



The impact of the global economic crisis on Central Asia and its implications for the EU engagement

Nargis Kassenova

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Introduction

There is a profound connection between economics and politics. A stronger economy creates a basis for more ambitious political actions and programmes. At the opposite end, an economic downturn and recession breed social tensions and can undermine the political order. Both the EU and Central Asian states have been seriously affected by the global economic crisis, in different ways. This EUCAM working paper focuses on the impact of the crisis on Central Asian politics and geopolitics and the implications of these developments for EU engagement in the region.

The EU strategy for Central Asia adopted in 2007 was announced as the first political strategy towards the region. The claim implied that political goals are at the core of the document, which gives guidelines for the EU's actions. These were defined as security and stability in Central Asia (including the promotion of economic prosperity, good governance, democratisation, the rule of law and human rights), along with mutually beneficial energy cooperation. The current economic crisis has worsened the poverty in Central Asian states and exacerbated authoritarian tendencies in their domestic politics. It has revealed the extent of bad governance and pushed the weakest states to the brink of failure. Thus, on the one hand, the crisis has made the task of political transformation (good governance, democratisation, the rule of law and human rights) more pressing, while on the other it has made it more challenging. The first part of this working paper looks at the impact of the crisis on domestic politics in Central Asian states.

Although the strategy does not dwell on geopolitical issues, it is clear that the EU cannot effectively engage with the region without taking into account the presence of other external actors there (most importantly, Russia and China). The global economic crisis is affecting the geopolitical balance in Central Asia. Major actors – Russia, China, the US and the EU – are modifying their policies in the region in response to new challenges and opportunities. Weakened Central Asian states

(and their ruling regimes) are adapting to the circumstances. The second part of this paper is an attempt to define these shifts. The paper concludes with some considerations regarding the implications of the political and geopolitical developments in Central Asia for the EU's engagement in the region and a number of recommendations.

The economic crisis and domestic politics in Central Asia

All five Central Asian states have authoritarian political systems with similarities (extensive personalisation of power, patron-client relations and systemic corruption), but they also feature some important differences. Each country's regime relies on its own set of resources and uses specific tools to stay in power. In various ways, they achieve the co-option of the elites, keep the general population in check and suppress those who have not been co-opted. The toolbox entails a combination of coercion, ideological work/propaganda and economic benefits. The present economic crisis has affected the ability of Central Asian regimes to deal with these tasks.

Kazakhstan

Over a decade, Kazakhstan's economy enjoyed an 8-9% growth rate due to high prices for oil and metals. Kazakhstan became the largest economy in the region (with its GDP comprising more than 60% of the combined GDP of the Central Asian states). Although the riches were concentrated at the top, some resources were trickling down. As a result, the percentage of people living below the national poverty level decreased from 40% in the late 1990s to around 14% in 2007.¹ Economic growth became an important source of legitimacy for the regime. The worsening situation of neighbouring Central Asian states in the background served to boost the positive image of the Kazakhstani leadership.

While economic activities were encouraged, the political activities of citizens were suppressed. None of the elections was recognised as free and fair by the OSCE monitoring missions; freedoms of expression, assembly and association remained limited and the media (especially in the electronic domain) were kept under tight control. The official line could be summed up as 'economic reforms first, democratisation later', aimed at fostering a politically apathetic but entrepreneurial and consumption-oriented population.

The abundance of money in the system and its relative openness allowed for the appearance of a certain pluralism in the political space similar to that of Russia. Business elites for various reasons have been supporting opposition parties, their electoral campaigns and newspapers. They have to use discretion and they can be threatened into stopping such assistance.² The task of persuasion is mostly undertaken by

Nargis Kassenova is Assistant Professor at the Department of Political Science of the Kazakhstan Institute of Management, Economics and Strategic Research (KIMEP). Nargis received her MA and PhD in Political Science from Nagoya University (Japan). In her dissertation she explored the conceptual and operational aspects of Kazakhstan's national security since independence. In 2004 she returned home and worked on a number of projects including an EU-funded study of the policy and law making in Kazakhstan and a World Bank project on legal and judicial reforms in Central Asia. In 2005-06 Nargis participated in AsiaBarometer Survey and contributed a chapter entitled "Kazakhstan: Rich in Natural Resources, Poor in Social Capital" for the edited volume based on the results of the survey. Her current research focuses on the policies of various Eurasian actors in Central Asia (EU, Russia, China, Japan) and the implications of their engagement for Kazakhstan and the rest of the region.

1 See CIA, *The World Factbook*, CIA, Washington, D.C. (retrieved from <https://www.cia.gov/library/publications/the-world-factbook/index.html>).

2 One of the richest businessmen in Kazakhstan, the CEO of

the financial police. Generally, excessive political ambitions are punished, as is typical for authoritarian systems.

The ‘fat years’ finished in 2007, when the banking sector was hit by the US subprime crisis. The resulting credit crunch undermined the construction sector, one of the pillars of the booming Kazakh economy. Low prices for oil and metals, the main export commodities, were another serious blow that decreased budget revenues considerably. Stalled construction sites and closing mines generated the conditions for mounting social tensions.

The government response was to open up the national oil fund and pump money into the economy. Around \$19 billion (or 14% of GDP) was invested in the construction, banking, agricultural and other sectors.³ The government also developed an action plan (‘roadmap’) to create employment opportunities (through retraining, signing agreements with large companies on retaining work places and cutting migrant labour quotas). In addition, efforts were made to attract foreign investments. The largest infusion was the loan of \$10 billion from China to invest in energy and infrastructure projects.

According to the government, all these measures together with rising prices for export commodities (chiefly oil) led to an improvement in the prospects of the Kazakh economy. In September 2009, the prime minister announced that the crisis had passed and that GDP would show some growth by the end of the year (in June, the ministry of economy and budget planning had expected a 2% contraction). Non-government experts are generally more sceptical and predict an autumn of non-payments, bad debts and rising unemployment.

What political consequences can be traced to the two-year crisis and what are the implications if it continues? The most obvious consequence is the growing number of unemployed persons throughout the country or those who are formally employed but who are not receiving any salary. As a result, strikes are becoming a regular feature.⁴ So far, they are not coordinated and do not present a big challenge to the government, which still has resources to avoid major negative developments. The leadership could also put the blame on outside factors, deflecting criticism of its own management failures.

Nevertheless, the spread of public dissatisfaction worries the government, which might have been one of the reasons it was hesitant to call parliamentary elections despite the embarrassment of heading towards the OSCE chairmanship in 2010 with one ruling party in the parliament. If the elections

Kazkommertsbank Nurzhan Subkhanberdin, was warned about the ensuing problems if he continued to support the opposition Ak Zhol party. Consequently, he withdrew funding.

³ See Nursultan Nazarbayev’s speech at the 21st Foreign Investors’ Council Plenary Session, 12 June 2009.

⁴ An overview of the strikes that took place in 2009 can be found on the website of the Socialist Resistance of Kazakhstan (retrieved from <http://kazakhstan.socialism.ru/news/kazakhstan/2009/voln.html>).

take place by the end of the year, the opposition will have the chance to increase its support base through the accumulation and organisation of protest sentiments in society. Even so, the regime has all the levers to provide for the desired election results and keep the general situation under control. On the one hand, the crisis has given rise to opportunities for the political opposition, but on the other, it has decreased the financial resources from which they can draw. Businessmen who could support opposition parties and their activities while their fortunes were growing now find themselves in more constrained circumstances.

Importantly, the business community is experiencing hard times not only owing to the crisis but also because of the pressures brought on by an ‘anti-corruption campaign’, resulting in the arrest of a number of high- and medium-level officials and executives (the scale of the campaign is unprecedented). There is a perception that the secret services and financial police have been given carte blanche to put the country’s house in order by reminding the elites of their vulnerability. The official goal of the campaign – cleaning up the system – is viewed with scepticism, considering the selectiveness of arrests and top-to-bottom corruption that has not left untouched law enforcement bodies or the judicial sector. Therefore, the campaign has instilled fear among the political and economic elites, which are ‘disciplined’ in this way into following the rules of the game. But it has failed to tackle the problem of corruption at a deeper level, which would have been beneficial for the development of the country.

It can be argued that the fear that the regime is trying to invoke among the elites is a reflection of the fear it is experiencing itself. The economic crisis has revealed the fragility of Kazakhstan’s success story, and scandals related to ‘Kazakhgate’ and Rakhat Aliyev have induced tighter controls over the political space.⁵ Simultaneously, the government has been under pressure to show some liberalisation efforts to the OSCE and its member states, which granted it chairmanship on certain conditions. At present, unfortunately for the EU and for the political development of Kazakhstan, the tendency towards self-preservation is stronger than the incentive to look good in the eyes of the European community.⁶

⁵ Kazakhgate is a US-based investigation into whether Nursultan Nazarbayev and high-level Kazakh officials took bribes from US companies in exchange for lucrative oil contracts. Rakhat Aliyev is a former son-in-law of President Nazarbayev, who used to hold important government positions (including deputy head of the National Security Committee, vice-minister of foreign affairs and ambassador to Austria and OSCE). In May 2007, he was dismissed from his posts, later tried in absentia and sentenced to 40 years on various charges. Currently, Aliyev is in exile in Vienna.

⁶ In July 2009, President Nazarbayev signed the Law on Information and Communication Networks, which limits considerably both the freedom of the Internet and that of traditional media, despite the harsh criticism of the law by the OSCE, the EU and the US. There is continual pressure on independent media (major opposition newspapers are losing trials and going bankrupt and journalists are being arrested for libel and ‘revealing state secrets’). Another worrying development is the proposal made by the ruling Nur-Otan party to adopt a constitutional law “On the Leader of the Nation”, which would

Kyrgyzstan

In the early 1990s, Kyrgyzstan prided itself on being an ‘island of democracy’ in Central Asia. Yet, very soon afterwards it started digressing. By the time of the tulip revolution in March 2005, Kyrgyzstan had turned into a soft authoritarian (allowing most freedoms) and overall rather dysfunctional (in terms of governance) state. When challenged by public dissatisfaction after another round of rigged elections, the regime of President Askar Akayev collapsed.

The subsequent regime of President Kurmanbek Bakiyev proved to be a major disappointment in terms of both democratisation and better governance. The authoritarian tendencies have been growing and becoming more obvious, with power increasingly concentrated in the president’s hands, freedoms curtailed and the state captured by private interests (family and friends of the new leader). The lesson learnt by the new regime from the experiences of the old one was the necessity of a stronger coercive apparatus able to prevent another tulip revolution.

Kyrgyzstan is poorer in resources than Kazakhstan, and the enrichment of the elites was not accompanied by a redistribution or trickle-down effect. Around 40% of the population live below the poverty line.⁷ The physical infrastructure and access to basic public services – such as running water, public sewage systems, health and education – have deteriorated over the decades of independence.

The economic crisis has worsened the situation considerably. The downturn in Russia and Kazakhstan, the main trade partners of Kyrgyzstan, has led to a plunge in industrial production (by about 20% in the first quarter of 2009).⁸ Remittances sent by Kyrgyz labour migrants from these two countries, which accounted for a third of GDP, also decreased by 40-50%.⁹ Thousands of migrants returned to Kyrgyzstan, adding to the levels of unemployment and the possibility of social tensions. As the most telling evidence of mismanagement and corruption, in Kyrgyzstan, where hydropower is among the major exports, there have been multiple energy crises. In addition to rising prices, the impoverished population has had to deal with regular power cuts.

The political opposition tried to capitalise on these difficulties during the presidential election campaign of July 2009. But it is weak and fragmented, and the people are distrustful of

give Nursultan Nazarbaev the possibility of a life-long presidency.

⁷ These are estimates for 2004, derived from the CIA’s *World Factbook*, CIA, Washington, D.C. (retrieved from <https://www.cia.gov/library/publications/the-world-factbook/index.html>).

⁸ See the article “Kyrgyzstan: Industrial Output Plunges”, *Eurasianet.org*, 05.07.2009 (retrieved from <http://www.eurasianet.org/departments/news/articles/eav050709.shtml>).

⁹ See the article “Kyrgyzstan: Returning Migrants are a Cause for Concern”, *Eurasianet.org*, 04.03.2009 (retrieved from <http://www.eurasianet.org/departments/news/articles/eav040309e.shtml>); see also E. Marat, “Shrinking Remittances Increase Labour Migration from Central Asia”, *CACI Analyst*, Central Asia–Caucasus Institute, 02.11.2009 (retrieved from <http://www.cacianalyst.org/?q=node/5035>).

and generally disengaged from politics. Thus, although the elections were no less flawed than those that caused the tulip revolution, Kurmanbek Bakiyev could stay in power with relative comfort.

Protests take the form of local actions, the most common being blocking nearby roads until the government takes into account the demands of the protestors and makes certain promises. A more covert and principled form of protesting against bad governance is expressed in the growing popularity of Islamist movements and sentiments among the population. The government perceives this trend as very dangerous and cracks down on members of Hizb ut-Tahrir and other similar organisations. The scale of the trend is hard to define given that the authorities are purposely mythologising and exaggerating it; however, the ground for it is becoming only more fertile.

Unlike its Kazakh counterpart, the Kyrgyz government has no reserves to draw upon to alleviate the effect of the crisis. Therefore, it is trying to acquire grants and loans from external actors. It managed to negotiate a \$2 billion assistance package from Russia (reportedly in return for the decision to close the US military base on its territory). Later, the Kyrgyz government signed an agreement with the US on hosting the International Transit Centre (de facto, keeping the base but under a different name) after the American side increased the payments tenfold (from \$17.4 million to \$178 million).¹⁰

Yet these infusions of money cannot substitute for the absence of an anti-crisis strategy. The business environment is deteriorating and corruption is rampant. Kyrgyzstan is acquiring the features of a weak, bordering on failing state: unable to provide for the basic needs of the people and ever more vulnerable to external and internal security threats.¹¹ Although political and social upheavals in the nearest future are unlikely, the prospects for the country are bleak.

Tajikistan

Tajikistan was the poorest and most dependent on union subsidies among the Soviet Asian republics. The civil war of 1992–97 took a heavy toll from the population and largely destroyed the economy of the country. The negotiated peace agreement introduced a coalition government with a third of the seats given to the United Tajik Opposition. President Emomali Rahmon was nonetheless gradually able to consolidate his personal power. At present, the political opposition is marginalised and cannot put up a real challenge

¹⁰ Derived from *Kommersant*, 24.06.2009.

¹¹ The Brookings Institution report by S. Rice and S. Patrick, *Index of State Weakness in the Developing World* (Brookings Institution, Washington, D.C., 2008) defines weak states as “countries that lack the essential capacity and/or will to fulfil four sets of critical government responsibilities: fostering an environment conducive to sustainable and equitable economic growth; establishing and maintaining legitimate, transparent, and accountable political institutions; securing their populations from violent conflict and controlling their territory; and meeting the basic human needs of their population” (retrieved from http://www.brookings.edu/reports/2008/~/media/Files/rc/reports/2008/02_weak_states_index/02_weak_states_index.pdf).

to the regime.

Tajikistan remains the poorest of the Central Asian states. Around 60% of the population live below the poverty line. The infrastructure is dilapidated and public services are minimal or nonexistent. The tough circumstances Tajikistan has to deal with as a remote, mountainous country bordering on tumultuous Afghanistan are aggravated by corruption and a very low level of professionalism in the government.

The population is largely left to its own devices. Before the crisis, 1.5 million Tajik labour migrants sent money home (mostly from Russia and Kazakhstan), keeping afloat their families and the economy of the country (their remittances constituted up to 50% of GDP). In the first quarter of 2009, the sums transferred officially through the banks fell by 33%.¹² Migrants are reluctantly returning to Tajikistan, which only worsens employment conditions and stability in the country.

The crisis has hit the trade turnover and industries of Tajikistan. Currency returns from exports fell by 50%, mainly owing to the falling prices and demand for cotton and aluminium – two main export items. A third of the plants and factories have shut down and sent their employees home on unpaid holiday. Salaries and pensions (especially in rural areas) are paid with delay, while prices for basic food are rising alongside gas tariffs.¹³

To deal with the crisis the government turned to external actors – international donor organisations and individual countries. The IMF introduced a three-year credit programme of \$116 million, and the Asian Development Bank is to provide a \$120 million assistance package. The US doubled economic assistance to Tajikistan to \$46.5 million. China agreed to invest more than \$1 billion in various infrastructure projects.¹⁴ The assistance can slightly alleviate the harshness of some of the problems facing Tajikistan, but it cannot reduce the mismanagement/bad governance and make the economy sustainable.

Dissatisfaction and frustration among the population is growing. So far, these sentiments have not translated into political activity. Fear of another civil war and recognition that the most active part of the population is abroad might be factors accounting for this apathy. Both the secular opposition and the Islamic Renaissance Party are weak, and they do not present a challenge to Rahmon's regime. A bigger threat may come from sources outside the political system – various Islamist movements (Salafia, Tablighi Jamaat and Hizb ut-Tahrir), former warriors of the United Tajik Opposition residing in Tajikistan and combatants returning from Afghanistan.

12 See the article "IMF expects remittances to Tajikistan to decrease through the whole year", *Asia-Plus*, 13.05.2009 (retrieved from <http://www.asiaplus.tj/en/news/49/51293.html>).

13 See "Asia Times": Crisis increases the number of poor in Tajikistan [Krisis uvelichivayet kolichestvo bednykh v Tadzhikistane], 07.08.2009 (retrieved from <http://www.paruskg.info/?p=13313>).

14 See S. Olimova, *Tajikistan*, Report for the Central Asia Observatory, May–June 2009 (retrieved from http://www.casaasia.es/oac/uploads/tajikistan_jul09.pdf).

Consequently, the authorities have been taking repressive measures against these actors.

The effectiveness of coercion can nonetheless only be short-term, especially when carried out by a largely dysfunctional and corrupt government. Tajikistan is closer to the condition of a failing state than any other Central Asian country. The economic crisis is pushing it further in this direction.

Turkmenistan

Since independence, Turkmenistan has stood apart from the other Central Asian states through its self-imposed isolation and the remarkable idiosyncrasies of its first president, Saparmurat Niyazov. The regime he established was built around an extreme form of personality cult and it featured zero tolerance to any form of political opposition. Having rich energy reserves at its disposal, the government could provide the population with subsidised goods, which, together with heavy ideological brainwashing, formed the basis of its legitimacy.

Since the death of Niyazov in December 2006, under the current President Gurbanguly Berdymukhamedov, the country has been undergoing a process of partial normalisation. Some of the most obnoxious laws and policies have been revoked and Turkmenistan has started opening up little by little to the outside world. Berdymukhamedov has been gradually dismantling the personality cult of Niyazov, substituting it with a milder version of his own.

The political system remains highly authoritarian. Elites are co-opted through access to resources and disciplined by frequent purges and reshuffles in the government, state administration and major enterprises in a manner typical for Central Asian regimes. The population is tightly controlled and the potential for people's meaningful participation in politics is suppressed.

The isolation has not protected Turkmenistan from the impact of the global economic crisis. Falling prices and demand for its main export commodity – natural gas – has deprived the government of the lucrative revenues it had grown used to over the years. In April 2009, Russia (which buys most of Turkmenistan's gas) sharply reduced its imports, which led to the explosion of one of the central pipelines and caused serious tension between these two countries.¹⁵

The government loosened some of its most heavily subsidised prices: gasoline rose sevenfold, bus tickets twentyfold, and airline tickets tenfold. Prices for basic foods are rising too, up by 30% in 2008 for bread, eggs and meat.¹⁶ Electricity tariffs have gone up as well. In addition, foreign companies have cut the numbers of their local employees, especially in the

15 See the article "Turkmenistan: Gas Blast Ignites Turkmen-Russian Row", *Eurasianet.org*, 04.10.2009 (retrieved from <http://www.eurasianet.org/departments/insightb/articles/eav041009b.shtml>).

16 See S. Mitas, "Turkmenistan's Economic Bubble", *Business Week*, 10.02.2009 (http://www.businessweek.com/globalbiz/content/feb2009/gb20090210_156547.htm).

construction sector, increasing the levels of unemployment. All this has led to confusion and frustration among the population and a wider gap between the rich and poor.

Thus, the crisis is a challenge for the government. Still, as long as gas is a coveted commodity, the government, corrupt and inefficient as it is, has sufficient resources to provide for its own longevity. Society has been under such tight control for so long that its emancipation will require considerable time. The longer-term prospects are not clear however. The economy is stagnant, the system is hampered by the lack of a professional cadre, and the situation in the education and health sectors is dismal. Despite its riches, there is no basis for sustainable growth of the country.

Uzbekistan

In the 1990s, while Kazakhstan and Kyrgyzstan were liberalising their economies and Turkmenistan was retaining the command economy, Uzbekistan chose a path in the middle. Its gradualist approach was praised for not exposing the population to the vagaries of the market and compared with East Asian models of development.¹⁷ Nevertheless, this comparison proved to be inaccurate. The system stifled the entrepreneurial initiative of the population and became mired in corruption. Within a decade of Uzbekistan's independence, this potential economic powerhouse of the region lost the competition with Kazakhstan in terms of the size and vibrancy of the economy.

The political development of the country was arrested as well. The regime of President Islam Karimov is built on fear and extensive use of the repressive apparatus. Uzbekistan has turned into a police state intolerant of any form of political opposition (secular or Islamic) or plurality of opinion (freedoms of expression, assembly or association are severely curtailed). This breeds underground dissent, taking the form of a radical and fundamentalist version of Islam that is endangering the future of the country.

A central feature of the regime is its suppression of any criticism of its policies and a self-congratulatory approach reminiscent of Soviet times. It has praised itself for choosing less integration into the global economy and thus being invulnerable to the impact of the crisis. At present, the government boasts an 8% GDP growth rate and claims it created half a million additional jobs in the first half of 2009.¹⁸ But the real picture is not that rosy.

Industrial output has stagnated or fallen in the main sectors of the economy. The crisis has affected prices and demand for the country's leading export commodities: gas, metals and

cotton. The production of cars and buses is also falling due to the contraction of the Russian market. The welfare of the already impoverished population (26% of Uzbeks live below the poverty line) has been hit by a plunge in remittances from labour migrants (numbering in hundreds of thousands), which have fallen by 30% over the last year.¹⁹ Migrants are returning home with the hope of going back to Russia or Kazakhstan once the situation improves.

The government realises the dangerous potential of these developments and is trying to take measures to counteract them. It was decided to increase salaries, pensions and benefits by 25% starting this past August, although it is likely that these hikes will be eaten by inflation. President Karimov also negotiated a labour migration agreement with the United Arab Emirates.²⁰

As for the Uzbek elites, it is clear that they must have been affected by the crisis economically, but the opaqueness of the system prevents a determination of whether that has led to any redistribution of power and influence. At present, President Karimov seems to be in full control of the situation.

The regime has resources to forebear the economic crisis. At the same time, the crisis potential in this pivotal state of Central Asia is accumulating, and eventually the authorities might not be able to keep the lid on the boiling pot.

Thus, the global economic crisis has affected the domestic situations in all of the Central Asian states and challenged all five regimes. Interestingly, the biggest challenges are facing the richest (Kazakhstan) and poorest (Tajikistan and Kyrgyzstan) countries in the region.

Because of its relative openness to the world and a decade of economic growth, Kazakhstan's political-economic system has acquired a complexity that requires more subtle mechanisms of internal balancing. Repressive measures are becoming too crude for maintaining the functioning of the system. Generally, the crisis has revealed the growing weaknesses of the regime. It seems that it is approaching the limits of its capacity to develop.

As for Tajikistan and Kyrgyzstan, the crisis has aggravated the problem of bad governance and unconsolidated statehood. The population is impoverished and increasingly alienated, and the state has very limited resources to meet the challenges and mostly mismanages them.

Economic hardships often lead to a strengthening of authoritarian tendencies. In Central Asia, this trend can be seen in Kyrgyzstan and Tajikistan. In Kazakhstan, it is to some extent counterbalanced by the incentive to look presentable on the eve of its OSCE chairmanship. In Uzbekistan and Turkmenistan, the two most repressive regimes of Central Asia, the restrictions on society are already so tight that there is no need to increase pressure.

17 See R. Abasov, *Central Asian Republics' Search for a 'Model of Development'*, Central Asia in Transition No. 61, Slavic Research Centre, Sapporo, 1998 (retrieved from <http://src-home.slav.hokudai.ac.jp/publictn/61/rafis/rafis1.html>).

18 See the article, "Crisis resistant or crisis prone?", The Economist Intelligence Unit ViewsWire, *Economist.com*, 08.09.2009 (retrieved from http://www.economist.com/agenda/PrinterFriendly.cfm?story_id=14070444).

19 Ibid.

20 Ibid.

The changing geopolitical balance in Central Asia

Russia and China: Their interests and policies in the region

Numerous external actors are active in the region of Central Asia, the most important being Russia, China and the US. This section focuses on Russia and China, since the greatest challenge for the EU is to decide how to carry out its Central Asian policy, taking into account the presence of the region's two large neighbours.

For Russia, Central Asian states are important as they form its southern flank and can transmit security threats and challenges, such as radical Islamism, drug trafficking and illegal migration. Considering that the borders between Russia and Kazakhstan and between Kazakhstan and the rest of Central Asia are porous, the region cannot play the role of a buffer. Moreover, the Central Asian states generate problems for themselves and all have, to a varying degree, the potential to destabilise. The Central Asian states (with the exception of Turkmenistan) are members of the Collective Security Treaty Organisation (CSTO), the Russia-led military-political alliance whose goal is to provide for the security of the region, but whose capacity to do so has not been tested yet.

The hydrocarbon-rich states of the region (Kazakhstan, Uzbekistan and Turkmenistan) are crucial to Russia's energy export schemes. Moscow is trying to maintain control over the export of Central Asian oil and gas to the European markets. It makes major efforts to block the development of alternative export routes, such as the trans-Caspian oil and gas pipelines and the Nabucco pipeline. By controlling more resources, it aims at enhancing its political clout in the region and in the world.

For the Russian economy, Central Asia is an area where its companies are most competitive. Since early 1990s, the economic integration of the post-Soviet space, including Central Asia, has been one of Moscow's priority projects. When the development of a common economic space in the Commonwealth of Independent States did not work, the Eurasian Economic Community (EurAsEC) was created with fewer members. Kazakhstan, Kyrgyzstan and Tajikistan are members; Uzbekistan joined in 2006 but suspended its membership in 2008.²¹ In the framework of the EurAsEC, the Eurasian Development Bank was set up to support development projects and to promote economic integration. The overall goal is to establish a customs union and build an economic base for a political union following the example of the EU.

Another significant driver of Russia's policy in Central Asia overlaps with the above three. Moscow sees itself as the traditional patron of the region, and Central Asia as the

zone of its 'privileged interests' (as openly stated by current President Dmitry Medvedev). It is willing to assume both the glory and responsibility of being a great power, with areas under its control and influence. If Russia 'loses' Central Asia, the grounds for such a claim would shrink considerably.

For China, Central Asia is important primarily as the neighbourhood of its Xinjiang province. Initially, Chinese authorities had fears that the newly independent states of Central Asia would not only give inspiration to Muslim minorities in Xinjiang, but could also become the base of separatist movements. The Central Asian states proved to be highly sensitive to Beijing's concerns, however, and chose to cooperate in the struggle against the 'three evils' of separatism, extremism and terrorism. That became one of the pillars of the Shanghai Cooperation Organisation (SCO) formed by China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan in 2001. Beijing has been carefully watching the dynamics in the region, for destabilisation in Central Asia could engender problems for the security of China (the fall of friendly governments, failing states unable to control the situation on the ground and suppress the three evils, and the risks posed for Chinese investments and businesses).²²

The second pillar of the SCO, strongly promoted by China, is economic cooperation. China is interested in Central Asian natural resources (oil, gas, uranium and metals) and is a major supplier of manufactured commodities. Bilateral trade with all the Central Asian republics has been growing exponentially. In 2004, Beijing suggested the creation of a free trade zone among the SCO states, but this initiative was not well received by the other member states, whose industries cannot compete with those of China. Beijing is also trying out the role of a development assistance provider for the region: in 2006–07 it provided \$900 million to Central Asian states for various infrastructure projects.²³

China has been successful in acquiring energy resources in two hydrocarbon-rich states of Central Asia: Kazakhstan and Turkmenistan. It built an oil pipeline that brings Kazakh oil to Xinjiang, and it is currently working on the construction of a gas pipeline that would connect Turkmen gas fields – developed by a Chinese company – via Kazakhstan with China.

For a long time, Russia considered the US its main rival in the region. Over the last few years, however, Russian experts have increasingly shown more concern about the growing influence of China. In its turn, China is trying not to disturb Russia and show respect for Russia's dominance in the area, seeing it as beneficial for the security of the region.

As for the Central Asian states themselves, they have all

22 The July interethnic clashes in Xinjiang make it obvious that Central Asians must also watch carefully the internal dynamics of their giant neighbour.

23 See N. Kassenova, *China as an Emerging Donor in Tajikistan and Kyrgyzstan*, Russie.NEI.Visions, No. 36, IFRI, Paris, January 2009 (retrieved from http://www.ifri.org/files/Russie/ifri_China_Central_Asia_kassenova_ENG_January2008.pdf).

21 There are six full members in the EurAsEC – Belarus, Kazakhstan, Kyrgyzstan, Russia, Uzbekistan (suspended membership) and Tajikistan. Armenia, Moldova and Ukraine are observers.

chosen the so-called ‘multi-vector’ foreign policy. They are clinging to Russia as the main patron of the area, but at the same time drawing benefits from the interaction with other actors and their interest in natural resources or geo-strategic position. Central Asian states do not have full confidence in Russia or the benign nature or consistency of its policies. They have seen that Russia can provoke disorder, support sides in regional conflicts and aggravate separatism (such as in the south Caucasus) or be heavy handed when it does not like developments in one of the post-Soviet states (as shown in the Russian–Ukrainian gas crises and sudden sanitary embargos on imports from Georgia, Moldova or Belarus).

Central Asian leaders draw on the support of the West, primarily from the US, to counterbalance Russian influence. Still, being clearly authoritarian, they are afraid of the Western democratisation agenda. There are two main arguments used to prevent ‘interference in internal affairs’ (such as demands to comply with OSCE commitments or international conventions signed by the Central Asian states): the ‘young age’ of ‘budding democracies’ in the region and the threat of Islamic radicalism overtaking the region if the established ‘order’ were unsettled.²⁴ The latter argument has some validity, although it should be taken into account that while the governments of Central Asia are suppressing Islamist movements, they are also sowing fertile ground for their development (through a combination of injustices, poverty, and falling levels of public services and education).

China is an external actor with whom Central Asian leaders are most comfortable. Beijing provides moral and financial support, does not interfere in internal affairs and is overall sensitive to local concerns and fears. Simultaneously, Central Asians are not fully relaxed with regard to China’s increasing might and potential for economic dominance and demographic pressure.

There is not much trust among Central Asian states themselves, which stalls regional cooperation and prevents them from pulling their resources together and making the region stronger with regard to external pressures. Thus, the situation is characterised by a general shortage of trust.

The impact of the global economic crisis on the geopolitics of the region

The economic crisis has weakened Central Asian states and made them more anxious to seek foreign assistance, which has brought about a different set of interests and opportunities for external actors.

Russia openly assumes responsibility for the region and it has been most active in arranging various forms of help for Central Asian states to deal with the crisis. On a bilateral basis, Moscow agreed to provide a large assistance package

to Kyrgyzstan: \$150 million in grant aid, \$300 million in preferential credit and a \$1.7 billion loan for the construction of the hydropower plant Kambarta-1. Moscow also forgave the Kyrgyz debt of \$180 million.²⁵

The loan/grant/debt relief agreements were signed in February 2009 during President Bakiyev’s visit to Moscow, at which time he announced the coming closure of the US base at Manas. Although both the Kyrgyz and the Russian sides denied any connection between the financial aid and the base, the general opinion was that Russia had pushed for the sudden anti-US stance in Bishkek.

At the multilateral level, the main locus of activities is the EurAsEC. In May 2009, its council for financial and economic issues adopted an anti-crisis action plan and set up a \$10 billion anti-crisis fund. Russia is to contribute the bulk of the fund – \$7.5 billion – and initially Kazakhstan will add \$1 billion, and Kyrgyzstan and Tajikistan will contribute \$1 million each. The fund will be governed by a council composed of the ministers of finance and managed by the Eurasian Development Bank. It is planned that the money will be used for stabilisation credits for member states and joint investment projects.²⁶

It remains to be seen how successful this fund will be. Stabilisation credits for member states, considering the inefficiency and corruption, might disappear without much trace. As for the joint projects, the countries that need the investments most (in Central Asia, being Kyrgyzstan and Tajikistan) have the most difficult business environment in which to operate.

Another initiative within the EurAsEC framework triggered by the economic crisis has been the decision to speed up the development of the customs union among Russia, Belarus and Kazakhstan. Kyrgyzstan announced that it also wants to join. According to the new agreement, the union is to be in place by the beginning of 2010.²⁷ It is expected that the removal of trade barriers would stimulate the economies of the participant states and help them resist pressures from outside.

Thus, Moscow’s policy in Central Asia during the economic crisis has been straightforward – it sees a need and an opportunity to increase its role in the region. At the same time, the Russian economy itself has been heavily hit by the crisis and cannot support all the ambitious plans of the Kremlin.

On the one hand, Moscow promotes economic integration and the removal of trade barriers with Central Asian states, while on the other, it is forced by the crisis to cut labour migration quotas, a decision that is painful for the Tajik, Kyrgyz and Uzbek economies. It promises large investment

25 Derived from *Kommersant*, 03.02.2009.

26 See *Rossiyskaya gazeta*, 21.05.2009 (retrieved from <http://www.rg.ru/2009/05/21/evrazes.html>).

27 Derived from Nursultan Nazarbayev’s speech at the 21st Foreign Investors’ Council Plenary Session, 12.06.2009.

24 At a conference in Almaty in June 2008, Special Representative for Central Asia Pierre Morel commented that any “colour revolution” in the region would most likely be a “green revolution” (referring to green as the colour associated with Islam).

packages, but it does not always deliver (as in the case of the \$2 billion of investments promised to Tajikistan that has not materialised).²⁸

The discrepancy between intentions and capacities is most obvious in the energy sector. As already mentioned, Moscow is trying to retain control over Central Asian gas through a monopoly on transit routes and participation in development projects. In the wake of the first Ukrainian–Russian gas crisis, Russian Gazprom agreed to buy most of the Turkmen gas and pay top prices for it. This move decreased Gazprom's profits but helped it impede the Nabucco development plans of the EU. But once the demand was down in both Europe and Russia, and the company started losing profits, it confronted Turkmenistan with an ultimatum: cut volumes or decrease prices. Consequently, Gazprom abruptly reduced the volume of imported Turkmen gas (causing an explosion on one of the central pipelines), giving Ashgabad more incentives to look for alternative partners and transit routes.²⁹

Russia does not have enough resources (financial or technological) to cover the needs of Central Asian states, therefore they will keep looking for alternative sources. The actor equally willing to render assistance, but with much deeper pockets than those of Russia, is China. Over the decades of growth, Beijing has accumulated ample financial reserves, and now it is able to buy assets and give loans to cash-strained governments throughout the world.

In the post-Soviet space, China has lent \$25 billion to the Russian energy companies Rosneft and Transneft in exchange for a steady supply of oil in the next 20 years, and \$10 billion to Kazakhstan to co-own a major oil and gas company and support infrastructure projects. China has also promised \$4 billion to Turkmenistan for the development of the giant South Yolotan field from which gas would be exported to China, and more than \$1 billion to Tajikistan for various energy, transport infrastructure and communication projects. Beijing has additionally promised Dushanbe a grant of 60 million yuan (\$8.78 million) to support the government's anti-crisis programmes.³⁰

As already mentioned, it is not the first time China has offered financial assistance. Over the previous years, it has provided around \$900 million to Central Asian states for various infrastructure projects. With the economic crisis, however,

²⁸ See the article, "Tajik Leader Arrives in Moscow with More Leverage, Less Faith, *Asia-Plus*, 25.02.2009 (retrieved from <http://www.asiaplus.tj/en/articles/16/3143.html>).

²⁹ Cash-strained Gazprom also had to review its investment projects portfolio and withdraw from less strategic or promising projects. Thus, it returned the licenses to develop two gas fields in Uzbekistan, saying that they were not profitable. The licenses were taken over by a Malaysian company.

³⁰ See the *RBK Daily*, 14.04.2009 (<http://www.rbcdaily.ru/2009/04/14/tek/410431>); see also "China, Kazakhstan Sign \$10 billion Loan-for-Oil Agreements", *Bloomberg.org*, 16.04.2009 (<http://www.bloomberg.com/apps/news?pid=20601089&sid=aRkoxDWplmjY&refer=china>); and also *RIA Novosti*, 24.06.2009 (<http://en.rian.ru/world/20090624/155342148.html>); and S. Olimova (2009), op. cit.

the scale of the assistance has grown exponentially. It has become the biggest creditor of Tajikistan and Kazakhstan.

It can be argued that the growing economic role of China in Central Asia will start translating into greater political influence. Central Asian states will be even more sensitive to Beijing's domestic security concerns (the issue of Uighur separatism) and more supportive of China's international agenda (such as reform of the UN Security Council). Beijing's policy of non-interference in domestic affairs might also change over time. The more pipelines that connect Central Asia with China, the more numerous are the reasons for China to view the region as a zone of its vital or very important interests.

It is worth noticing that the crisis has created certain opportunities for China, but it has also created major problems. Shrinking global markets have affected the development of Chinese industries. Unemployment and social and inter-ethnic tensions are mounting. The recent clashes between Uighur and Chinese communities in Xinjiang were triggered by growing economic hardships.

As for the EU, in line with its strategy for Central Asia it is increasing its engagement in the region. The intensified political dialogue has brought about certain results. The EU has raised its profile in the region and advanced relations with all five states of Central Asia. Kazakhstan has adopted the "Path to Europe" state programme.³¹ The European Parliament has approved the Interim Trade Agreement with Turkmenistan, opening opportunities for European businesses there, and Ashgabad has promised gas for the Nabucco pipeline.

The EU supports these initiatives with financial and technical resources. The strategy provides for a doubling of the assistance to the region to €719 million (allocated for 2007–13). Nearly half of the total budget (40–45%) will be spent on poverty reduction and improving living standards. A third (30–35%) will be spent on regional cooperation, with the focus on i) networks; ii) the environment; iii) border and migration management, the fight against international crime, and customs; and iv) education, scientific and people-to-people activities.³²

The EU has also made all Central Asian states eligible for investments through the European Investment Bank (EIB) (despite the controversy about the poor human rights record in Turkmenistan and Uzbekistan). In December 2006, the European Commission signed a Memorandum of Understanding with the EIB and the European Bank for Reconstruction and Development on closer cooperation with Russia, the Eastern neighbourhood countries and Central Asia (with a separate ceiling of €1 billion for Asia). In November 2008, the European Council set the guidelines for investments in Central Asian states. They stated that, given

³¹ An overview of Kazakhstan's "Path to Europe" programme can be found in *EUCAM Watch*, No. 1, November 2008.

³² See the *European Community Regional Strategy Paper for Assistance to Central Asia for the period 2007–2013*, European Commission, Brussels (undated).

the fragile, external financial situations of Kyrgyzstan and Tajikistan, these two countries should only contract additional debt on concessionary terms and that the EIB should focus its lending on energy supply and energy transport projects that also serve EU energy interests.³³ To date, the EIB has signed a framework agreement with Tajikistan (providing for credits to support hydropower production).

These developments are not related to the crisis but the latter affects the agenda of the EU in Central Asia. At the EU–Central Asia meeting at the foreign minister level in May 2009, the parties discussed the impact of the crisis on trade, investment and migration. The Swedish presidency is planning to devote the next EU–Central Asia security forum in September 2009 to the global economic crisis as well. The bulk of the EU assistance already addresses those areas that have become even more problematic with the crisis: poverty reduction and migration. The EU is also giving additional aid to the most impoverished state of Central Asia, Tajikistan.³⁴ The European assistance is needed and welcomed by the Central Asian states. The goal is to channel it in a timely and effective manner.

A different challenge is posed by Kazakhstan's policies under the impact of the crisis. For years, the EU has been supporting Kazakhstan's entry into the WTO (the objective of helping Central Asian states join the WTO is reflected in the EU strategy) and providing technical assistance to that end. In June 2009, Kazakhstan, Russia and Belarus announced the intention to establish a customs union by the beginning of 2010 and join the WTO as a union. Although the Kazakh government stated that WTO membership remains a priority for the country, it is clear that the process will slow down considerably (especially if Belarus remains part of the scheme). As explained by government officials, the establishment of the customs union has been accelerated to alleviate the effect of the economic crisis.³⁵

It can be argued that Kazakhstan's decision has also been shaped by geopolitical considerations. A customs union with Russia would counterbalance the growing role of Chinese companies in the economy of the country. The logic of Kazakhstan's multi-vector foreign policy would dictate more efforts to strengthen relations with other actors, principally Russia. While the EU may feel disappointed by the slow down of Kazakhstan's ascension to the WTO, European policy-makers should take into account the complex circumstances with which this Central Asian country has to deal.

The changing geopolitical balance in Central Asia during the crisis can be summed up as follows. Central Asian states

are in need of assistance and investments, which offers opportunities for external actors. Russia has increased its influence, although its record is patchy owing to limited resources. On the other hand, China has ample resources to help enlarge its role in the region – which is an economic role at the moment, but which has the prospects of translating into a more influential political one. The EU's role has been growing not as a consequence of the crisis, but that of the intention of greater engagement and interest.

The nexus between politics and geopolitics: Prospects for the EU's engagement in Central Asia

What are the implications of these new and continuing political and geopolitical trends in Central Asia for EU engagement in the region? What constraints and possibilities do they entail for the implementation of the goals and interests of the EU as indicated in the strategy (security, energy cooperation and promotion of good governance and democratisation)?

The analysis of both the political and geopolitical dynamics in Central Asia reveals the complex and challenging environment in which the EU has to operate. Authoritarianism is entrenched or consolidating in all five Central Asian states. The main concern of the rulers is maintaining personal power. The crisis has exacerbated tendencies to strengthen authoritarianism. Kazakhstan is the only country in Central Asia where this trend can be observed in a difficult and conflictual co-existence with the opposite trend to liberalise. Despite the current worrying developments (the failure and seeming lack of interest to meet the OSCE commitments made in Madrid to liberalise the political system, the 'anti-corruption' campaign, and new restrictions imposed on the Internet and traditional media), there is potential for the EU to influence the political development of this country.

With regard to the rest of the region, this potential is minimal. The tulip revolution experience showed that the fall of the ruling regime does not result in the establishment of a flourishing democracy if the conditions for its functioning are absent. EU efforts in this direction are not meaningless, however, for they help create an alternative for the future that, considering other external influences and the neighbourhood of the region, would otherwise be absent.

The changing geopolitical context also gives EU policy-makers some food for thought. Both Russia and China have a modernising influence on Central Asia and counterbalance the deepening underdevelopment tendencies in the region. Yet they also serve as moral and financial patrons of the local authoritarian regimes suppressing the political development of Central Asian states. They can provide financial assistance, but they cannot provide models of better organisation of the state or relations between the state and the people.

The EU cannot and does not want to engage in full-blown competition for influence in Central Asia. The approach chosen is cooperation with other actors, most importantly, Russia and China (except in the energy sphere). Regardless of the common interest of these actors in the stability and

33 See Council of the European Union, Council and Commission Declaration on certain conditions for the European Investment Bank financing operations in the Central Asian countries, 14613/08, Brussels, 22.10.2008.

34 Tajikistan received €20 million in emergency assistance from Brussels to avert a social crisis after a drought in February 2009.

35 See "Kazakhstan's Position on the WTO after the Creation of the Customs Union", *Newsletter Kazakhstan, Special Issue*, Kazak Embassy in the Netherlands, 02.07.2009 (retrieved from <http://www.kazakhembassy.nl/newsletters/20090702-Newsletter%20Kazakhstan%20Special%20Issue%20July%202009.pdf>).

well-being of the region, the possibilities for a cooperative framework are limited. In the economic sphere, transport corridors across Eurasia can be built to everybody's advantage. Joint efforts to prevent drug trafficking and foster fledgling cooperation related to the military and stabilisation efforts in Afghanistan can be strengthened. Otherwise, the views on and approaches to security and governance differ too much among the EU, Russia and China for comprehensive cooperation schemes in these areas.

Conclusions

1. The worsening conditions in Kyrgyzstan and Tajikistan raise the importance of EU assistance to these Central Asian states. The challenge is to make this aid timely and effective. The poor governance and high levels of corruption put serious constraints on partnership with government schemes. The active involvement of civil society and the private sector would help attain more tangible results.³⁶
2. As for the better-off countries of the region – Kazakhstan, Turkmenistan and Uzbekistan – anti-crisis cooperation can focus on investments and improving the business environment. The Interim Trade Agreement signed with Turkmenistan is an important step in the right direction. Uzbekistan is likely to be the most difficult counterpart owing to the nature of its regime and because unlike Kazakhstan and Turkmenistan, it has fewer incentives to promote energy cooperation with the EU.
3. With Kazakhstan, given that it is the most developed market in the region and has an interest in advancing relations with the EU, it is possible to try setting up a more comprehensive and in-depth partnership to deal with the crisis and generally promote economic integration. The creation of the customs union by Russia, Kazakhstan and Belarus (even though it would slow down the WTO entry process) is not a major impediment to that, taking into account that both Russia and Belarus are intent on developing closer ties with the EU in the economic sphere and view themselves as part of the European space. The SCO-based free trade zone, on the other hand, would form a China-focused area with unclear implications for Central Asia and the EU (the possible consequences of which include the squeezing out of European companies, a further consolidation of the resource-based nature of Central Asian economies and the political re-orientation of Central Asian states).
4. The crisis has made the political development goals of the EU in the region (democratisation, promotion of good governance, human rights and the rule of law) even more difficult, as it has provoked a more self-protective attitude among the regimes. Nevertheless, the EU should consistently remind Central Asian states of the commitments they have undertaken. Local leaders should not have the impression that the EU is not serious about its own priorities and values, or that the EU can easily forsake them for access

³⁶ The rationale and a set of recommendations in this regard are suggested by Parviz Mullojanov in "The EU and Central Asia: Crisis of Labour Migration, Social Consequences and Required Policy Changes", EUCAM Policy Brief, EUCAM, CEPS and FRIDE, Brussels and Madrid, forthcoming.

to hydrocarbons or military bases. Central Asian states are interested in bringing their resources to lucrative European markets, as well as European investments and military cooperation with the West; therefore, human rights and good governance do not necessarily have to be made a bargaining chip in EU–Central Asian relations. That being said, the EU should be realistic in its expectations and aim at long-term results, without discarding the ability of Central Asian societies to develop.

5. Kazakhstan offers the greatest potential in terms of the EU having an impact on its political development. It is a difficult partner in a state of confusion: the pro-European drive in its foreign policy (marked by the chairmanship of OSCE and "Path to Europe" programme) and some liberalisation reforms (such as new laws on elections and political parties, along with the adoption of the national action plan in the sphere of human rights), are in contradiction with other policies seeking to limit freedom of expression and strengthen the personality cult. In this situation, the policies of the EU might turn out to be of crucial importance. Intensified ties, heightened attention to what is happening in Kazakhstan and a well thought-out combination of 'carrots and sticks' can help pull the country out of the maelstrom of consolidating authoritarianism and systemic crisis. The necessary channels are already in place: bilateral dialogues and relations with EU member states, OSCE and the Council of Europe.³⁷ Some form of association of Kazakhstan with the European Neighbourhood Policy (ENP) could also be considered.³⁸
6. As for the changing geopolitical context in Central Asia, the EU should take into account the growing roles of Russia and China in the area. To make the EU an effective player, its policy-makers and expert community should thoroughly analyse the implications of this trend for the EU's interests and goals. Both Russia and China have a stabilising and modernising influence on Central Asia, but at the same time, they constrain the political development of these countries (undermining the base of their long-term security).
7. Although the cooperative framework seems to be the best way for the EU to engage in the region, it is important to focus on practical projects where such cooperation can yield good results (for instance, combating drug trafficking, border control, migration and the stabilisation of Afghanistan). Dialogue and coordination with regional security organisations (the CSTO and SCO) are valuable, but considerably different approaches to security make comprehensive partnership and cooperation schemes between the EU, Russia and China difficult at the moment.

³⁷ Kazakhstan has shown interest in strengthening cooperation with the Council of Europe. Its parliamentary members regularly attend sessions of the Parliamentary Assembly of the Council of Europe (PACE) and PACE members are invited to Kazakhstan. The government attempted to attain special guest status at the Council of Europe, but failed. At present, Kazakhstan has an observer status at the Venice Commission.

³⁸ In 2006, Kazakhstan expressed a desire to join the ENP. The 2008 "Path to Europe" mentions the ENP, but it does not list joining the ENP among the goals. At present, it is covered by the European Neighbourhood and Partnership Instrument.



The EUCAM initiative is an 18-month research and awareness-raising exercise which aims: to raise the profile of the EU-Central Asia Strategy; to strengthen debate about the EU-Central Asia relationship and the role of the Strategy in that relationship; to enhance accountability through the provision of high quality information and analysis; to promote mutual understanding by deepening the knowledge within European and Central Asian societies about EU policy in the region; and to develop ‘critical’ capacity within the EU and Central Asia through the establishment of a network that links communities concerned with the role of the EU in Central Asia.

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