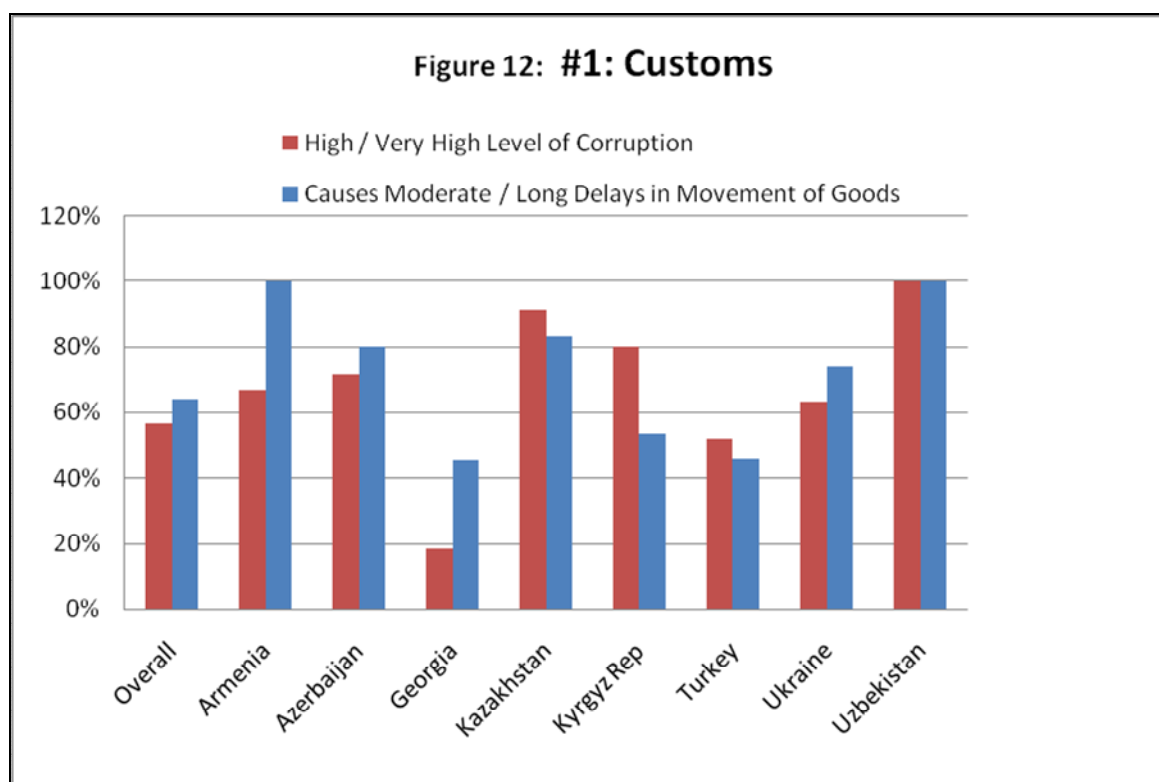
Country	# 1 Change	#2 Change	#3 Change
Armenia	More successful anti-corruption measures	Simplification of national customs legislation	Reduction of Obligatory Licenses and Permits
Azerbaijan	More successful anti-corruption measures	Reducing customs tariffs and fees	Improved transport infrastructure
Georgia	Simplification of national customs legislation	Improved transport infrastructure	Reduction of Obligatory Licenses and Permits
Kazakhstan	More successful anti-corruption measures	Reducing customs tariffs and fees	Reduction of Obligatory Licenses and Permits
Kyrgyz Republic	Improved transport infrastructure	More successful anti-corruption measures	Simplification of national customs legislation
Turkey	More successful anti-corruption measures	Reducing customs tariffs and fees	Improved transport infrastructure
Ukraine	More successful anti-corruption measures	Simplification of national customs legislation	Reduction of Obligatory Licenses and Permits
Uzbekistan	Reducing customs tariffs and fees	More reliable and predictable transport operators	Reduction of Obligatory Licenses and Permits
<b>Overall</b>	<b>More successful anti-corruption measures</b>	<b>Simplification of national customs legislation</b>	<b>Improved transport infrastructure</b>



## b. Assessment of Key Organizations:

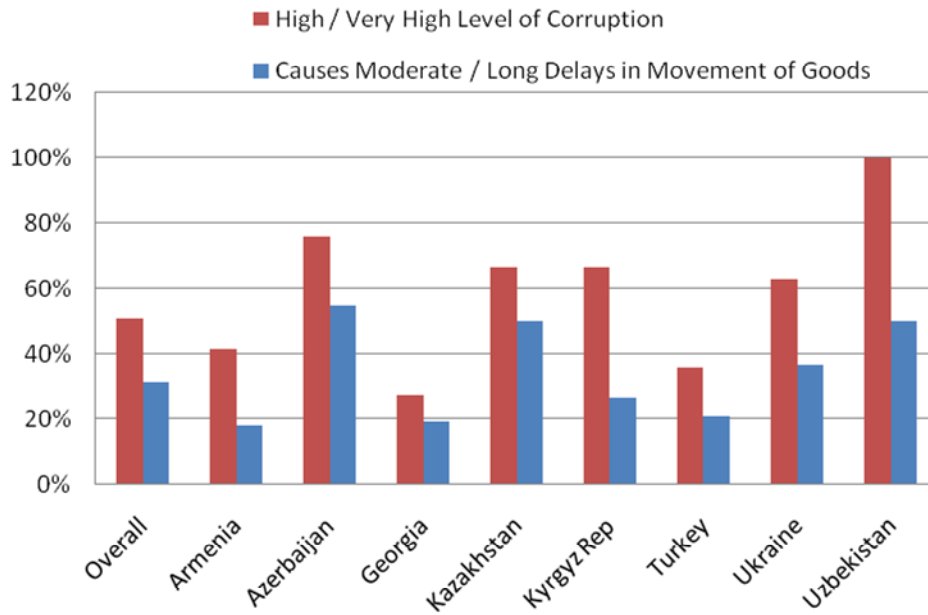
Since corruption was identified as the main overall business challenge in the region, respondents were asked to give their perception of the level of corruption within several government departments or agencies including: border guards; customs; inland enforcement bodies (e.g., traffic police); railway administration; seaport administration; airport administration; warehouse administration; and special financial control bodies (e.g., special investigative units). Overall, respondents indicated that customs, inland enforcement bodies, and special financial control bodies were perceived to have the highest levels of corruption. The lowest levels were attributed to warehouse and seaport administrations. The graphs below illustrate, for the top three government departments or agencies, the perceived level of corruption overall and in each country, e.g., 57% of respondents overall believe that customs authorities have a 'high or very high' level of corruption.

In addition, the top three departments or agencies were assessed as to whether respondents perceived them to cause delays in the movement of goods.

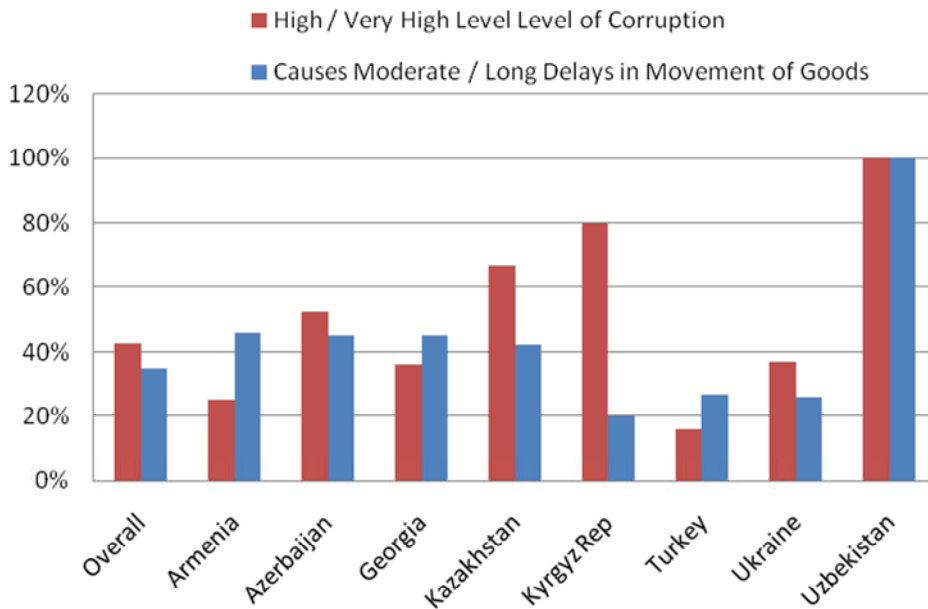




**Figure 13: #2: Inland Enforcement Bodies**



**Figure 14: #3: Special Financial Control Bodies**





### **c. Importing and Exporting:**

In order to gauge the origin of most of the imports by the companies which import and the most common transport routes, we asked respondents to estimate, by percentage, the origin of their imports. In addition, respondents were asked to estimate, by percentage (for both imports and exports) the routes most used.

Overall, respondents indicated that most of their imports originated from Western Europe followed by North and South America. Turkey and Eastern Europe were the next most popular origin of imports. Russia ranked last overall as an important origin of imports.

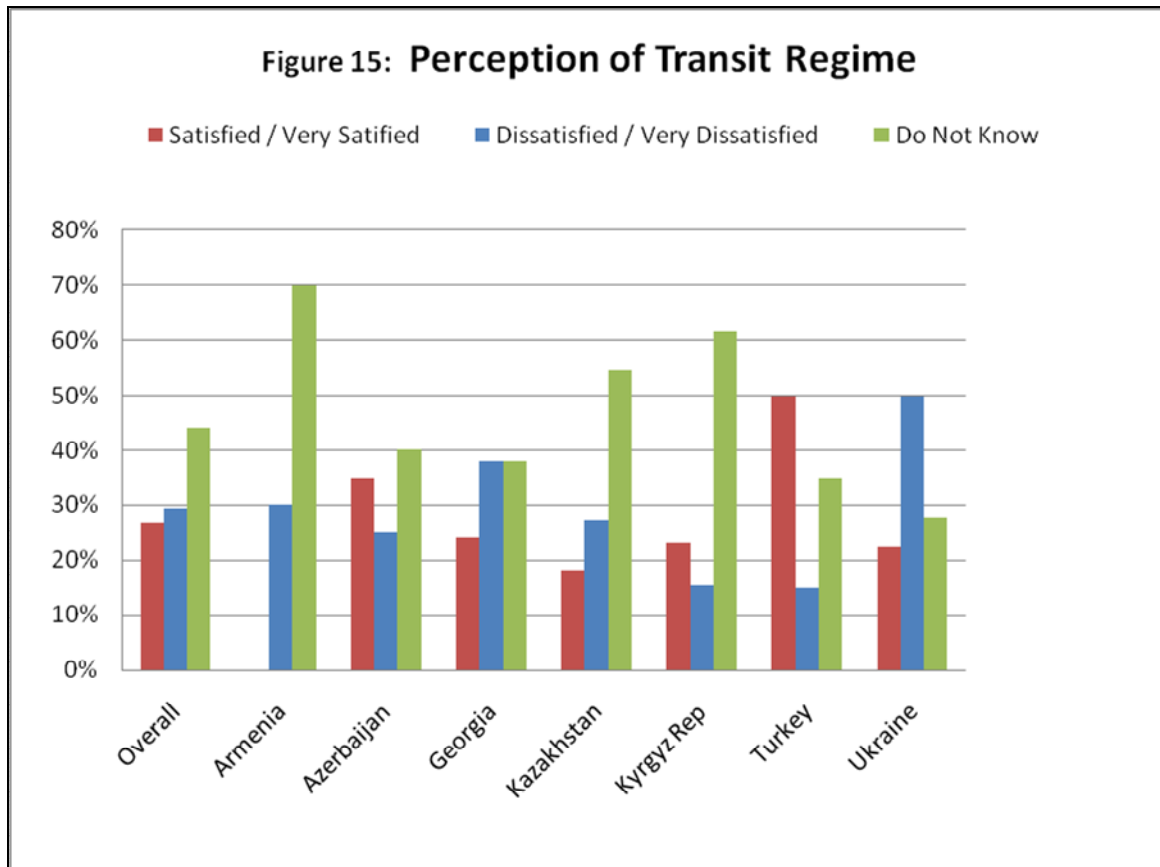
In terms of routes, most respondents indicated that, overall, the following two routes were most used: #1: from EU / USA through the Black Sea and Georgia to Azerbaijan, Armenia, Central Asia or Asia and #2: from EU/USA through Baltic countries, to Russia, Central Asia and Asia.

### **d. Transit of Goods:**

A smaller population of respondents chose to answer questions regarding the transit of goods. These respondents were asked whether they were satisfied with the transit regime in their country. Overall, by only a slight margin, respondents were “dissatisfied or very dissatisfied” with the transit regime in their country. The charts below indicate the levels overall and for each country.<sup>1</sup>

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<sup>1</sup> Respondents from Uzbekistan did not answer these questions.

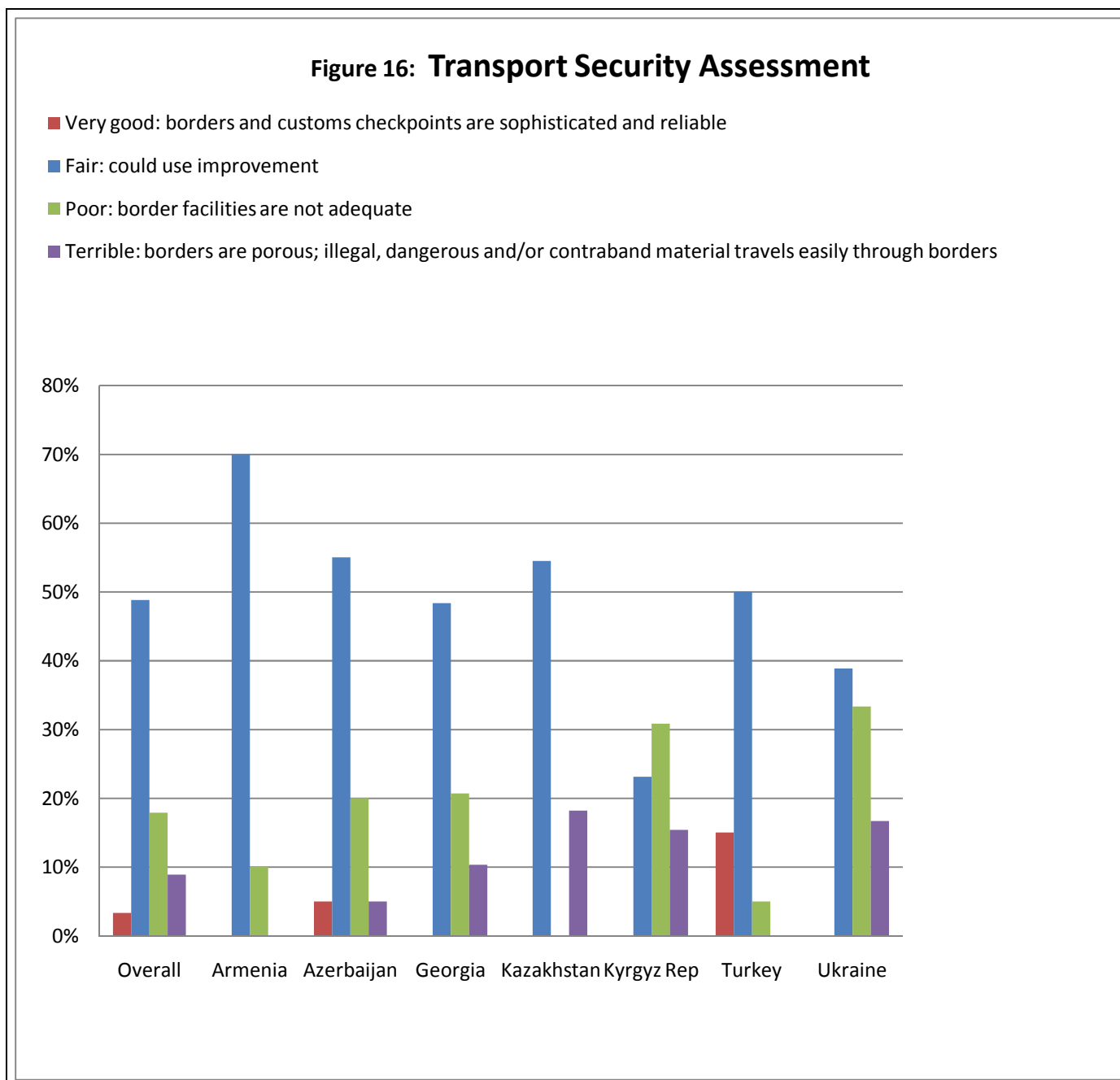


Respondents that were familiar with the TIR carnet system for the transit of goods through countries were asked whether or not using the TIR system simplified trade and transit and how frequently goods moving under the TIR were physically checked. Overall, 61% of this group of respondents indicated that using a TIR carnet simplifies trade and transit. Regarding physical inspection: 29% indicated that goods were ‘frequently’ checked when using a TIR carnet, 20% indicated that goods were ‘sometimes’ checked, and 17% said goods were ‘rarely’ checked when using a TIR carnet.



### e. Security of Goods:

Respondents were asked to assess the level of transportation security within their country. Nearly all (76%) of respondents felt that the level of security needed to be improved. The chart below provides details overall and by country.<sup>2</sup>



<sup>2</sup> Respondents from Uzbekistan did not answer this question.





## Appendix 1: Select Individual Country Comments<sup>3</sup>

### Armenia:

- Corruption and over-regulation rule the day here.
- I think that business conditions will improve.
- It is difficult to find local staff which are fluent in English or other foreign languages.

### Azerbaijan:

- Corruption is the biggest issue and until the government can control this, running a business is always going to be a challenge.
- Inflation is quite high and there will be a slowdown which will impact various projects and increase unemployment.
- The country is over reliant on the oil and gas industry and needs to diversify.

### Georgia:

- The recent political upheavals have left many businesses uncertain about the future.
- Before political unrest at the end of 2007, ratings for Georgia would have been much more optimistic.
- While Georgia is a member of the WTO, it is not following WTO rules (e.g., excise rates for locally manufactured vs. imported products are different).
- Our company maintains a 'Zero Tolerance Policy' for bribery.
- There are several more routes that are used, including by air.

### Kazakhstan:

- Business climate is certainly improving, but not as fast as it looks from the outside.
- Although top levels are government seem committed to improving the legal, tax, customs, and utilities infrastructure; the implementation at lower levels is still extremely corrupt and slow. There is also a serious lack of communication between different state and government organs which sets a base for potential problems.
- Corporate raiding and conspiracies against foreign companies is much too common.

### Kyrgyz Republic:

- While income is still quite small, it is growing which prompts a reasonable discussion about increasing demand for private banking.
- There is a high risk for perishable goods due to long delays at customs (if you don't bribe the officials).

### Ukraine:

- Despite political uncertainty, the economy is still growing and the number of foreign investors grows each day.
- A lot rests on creating a more politically stable environment for long term policy planning.
- It is difficult to find local staff that are fluent in English or other foreign languages.

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<sup>3</sup> Please note that the comments made here are those of individual respondents and do not necessarily reflect the position of the AmCham or the U.S. Chamber of Commerce.



## Appendix 2: Participating American Chambers of Commerce

Members from the following American Chambers of Commerce (AmChams) participated in the survey.

### Armenia:

Armenia Marriott Hotel-Room 315  
1 Amiryan Street  
Yerevan, 0010 Armenia  
Tel: +34710 599187  
Fax: +34710 599256  
[www.amcham.am](http://www.amcham.am)

### Azerbaijan:

ISR Plaza  
340 Nizami Street, 6th Floor  
AZ1000-Baku, Azerbaijan  
Tel. +99412 4971333  
Fax. +99412 497 1091  
[www.amchamaz.org](http://www.amchamaz.org)

### Georgia:

1 Nustubidze St  
Tbilisi 0177 Georgia  
Tel: +995 32 312110  
Fax: +995 32 312105  
[www.amcham.ge](http://www.amcham.ge)

### Kazakhstan:

29/6 Satpaev Street  
Office Tower, 10th Floor  
Almaty, 050040  
Kazakhstan  
Tel: +7 (3272) 58-79-38  
Fax: +7 (3272) 58-79-42  
[www.amcham.kz](http://www.amcham.kz)

### Kyrgyz Republic:

191 Sovetskaya, Office #123  
Bishkek, Kyrgyz Republic 720011  
Tel: +996 (312) 68 09 07  
Fax: +996 (312) 68 11 72  
[www.amcham.kg](http://www.amcham.kg)

### Turkey:

American Business Forum in Turkey (ABFT)  
Süzer Plaza Kat 15 Askerocağı Caddesi No. 15  
34367, Elmadağ İstanbul, Turkey  
Tel +90 212 243 35 11  
Fax +90 212 243 35 17  
[www.abft.net](http://www.abft.net)

### Turkish American Business Association (TABA)

Buyukdere Cad. No. 18  
Tnakaya Apt.Kat . 7  
34360 Sisli, Istanbul, Turkey  
Tel: + 90. 212. 291 09 16/17  
Fax: + 90. 212. 291 06 45  
[www.amcham.org](http://www.amcham.org)

### Ukraine:

42/44 Shovkovychna Vul., LL1 Floor  
Kyiv, 01601, Ukraine  
Tel: +380-44 490-5800  
Fax: +380-44 490-5801  
[www.chamber.ua](http://www.chamber.ua)

### Uzbekistan:

2 Afrosiab St, Tashkent 100031, Uzbekistan  
Tel: +998 71 140 08 77  
Fax: +998 71 140 09 77  
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