

Central Asia: Resource-Rich Region's Immense Digital Promise

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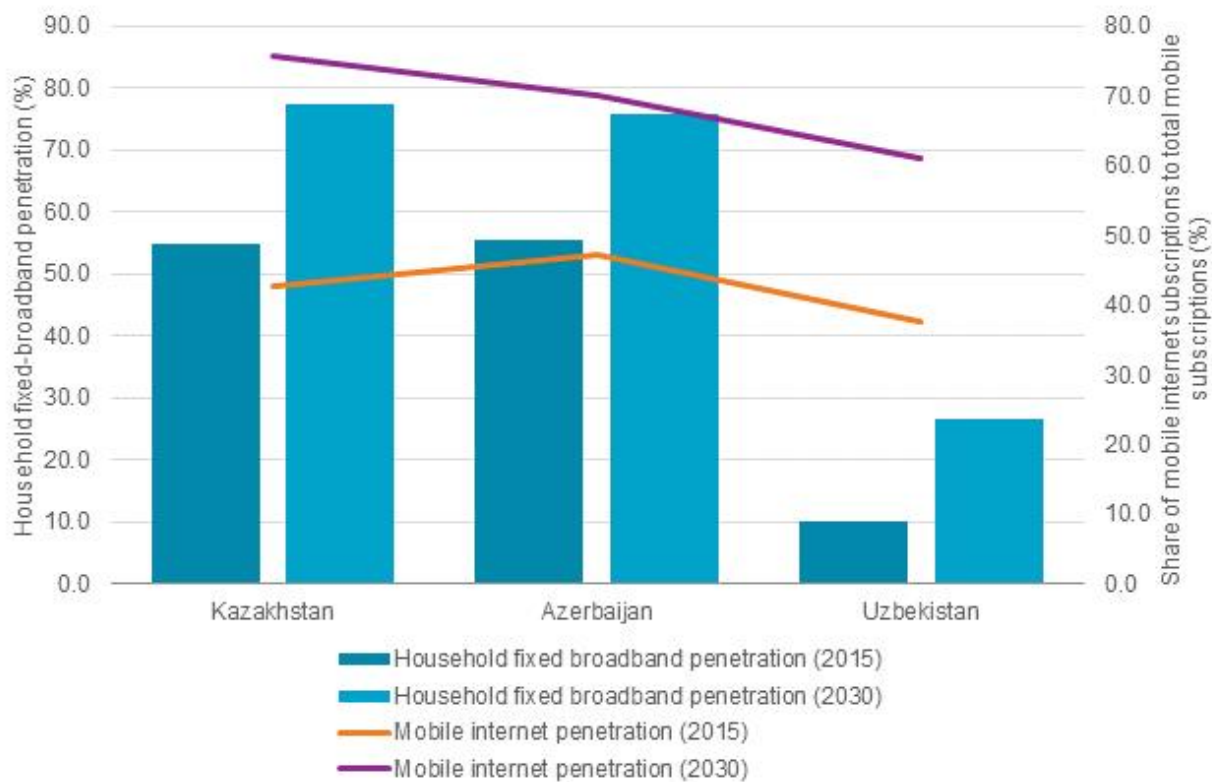
Central Asia has always been a region with immense strategic importance. With the resource-rich region located in the neighbourhood of two powerful emerging markets China and Russia, Central Asian

nations have been in the news for their oil and gas exports. Driven by fast-growing Chinese demand for their resources, these nations have witnessed robust economic growth since 2010. Developments of the digital landscape have not historically received the same attention. However, governments in key markets across the region have turned their focus toward enhancing their digital environment.

Kazakhstan and Azerbaijan set the tone for telecom growth

Two countries in the region stand out in terms of the government's commitment to push ahead with improved telecom connectivity: [Kazakhstan](#) and [Azerbaijan](#). As of 2015, Kazakhstan had the highest internet penetration in Asia Pacific apart from the more developed East Asian peers. Over 2015-2030, the country is expected to be a regional leader in terms of growth in households accessing fixed-broadband. Fixed-line incumbent Kazakhtelecom has invested in urban fibre networks and in November 2014 submitted a plan to parliament for the rollout of fibre broadband to villages with a population of over 250. Strong demand for data services means that penetration in 3G networks will rise rapidly over 2015-2030.

*Household Fixed-Broadband and Mobile Internet Penetration, select markets:
2015/2030*



Source: Euromonitor International from International Telecommunications Union (ITU), national statistics

Note: Data for 2016-2030 is forecast

Azerbaijan is also a rising star of Central Asian telecom with the government focusing on making the sector more competitive and promoting investments in keeping with its objective to diversify the economy away from oil. The mobile market has been the biggest beneficiary of competition with rapid growth in voice penetration and nearly ubiquitous 3G coverage as of 2015. In the fixed-broadband space, government initiatives will drive penetration rates, especially in underserved regions. In 2015, the state-owned fixed-line incumbent AzTelekom launched the first phase of the "Expansion of National Broadband Network," which will run up to 2020. As a result, the country is expected to witness one of the fastest increases in household fixed-broadband penetration over the 2015-2030 period.

In contrast to the above mentioned markets, which are witnessing all-round development, **Uzbekistan**, another key regional market, still has a lot of catching up to do. The mobile market is expected to drive investments going ahead partly due to the still low penetration rates as of 2015. The 3G network has, however, expanded rapidly over 2010-2015. Fixed-broadband access is still low, but the government's ICT development programme for 2015-2019 period will improve coverage.

Kazakhstan is the regional internet retail leader

Internet Retailing Growth in Select Central Asian markets: 2015-2020



Source: Euromonitor International from trade sources, national statistics

Note: Data for 2016-2020 is forecast

These investments in digital technologies are driving the uptake of internet retailing in Central Asia, especially in larger markets such as Kazakhstan. While foreign online retailers account for the major proportion of transactions, local online marketplaces such as Lamoda, Alser and Sulpak provide a range of electronics and fashion products in Kazakhstan. Yet, internet retailing remains confined to urban centres, such as Astana and Almaty, which points at the huge potential of this segment going ahead due to improvements in the digital environment. Greater adoption of electronic payment systems, instead of cash, will also push online retail sales.

On the other hand, online retailing in Azerbaijan and **Uzbekistan** is minuscule but the governments have taken steps to provide enabling laws to facilitate future growth. For instance, in May 2015, **Uzbekistan** adopted the electronic commerce law, which specifies rules for transactions, access to electronic payment systems and places restrictions on usage of personal data without the consent of an individual.

High-income inequality and volatile oil prices are key impediments

Central Asia continues to be heavily dependent on its humungous natural resources. While this has increased prosperity in recent years, it has also skewed the income distribution in favour of urban residents in Azerbaijan and **Uzbekistan**. Governments in respective countries have made attempts to diversify their economies away from oil and gas and faster technology development. While the progress is visible in Kazakhstan and Azerbaijan, and to a smaller extent in **Uzbekistan**, other countries in the region remain far poorer and technologically backward. Governments need to recognise that rising income inequality and fall in energy prices might impede telecom investments and greater tech-adoption in the region.

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