Business and Trade Relationships between the EU and Central Asia

Sébastien Peyrouse
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Introduction

The European Union is seeking to establish a place for itself in Central Asia in the face of a Chinese presence that is growing exponentially and a Russian influence that continues to be strong. Grand speeches about the EU’s partnership with the Central Asian states notwithstanding, relations between both regions have remained rather limited. Already hindered by the absence of any long-term strategy, relations have further faltered owing to Brussels’ inability to reconcile its political and economic objectives. The EU’s numerous assistance programs have made it look like a complex, costly and barely effective bureaucratic institution. Since 2007, however, the EU has sought to speak with a more affirmative voice in Central Asia and has started to exert its economic influence; today, it is one of the main trading partners of the five states, and is striving to transform the bilateral economic relations of its member states into an overall strategy that would have a broader impact on Central Asian societies. The Strategy for a New Partnership announces EU support for WTO accession for each of the four Central Asian states that are not yet members, as well as for improved access for Central Asian products to EU markets through the renewed EU Generalised System of Preferences (GSP – 2006/2015).1 The strategy also aims to encourage exports, economic diversification and market-economic structures, in particular by developing public-private partnerships.2 Central Asia represents a limited market for the EU: the five states have less than 60 million inhabitants, the majority of whom have a very low standard of living, with the exception of the Kazakhstani middle classes. Indeed only Kazakhstan, which has a per capita GDP of $11,500, has experienced any kind of prosperity, while Uzbekistan, Kyrgyzstan and Tajikistan continue to be very poor, with per capita GDP levels of between $2,600 and $2,100 (figures for Turkmenistan come in around $6,000, thanks to its income from gas).3 On the trade front, therefore, Central Asia is not of much interest – which is why the EU’s economic involvement in the region remains overwhelmingly dominated by the hydrocarbon sector. Putting this industry to one side, it soon becomes apparent just how fragile, disproportionate and limited other business and trade relations between the EU and Central Asia are. Yet after the global recession has ended, some commercial opportunities are likely to emerge that could stimulate regional trade, possibly linked to the region’s geography and the China-Europe transport corridor. This paper will thus seek to assess the state of the three following elements: trade relations between the EU and Central Asia (with the exception of energy); the diversity of economic interests of each of the EU member states and of the different EU regions; and industries in which European companies are already well-established.

The EU’s commercial involvement in Central Asia enables it to further European goals in the region. These include consolidating the overall EU-Central Asia relationship, avoiding an excessive reliance by Central Asian countries on a few markets; helping to strengthen the institutions of civil society, which in turn could speed up the arrival of a substantial European presence; developing the rule of law, the private sector and transparency in government; and finally, addressing poverty, the root cause of instability. The present paper will thus reflect upon the pertinence of having a collective EU business and trade agenda with Central Asia, what stands to be won and lost both economically and socially, and the goals it might include. It has become essential to ascertain whether or not this agenda ought to be placed at the service of more global European strategies for promoting its social model, and if so, to what extent.

I. THE EU AS ONE OF THE MAIN PARTNERS OF THE CENTRAL ASIAN STATES

The EU Share of Central Asian Foreign Trade

To better understand the EU’s role as a trading partner of the Central Asian states it is crucial, in the

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first instance, to look at its market share in the Central Asian economies considered as a single economic unit. When doing so, however, it should be borne in mind that trade relations are established by individual companies, not EU countries as such. This makes it difficult to flesh out a communitarian-wide strategy in areas that remain not only national, but also private. Several other problematic elements should also be mentioned.

First, there is the difficulty associated with the fact that no common legal framework exists for the region, since only Kyrgyzstan is a member of the WTO. Turkmenistan has not yet presented its candidacy, and Tajikistan and Uzbekistan are still far from meeting the necessary criteria. Kazakhstan, the only plausible candidate, should be eligible for membership shortly. The EU’s trade relations with Kazakhstan, Kyrgyzstan and Uzbekistan are governed by a Partnership and Cooperation Agreement (PCA) - a non-preferential agreement in which the parties grant each other ‘most favoured nation’ status (MFN), thus prohibiting tariffs and quantitative restrictions in bilateral trade. EU-Tajikistan bilateral trade relations are governed by an Interim Agreement on trade and trade-related matters, pending ratification of the PCA signed with Tajikistan in 2004. The PCA signed with Turkmenistan in 1998 has not yet been ratified by the EU due to the domestic political situation (see infra). As a result, EU-Turkmenistan trade relations are still based on the Trade and Cooperation Agreement signed with the Soviet Union in 1989. All five Central Asian countries are beneficiaries of the EU’s Generalised System of Preferences. With the exception of Kyrgyzstan, the Central Asian countries - especially Uzbekistan and Turkmenistan, which have very protectionist economies - have all placed numerous restrictions on business, which has resulted in a limiting of trade relations.

The EU is the main trading partner of the Central Asian region, accounting for almost one third of its total foreign trade (29.1% in 2007), and amounting to €22.9bn in 2007. However, if one looks at bilateral trade figures for individual states, Russian-Central Asian trade and Sino-Central Asian trade dwarf all other states. In 2007, Russia and China dominated the foreign economic relations with Central Asian states, with trade worth US$21 billion with Moscow and US$14 billion with Beijing, whilst Germany - Central Asia’s main European trading partner - came to less than €7 billion for the same year.

EU-Central Asia trade is marked by the paramount position of the energy sector. About 80% of the EU’s imports from Kazakhstan are oil products, while for Turkmenistan the figure is 90%. For Uzbekistan, the figure drops to 30%, although it remains in the top product grouping in terms of value. An area of special importance to the national economies, the energy sector is subject to its own set of geopolitical volatilities and can lead to very paradoxical results in the social sphere. Therefore, it cannot be taken into consideration in terms of a classic business pattern.

It is also important to stress the marked imbalance in economic relations between the EU and Central Asia. While the EU as a whole constitutes one of the foremost trading partners of Central Asia, the reverse is not true. In 2007, Kazakhstan represented less than 1% of total European imports and 0.5% of its exports, placing it 29th in the list of the EU’s trading partners. The other Central Asian states are even further down the rankings. This flagrant trade imbalance cannot be remedied by political will alone. Compared to the other regions of the world, Central Asia is restricted at the economic level, since its basic wealth consists of its geopolitical position and energy resources. While the EU has every reason to develop its economic presence in Central Asia - in view of its political and geopolitical objectives - Central Asia is not likely to become a crucial trading partner in comparison with the relationship with North America and the emerging Asian powers.

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Finally, Kazakhstan’s share of trade with the EU is not in keeping with that of other states in the region. Kazakhstan emerged as the principal Central Asian partner of the EU from the beginning of the 1990s. The development of trade between the EU and Kazakhstan has risen exponentially, from US$6.2 billion in 2003 to close to US$14 billion in 2005 and US$19.4 billion in 2007. Uzbekistan is in second place - far behind its Kazakhstani competitor, while Turkmenistan is the third most important of the Central Asian countries. Trade with Kyrgyzstan and Tajikistan...
remains minuscule and the establishment of foreign companies in these two countries is extremely limited, often being linked to EU assistance programs.

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**Trends in EU business by Central Asian country**

Exports and imports, millions of EUR

![Graph showing trends in EU business by Central Asian country](image)

Source: [trade.ec.europa.eu/doclib/html]

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**Economic Interests of the Members States**

**The Heart of EU-Central Asia Economic Relations: Germany**

The number one European manufacturing power, the second-largest exporter in the world in terms of volume, and the fourth-largest economic power in the world, Germany is the key partner driving EU relations with Central Asia. The German-Kazakhstani partnership is conceived both by Berlin and Astana as a long-term one, and it is based on old and indirect historical links that are related to the German diaspora in Kazakhstan (close to one million people by the end of the Soviet Union, although today the figure is little higher than 200,000). During the 1990s, most of this diaspora returned to settle in Germany and in doing so some of its participants turned into economic middlemen seeking to develop bilateral trade relations. In terms of Germany’s trade with CIS countries, Kazakhstan is in third position after Russia and the Ukraine; Kazakhstan is second behind Russia for imports and is in fourth position for exports, behind Russia, Ukraine and Belarus. Bilateral trade reached a value of €2.9 billion in 2004, but then went up to €5.6 billion in 2007 (an increase of 17.6% in comparison to the preceding year).

Although Berlin is interested in the energy sector, it is not seeking to invest in large-scale hydrocarbon projects, but rather in areas of medium-sized infrastructure with high-added value, including industrial production, manufacturing such as the car industry, construction, the electronics industry, agriculture, and the management and training of qualified specialists. The interest, moreover, is mutual. Indeed, Kazakhstan’s strategic framework for industrial and technological development aims to attract Germans who will invest in industrial sectors not related to hydrocarbons, that is, the transformation technologies and six pilot industries (construction, tourism, agriculture, transport infrastructure, agribusiness and the textile industry). German interest in these sectors can be explained by the specific nature of its economy, in particular the importance of small and medium-size companies to it, representing 80% of its economic activity. Taking into account the slowdown in demand for the products of German manufacturing in both Europe and the United States, the post-Soviet and Chinese markets have assumed a new importance for German car companies on the lookout for new openings. In addition, they see the potential of Kazakhstan as a gateway to expand into Asia.

Germany considers Kazakhstan its principal Central Asian partner, but it is striving to develop relations with all the countries of the region, even if trade figures with the other states are relatively negligible. Berlin’s second-largest partner in the region is Uzbekistan. The volume of trade between the two countries was $329 million in 2007. Areas of cooperation stretch from light industry and transport-related services to the production of medical goods and pharmaceuticals and the transformation of agricultural products. In Turkmenistan, German companies essentially work in the medical, textile, transport and communication industries, as well as in agriculture.

**Traditional Trade Partners: Italy, France, United Kingdom, Benelux**

The Italian economy is marked by strong regional contrasts, but nevertheless it has many aces it can play, including a reputation for savoir-faire. Dominated by small and medium-size firms, however, it has been struggling to establish itself in the world market. It is one of Kazakhstan’s main trading partners, mostly thanks to the AGIP leadership in the North Caspian Sea Consortium in Kashagan. Bilateral trade has risen considerably over recent years, reaching $8.9 billion in 2007 (including $7.7 billion of Kazakhstani exports and $1.2 billion of imports). Cooperation is developing in very diverse areas, stretching from the treatment of agricultural and industrial resources, to light industry, foodstuffs and the construction of agricultural equipment. As in the case of France, Italian trade with Uzbekistan has dropped over recent years because of Tashkent’s policies which do not favour foreign investment. However, Rome remains interested in Uzbeki textiles.

Whilst it has a presence in Central Asia, Paris has been somewhat lukewarm due to difficulties in
investing in the region. France is Kazakhstan’s fifth largest trade partner, behind Russia, China, Italy, and Switzerland. Trade between the two countries has increased considerably over the last few years, reaching close to $4 billion in 2007 (including $3.3 billion in exports and $603.8 million in imports). Kazakhstan’s exports to France consist essentially of oil, metals and metallurgical, chemical and agricultural products; while Kazakhstan buys electrical, electronic and manufacturing equipment, basic consumer goods, medicines and cosmetics, cars, foodstuffs and construction materials from France. Though the import and export patterns have many aspects in common with other European countries, France distinguishes itself through its reputation for wine, seafood, cheese, perfumes, cosmetics, clothes and accessories. In terms of the volume of investments, France is in fourth place, after the Netherlands, the United States and Great Britain: on 1st October 2007, the volume of French investments in the Kazakhstani economy was $3.76 billion (including $2.82 billion DFI).

The UK has become Kazakhstan’s third-largest European economic partner. In the space of a few years, the level of trade between the two countries has risen considerably, reaching $1.8 billion in 2007. Kazakhstan’s exports include a predominance of primary materials (ferrochrome, steel, copper, wool, fertilizer, precious and semi-precious metals), and its imports are essentially related to the transformation industry, technological innovation and scientific components (transport equipment, high technology devices, optics and chemical products) but also foodstuffs (alcohol, tobacco) and textiles. For many years, the UK was the largest investor in the Kazakhstani economy after the United States: from 1993 to 2003, the volume of British investments rose by $3.65 billion, 13.8% of the total of DFI received by Kazakhstan. Overtaken by the Netherlands in 2007, it comes in at third place at present with $15.2 billion - including a billion DFI. The UK is looking to diversify its investments in sectors other than hydrocarbons, such as new technologies, technology and science parks, and agricultural production. The UK has also displayed its sensitivity to Astana’s wish to become a regional financial centre. Regional exchanges are particularly developed thanks to the Scottish town of Aberdeen, which has developed partnerships with Atyrau, Mangistau and western Kazakhstan. UK trade with Uzbekistan is far more modest - $162 million in 2007.

The world’s tenth-largest economy, the Netherlands, is one of Central Asia’s main investors, especially in Kazakhstan. The Netherlands is particularly interested in foreign investments because its economy is heavily dependent on foreign trade. The Netherlands has been testing out new markets in the post-Soviet region, often by exploiting its key position in air transport, following a bumpy patch over the last decade for its transport sector. The Netherlands is also one of the world’s largest exporters of agricultural and market garden produce. The commercial relations between Kazakhstan and the Netherlands are relatively extensive: in 2007, bilateral trade came to a total of around $2.8 billion, including $2 billion worth of exports from Kazakhstan. Many projects linked to solar, wind and hydroelectric power are also underway. Between 1993 and 2008, the Netherlands invested a total of $39 billion (which included over $7 billion in DFI), thus making it Kazakhstan’s foremost foreign investor. These investments are in the energy sector, the financial sector, transport and communications and the transformation industries. The Netherlands’ relations with Uzbekistan have dropped drastically over the last decade; the numbers are of fourfold decrease. Trade had risen to $200 million in 1996, but dropped to $40 million in 2006 (although there was a noticeable increase again in 2007, up to $55.9 million).

As with the Netherlands, Belgium is heavily reliant on foreign trade (exports constitute two-thirds of its GDP). Today it occupies 13th place among Kazakhstan’s European trade partners. Trade volume has markedly increased in the last few years, from $66.9 million in 2003 to $297 million in 2007. Kazakhstan’s exports to Belgium include non-ferrous metals, wool, textile products, base metals and their derivatives and chemical products, while Belgium exports machinery, industrial and electronic equipment, textiles, agribusiness and chemical products and tobacco. Cooperation between the two countries is developing in the health and construction sectors. As for Luxembourg, it is chiefly reliant on the banking sector and the prospects for cooperation with Kazakhstan are promising in this sphere. Agreements are being drawn up for the training of Kazakhstani financiers and bankers in Luxembourg. As banking secrets are protected by law in the country, Luxembourg’s banks are also well placed to provide facilities for the personal wealth of Central Asian heads of state. The country, moreover, hopes to participate in glass manufacturing as well as air freight transportation through the Cargolux Company.

Spain, Sweden, Finland, Greece and Austria

Spain’s economic growth throughout the decade of 2000 has made it potentially one of the most
important partners for Central Asia. Its trade with Kazakhstan rose to $906 million in 2007 - double the 2005 level. For its part, Kazakhstan exports mineral and chemical products to Spain, and from the same territory it imports foodstuffs, alcoholic and non-alcoholic beverages and tobacco, as well as chemical products, plastic materials, rubber and resin-derived products, electronic and mechanical equipment, and transport materials. There is not much trade with Uzbekistan to speak of. Sweden and Finland are also well-established in the region, particularly in Kazakhstan; trade between Sweden and Kazakhstan has reached $534 million, whilst Finland and Kazakhstan traded goods and services worth $732 million in 2007. The volume of exchange has in fact doubled since 2004/2005. Kazakhstan mainly exports chemical products and metals, and imports transport equipment and telecommunications materials, as well as many wood-derived and agricultural products.

With Austria, relations remain rather restricted; in 2007 there was $232 million worth of trade with Kazakhstan. Central Asia - Greek trade relations are more insignificant even still, amounting to only $80 million (again with Kazakhstan) in 2007. However, Greece has advantages to build on. First of all, members of the Greek minority in Central Asia, who were either deported to the region or settled there in the 1930s, and who contribute to the development of economic relations through the creation of small joint-ventures. Secondly, the Greeks have a reputation for the world’s foremost shipping businesses, something of great interest to Kazakhstan, which is currently looking for international cooperation to help develop its Caspian merchant fleet. Trade between Central Asia, on the one hand, and Denmark, Portugal, Ireland, Malta and Cyprus, on the other, is minuscule, or even non-existent.

**Central European Partners: Central Asia as a Market for the Taking**

There are several interesting constellations emerging between Central Europe and Central Asia. Slovakia and Slovenia remain only marginally present in the Central Asian market, while Bulgaria and Romania are essentially interested in energy issues related to the Caspian-Black Sea axis. For its part, Poland – which is a regional power in Central Europe - is becoming increasingly involved in Kazakhstan, energised as it is by the presence of its diaspora. In 2007, the volume of exchange between the two countries was around $884 million. Regional agreements have been signed between the Almaty region and that of Mazovia, which is one of the most dynamic in Poland. The Poles are particularly interested in the construction sector, in agriculture and in the Kazakhstani chemical industry. Trade between Hungary and Kazakhstan has also increased, multiplying six-fold between 2003 and 2007, and finally reaching $350 million in 2007. Lastly, Kazakhstan and the Czech Republic have stepped up trading links, with $336 million of business concluded in 2007.

Trade between former “brother countries” thus all follows the same pattern. All of these countries are chiefly interested in Central Asian oil and metallurgical products, as well as in the region’s textile production. In 2006, for example, cotton fibre accounted for two-thirds of Czech imports from Uzbekistan (although this figure is due to drop because the Czech textile industries are becoming weaker and Uzbekistan is hoping to treat the cotton itself). From the perspective of the Central European states, then, Central Asia is a promising market waiting to be developed. The other side of the coin is that Central Europe - albeit not as competitive as Western Europe – does have chemical industries (cleaners, fertilizers) and also manufactures the kind of technical equipment which is interesting to the Central Asian countries; cheaper than from world markets, it is better quality than the Chinese offer. This holds true for pharmaceutical production from Central Europe too, as well as certain foodstuffs (for example, Czech beer, Hungarian cooked meats) and the timber and furniture sectors.

**The Baltic Market: Developing the Central Asian-Baltic Axis**

Since Soviet times, the Baltic states have been one of the main bases for the export of Central Asian products to Europe - particularly cotton, but also metallurgical products. The Baltic countries have also specialised in the construction and delivery of buses, trams and carriages, as well as in telephone communications; with the fall of the USSR, however, their industries went into crisis and trade relations collapsed, only to take off again at the start of 2000. Latvia remains Kazakhstan’s main Baltic trade partner (bilateral exchanges rose to $196 million in 2007), followed by Lithuania ($118 million in 2007) - Estonia being more marginal ($46 million in 2007). Kazakhstani exports are mostly made up of combustible minerals, oil and heavy metals, whereas Baltic imports include automobiles, pharmaceutical products, electrical devices and products for livestock farming. Nearly 90% of Uzbeki cotton apparently continues to be exported through the ports of the Baltic Sea.

The main issue in relations between the Baltic countries
and Central Asia concerns transit and freight. In this area, Kazakhstan does not hide its ambitions; its “Path to Europe” programme clearly states its intention to become one of the main communications hubs between Asia and Europe. It therefore naturally has its sights set on the market of the Baltic ports. The Baltic countries, for their part, hope to benefit from the construction of a railway line and a road that would link them to Central Asia and then to Iran, thus encouraging North-South exchanges. In 2003, on the initiative of the Estonian, Latvian, Lithuanian, Russian and Kazakhstani railway administrations, a Baltika-Transit project for goods trains was launched, as part of an attempt to reorganise Central Asian transit around the Baltic ports. Since the three Baltic States joined the EU in 2004, exchanges with Central Asia have in fact intensified, in particular in the ports of Riga, Liepaia and Ventspils. Kazakhstan has proposed to Estonia that the two engage in joint ventures in the free trade zone between the port of Muuga and that of Tallin. In 2005, moreover, Kazakhstan opened a terminal for cereals in Ventspils - the first of its kind in Europe. The port of Klaipeda also hopes to become one of the export centres for Uzbek agricultural products, which are of interest to the Lithuanian textile industry. However, these relations between the Baltic and Central Asian states depend almost entirely on their common Russian neighbour and the good will it shows in its tariff policy.

A Brief Industry Analysis

A quick review of the industries which entail relations between the EU states and Central Asia reveals five distinctive areas (excluding the hydrocarbon industries). After defining these, we will very briefly list the main European firms that have established a presence in Central Asia.

The nuclear industries are likely to be one of the future driving forces behind Europe’s increased presence in Central Asia, whether on account of uranium extraction in Kazakhstan or Uzbekistan, or the construction of nuclear power plants in partnership with Astana (Areva). This is also true for the military and aerospace sectors. Here businesses range from state industries - such as the military hardware industries (France is Europe’s largest arms exporter) - to Europe’s aeronautic and aerospace businesses (Thales, EADS, Finmeccanica, British Aerospace). The issues related to the latter industries not only relate to business, but also state security interests and geopolitical issues. Business dedicated to the extraction of precious minerals and metallurgy can be added to this category (Oxus Mining, Awex, Hambledon Mining, Aurum Funds, Eramet), as well as elements of Central Asia’s electrical sector (Alstom, First Alpeen Hydropower), in which European firms are well-established, despite strong international competition.

The EU has other options and strengths. The most obvious, but not necessarily the most profitable (since it involves sums that are quite modest), relate to industries exploiting traditional products with cultural connotations, such as cosmetics, perfumes and luxury clothes in the case of France, but also (though to a lesser degree perhaps) in the case of the rest of Europe: tobacco from Benelux, marble and jewellery from Italy, wood products from Scandinavia and Central Europe, and foodstuffs from throughout the EU, alongside luxury crafts and alcoholic beverages. Such quality products have a worldwide reputation, to which the Central Asian markets are not impervious, even if their commercial impact remains modest because they are aimed at the middle and upper classes, which are not sizeable in the region.

The EU can also boast several areas of expertise where it is capable of rivaling current international competitors in Central Asia. In manufacturing, the dominant area is probably the car industry (Mercedes-Benz, Volkswagen, BMW, Škoda, Renault, Peugeot-Citroën, Volvo), followed by sectors such as chemicals (BASF, Bayer, Foster Wheeler Italiana, Maksam), construction (Bouygues, Knauf, Scania, Budimex, Besix, J.C. Decaux), glass (Saint-Gobain, Pilkington Glass), cement (Heidelberg Cement Group, Vicat) and cotton (Geocoton), as well as certain types of industrial equipment (ThyssenKrupp, Bosch, Alstom) - although the latter are often too expensive for Central Asian economies, which prefer to get their supplies from the Asian markets. We can add agribusiness, which is becoming increasingly sophisticated, as well as specific agricultural techniques such as the treatment of cotton, to the list. European know-how in maritime trade and shipping might also be of interest to Kazakhstan and possibly also to Turkmenistan.

Another great strength of the European economy is its high-tech sectors, linked to technological, scientific and biological innovation. This is the case, for example, with mobile phone companies (Nokia, Ericsson, Alcatel, Teltronic), IT and telecommunications (Deutsche Kabel AG, Indra), optics and the medical sector (Siemens), biotechnology related companies such as those of the pharmaceutical sector (Inter Medico, Novo Nordisk, Solvay Pharmaceuticals, Sanofi-Aventis, Berlin-Chemie AG/Menarini), road, rail and air transport companies (BAE Systems, Alstom, Geismar, Talgo, Sofema) and finally the
nanotechnologies and companies that are linked to environmental issues such as solar, wind and hydro-electrical energies (Iberdrola, Vivendi, Degrémont, Culligan Italiana, Générale des Eaux). These EU areas of expertise deserve support in their international trade efforts.

The fifth and final big sector is training and education services – an area where the EU has a strong worldwide reputation, both in terms of the quality it offers and quantity. This sector includes scientific research, the finance and banking system, strategic advice, financial engineering and advanced medicines. One of the major objectives of the European Commission in the years to come is to ensure the growth of the European economy’s competitiveness, and therefore the focus is upon innovation, something equally beneficial to promote in Central Asia.

II. ADOPTING A COLLECTIVE EU BUSINESS AGENDA?

The conclusions drawn from this brief presentation of business relations allow for no ambiguity: the current EU engagement in Central Asia is shaped by the interests of large companies, mainly in the energy sector. Small and medium-sized European companies are weak in the Central Asian market, which is considered too high-risk to warrant even modest private investments. The EU itself cannot proceed by political willpower alone and fly in the face of the economic realities of the Central Asian markets. Compared to many other regions of the world, Central Asia is not a profitable region for European companies - the cost of labour is relatively high, the technical skills developed in the Soviet era are in the process of disappearing, the investment climate is bad, and the political context is fragile. However, the activities of European companies in Central Asia should be about more than just trade and making a profit; they also ought to promote a certain European way of life and provide the model of a market economy that respects social rights more than the American version. In the long term, the objective is to spread the European model to people who since the start of the 1990s have tended to identify the market economy and democracy with falling living standards and brutal and increasing deprivation.

This raises several questions, with no clear cut answers. Firstly, if it were to present itself as a trading power, in which industries does the EU risk finding itself in competition with the other powers present in the region? Secondly, can the promotion of the business sector find a place in the EU’s overall strategy without contradicting its political objectives? Thirdly, is it necessary to create special European incentive mechanisms in certain key areas? Fourthly, should the objective be to promote the kind of business strategy which engages with notions of a respect for social rights and principles of good governance whilst supporting the emergence of the middle classes? Fifthly, should the EU lend its support to businesses that deal with important ethical issues, such as the fight against poverty? As is often the case, the solutions envisaged do not so much depend on the type of relations maintained with Central Asia, as on internal EU choices and the ability of member states to reconcile their competing interests.

Growing Competition with Neighbouring Powers?

The first question raised above is that of the growing competition with the other powers present in Central Asia. Given that it is not usually considered as a trading power block, when the EU suddenly appears in this guise, it runs the risk of creating new tensions. The issue here is whether the price to be paid in this respect is too high. With the exception of the energy sector, the Central Asian market is sufficiently under-exploited across a whole range of industries to mean that there is plenty of room for each power at the table - by setting up in agriculture or in the transformation industries, for example. Such extremely investment intensive industries require international mergers, such as the hydroelectric projects in Tajikistan and Kyrgyzstan. In addition, many European areas of expertise do not clash with their Russian or Chinese counterparts, because they involve state-of-the-art technologies (Pharma-Biotech, optics, nanotechnologies, etc.) which these countries do not as yet possess. On the other hand, European firms cannot compete with their Chinese competitors in areas such as textiles, footwear, electrical goods, etc. The only exceptions here are European “national representation” products (mentioned above).

However, several industries may come to attract stiff competition in the future. This is of course the case in the military hardware industry - in which Russia and China compete directly with NATO member states - and in aeronautics and the aerospace sector (Russia is leading cooperation with Kazakhstan, though India is also selling itself as a possible future partner). Competition may also increase in the banking sector - while China offers banking support mainly in relation to inter-state cooperation on large projects, the Russian banks are setting up in the sectors of finance, real estate, and the sale of bank services and products to individuals. This brings them into direct
competition with the European banks. Beijing is also looking to take control of the market for information technology and the associated technology parks in Kazakhstan, which once again places China in direct competition with European and Russian firms. All of these territories are bound, in addition, to clash with one another in the mobile phone sector.

**Does the Business Sector Fit with the Overall EU Strategy?**

Can this promotion of the business sector be given a place in the EU’s overall strategy in relation to Central Asia? Here again, the EU’s problems in presenting a united front with EU frontiers have their roots in the internal difficulties involved in harmonising the priorities of member states. Germany tends to privilege its small and medium-sized enterprises, which – as previously noted - are at the heart of the German economic dynamo. France and Italy, on the other hand, tend to defend their large public and private companies. So long as European states cannot agree on business priorities, they will be unable to implement a coherent European policy in Central Asia.

The establishment of a common European agenda will have other advantages. For instance, it will permit the smoother integration of the new member states into the joint European business dynamic. As we saw above, these new member states - Central Europe, the Balkans and the Baltic states - are not indifferent to the Central Asian market; they could therefore play the role of bridgehead in certain specific markets and areas. Although this would be unlikely to have a major impact on the Central Asian market, it would nonetheless help these new members of the EU to develop areas of expertise and therefore enable them to establish their place within the internal European market.

The question of the relation between the EU’s political agenda, the economic interests of European business and the EU’s energy policy also arises. For instance, the conclusion of Interim Trade Agreements (ITA) between the EU and Central Asian countries seems to be an issue, especially in relation to Turkmenistan. In February 2009, Turkmen President Gurbanguly Berdymukhammedov made it known that he was waiting for concrete offers relating to his country’s participation in the Nabucco project. The conclusion of an ITA could be an element in this rapprochement, but this has been blocked by the European Parliament since 2006 because of the human rights situation in the country. The discussions held between political groups and lobby groups in the European Parliament reveal clear divergences of opinion when it comes to choosing between energy interests and the human rights issue. To date, Ashgabat has still to adopt the recommendations listed in the Parliament’s resolution on this question to date.12 Lastly, it was not until 2008, after repeated actions from human rights groups in protest of the forced child labour involved in cotton harvesting in Uzbekistan that the largest British supermarket chain, TESCO, declared it would refuse to sell Uzbek cotton, a stand backed by large textile consumers such as Wal-Mart, Hennes & Mauritz, JC Penney and Marks & Spencer.13 The debate about excluding Uzbek cotton from the generalised system of preferences has yet to be concluded.

In theory, Europe could also make use of its business potential to help spread the social model it incarnates. The EU could thus choose to privilege business relations that commit the participants to ensuring certain legal standards in economic activity and to strengthening the rule of law. This could be done, for instance, by giving preference to Central Asian companies that are committed to respecting the rights of local workers, to fighting corruption, promoting fair competition and good corporate governance, and recognising the importance of contracts. The long-term objective would be to increase the social responsibility of Central Asian companies - something that has indirect repercussions on the societies themselves in so far as it favours the emergence of a middle class that has political clout. But can the EU really promote a “clean business environment” in Central Asia when on its own doorstep it has tax havens – particularly in Luxembourg - where Central Asian heads of state, their families and the oligarchs close to them deposit money siphoned off from national wealth? Can it emphasise respect for human rights, when Bouygues fought to win the most grandiose construction projects of former dictator, Saparmurat Niazov, in Turkmenistan and also actively participated in the president’s personality cult?14 Still, even if EU companies have been involved in corruption around the world, they are nevertheless more accountable to civil society, other governments and shareholders and have a stronger imperative to act according to the law and in socially responsible ways.

**Creating Incentive Mechanisms for Target Sectors**

As the commercial sector is for the most part driven by private-sector actors, its motor is the profit motive which entails competition between European companies and is not conducive to their
cooperation abroad. For example, one cannot imagine cooperation between the main German and French car manufacturers in Central Asia, nor in other industries such as machinery, chemical and industrial products: European firms rival one another in the penetration and domination of foreign markets. Whilst it is difficult to envisage a change in the ground rules – those of the market economy - it is nonetheless possible to envisage European mechanisms (financial advantages through tax reduction, legal aid for the setting-up of companies, etc.) which might favour cooperation between the firms of different member states and make their alliance profitable with regard to specific projects aimed at the Central Asian market.

In addition, some areas of trade have more of a European flavour than others. This is true of the agricultural sector, for example - the common agricultural policy (CAP), which is one of the EU’s main pillars, and could include mechanisms that enable businesses specialised in this area to export their technologies in association with other European companies. The main agricultural powers - France, Poland and Spain - could thereby attempt to see some of their agricultural companies or agribusinesses come together. This type of common European agenda could be established equally in several other sectors: finance in general and banks in particular, air transport (passengers and goods freight), and other areas of technological expertise. The EU thus seeks to promote synergies that will give rise to pan-European companies, and such a dynamic could serve relations with Central Asia well.

**The Fight against Poverty**

The Strategy for a New Partnership with Central Asia, adopted in 2007, channels EU aid towards three main objectives: stability and security, the fight against poverty, and regional cooperation between the states of Central Asia themselves and with the EU (in the areas of energy, transport, higher education and the environment). Companies could thus be favoured to the extent that they assist in the fight against poverty, in particular in rural areas. Approximately 60% of Tajikistan’s population lives below the poverty line, as do 50% of those in Kyrgyzstan and Turkmenistan.

The rapid impoverishment of the Uzbek Fergana Valley also entails a high political risk - agriculture, in which 60% of the populations of Turkmenistan and Tajikistan are employed (and more than 40% of that of Uzbekistan), is characterised by its massive de-mechanisation and high overpopulation.

The EU might therefore implement mechanisms which help to establish European businesses specialised in agrarian matters and able to offer a whole range of integrated activities. With regard to Central Asia, for example, it could promote the already existing European strategy of “poles of rural excellence”, which is at once designed to respect the region’s natural riches, to encourage an environmentally-friendly mode of resource management, to provide services for the population (such as the upkeep of schools, hospitals, roads and public transport networks), and to attempt to produce local arts and crafts. Many objectives might come together here - the fight against poverty in rural regions; slowing the rural exodus to cities; increasing the EU’s visibility amongst poor and culturally marginalised populations; and facilitating the presence of small-scale European enterprises that, without specific EU support mechanisms, will be unable to promote their innovative activities in Central Asia.

**Promoting the Health Sector and Others with a Strong Ethical Significance**

The EU has every reason to promote industries that deal with major ethical issues, as much for the protection of its own population - which is confronted with global threats that know no borders - as for the promotion of its concept of an economy respectful of human beings and the future of the planet. Three sectors are key here: bio technologies, in particular pharmaceutical technologies; ecology; and food security. Central Asia is in a very fragile position with respect to all three of these.

Central Asian populations lack medicines and their pharmaceutical markets tend to be invaded by Russian, Chinese and Indian products that do not always respect the strictest standards. In addition, given the lack of financial strength of Central Asian households and the overall privatisation of the health market, Central Asia has been flooded with imitation products at best ineffective in fighting illness and disease, and at worst dangerous to public health. Helping European companies to set up in Central Asia, especially those which produce generic medicines, thus amounts to a critical task. The importance of the Soviet legacy in health care ought to be noted here – the memory of a public health system that was freely accessible to all makes Central Asian public opinion particularly sensitive to the health question. For an EU seeking to prove it can have a positive impact on people’s daily lives, this could be an area ripe for intervention. The health sector indeed is one in which the EU’s social policy aims and its business goals coincide fully.
Promoting ecological business is also a growing economic niche market, and in this regard the Central Asian states have a significant Soviet legacy, this time a negative one. The existence of heavily-polluting industries in certain urban regions (around Karaganda, Tashkent and in several areas of Kyrgyzstan) is having a major impact on public health (producing dermatological and respiratory illnesses in particular) and on already weakened ecosystems. The know-how of European business concerning such issues ought to be pointed out and advertised here. It is important to note that European companies work in areas including the promotion of low-cost, renewable energies (solar, wind and hydroelectric power), the treatment of industrial waste, and the construction of air and water treatment systems to be applied in polluting industries. It would also be worthwhile to look at more time-specific and modest operations, such as the implementation of operational waste management systems in urban areas, the construction of waste disposal units according to international sanitary norms, and the construction of miniature water treatment plants near hospitals and rural schools. On this point, too, the impact on the relevant populations should be a priority, since it would give the EU a political visibility which to date it does not have amongst the majority of Central Asians.

The issue of security in the food industry is also crucial at the geopolitical crossroads such as those that Central Asia is facing. Given the bird flu epidemics that have come from China, as well as the bad state of the food industry in Russia and the post-Soviet states more generally, this area is one which EU business and its savoir-faire could look to establish and build. What is needed here is equipment for sanitary and epidemiological control throughout the agribusiness sector; the setting-up of large agricultural firms in line with hygiene norms; equipment for refrigeration and freezing; electricity generators, etc. In this area, once again, the EU could encourage European companies by implementing special mechanisms and trying to beat off the competition from Asian companies willing to take advantage of the region’s legal vacuum and sell products that do not comply with ethical norms.

**Emphasising the Human Factor**

Lastly, and perhaps most importantly, it ought to be recalled that one of the areas of European expertise lies in taking the human factor into account. The greatest wealth of a country or a company stems from its development of human potential, not only its profit-making ability. This philosophical credo, associated with the European quality of life, constitutes one of the best advertisements for the European model in the world in general, and in Central Asia in particular. To emphasise the human factor in the business sector is to insist on the importance of professional training and services. These elements ought therefore to be made clear in the EU’s Central Asian policy. One of the only real aspects of long-term wealth these states have is their people - not their natural wealth or their geographical situation. The EU could thus give priority to technical and technological aid, to training artisans, industrial workers and the whole set of tertiary-sector jobs, and to supervision and training at all levels of career development.

**Recommendations**

Businesses are private and so states cannot impose political objectives that run counter to the market economy. Investment decisions are based on commercial judgments, not on political or geopolitical ones. Nevertheless, the EU can implement mechanisms that provide positive and negative incentives, and focus its efforts on some key activities.

- Legal systems and a business-friendly environment
  1° The EU should work with the Central Asian governments to promote EU standards in products (high-quality goods) and in business practices (the strict rule of law in the drafting of contracts, market regulation, tendering, etc.). According to such a framework, the issue of free trade and membership of the WTO is important. Within the proposed new PCA agreement with Kazakhstan, for instance, the EU could focus on trade issues.

  2° The EU should take into account the difficulties faced by small and medium-sized businesses who wish to operate in Central Asia. The best way of promoting them is to foster the commercial conditions that would allow them to invest: open and transparent markets, observing the rule of law in business matters, protection of investments, common standards.

  3° The EU should help to establish a trade infrastructure – roads, railways, better connections by air – and work on trying to ease border controls, using the already existing institutions such as CAREC, the World Bank and the ADB.

- Positive and negative incentives
  1° The EU should define its negative incentive mechanisms. It should outline the areas of “dirty business” that are to be excluded from European trade advantages (current examples include the prohibition
of Uzbek cotton because of the use of child labour, whilst chemical products produced by high-polluting industries from the Soviet era are also banned).

2° The EU should publish information packages, showing how different business sectors can benefit from the EU’s aid mechanisms.

3° The EU should reinforce the historical links between the EU and Central Asia by promoting businesses that have been set up by the diasporas – indeed, Central Asia’s Germans, Poles and Greeks have an important role to play in the small and medium-sized companies who trade with their respective “homelands”.

- Focus on key activities

1° The EU should prioritise EU engagement in the markets where it can make a difference in terms of trading practices (especially Kazakhstan, and potentially Uzbekistan and Turkmenistan), as well as in those places where business is essentially a component of development (Kyrgyzstan and Tajikistan).

2° The EU should strengthen its representation in the region by establishing EU delegations with commercial sections that provide assistance to EU companies in terms of information and contacts. It should also promote the European model, by working with professional business associations in Central Asia - accountants, chambers of commerce, state financial managers, regulatory bodies etc.

3° The EU should focus on economic criteria, giving priority to EU areas of excellence in the long term and at a global level, such as high quality goods, state-of-the-art technology and services. This would make it possible to allow Central Asian enterprises to benefit from a transfer of technology and know-how, via cooperation with European firms. This would also imply Europe listening to the demands of the Central Asian states that want to invest in new value-added sectors and escape their dependency on primary resources. Astana, for instance, wants to become the financial centre for the whole region and to develop a merchant fleet; Bishkek wants to develop the service industry that is linked to the transit of Chinese goods.

4° The EU should focus on political criteria. It should give priority to enterprises that adhere to certain legal standards in economic life and that seek to strengthen the rule of law in the context of their implementation in Central Asia. In addition, it should promote domains with political value, such as information technology. This would prevent the market from being dominated by the authoritarian Russian and Chinese regimes, which for the local populations would have consequences regarding their access to information.

5° The EU should pay attention to social criteria. It should give priority to companies whose activities will help the fight against poverty in Central Asia and which respect ethical and ecological norms, thus indirectly providing Central Asian societies with a better future.

6° The EU should focus on business education within the EU education initiative.

Conclusion

As we have seen, and putting the energy sector to one side (which mainly consists of hydrocarbons but also of uranium), EU-Central Asia trade relations remain quite limited and it will be difficult to strengthen them, either from Brussels or from the Central Asian states. Despite the limited profitability of Central Asia’s industrial and tertiary markets – especially outside of Kazakhstan -, and the difficulties Brussels faces in trying to influence the free market, the EU should be highly interested in promoting a discussion about trade as a driving force in development. The major consequences of the global crisis on the Central Asian economies - from the most developed, like Kazakhstan, to the weakest, like Kyrgyzstan and Tajikistan - in fact confirm that the economic question has to be a central element of European strategy in the region. Central Asia will not be able to avoid social and religious destabilisation unless it has the prospect of development - mostly in the rural areas but also among the deprived urban sections (especially since the region’s demographic dynamics are producing more and more young people keen to improve their standard of living). If industry is unlikely to make for a profitable market - given its proximity to China -, the service sector will nevertheless be a key future axis in the Central Asian economies, as will business activities related to development. The EU therefore has every reason to implement forms of development assistance which, by helping European companies to establish themselves in the market, will play a key role in reducing Central Asia’s social vulnerability and will contribute to the fight against poverty, which is currently the main issue that needs to be addressed by the international community and by regional governments.
1 Kyrgyzstan, which joined in 1998, is currently the only Central Asian country to have joined the WTO.
7 This figure is based on information provided by the Central Asian states. This largely underestimates the scale of trade with China and takes into account neither cross-border trade nor smuggling. The probable figure for 2007, according to Chinese estimates, is closer to $18 billion.
9 Table compiled on the basis of official figures available for each country at <http://ec.europa.eu/trade/issues/bilateral/data.htm>.
11 All the figures presented in this section are publicly available. For Kazakhstan see <http://portal.mfa.kz/portal/page/portal/mfa/ru/content/policy/cooperation/europe_america>; for Uzbekistan see <http://mfa.uz/ru/mej_sotr/uzbekistan_i_strani_mira/uzbekistan_strani_evropi_es/>. The other sites of the Foreign Ministries do not contain these. Specific figures, often conflicting and unverifiable, are nevertheless available on the websites of the European embassies in Central Asia.
12 The resolution demands that authorisation be given for the International Committee of the Red Cross to have free access to the country, that all political prisoners and prisoners of conscience be released, that all restrictions preventing Turkmen citizens from travelling abroad be abolished, and that NGOs and human rights organisations be allowed to operate in the country: <http://www.rferl.org/Content/EU_Weighs_Image_Energy_In_Relations_With_Turkmenistan/1496786.html>.

Related publications by the author

- Sebastian Peyrouse, Facing the Challenges of Separatism: The EU, Central Asia and the Uyghur Issue, EUCAM Policy Brief No. 4, January 2009
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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