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ECONOMIC RELATIONS BETWEEN CENTRAL ASIA AND THE EU

Uzbekistan

University of World Economy and Diplomacy

International relations ghe third course

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Abstract: The article reveals the economic cooperation between the European Union and Central Asia, as well as with each country of the region separately. The period of establishment and stages of development of economic relations, including aid, trade turnover, investment and realised projects, are also considered. The EU's strategies for Central Asia and obstacles to the development of closer cooperation are studied in detail.

Keywords: European Union (EU), Central Asia, trade, investment, economic relations

The history of economic relations between Central Asia and the EU dates back to the early 1990s, following the collapse of the Soviet Union, when the agreements on economic cooperation between the Central Asian countries (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) and the European Union were signed on a bilateral basis. At that time, the newly independent countries of Central Asia faced significant economic challenges, including the need to transition from a centralized Soviet-style economy to a market-oriented one.

In response to these challenges, the EU began providing financial and technical assistance to support the economic development of the region. The EU's initial focus

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was on providing humanitarian aid, supporting democratic reforms, and promoting regional cooperation. In the period from 1991 to 2004, EU assistance to Central Asian Republics was 1,132 billion euros, of which 516 million technical assistance (TACIS), which was provided mainly to Kyrgyzstan and Tajikistan. This assistance was also ensured by the EU's adopted Strategy for Central Asia for 2002-2006 [13, p. 14-15].

Strategic interest in the region from the European Union has risen owing to problems with the supply of Russian gas. In 2007, the EU and Central Asia held their first summit, at which the EU Strategy for Central Asia was adopted. The strategy aimed to strengthen relations between the regions and promote economic development in Central Asia. The strategy identified three main areas of partnership: good governance and rule of law, economic development, and environmental sustainability.

The strategy gave an impetus to strengthening economic ties between the two regions, with a particular focus on trade and investment. The EU has provided significant financial and technical assistance to support the improvement of infrastructure, energy, and small and medium-sized enterprises (SMEs) in the region as a result of the initiation of the Central Asia Invest program [7].

One of the key objectives of the EU's engagement with Central Asia has been to promote regional integration and connectivity. The EU has supported a number of projects to improve transport links thanks to the TRACECA project [1] and consequently trading conditions between the countries of Central Asia, as well as between Central Asia and the EU. As a result, since 2007 the EU's trade turnover with the region has been increased. The main products exported to the EU from Central Asian Republics in 2013 were raw materials, mainly oil and gas. However, the volume of exports of high-value-added goods, such as textiles and food, also increased between 2007 and 2013 [11, P.6].

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The next period of economic relations between the two regions can be considered 2014-2019, in which the Agreement on Expanded Partnership and Cooperation between the EU and Kazakhstan was signed in 2015, which established new rules in the field of trade, investment and economic cooperation between the two sides [2], receiving investments in the amount of 1.02 billion euros for the period 2014-2020 and an increase in trade volume and reaching 32.289 billion euros in 2019 [12, p. 152]. According to statistics, trade exchange is steadily growing [Fig. 1].



	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Balance	-9319	-15107	-15599	-14593	-14965	-7712	-5465	-10163	-12835	-12379
Turnover	24437	32682	35719	35697	35131	26347	22021	26426	30939	32289
EU imports to CA	16878	23894	25659	25145	25048	17029	13743	18295	21887	22334
EU exports to CA	7559	8788	10060	10552	10083	9318	8278	8131	9052	9954

Figure 1. Foreign trade between the EU and Central Asia in 2010-2019, million euros

Source: compiled by E. Kashtyakova, M. Zhatko, N. Barinkova based on EUROSTAT.

The share of individual Central Asian economies in foreign trade with the EU in 2019 was: Kazakhstan – 85.1%, Uzbekistan – 9.3%, Turkmenistan – 3.3%, Kyrgyzstan – 1.5%, Tajikistan – 0.8%. [12, p. 153].

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The EU's relations with each Central Asian Republic.

Economic relations between **Kazakhstan** and the European Union (EU) are based on the Partnership and Cooperation Agreement, which was signed in 1995 and entered into force in 1999. Within the framework of this agreement, the states cooperate in various fields, such as trade, investment, science, technology and education.

Investments play an important role in economic relations between Kazakhstan and the EU. European companies invest in various sectors of Kazakhstan's economy, such as the oil and gas industry, energy, transport, agriculture and others. Kazakhstan, in turn, is also actively attracting investments from the EU.

One of the most important projects in cooperation between Kazakhstan and the EU is the Central Asian Economic Union (CAEC). This project is aimed at increasing economic integration between Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and the EU, as well as promoting sustainable economic growth of the region as a whole. Additionally, it can be noted that Kazakhstan is an important partner of the EU in the field of energy. Thanks to its rich oil and gas reserves, Kazakhstan plays a key role in ensuring Europe's energy security. In this regard, the EU actively cooperates with Kazakhstan in the field of oil and gas transportation through the territory of Kazakhstan and the construction of gas pipelines.

In addition, Kazakhstan is actively working to modernize its economy and attract investments in the oil and gas complex, metallurgical and chemical industries, as well as in sectors related to innovations and new technologies. The EU, in turn, supports Kazakhstan in the implementation of these goals, for example, through the provision of technical assistance and financial support for the implementation of projects.

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It is also worth noting that Kazakhstan is a member of the World Trade Organization (WTO), which allows it to participate in international trade on equal terms with its partners, including EU Member States. This contributes to the development of exports of Kazakhstani goods to the European market and the investment attractiveness of the country for European investors.

Finally, an important aspect of economic relations between Kazakhstan and the EU is cooperation in the field of education and science. The EU provides Kazakhstan with opportunities for education and professional training of Kazakhstani students and scientists at European universities and research centers. In addition, the EU and Kazakhstan actively cooperate in the field of scientific research in various fields, such as health, energy, environment and others [2].

Economic relations between **Uzbekistan** and the European Union (EU) have been developing in recent years. Uzbekistan is one of the largest countries in Central Asia with a population of over 34 million people and a strategic location connecting the region with China, Russia, and other Central Asian Republics.

The EU and Uzbekistan have been cooperating in various areas, including trade, investment, and economic reforms. The EU has been supporting Uzbekistan's efforts to diversify its economy and improve its business and investment climate. The EU has also been providing technical assistance and financial support for the implementation of economic reforms, including the modernization of the country's legal and regulatory framework.

In terms of trade, the EU is one of Uzbekistan's major trading partners, accounting for around 20% of Uzbekistan's total trade. The main products exported from Uzbekistan to the EU are textiles, agricultural products, and minerals. The EU, in turn, exports machinery, transport equipment, and chemicals to Uzbekistan.

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In 2019, the EU and Uzbekistan signed a Partnership and Cooperation Agreement (PCA), which provides a framework for political dialogue and cooperation in various areas, including trade and investment. The PCA aims to strengthen economic ties between the EU and Uzbekistan and promote sustainable development.

The EU has also been supporting Uzbekistan's efforts to attract foreign investment. The EU has provided technical assistance for the implementation of investment reforms and the establishment of a «one-stop-shop» for foreign investors. The EU has also been promoting Uzbekistan as an attractive destination for European investors and facilitating business-to-business contacts between European and Uzbek companies [3].

Economic relations between **Turkmenistan** and the European Union (EU) have been limited in recent years. Turkmenistan is a Central Asian country with significant natural resources, including natural gas, oil, and cotton. However, the country has a closed economy and limited foreign investment.

The EU and Turkmenistan have had a Partnership and Cooperation Agreement (PCA) since 1998, which provides a framework for political dialogue and cooperation in various areas, including trade and investment. However, the implementation of the agreement has been limited, and there have been few concrete results in terms of economic cooperation.

The main obstacle to economic relations between the EU and Turkmenistan is the country's closed economy and limited investment climate. Turkmenistan has been slow to implement economic reforms and improve its business environment, which has limited foreign investment and trade.

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In terms of trade, the EU is not a major trading partner for Turkmenistan. The main products exported from Turkmenistan to the EU are oil and gas, while the EU exports mainly machinery and transport equipment to Turkmenistan.

The EU has been supporting Turkmenistan's efforts to diversify its economy and improve its investment climate. The EU has provided technical assistance and training to Turkmenistan in areas such as trade policy and customs procedures. The EU has also been promoting Turkmenistan as an attractive destination for European investors [10].

Economic relations between **Kyrgyzstan** and the European Union (EU) have been developing in recent years, although the volume of trade and investment between the two sides is still relatively small. Kyrgyzstan is a small landlocked country in Central Asia with a population of around 6 million people.

The EU and Kyrgyzstan have had a Partnership and Cooperation Agreement (PCA) since 1999, which provides a framework for political dialogue and cooperation in various areas, including trade and investment. The PCA has been revised and updated in recent years to reflect changes in the political and economic landscape.

In terms of trade, the EU is one of Kyrgyzstan's major trading partners, accounting for around 20% of Kyrgyzstan's total trade. The main products exported from Kyrgyzstan to the EU are textiles, agricultural products, and minerals. The EU, in turn, exports mainly machinery, transport equipment, and chemicals to Kyrgyzstan.

The EU has been supporting Kyrgyzstan's efforts to diversify its economy and improve its business and investment climate. The EU has provided technical assistance and financial support for the implementation of economic reforms,

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including the modernization of the country's legal and regulatory framework. The EU has also been promoting Kyrgyzstan as an attractive destination for European investors and facilitating business-to-business contacts between European and Kyrgyz companies.

In addition, the EU has been supporting Kyrgyzstan's efforts to improve its infrastructure, particularly in the areas of transport and energy. The EU has provided funding for the construction of new roads and the modernization of existing infrastructure, as well as for the development of renewable energy sources [8].

Economic relations between **Tajikistan** and the European Union (EU) have been developing in recent years, although the volume of trade and investment between the two sides is still relatively small. Tajikistan is a mountainous country in Central Asia with a population of around 9 million people.

The EU and Tajikistan have had a Partnership and Cooperation Agreement (PCA) since 2004, which provides a framework for political dialogue and cooperation in various areas, including trade and investment. The PCA has been revised and updated in recent years to reflect changes in the political and economic landscape.

In terms of trade, the EU is one of Tajikistan's major trading partners, accounting for around 10% of Tajikistan's total trade. The main products exported from Tajikistan to the EU are aluminum, cotton, and hydropower, while the EU exports mainly machinery, transport equipment, and chemicals to Tajikistan.

The EU has been supporting Tajikistan's efforts to diversify its economy and improve its business and investment climate. The EU has provided technical assistance and financial support for the implementation of economic reforms,

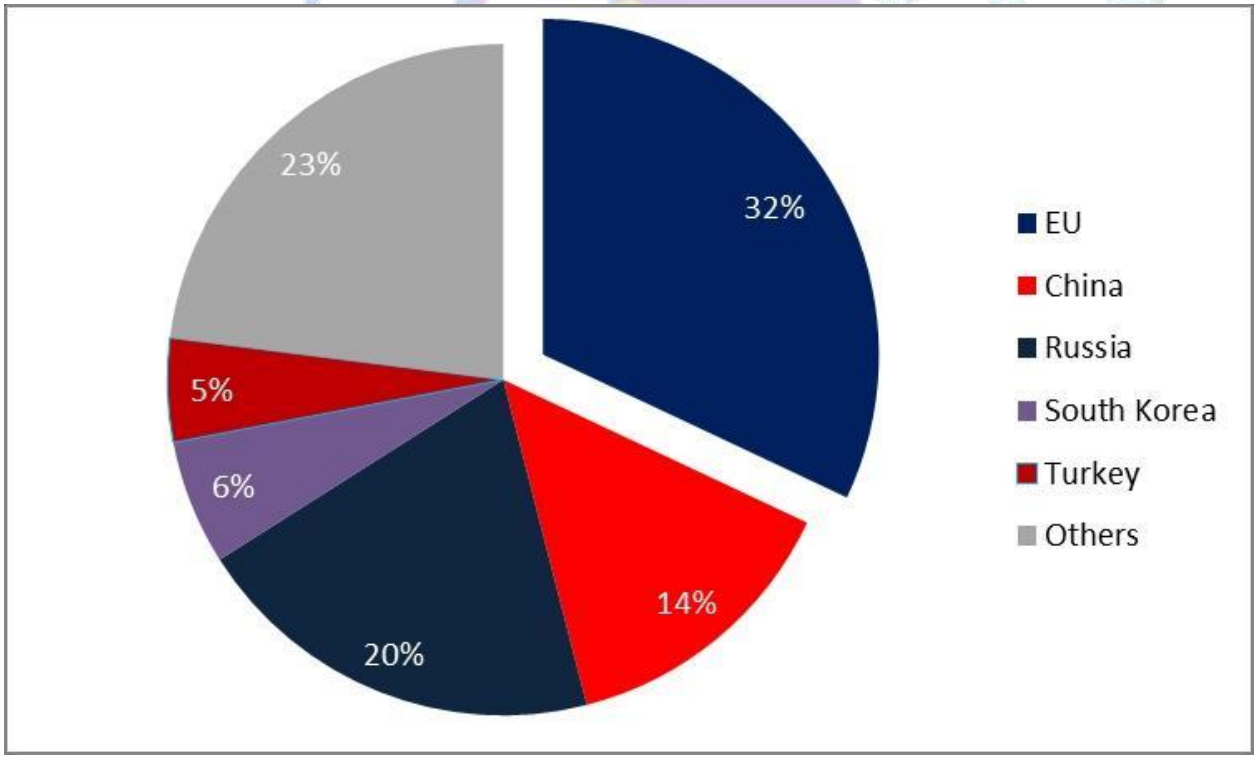
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including the modernization of the country's legal and regulatory framework. The EU has also been promoting Tajikistan as an attractive destination for European investors and facilitating business-to-business contacts between European and Tajik companies.

Furthermore, the EU has been supporting Tajikistan's efforts to improve its infrastructure, particularly in the areas of transport and energy. The EU has provided funding for the construction of new roads and the modernization of existing infrastructure, as well as for the development of renewable energy sources [9].

The EU's role in Central Asian trade.

The EU is a major trading partner of Central Asia, accounting for more than 30% of the region's foreign trade in 2019, followed by Russia and China (Figure 2).



However, Central Asia accounts for less than 1% of the EU's total foreign trade.

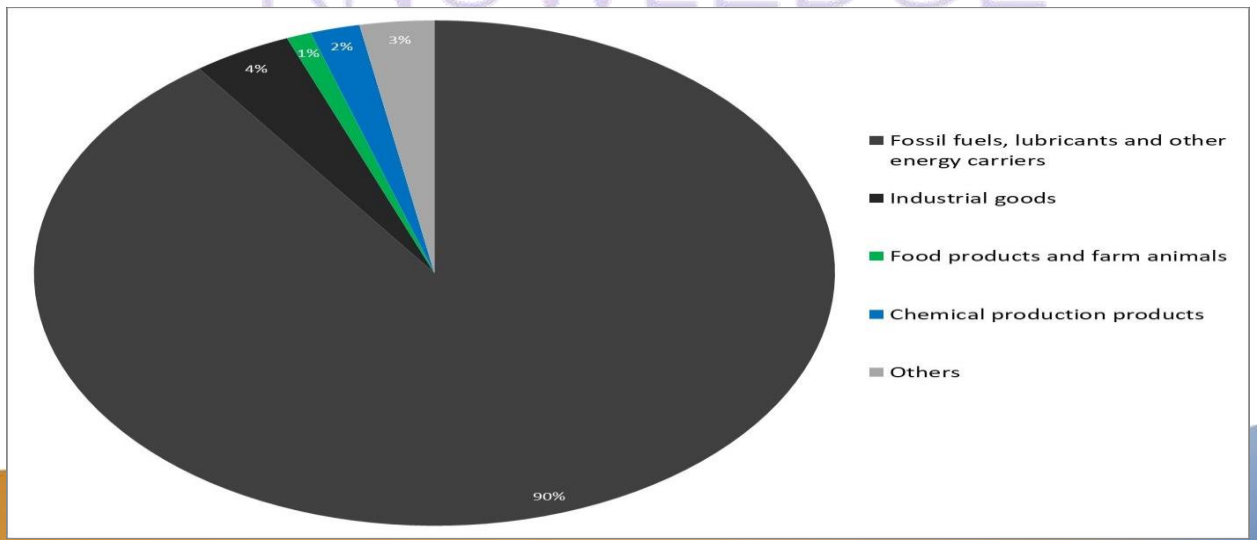
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Figure 2. Principal trading partners of Central Asia in 2019, share in total trade volume.

Source: compiled by E. Kashtyakova, M. Zhatko, N. Barinkova based on EUROSTAT.

According to the SITC classification (Standard International Trade Classification), in 2019 more than 90% of exports from Central Asia to the EU were fossil resources, fuels, lubricants and related materials, industrial goods (3. 9%) and chemicals (1. 6%) [5]. The European Union supports the efforts of Central Asian Republics to integrate into the world economy. Since all five countries are mainly dependent on the export of raw materials, the EU has set itself the goal of helping them to diversify exports through the Standard Generalized Scheme of Preferences (Standard GSP) and a special mechanism to stimulate continuous development and good governance (GSP +), thereby providing reduced or zero tariffs for exports from Central Asia to the EU markets [4]. The economic impact of the systems is still insignificant, since, for example, in 2019, almost three quarters of Kyrgyz exports to the EU accounted for one commodity – gold. In the future, this system may help products Figure 2. Commodity structure of EU imports from Central Asian countries in 2019, % of total imports.

with export potential – Kyrgyz dried fruits or Uzbek cotton – to enter European



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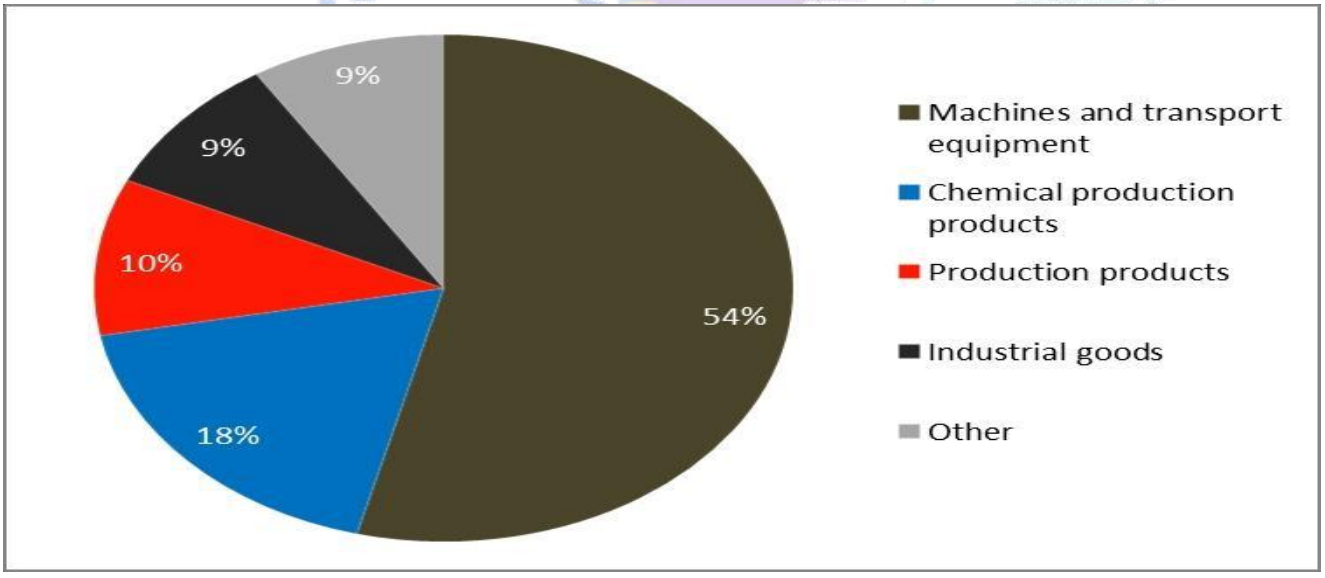
markets.

Figure 3. Commodity structure of EU imports from Central Asian countries in 2019, % of total imports.

Source: compiled by E. Kashtyakova, M. Zhatko, N. Barinkova based on EUROSTAT.

In 2019 more than half of EU exports to Central Asia were machinery and transport equipment, followed by chemical products (18.4%), industrial products (10.2%), industrial goods (8.6%) and others (9%). EU exports to Central Asia are based on more sophisticated products.

Basing on the available data, it becomes possible to conclude about the role of



the EU in the trade turnover of Central Asia.

Figure 4. Commodity structure of EU exports to Central Asian countries in 2019, % of total exports.

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Source: compiled by E. Kashtyakova, M. Zhatko, N. Barinkova based on EUROSTAT.

New opportunities as a result of the adoption of the new EU Strategy on Central Asia 2019-2025.

The EU Strategy on Central Asia 2019-2025 aims to solve the problems of the region, thereby bringing economic relations to a new level as follows [6]:

1. supporting small and medium-sized businesses so that enterprises become more competitive in the global market and can expand

2. Trade, providing financial and technical assistance, working in the field of product quality standards, certification and quality control procedures that will help increase exports of goods from Central Asia to the EU. The EU is also negotiating the creation of a free trade zone with Central Asia.

3. The EU is also working to create an enabling environment for investment in Central Asia, including improving the investment climate and creating a legal framework to protect investors.

4. To increase exports from Central Asia, transport infrastructure is being developed, road networks and railway connections are being improved under the TRACECA, the Trans-Caspian International Transport Route (TITR) and the Central Asia Investment Facility (CAIF) programs through the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). With transport connectivity, it is possible to reduce transport costs and the goods from Central Asia become concretenable.

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5. Water Management: The EU is working with Central Asian countries to improve water management and promote continual use of water resources. This includes supporting the improvement of water infrastructure and improving water governance through the Sustainable Water Management and Energy Efficiency Program.

6. The Digital Economy of the EU provides assistance to support the development of the digital economy in Central Asia, including to improve Internet accessibility and the development of e-commerce through the Central Asian Research and Education Network (CAREN).

7. The Central Asia Regional Economic Cooperation (CAREC) Program: The EU is supporting the development of this program, which aims to improve transport connectivity and promote regional cooperation in Central Asia. The EU is providing financing to support several CAREC projects, including the construction of new roads and bridges in the region.

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