

FRASER CAMERON

8
no

XENOPHON PAPER

THE POLICIES OF THE EUROPEAN UNION AND RUSSIA TOWARDS CENTRAL ASIA



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PREFACE

Within an evolving world order, dominated by a number of actors that deploy their strategies in a variety of ways, the Central Asian region (i.e. Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan) retains the central premise of the Great Game – big powers exercising their influence over the region. Geographically situated between China, Russia, Iran, Afghanistan and the South Caucasus and rich in energy resources, the region is emerging as a critical geostrategic and geo-economic nexus between Russia, the European Union and its member states, the United States, and China.

In this context, Fraser Cameron, the author of this *Xenophon Paper*, sheds some light on the interaction between Russia and the European Union, suggesting that although the rivalry between the two sides is bound to continue, they are less likely to seriously collide over Central Asia.

Fraser Cameron provides a comprehensive analysis of the multi-faceted nature of the policies pursued by Russia and the European Union in the region, and the challenges that arise in seeking to balance their control over energy resources. Before treating each of these two powers separately and in a comparative perspective, the paper turns to the Central Asian states themselves, to provide an understanding of their current state of play and unique position that each occupies in the region. The author continues by extensively exploring how Russia seeks to strengthen its hard as well as soft power through multilateral cooperation in the economic and security fields, and explains why, on the other hand, the European Union is likely to devote less attention than Russia by focusing more instead on issues pertaining to energy, development and stability in the region.

The acquisition of influence is the primordial objective of all stakeholders in the region. As the author suggests, neighbouring states like China, Turkey, Iran, India and Pakistan together with extra-regional actors such as the United States and Japan will focus on the influence paradigm. As a result, both the European Union and Russia will have to bear in mind the growing presence of these other key players.

Overall, Fraser Cameron's analysis highlights the relevance of the ever-growing agenda between Europe's key players – the European Union and Russia – and the need to seriously assess its symbiotic nature as well as its potential for irreconcilable differences. If only for this, it merits serious consideration.

Dimitrios Triantaphyllou
Athens, November 2009

INTRODUCTION

As major international actors, the European Union (EU) and Russia are seeking to increase their influence on the world stage. In recent years, both have looked to Central Asia for new partners and relationships. With the steady shift in the global balance of power to the east, Central Asia has become more important as a result of its geopolitical location and its considerable energy resources. Both these factors are also important for the countries of the Black Sea region, as one end of the new “Silk Road” and as a destination and hub for Central Asian energy. The geopolitical importance of Central Asia has long been a theme of strategists from Sir Halford John Mackinder to Zbigniew Brzezinski. In a lecture to the Royal Geographical Society in London in 1904, Mackinder outlined his famous “heartland thesis” depicting Central Asia as the pivot around which world empires revolve. Writing a century later, the former United States national security advisor also emphasized the “crucial importance of the Eurasia landmass” for global stability.¹

With the advent to power of Vladimir Putin in 2000, the new Russian president was determined to reverse the policies of “the lost decade” under Boris Yeltsin and restore Russian influence as a major power. One of the key regions that witnessed the change in policy was Central Asia, an important geopolitical region with its links to the Caspian and Black Sea as well as China. Looking further east, Putin also moved to strengthen ties with China, to maintain good relations with India and to seek ways to improve the difficult relationship with Japan. During the same period, the EU enlarged to Central and Eastern Europe and also moved to deepen its relations with Central Asia, agreeing a new strategy towards the region in 2007, a policy promoted in particular by the German EU Presidency.² The EU also declared China, India and Japan to be “strategic partners” and spent considerable efforts to deepen ties with all three countries. The EU and Russia have sometimes pursued different strategies towards Central Asia. Sometimes their interests would overlap but more often they would differ. This paper considers the approaches of the EU, its member states, and Russia towards Central Asia in recent years. It also examines the energy factor and touches on the role of other actors such as the United States (US), China, Turkey, Japan, India, Pakistan and Iran.

For the EU and Russia, the number one priority is tackling the global economic crisis that threatens to undermine existing political and economic systems. In both Russia and Europe, protectionism is rising, with the danger of nationalist forces gaining strength.³ Russia's main interests are the preservation of the current power structures, headed by the Putin-Medvedev tandem, and asserting Russia's power on the world stage. Both leaders underestimated the

1 Robert D. Kaplan, “The Revenge of Geography,” *Foreign Policy*, May-June 2009, http://www.foreign-policy.com/story/cms.php?story_id=4862.

2 See *European Community Regional Strategy Paper for Assistance to Central Asia for the period 2007-2013*, 14 May 2007, http://ec.europa.eu/external_relations/central_asia/rsp/07_13_en.pdf. The strategy document was a joint European Council-Commission paper but the bulk of the content was prepared by the Commission.

3 See the results of the European Parliament elections in June 2009 when extreme nationalists gained over fifty seats.

impact of the global economic crisis on Russia and the political and economic situation in Russia today is more fragile than at any time during the past decade. Putin was rather lucky as president. As former Prime Minister Yegor Gaidar stated, "it is nice ruling Russia when oil is US\$140 a barrel – not so nice when the oil price is US\$40 a barrel!"⁴ Russia is now faced with an economic recession, capital flight, mounting debts, and rising unemployment. Given the absence of any strong institutions or real democratic outlets, it is difficult to predict future developments in Russia. Some argue that the crisis will propel Russia back into an authoritarian and protectionist shell. Others consider that the crisis provides an opportunity for Russia to open up to the world and embrace a more liberal path.⁵

For Putin and Medvedev, foreign policy is viewed as a means to revive and project Russian power using all available tools, and especially its vast energy resources.⁶ Russia's principal focus is the US, followed by Europe and Asia. It paid little attention to Central Asia in the 1990s and only slowly began to recognise the importance of re-establishing good relations with the region. There is no intention of trying to reincorporate any of the former Soviet republics within Russia but Moscow would like recognition of its privileged status in the region.⁷ After the conflict with Georgia in August 2008,⁸ a war that caused considerable anxiety in Central Asia, President Medvedev stated that "Russia, like other countries in the world, has regions where it has privileged interests. These are regions where countries with which we have friendly relations are located." This idea of a special sphere of influence has been roundly rejected by the US and EU.⁹ It is also rejected by the Central Asian countries themselves who have no wish to relinquish their newly gained sovereignty. Despite or because of Moscow's growing assertiveness, they are also reluctant to place all their eggs in the Russian basket. In recent years, they have wooed a number of actors, including the US, China and the EU. It is also important to note that Central Asia is not a natural region and there is no automatic regional reflex. There is a lack of homogeneity and even within states there are traditional centres of independence

4 Yegor Gaidar (speech at the EU Russia Centre, Brussels, 10 March 2009). A summary of the speech can be found at <http://www.eu-russiacentre.org/eu-russiacentre-news/gaidar-event-release-eurussiacentre-conference-march-9th.html>.

5 Igor Yurgens (Chairman of the Institute for Contemporary Development), in discussion with the author, Moscow, 18 September 2009.

6 For an assessment of Russian foreign policy see *EU Russia Centre Review* 8 (Brussels: EU-Russia Centre, October 2008), http://www.eu-russiacentre.org/wp-content/uploads/2008/10/review_viii_nal_13_10.pdf.

7 Oleksandr Sushko, "The end of 'International order-1991': Impact of 2008 Russia-Georgia war on Ukraine" (Warsaw: Heinrich Böll Foundation, November 2008), 3, http://www.boell.pl/downloads/Georgia_war_from_UA_perspective_by_O.Sushko.pdf.

8 See Sergey Markedonov, *The Big Caucasus: Consequences of the "Five Day War," Threats and Political Prospects*, ICBSS Xenophon Paper, no. 7 (Athens: ICBSS, May 2009).

9 See US Vice President Joe Biden's remarks in Georgia, *Radio Free Europe/Radio Liberty*, 23 July 2009, http://www.rferl.org/content/Biden_Back_Georgias_NATO_Ambitions_Urges_Democratic_Reforms/1783994.html.

such as Bohara. The Central Asians are born traders and negotiators. The manner in which Kyrgyzstan played off the US and Russians over the Manas air base is proof of their negotiating skills. All states have been severely affected by the economic crisis offering Russia an opportunity to step in and increase its influence. It has been able to offer immediate assistance and its decision to change its negotiating tactics on accession to the World Trade Organization (WTO) and choose to join only with Kazakhstan (and Belarus) was warmly welcomed in Astana.

Russia has an advantage over the EU in that it is a unitary actor compared to the 27 member states of the EU who often struggle to reach a common position on foreign policy issues.¹⁰ Furthermore, Russia does not have to contend with concerns over the lack of democracy and human rights in Central Asia. Traditional political and business ties, linguistic and cultural links also give Russia a certain advantage over the EU in Central Asia. Russian is still the preferred language of all elites and the influence of the Russian media is steadily growing.

Aside from the global economic crisis, EU leaders still attach importance to strengthening the multilateral system, fighting protectionist threats and clinching global deals on trade (Doha) and climate change (Copenhagen). Other priorities include energy security and restoring close ties with the US under President Obama. But in terms of where the EU devotes most of its attention and resources, it is to its immediate neighbourhood – Turkey, the Western Balkans, Russia, Ukraine, the Caucasus, Iran, the Middle East and North Africa. In Asia, China, India, Japan have all been designated strategic partners without much thought having been given to what is meant by the term. Much further down the priority list come the countries of Central Asia.¹¹

The likely entry into force of the Lisbon treaty should give the EU greater coherence, continuity and visibility in external relations. A new European Parliament was elected in June 2009 and a new Commission takes office in January 2010 under the leadership, for the second time, of José Manuel Barroso. After a difficult period of internal wrangling over institutional change and personnel choice, the EU should be better prepared to deal with external challenges assuming its member states can agree on a common policy.

10 For an analysis of the problems that the EU faces in the foreign policy field, see Fraser Cameron, *An Introduction to European Foreign Policy* (London: Routledge, 2007).

11 See the revised *European Security Strategy, A Secure Europe in a Better World*, Brussels, 12 December 2003, <http://www.consilium.europa.eu/showPage.aspx?id=266&lang=en>.

CHAPTER 1

CENTRAL ASIA: THE STRUGGLE FOR STABILITY

Central Asia is a vast landlocked region surrounded by Europe, Russia, China, Afghanistan, Iran and the Middle East. Historically, Central Asia has been a nexus of the international movement of goods, people, and services along the Silk Road that dominated international trade for centuries. The Silk Road, however, began to lose its importance in the 15th century with the development of sea routes to the Far East. Given its geopolitical location, Central Asia was inherently prone for conquest. The Turkish Empire conquered and ruled for over seven hundred years until Genghis Khan and the Mongols overthrew it in 1200. Sometimes their cities were important outposts of the various empires, sometimes they enjoyed periods of independence, sometimes they experienced a cultural flourishing – always they were faced with moving populations and borders. By the 16th century, the Mongol Empire was losing power in Central Asia to growing Russian influence and expansion. By the end of the 17th century, Russia had annexed most of the Western Steppe in Central Asia. Later, this would lead to Central Asia's incorporation into the Soviet empire after the Russian Revolution of 1917.¹²

When the Soviet Union conquered Central Asia in 1924, the drawing of state borders did not reflect real ethnic or even economic landscapes. Moscow feared a united Central Asia, on the basis of common Turkish ethnicity and Islamic culture, would overthrow Soviet rule in the region and separate from the Union of Soviet Socialist Republics (USSR). It therefore divided Central Asia into five states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The Soviet plan was to divide the region to best-fit regional differences, such as separating the Persian-speaking Tajiks from the other states, and nomadic Turkmens from sedentary Uzbeks. Inevitably there remained sizeable ethnic minorities in all states. In addition, Moscow sent thousands of ethnic Russians into the region. The Soviet colonial experience was a mix of the harsh and the mild. Under Soviet rule, the Central Asian republics grew increasingly communised with progressive implementation of command economies, communist institutional frameworks, and recruitment of young men into the Red Army. On the other hand, the countries gained access to the Russian market while Moscow assumed responsibility for all external issues including trade and defence. Central Asia also saw other benefits from Soviet rule, especially in health care, education and infrastructure, but traditional religious values and practices were heavily suppressed. Central Asia was also used as a testing ground for Soviet nuclear weapons.

Under Soviet rule, and in contrast to the Baltic States, for example, the Central Asian states showed few signs of disaffection with the rulers in Moscow. In 1991, with the fall of communism and the dissolution of the Soviet Union, the Central Asian states were the last to declare independence with most showing little enthusiasm for their new status. The new governments continue to face broad, fundamental challenges to their independence. Ethnic demographics

12 Peter Hopkirk, *The Great Game* (London: Oxford University Press, 1991).

still pose a threat to stability in the region because Russian, Turkish, Uzbek, Kazakh, and other ethnicities are scattered across national borders.

History and tradition play an important role in the political culture of the region. The Central Asian states are not so much newly independent as completely new states. They are all “Sun-nites,” i.e. they are “soft Islamists.” The softness combined with widespread poverty provides excellent opportunities for extremists to penetrate and affect the whole society. The influence of the Koran is widespread and growing. Up to 30% of children do not go to school. The situation of women in society leaves much to be desired. Power is based on personal respect (interpersonal but also between groups and clans). There is limited civic order with preference given to clan loyalties and personal connections rather than the rule of law or meritocracy.

Map 1: The Caucasus and Central Asia



Source: Yale University Library, Slavic and East European Collection website

The Central Asian “Stans,” as Uzbekistan, Turkmenistan, Kazakhstan, Kyrgyzstan and Tajikistan are known by the Western diplomats and oilmen who frequent them, conjure images of megalomaniac rulers, exotic nomads and mineral riches beyond compare. There is some truth in the caricature but it is not the whole truth. In addition there is the overwhelming influence of foreign ideologies – Islamism, socialism and, most recently, capitalism – and their promoters. The heirs to Genghis Khan they may be, but ever since the decline of the

Silk Route in the 16th century, the five nations that lie in a vast swathe between China and the Caspian have been at the receiving end of foreign trouble. And it is Russia's shadow that has fallen longest, and most balefully.

Central Asia's main assets are its energy resources, rare metals and stones, cotton, special fruits and vegetables. The region is dependent on outside support for infrastructure investments, education and professional training. The outside world, however, is more concerned about Central Asia becoming a breeding ground for extremism and terrorism, uncontrolled migration, drugs trafficking and money laundering. In addition, there are huge environmental problems (pollution, erosion, waste, etc.) and especially shortages in water supply, water quality and distribution. All these circumstances have led to extremely heterogeneous countries in terms of ethnic, linguistic and religious landscapes. The modern political structures in the region vary in their degrees of authoritarianism, economic controls and openness. The regimes are engaged in a constant struggle trying to balance between their powerful neighbours or interested parties from the West (EU, US, Turkey), East (China, Japan), South (Iran, Pakistan) and North (Russia). In the post 9/11 geopolitical era, with energy security and terrorism leaping to the top of the agenda, Central Asia has risen again to the forefront of international politics. Its huge energy and other natural resources have caught the attention of the EU as well as Russia, the US, China and other players. With its close proximity to Afghanistan and Iraq, and its role in aiding, or refusing to aid, US efforts on the "war on terror" the Central Asian states have also been able to increase their bargaining power.

Although there is an increasing interest in the region, the short surveys of the five republics below reveal that they all continue to face serious political and economic problems.¹³ In addition, they are concerned at the trajectory of Russian foreign and security policy in the wake of the Russian invasion of Georgia in August 2008. Central Asian countries have mostly limited or frosty relations between themselves, e.g. Uzbekistan and Tajikistan are often outright hostile towards each other. For a region that came to nationalism relatively late – until recently, millions of Central Asians defined themselves primarily as Muslims – ethnic conflict has been widespread. While the risk of separatist movements remains minimal, there could be a potential for conflict over trans-border water usage or over border disputes between Kazakhstan and Uzbekistan and between Kyrgyzstan and Tajikistan in the Fergana valley. There are sizeable Uzbek minorities in neighbouring states and of course the largest diaspora are the Russians in Kazakhstan. But so far Russia has not attempted to mobilise its diaspora against Kazakhstan. There are also fears among Central Asian governing elites that the US will use democracy promotion and the "war on terror" as a pretext to interfere in their internal affairs. These fears have resulted in a strong wish to foster some limited regional integration where possible and to find a reliable security umbrella provided by friendly powers such as Russia and China.

13 Nagendra V. Rao and Mohammad Monir Alam, ed., *Central Asia: Present Challenges and Future Prospects* (New Delhi: Knowledge World, 2005).

To date, the wish to engage in regional integration has not led to much progress. The main economic body, the Eurasian Economic Community (EurAsEC) has not managed to achieve its aims on promoting regional cooperation. One of its main goals, the creation of a customs union among its members, has not been accomplished. EurAsEC also has had little impact so far in creating regional infrastructure or in addressing key regional water issues. With the recent establishment of a new financial sister institution, the Eurasian Development Bank (EDB), which has grown quickly as an organisation and acquired considerable technical expertise in its management and staff, EurAsEC may have acquired the financing instrument it needs to become more effective. The track records of the Economic Cooperation Organization (ECO) and the Special Program for the Economies of Central Asia (SPECA) have been weak. ECO's goals for regional trade integration and trade facilitation have shown virtually no progress, at least as far as Central Asian countries are concerned. The Central Asia Regional Economic Cooperation (CAREC) Programme has made limited progress in a number of areas, including transport and trade facilitation, trade policy and energy.¹⁴ Central Asia's remote geography, together with the security threat emanating from its southern border with Afghanistan and Iran, however, has kept most investors at bay since the five countries emerged as independent states after the fall of the Soviet Union in 1991.

Central Asia's geographical position is a major problem. Even international oil companies competing fiercely for the region's vast energy reserves, have grappled to find transport routes out of the landlocked region. Furthermore, its authoritarian leaders have been slow to enact political and economic reforms that could attract investors and foster the development of an entrepreneurial class. The one exception is Kazakhstan, where Nursultan Nazarbayev, the president, was the first regional leader to understand the potential benefits of global integration (see below).

In spite of its isolation from global markets, Central Asia has not been immune to the shocks affecting the rest of the world.¹⁵ Economic growth has slowed on the back of a contraction in Russia and Kazakhstan (see Table one). Russian companies, driven partly by the Kremlin's determination to reassert its influence, have begun to invest in Central Asian industrial projects but are now strapped for cash. Kazakh banks are struggling to repay foreign obligations and are expected to cut investments in regional banks. Meanwhile, inflation has hit Central Asia particularly hard. Remittances account for more than 25% of gross domestic product (GDP) in Kyrgyzstan and Tajikistan, but have dropped sharply as Kazakhstan and Russia have laid off migrant workers employed in the construction industry. In 2007 the National Bank of Kyrgyzstan estimated that remittances sent by labour migrants were equal to the annual state budget, US\$750 million.¹⁶

14 For a review of CAREC see the website of the Asian Development Bank, www.adb.org/carec.

15 Richard Pomfret, "Central Asia and the Global Economic Crisis," *EUCAM Policy Brief*, no. 7 (Madrid/Brussels: FRIDE/CEPS, June 2009), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/Policy_Briefs/PB-7-eversion.pdf.

16 See Malcolm J. Dowling and Ganeshan Wignaraja, *Central Asia: Mapping Future Prospects to 2015*. Economic and Research Department Working Paper, no. 2 (Manila: Asian Development Bank, 2006).

Table 1: General and macroeconomic data about Central Asian countries (2008 figures)

Country	Population (millions)	Inflation (%)	Territory (km ²)	Density of population (people/km ²)	Economic growth (%)	GDP (bn. of euros)	GDP per capita (euros)
Kazakhstan	15,6	17.2	2,724,900	5.6	3.2	89.9	5,780
Kyrgyzstan	5,3	24.5	199,900	26.4	7.6	3.4	646
Tajikistan	6,5	20.4	143,100	49.4	9.0	3.5	540
Turkmenistan	5,3	15.0	488,100	10.4	9.8	27.2	2,626
Uzbekistan	27,2	12.7	447,400	62.1	9.0	19.0	698

Source: The European Commission's Directorate-General for Trade website

Basic Facts about Central Asia

Kazakhstan

Kazakhstan declared independence on 16 December 1991, the last of the Soviet republics to declare independence. It is by far the largest Central Asian state in terms of territory, bigger than the other four put together. It vies with Uzbekistan, which is more populous, for a leadership role in the region. Nursultan Nazarbayev, the last communist leader of Soviet Kazakhstan and its ruler since independence, is widely respected for promoting reforms that have transformed the oil-rich country into the most prosperous, outward looking economy in Central Asia. Nazarbayev moved swiftly after independence to introduce market reforms and invited international oil companies to help develop the country's vast reserves. Kazakhstan's banking sector, transferred into private hands, flourished while international capital was cheap, borrowing large sums to fund an oil driven domestic consumer boom. Compared with other Central Asian countries, Kazakhstan is a consumer paradise, its once drab city streets lined with shopping emporiums, smart restaurants and foreign cars. The president has encouraged the development of a professional middle class, sending young Kazakhs abroad for education, but wealth and power are still concentrated in the hands of the president and an elite. Nazarbayev has pledged slowly to introduce democracy, although legislation adopted in 2007 allows him to remain president for life. Nur Otan (Fatherland) – Nazarbayev's political party – won all the seats at a parliamentary election in 2007 which the opposition claimed was falsified. Human rights activists have accused the west of turning a blind eye to Nazarbayev's political shortcomings in the interests of oil diplomacy. An opportunity to promote reform may come in 2010 as Kazakhstan takes over the rotating chairmanship of the Organisation for Security and Cooperation in Europe (OSCE) in 2010. The OSCE has urged Kazakhstan to reform electoral law and ease restrictions on the independent media and political parties. Nazarbayev has repeatedly censored the press through arbitrary use of "slander" laws, blocked access to opposition websites, banned the Wahhabi religious sect and refused demands that the governors of Kazakhstan's fourteen provinces be elected, rather than appointed by the president.

Kazakhstan has the largest economy in Central Asia with oil and gas the leading economic sectors. The years following independence have been marked by significant reforms to the Soviet-

style economy. Under Nazarbayev, Kazakhstan has made steady progress toward developing a market economy and the country has enjoyed robust economic growth since 2000, partly due to its large oil, gas and mineral reserves. Because of its strong economic performance and financial health, Kazakhstan became the first former Soviet republic to repay all of its debt to the International Monetary Fund (IMF) by paying back US\$400 million in 2000, seven years ahead of schedule. Overall foreign debt is about US\$12.5 billion, US\$4 billion of which is owed by the government. This amounts to 69% of GDP, well within manageable levels. Kazakhstan has suffered less than the other Central Asian republics from the global economic crisis. It is expected to see negative growth of -2.2% in 2009 before returning to positive growth in 2010.¹⁷

Kazakhstan has sought to balance its relations between Russia, China and the West. Some 80% of its oil and gas is exported via Russia. Astana now wishes to diversify by building new export routes to China and to the EU via the Caspian and the South Caucasus corridor. The Russia-Georgia conflict in August 2008 gave the Kazakh leadership much cause for concern about the security of the southern corridor, but Astana seems keen to press on with the Transcaspian route and has signed agreements with Azerbaijan and Georgia to develop the necessary infrastructure. In the summer of 2008, the President launched a programme "The Path to Europe" which set out the aim of developing strategic partnerships with the main EU countries and establishing "EU standards" as the basis for the future development of the country. Astana has been keen to upgrade its relations with the EU and move beyond the European Union Partnership and Cooperation Agreement (PCA). The EU, on its side, wants an agreement with clearer rules on investment but not a free trade area.

Kyrgyzstan

Kyrgyzstan declared independence on 31 August 1991. Kurmanbek Bakiyev was swept to power by a spontaneous popular uprising in 2005 that overthrew Askar Akayev, the former leader, who had ruled Kyrgyzstan since independence. Dubbed the "Tulip Revolution," the Kyrgyz uprising has been compared with the so-called colour revolutions in Georgia and Ukraine that ushered in western leaning, reformist leaders. Bakiyev, who entered politics in the 1990s, is a soft authoritarian who has looked to Russia and Kazakhstan for support. He has quarrelled openly with the US about the terms under which it maintains a military base in the country to support operations in Afghanistan (see below). His rule has seen an increase in corruption and a breakdown in law and order. Four of the seventy-five members of Parliament elected in March 2005 have been assassinated. Ak Zhol, the presidential party, won a large majority in parliamentary elections in December 2007 that observers said was unfair. Bakiyev was re-elected president in July 2009 in elections that were also deemed unfair by OSCE observers [but deemed fair by the Commonwealth of Independent States (CIS) observers!]. The president has clamped down on the media but is more open about his country's problems than most Central Asian leaders.

17 Emerging Europe Monitor, "Macroeconomic Forecast Kazakhstan," July 2009, <http://www.emergingeuropemonitor.com/le/79713/macroeconomic-forecast-kazakhstan.html> July 2009.

Current concerns in Kyrgyzstan include privatisation of state-owned enterprises, expansion of western influence, inter-ethnic relations and terrorism. More and more ethnic white Russians want to leave Kyrgyzstan for Russia. If the current trend persists, more than half of Kyrgyzstan's Russian population will have left within the next ten years.¹⁸ Despite the backing of major western lenders, including the IMF, the World Bank and the Asian Development Bank, Kyrgyzstan has had continual economic difficulties since independence. Initially, these were a result of the break-up of the Soviet trading bloc and resulting loss of markets, which impeded the republic's transition to a free market economy. The nation's economic performance in the early 1990s was worse than any other former Soviet republic except war-torn Armenia, Azerbaijan, and Tajikistan. Overall, the government appears committed to the transition to a market economy. It has reduced expenditures, ended most price subsidies and introduced VAT, reforms that led to Kyrgyzstan's accession to the WTO in December 1998. Agriculture is one of the most important sectors but is currently experiencing serious problems. Kyrgyzstan is rich in mineral resources but has negligible petroleum and natural gas reserves. Among its mineral reserves are substantial deposits of coal, gold, uranium, antimony and other valuable metals. The government has actively encouraged foreign involvement in extracting and processing gold. The country's plentiful water resources and mountainous terrain enable it to produce and export large quantities of hydroelectric energy. The economy is expected to contract by 1.6% in 2009 and resume modest growth in 2010.¹⁹

Tajikistan

Tajikistan declared independence on 9 September 1991. Almost immediately after independence, Tajikistan was plunged into a civil war that saw various factions, allegedly backed by Russia and Iran, fighting one another. All but 25,000 of the more than 400,000 ethnic Russians, who were mostly employed in industry, fled to Russia. Emomali Rahmon became acting, and later, full president after a United Nations (UN) brokered peace settlement in 1997. This agreement provided for some Islamists in parliament. But Rahmon later consolidated power and his People's Democratic Party now holds most seats in the legislature. Rahmon is popular for having restored stability after the civil war. There is concern, however, that corruption and worsening poverty could prompt further civil unrest. Remittances, the main source of income for most Tajiks, have shrunk considerably as richer CIS countries lay off migrant workers in the wake of the global credit crisis.

Tajikistan is the poorest country in Central Asia and closest to a failed state. With foreign revenue precariously dependent upon exports of cotton and aluminium, the economy is highly vulnerable to external shocks. Nearly 60% of Tajiks live below the poverty line and for the past two years the country has suffered a food crisis. The primary sources of income in Tajikistan are aluminium production, cotton growing and remittances from migrant workers. Tajikistan has great hydropower potential, and has focused on attracting investment for projects for internal

18 The World Bank, "The Kyrgyz Republic, Recent Economic Developments in 2006" (Washington, D.C.: The World Bank, January-December 2006), http://siteresources.worldbank.org/INTKYRGYZ/Resources/305660-1105446288072/Econ-update-2006_eng.pdf.

19 Ibid.

use and electricity exports. Drug trafficking is the major illegal source of income in Tajikistan as it is an important transit country for Afghan narcotics bound for Russian and European markets. In the post-Soviet era, Tajikistan has substantially shifted its markets away from the former Soviet republics; in 2005 more than 80% of total exports went to customers outside the CIS, including more than 70% to countries of the EU and Turkey. Most of Tajikistan's food and energy supplies, however, are imported from the CIS countries and in 2005 only about 53% of total trade activity was outside the CIS. The economy is expected to shrink by 1.2% in 2009 with only a modest recovery forecast for 2010.²⁰

Turkmenistan

Turkmenistan declared independence on 27 October 1991. The president, Gurbanguly Berdimukhamedov, has taken bold steps to introduce political and economic reforms since taking office in February 2007 following the country's first contested elections. But he inherited a grim legacy from the late Saparmurat Niyazov, an eccentric dictator who ruled Turkmenistan as his personal fiefdom for more than twenty years. Berdimukhamedov has partially opened Turkmenistan to the outside world, inviting foreign companies to help develop oil and gas reserves and modernise the economy. Pensions and healthcare have been restored, secondary education extended, and a campaign to stop the drugs trade has been started. Parliamentary elections will be held for the first time in December 2009. Berdimukhamedov, however, is likely to retain a tight grip on power. He frequently sacks officials and forbids criticism of the government. There is no media freedom and corruption remains endemic.

Until the end of 1993, Turkmenistan had experienced less economic disruption than other former Soviet states because its economy received a boost from higher prices for oil and gas and a sharp increase in hard currency earnings. As in the Soviet era, central planning and state control pervade the system, and the Niyazov government has consistently rejected market reform programmes. The state subsidises a wide variety of commodities and services. It is the world's tenth largest producer of cotton. It possesses the world's fourth-largest reserves of natural gas and substantial oil resources. Two-thirds of Turkmen gas goes through the Russian state-owned Gazprom. Oil companies are courting Turkmenistan as Russia, Europe and China compete for access to the country's huge gas reserves. Berdimukhamedov has skilfully played investors off each other while his immediate priority has been to bring in outsiders to reform the country's neglected agriculture and social services. Thanks to its buoyant exports, Turkmenistan is likely to maintain a positive growth of over 4% in 2009, continuing in to 2010.²¹

Uzbekistan

Uzbekistan declared independence on 1 September 1991. It is the most populous state with the largest army and views itself as the leader in the region. Islam Karimov, a former communist

²⁰ Ibid.

²¹ Ibid.

party boss, has ruled Uzbekistan with an iron fist for twenty years and shows no sign of relinquishing power. According to Amnesty International, he runs a highly repressive regime with a feared secret police and thousands of political prisoners. Karimov has ruthlessly hounded those he views as Islamist extremists plotting to seize power. Hundreds of civilians died when the security forces crushed an armed uprising in the town of Andizhan in 2005, blamed on Islamist rebels. The EU responded by imposing sanctions and calling for an international enquiry. After US criticism of the police violence, Karimov evicted the US military from a base established in 2001 to support US led attacks on the Taliban in Afghanistan. The government has justified its restraint of public assembly, opposition parties, and the media by emphasising the need for stability and a gradual approach to change during the transitional period, citing the conflict and chaos in the other former republics (most convincingly, neighbouring Tajikistan). Karimov won 88% of the vote at the last presidential elections, circumventing constitutional rules limiting presidents to just two terms in office. In 2008, the EU lifted a visa ban on senior Uzbek officials, citing the abolition of the death penalty and ratification of conventions against child labour as evidence of improved human rights. An EU arms embargo, however, remains in force.²²

Despite the declared objective of transition to a market economy, Uzbekistan continues to maintain rigid economic controls, which often repel foreign investors. The government restricts foreign imports in many ways, including high import duties. Excise taxes are applied in a highly discriminatory manner to protect locally produced goods. Uzbekistan is the world's sixth-largest producer and second-largest exporter of cotton, as well as the seventh largest world producer of gold. It is also a regionally significant producer of natural gas, coal, copper, oil, silver and uranium. The state has remained a dominant influence in the economy while corruption remains endemic. The policy of gradual, strictly controlled transition has nevertheless produced some beneficial results in the form of economic recovery after 1995 although nearly half the population lives below the poverty line. Growth rates for 2009 are predicted to be over 5% with a further increase in 2010.²³

22 Sukhrobjon Ismailov and Balazs Jarabik, "The EU and Uzbekistan: Short-Term Interests versus Long-Term Engagement," *EUCAM Policy Brief*, no. 8 (Madrid/Brussels: FRIDE/CEPS, July 2009), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/Policy_Briefs/PB-8-eversion.pdf.

23 Ibid.

CHAPTER 2

RUSSIA'S BACKYARD: FROM INDIFFERENCE TO SPHERE OF INTEREST

Russia's two main interests in Central Asia are security and energy. President Medvedev's first foreign visits on taking office in May 2008 were to Kazakhstan and Turkmenistan, reflecting Moscow's priorities in the region. Russian policy towards Central Asia has undergone several changes since 1991, ranging from almost total indifference to the present efforts to increase Russian influence and cooperation, particularly in increasing institutional ties and in the security and energy sectors.²⁴ At the beginning of the 1990s, Russia was so beset with internal problems that it sought to rid itself of "the burden" of Central Asia.²⁵ It reduced its military cooperation and left the countries of the region to cope on their own with the threats emanating from war-torn Afghanistan. Russia also did little to maintain the common economic zone, even forcing the republics out of the rouble zone. By deliberately turning its back on Central Asia, Russia could not have been surprised at losing influence in the region.

From the mid 1990s, Russia tried to develop a new approach to Central Asia based on its concept of multipolarity. Russia tried to regain its lost influence as a Eurasian great power by seeking to develop closer cooperation in the defence and security sectors, and also by exploiting its monopoly in the transit of Central Asian energy products to external markets. Economic cooperation, however, continued to be neglected. During the later 1990s, Russia began to attach increasing importance to the stability and security of Central Asia. This was mainly due to a new strategy devised by Prime Minister, Yugeny Primakov, and an increasing understanding in Russia that there was a threat to its own security from Islamic fundamentalism.

By 2000, when Boris Yeltsin relinquished the presidency, there was still little to show for the changed emphasis in Russian policy. Tajikistan had accepted a significant number of Russian forces to help protect its borders. There were some energy deals with Kazakhstan and Turkmenistan and various declarations about the need to develop closer cooperation with each other. The accession to power of Vladimir Putin, however, marked a turning point in Russian policy towards Central Asia. Putin was greatly helped by the high energy prices that accompanied his two terms as president. The increased revenues allowed Putin to allocate resources to support a new flexible and pragmatic foreign policy, including efforts to re-establish Russian influence in Central Asia. Another important event was 9/11 and the US request for Russia to support the provision of American air bases in Central Asia. Putin was willing to assist President Bush but

24 For an overview see Marlène Laurel, "Russia's Central Asia Policy and the Role of Russian Nationalism," Silk Road Paper (Washington, D.C.: Central Asia-Caucasus Institute & Silk Road Studies Programme, April 2008), <http://www.isdp.eu/files/publications/srp/08/ml08russiacentral.pdf>.

25 Yegor Gaidar (former Russian Prime Minister of Economics), in discussion with the author, Brussels, 10 March 2009.

also concerned at US forces encircling Russia. He was annoyed when, after the initial first year lease expired, President Bush did not consult him or seek his support for an extension.²⁶

The US attitude and especially its support for democratic and market economy reforms in Central Asia led to a more intense rivalry between the US and Russia. In Russian eyes, the Tulip revolution in Kyrgyzstan, following similar coloured revolutions in Ukraine and Georgia, were dangerous developments that could ultimately affect the power elite in the Kremlin. But after the brutal government repression of the opposition in Uzbekistan in 2005, the US seemed to lose interest and influence in the region and the governments of the Central Asian states reacted by diversifying their political contacts. The main American interest now is transit routes to Afghanistan, a card that Russia also plays for its own political purposes.²⁷ American involvement in the region, however, is still viewed with suspicion by Moscow. In March 2009, Defence Minister, Anatoly Serdyukov, stated: "America's aspirations have been aimed at getting access to mineral, energy and other resources of the CIS countries, and it has actively supported processes aimed at ousting Russia from the area of its traditional interests."²⁸

Russia now pays full attention to Central Asia, not least for its vast oil and gas reserves, which are vital to Moscow's own energy strategy. Increased demand for energy at home and abroad, coupled with an investment strategy that has failed to bring on-line new fields inside Russia, has prompted Gazprom, the state-run monopoly, to look to Kazakhstan, Turkmenistan and Uzbekistan – until recently, at reduced prices – to fulfil its myriad supply contracts. Without the additional gas, Gazprom would not be able to meet its commitments, fulfilling Europe's fears over Russia as a reliable supplier. Russia has also established a new state body, the Federal Agency for the CIS, and headed by a former ambassador to Uzbekistan, which has been given the job of spreading Russian culture throughout Central Asia and beyond, as Moscow seeks to strengthen its soft power.

Multilateral Regional Initiatives and Russia

Bilateral agreements are the foundation of Russia's Central Asia policy in both the security and economic domains. But multilateral regional initiatives give Moscow the opportunity to further strengthen influence in the region and even use these as tools in a divide and rule policy. There has been a proliferation of such initiatives including the EurAsEC, the Central Asian Cooperation Organisation (CACO) and the Collective Security Treaty Organisation (CSTO). In 2007, at the heads of state summit meeting in Dushanbe (Tajikistan), there was agreement that the CSTO would cooperate with the Shanghai Cooperation Organisation (SCO), thus bringing China into the equation. Russia had been a founding member of the SCO (comprising Russia, China, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan) and in 2005, it prompted the SCO to issue

26 Ibid.

27 President Medvedev assured President Obama at the G20 summit in April 2009 that he would be sympathetic to US requests for transit of supplies to Afghanistan.

28 Anatoly Serdyukov, interview for *Interfax News Agency*, Ukraine, 12 March 2009.

a statement denouncing the American military presence in the region and requesting the US to withdraw. But apart from a few joint anti-terrorist activities the SCO has not proved a very dynamic organisation. In June 2009, there was a summit meeting of the SCO in Yekaterinburg that produced nothing other than a bland communiqué to promote closer cooperation. Russia pressed Armenia, Kazakhstan, Kyrgyzstan and Tajikistan into signing up for a rapid reaction force to deal with terrorism, but this was even a step too far for Uzbekistan.

The CIS, CSTO and SCO are all (partly) security-oriented organisations, although with differences in membership and orientation. They also overlap in both aspects. The CIS, which was already declining in importance over the last decade, has now lost all relevance as a result of Ukraine and Georgia's withdrawal. Currently the CIS still plays a role in security through an anti-terrorist centre in Bishkek and the management of unified air defence, although the former is also being established under the SCO and the latter under the CSTO.²⁹ Whereas the CIS and SCO incorporate economic and cultural aspects, the CSTO is primarily security driven and, in Russian eyes, meant to be the counterpart of the North Atlantic Treaty Organization (NATO). Established in 1993, it comprises the former Soviet republics Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia, Uzbekistan and Tajikistan. In Article 2, the Treaty indicates: "In case of threat to security, territorial integrity and sovereignty of one or several member states or threat to international peace and security, the member states will immediately put into action the mechanism of joint consultations with a view to coordinating their positions and taking measures to eliminate the threat that has emerged." Article 4 further stipulates that: "In case an act of aggression is committed against any of the member states, all other member states will render it the necessary assistance, including military, as well as provide support with the means at their disposal through an exercise of the right to collective defence in accordance with Article 51 of the UN Charter."³⁰

Although the SCO has developed a small role as a regional security player through joint Sino-Russian anti-terrorist exercises, China wishes it to concentrate on trade and economic issues.³¹ Russian proposals to extend existing military cooperation have not found much enthusiasm in China or among Central Asian members. It seems likely, therefore, that Moscow will certainly try to strengthen the role of the CSTO in Central Asia while deepening bilateral security arrangements.

Cooperation in the Security Field

Cooperation with the countries of the region in defence and security matters (training, establishment of a rapid reaction force, defence equipment, etc.) is regarded by Moscow as

29 Ivan Safranchuk, "The Competition for Security Roles in Central Asia," *Russia in Global Affairs*, no. 1 (January-March 2008): 4, <http://eng.globalaffairs.ru/printver/1183.html>.

30 Erica Marat, "Fissures in the force – Multilateral co-operation can only go so far," *Jane's Intelligence Review*, 1 June 2007, <http://www.silkroadstudies.org/new/docs/publications/2007/Marat0507.pdf>.

31 Vladimir Paramonov and Oleg Stolpovski, "Russia and Central Asia: Multilateral Security Cooperation," *Research & Assessment Branch Central Asian Series* 08/08 (Swindon: Defence Academy of the UK, March 2008), 9.

the main vehicle for projecting its influence in the region. Kazakhstan is Russia's key strategic partner and ally in the Central Asian region.³² Whereas energy is the basis of Russia's relationship with Kazakhstan, the political and security aspects are also considerable. Russia lobbied hard for Kazakhstan to obtain the OSCE chairmanship, a sensitive post that could bring further international recognition for President Nazarbaev. It would also be a way for Russia and its partners to change the OSCE, which is seen as a trouble maker in (eastern) member states by interfering in internal affairs while ignoring acute security concerns. Both countries have numerous bilateral military cooperation agreements that go as far as joint planning for the deployment of military force. Russia still rents seven military facilities on Kazakh territory, mostly consisting of test ranges and radar installations.³³ Another facility it rents is the Baikonur cosmodrome. This Kazakh asset, inherited from the Soviet Union, is also an opportunity for Kazakhstan's own research and development ambitions.

Russia has good relations with Kyrgyzstan and Tajikistan. Of these two poor mountainous Central Asian republics, relations have been stronger with Tajikistan which is often characterised as a Russian outpost on the border with Afghanistan and China. Russians played a crucial role in fostering a peaceful settlement of the 1992-96 Tajik civil war. Currently, Russia is strengthening its military base in Tajikistan to increase its political visibility and to be able to render emergency support for border guards on the Afghan border.³⁴ Meanwhile, Russia is also planning to strengthen its military airbase in Kant and in July 2009 signed an agreement to operate a second base in the country. Although alarm bells went off in the Kremlin when Kyrgyzstan underwent a "Tulip revolution" in 2005, there have been no signs of Bishkek wanting to limit links with Russia. Bilateral military cooperation, joint border controls and sharing intelligence to counter terrorist threats are central to this relationship.

The security arrangements and links with Turkmenistan and Uzbekistan show a somewhat different picture. The case of Turkmenistan is special since it does not take part in the web of regional security organisations. Russia has to rely on bilateral relations that are guaranteed by Turkmenistan's need to export gas to Russia. Whereas Russia's influence on Turkmenistan – especially through military and border control cooperation – was in a state of decline during Niyazov's isolationist rule, today, President Berdymukhamedov is increasing bilateral cooperation and considering joining the SCO. Although progress in bilateral security operation with Ashgabat still needs to materialise, Russia-Uzbekistan contacts have shown a steep rise over the last three years. Earlier relations had become frosty due to President Karimov's multi-vector foreign policy and the US military presence in Uzbekistan. After the Andijan massacre in 2005 when the EU and US turned

32 Ministry of Foreign Affairs of the Russian Federation, "A Survey of Russian Federation Foreign Policy," Moscow, March 2007, http://www.mid.ru/Brp_4.nsf/arh/89A30B3A6B65B4F2C32572D700292F74?OpenDocument.

33 Vladimir Paramonov and Aleksey Stokov, "Russia and Central Asia: Bilateral Cooperation in the Defence Sector," *Research & Assessment Branch Central Asian Series* 08/15(E) (Swindon: Defence Academy of the UK, May 2008), 2-3.

34 Roger McDermott, "Russia boosts military presence in Central Asia," *Eurasia Daily Monitor* 5, no. 111 (Washington, D.C.: The Jamestown Foundation, 11 June 2008).

away from Karimov who was sanctioned while he ended the US military base agreement, the Russians stepped back in without asking compromising questions. Karimov needed a security patron to safeguard his position and Russia was ready to fulfil that role. Uzbekistan returned to the CSTO, but relations are not as warm as with Kazakhstan, Kyrgyzstan and Tajikistan.

Russia has also attempted to use its influence over Central Asia as a bargaining card with the US, especially Washington's desire for over fly rights and bases to carry out its military campaign in Afghanistan. After the Obama visit to Moscow in July 2009, there was a softening of the Russian position on Afghanistan and Pakistan with Medvedev talking of new areas of cooperation with the West. Russia backed the US-led military operation launched in 2001 to topple Afghanistan's Taliban rulers, but has since criticised Washington for its conduct, which Moscow believes contributes to instability in the region. In 2009, Russia and its Central Asian allies agreed to allow non-lethal supplies to the international forces in Afghanistan to go through their territory complementing a current route via Pakistan. Cooperation on Afghanistan is a key element in attempts by Presidents Medvedev and Obama to reset relations between Moscow and Washington which have reached post-cold war lows in the past few years. Russia most certainly does not want a Taliban regime back in power in Afghanistan but it seems also reluctant to help the US too much in securing a "victory" there. But Moscow is also concerned at the possible spill-over of Islamic fundamentalism from Afghanistan to Central Asia and indeed its own territory.

Economic Cooperation

After security, Russia's second priority is economic cooperation, especially the energy sector, where most Russian investment has taken place. Russia still benefits from its historical association with Central Asia and the widespread use of Russian as a lingua franca. In addition, Russians understand the mentality of doing business in the region better than European businessmen. Corruption, for example, is widespread in Russia and in Central Asia. The Central Asian countries were aware and are still aware of their need for cooperation with Russia in order to kick-start the process of economic integration and to create a stable system of regional security. Russia helped persuade Uzbekistan to leave the GUAM Organization for Democracy and Economic Development (the grouping linking Georgia, Ukraine, Armenia and Moldova) and join EurAsEC. It also befriended Turkmenistan which was heading for international isolation. In 2005, Uzbekistan decided that the American air base, which had operated near Karshi since 2001, should be closed. In June 2006 Uzbekistan joined the CSTO. Kyrgyzstan also closed the Manas air base to US forces in spring 2009 after Russia had agreed to provide it with over US\$2 billion in assistance and credits. After promises of increased aid in June 2009, Bishkek agreed to keep the base open for US forces.

Russia has recently proposed a US\$10 billion stabilisation fund for the region, for which it will contribute three-quarters. The countries that stand to gain are of course those that demonstrate the correct political attitude towards Moscow. In the Kremlin a special unit has been created to identify assets for sale in neighbouring countries. The financial crisis may be affecting

Russia in a major way but it has not stopped the Kremlin looking for political and economic opportunities to increase its influence. The announcement in June 2009 that Russia would only join the WTO along with Kazakhstan and Belarus is a good example. But the refusal of the Central Asian states to follow Russia and recognise the independence of South Ossetia and Abkhazia also reveals the limits of Russian influence.

Moscow's attempts to increase its influence has not matched up with the expectations of the Central Asian countries that Russia could and should be doing more to support them. There is a general feeling in Central Asia that Russian policy is designed more to revive its former glory and seek exclusive energy benefits than to help them directly. This has led the Central Asian countries to seek other partners, including Turkey and Iran, as well as the US, China and the EU. Thus Kazakhstan is proposing to send not less than 20% of its oil exports to China and 25% to Europe via the Baku-Tbilisi-Ceyhan (BTC) pipeline. Turkmenistan is also planning to export at least 40% of its gas by 2010, bypassing Russia, including 10% for Iran, and about 30% to China. It has also promised supplies to the EU.

The rich mineral resources of the region are already witnessing strong competition by outside powers. It is by no means a foregone conclusion that Russia, with its raw-material based export economy and its weakened industrial and technological position, will win this competition. There is still an impression in some Russian ministries that Central Asia could become an expensive burden again. The future of relations between Russia and Central Asia will depend mainly on how Russia weathers the global economic crisis and to what extent it continues to devote attention and resources to the region. There is an argument that Russia can only be secure in Central Asia if it is active in helping to develop the region's economic, scientific and technical potential, rather as the Soviet Union helped the region to progress post 1945. At present, there remain some suspicions on both sides and while Russia is well placed to increase its influence it is by no means certain that this will happen. At the same time, Russia has one major advantage over the EU in that it does not question the state of human rights in the region. Authoritarian leaders in Central Asia appreciate the way Russia rebuffs western criticism over democratic credentials and take it as encouragement not to give in to western pressure.³⁵

Russia also views Central Asia as strategically important in terms of its Far Eastern policies and aims. The history of Russia's engagement with Pacific Asia extends back to the 17th century when it founded the first seaport at Okhotsk in 1647. But in the past three centuries Russia has traditionally regarded the region as an area of secondary importance, with Europe the first priority. Since 1991, Russia's interest and influence in Asia has further weakened. But now Russia is seeking to reverse this trend. This aim is not driven by military and ideological considerations, as was the case during the Cold War, but on an assessment of Russia's economic interests, es-

35 Jos Boonstra, "Russia and Central Asia: From Disinterest to Eager Leadership," *EU-Russia Centre Review* 8 (Brussels: EU-Russia Centre, October 2008), http://www.eu-russiacentre.org/wp-content/uploads/2008/10/review_viii_nal_13_10.pdf.

pecially its wish to position itself as a future strategic transit link between Pacific-Central Asia and Western Europe, and a major supplier of much needed energy resources.

To achieve this goal Russia plans to modernise its transport and energy infrastructure. In September 2008, Russia and South Korea announced plans to connect the Trans-Korean railway with Russia's Trans-Siberian railway, thus creating a strategic link between Europe and the Pacific. There are plans to modernise the main ice-free ports, including Vladivostok, Nakhodka, Vostochny, and Khasan. In October 2008 Russia opened the first stage (1,105 km) of the 4,200 km-long strategic pipeline network "Eastern Siberia-Pacific Ocean" (ESPO), which will transport oil and gas from Eastern Siberia to East Asia as from 2010. Russia is also acquiring a fleet of very large crude and Liquefied Natural Gas (LNG)/Liquefied Petroleum Gas (LPG) carriers from Japan and South Korea and upgrading their Far Eastern oil and gas processing facilities. In 2009 the first LNG exports from Sakhalin were sent to Japan. Russia has also announced plans to address some urgent problems such as population decline and underdeveloped regional infrastructure in the Far East. In 2008, a five-year programme was approved with a budget of 500 billion roubles to fund new initiatives. About a quarter of the funds will be spent on the development of Vladivostok, the host city of the 2013 Asia-Pacific Economic Cooperation (APEC) summit.

Russia has also made some efforts to improve its military capacity in the Pacific although the financial crisis has slowed down plans to build some new submarines. The resumption of bomber patrols in the Pacific can be viewed as a signal of Russia's ability to protect the supply of strategic raw materials and to show existing and potential partners (including members and observers of the SCO and other players) Russia's capacity to project power and offer military support if necessary. If the financial crisis continues to limit Russia's spending plans in the Far East, then it will remain a marginal player and largely ineffectual in the region. Central Asia is thus an important geopolitical area for Russia's wider Asian ambitions.

CHAPTER 3

THE EU AND CENTRAL ASIA: LATE TO THE PARTY

After the fall of the Soviet Union, the EU found itself marginalised in the region, with the ascendancy of Turkey, Russia, the US and China. A series of annual gas disputes between Russia and Ukraine, however, helped focus EU minds on the potential of Central Asia as an energy supplier. In 2005, the EU created the position of the EU Special Representative (EUSR) for the region and appointed Pierre Morel as the first (and current) occupant of this post. The EU also negotiated PCAs with each of the countries, modelled on the Russian text, and included them in the TACIS programme of technical assistance. Three PCAs are in force. The PCA with Tajikistan is expected to be ratified by the end of 2009. Two member states, the United Kingdom and France, still have to ratify the interim PCA with Turkmenistan. Meanwhile, the EU has its own internal constraints that pose difficulties for any attempts to define a clear and unified agenda. A clear example is the place that Central Asia holds in the different foreign policies of the various member states. While some of the larger member states such as Germany and France (see below) take the region seriously, others are indifferent. It has also proved difficult to achieve any consistency of approach as a result of the EU's six-month presidency cycle. This lack of a unified action is coupled with a lack of specific mechanisms and policies to achieve the strategy's goals.

A number of developments in recent years have increased EU interest in Central Asia. The first of these developments was 9/11, an event which was a turning point in the way the EU viewed the region. With the beginning of the international campaign in Afghanistan, Central Asia acquired a brand new geostrategic relevance. Although most attention was focused on Afghanistan, the lack of stability and the presence of extremist Islamic groups in the neighbouring Central Asia region was also a cause for concern. This led to a re-evaluation of the importance of EU engagement in Central Asia and the Council conclusions of 10 December 2001 stated that lasting stability and security could only be achieved through continuing reform. It was important to tackle the root causes of terrorism and conflict in the region by supporting efforts to improve governance and to reduce poverty. EU aid to Central Asia began to be increased from this time.

The EU's growing interest in Central Asia can to some extent be explained also by its 2004 and 2007 enlargements. They somewhat reduced the geographical distance to Central Asia and triggered the launch of the European Neighbourhood Policy (ENP) which covers – inter alia – the South Caucasus and has therefore made the westernmost Central Asian countries “neighbours of our neighbours.”

Since the start of the regular gas crises with Russia in 2005-06, the EU's determination to diversify the sources of its energy supply has also stimulated engagement with Central Asia. Kazakhstan's oil and gas and Turkmenistan's gas have attracted much European attention. Bringing Central Asian energy westwards without passing Russia would help to reduce Russia's control of the EU's energy imports. The region is a source of significant energy imports for the EU. All

ve Central Asian countries are beneficiaries of the EU's Generalised System of Preferences (GSP). Over the last ve years EU trade with Central Asia has grown and the EU is now the main trading partner of the region, accounting for almost a third of its overall external trade (29.1% in 2007). Nevertheless, total turnover of the EU's trade with Central Asia remains low and the ve countries are insignificant trade partners for the EU. Even Kazakhstan, the EU's largest trade partner in Central Asia by far, – accounting for almost 85% of the EU's overall trade with the region – represents only 0.7% of the EU's overall trade with the world. Central Asian exports to the EU remain concentrated in a few commodities, especially crude oil, gas, metals and cotton fibre. EU exports are dominated by machinery and transport equipment. Such products accounted for more than half of EU exports in the region in 2007. EU exports to Central Asia amounted to €7.5 billion in 2007 while imports amounted to €15.4 billion.

Events within the region have also brought Central Asia into focus. This goes in particular for the "Tulip Revolution" in Kyrgyzstan in March 2005 and the massacre of demonstrators in the city of Andijan, Uzbekistan, less than two months later. Moves by Turkmenistan to relax the policy of self-isolation that prevailed under its former leader raise the question how the EU should react. Kazakhstan's failure so far to honour a number of its OSCE commitments now presents a special challenge in view of the fact that it will chair the OSCE in 2010.

The European Union Strategy Paper

In 2007, the EU took a major step forward in its relations with Central Asia by agreeing a strategy paper under the German Presidency. The paper was designed with numerous aims in mind. It was felt that it would bring Europe and Asia closer together, help tackle many common challenges and improve the EU's access to secure alternative energy supplies. The strategy paper included seven priority themes: human rights, rule of law, good governance and democratisation; education; economic development, trade and investment; energy and transport; environment and water; common threats and challenges; and intercultural dialogue.³⁶

The EU stated that it would lend its political support and assistance to Central Asian countries in developing a new Caspian Sea–Black Sea–EU energy transport corridor. The EU assistance budget to Central Asia would also be significantly increased under the new financial perspectives 2007-2013 to a total of €750 million. The strategy paper stated that it was essential to cooperate bilaterally on political and economic issues while the regional approach was more suitable for tackling challenges such as organised crime, terrorism, energy, environment, water management, and migration. The EU supported the removal of trade barriers between the Central Asian states and also supported their WTO accession. The strategy also noted the importance of the "development and consolidation of stable, just and open societies adhering to international norms" as being "essential to bring the partnership to full fruition." This emphasis

36 Council of the European Union and European Commission, *European Community Regional Strategy Paper for Assistance to Central Asia for the period 2007-2013* (see fn. 2).

on human rights was to be a source of contention. In its first annual report on the strategy (see annex III), the EU side noted “a new quality of cooperation” that had led to an increase in political contacts and a structured human rights dialogue.³⁷

To complement the strategy paper, the EU developed a special regional strategy for technical assistance in Central Asia for the period 2007-2013. This strategy aimed “to promote the stability and security of the countries of Central Asia, to assist in their pursuit of sustainable economic development and poverty reduction and to facilitate closer regional cooperation both within Central Asia and between Central Asia and the EU.”³⁸ These objectives were to be achieved through the allocation of funding for the following priorities: regional cooperation and good neighbourly relations would receive 30-35% of the total budget. The main priorities would include i) creation of networks; ii) the environment; iii) border and migration management, the fight against international crime, and customs; iv) education, scientific and people-to-people activities. Efforts to reduce poverty and increase living standards would receive 40-45% of the total budget. The promotion of good governance and economic reform would receive 20-25% of the total budget.

On publication of the EU paper, the EU's External Relations Commissioner, Benita Ferrero-Waldner, stated that the Central Asian strategy would build on a mutually recognised need to build closer ties: “I think these countries have a strong interest in Europe and we have to engage with them [as Russia and China do] and use this interest to strengthen relations with Central Asia.” This was an interesting admission but the Commissioner that the EU was engaged in competition with Russia and China. The Commissioner also noted that Central Asia's huge gas and oil reserves were making the region increasingly more attractive to the EU.³⁹

In defining its priorities for cooperation with each Central Asian state for the period 2007-2013 the EU focused on security and stability. The EU favoured a balanced bilateral and regional approach. It would foster regional cooperation although it recognised that it was essential to cooperate bilaterally on economic diversification and energy. The regional approach was suitable for tackling challenges such as organised crime, environmental pollution, water management, and migration. The EU supported the removal of trade barriers between the Central Asian states and their WTO accession. Apart from assisting the transition, one of the main goals of EU policy in Central Asia was the creation of transport corridors connecting the post-Soviet space with Europe. The Transport Corridor Europe-Caucasus-Asia (TRACECA) and Interstate Oil and Gas Transport to Europe (INOGATE) programmes were launched to develop and rehabilitate the infrastructures for the transportation of oil, gas and other goods.

37 Erica Marat, “EU Strategy in Central Asia: One Year Later,” *Eurasia Daily Monitor* 5, no. 122 (Washington, D.C.: The Jamestown Foundation, 25 June 2008), http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=33754.

38 Council of the European Union and the European Commission, *European Community Regional Strategy Paper for Assistance to Central Asia for the period 2007-2013*.

39 Benita Ferrero-Waldner, interview at Radio Free Europe/Radio Liberty, 23 April 2007.

On energy, the paper stated that the EU and Central Asia shared a paramount interest in enhancing energy security as an important aspect of global security. There was a common interest in diversifying export routes, demand and supply structure and energy sources. Besides oil, gas and electricity, water management was a decisive aspect of energy cooperation with Central Asia. The EU would support the exploration of new oil, gas and hydro-power resources and the upgrading of the existing infrastructure, the development of additional pipeline routes and energy transportation networks. The EU would lend its political support and assistance to Central Asian countries in developing a new Caspian Sea–Black Sea–EU energy transport corridor. Finally, the assistance budget to Central Asia would be significantly increased under the new financial perspectives 2007-13 to a total of €750 million.

The 2007-2013 strategic plan proposed the creation of a regular regional political dialogue at foreign minister level. There should be a "European Education Initiative" and support for the development of an "e-Silk Highway." There should be a new "EU Rule of Law Initiative" and a "Human Rights Dialogue" with each Central Asian state. On security and stability, the paper argued that strategic, political and economic developments and trans-regional challenges in Central Asia could impact directly or indirectly on EU interests. EU enlargement, the inclusion of the Southern Caucasus into the European Neighbourhood Policy, and the Black Sea Synergy Initiative were all moving the EU and Central Asia closer together. Central Asia's significant energy resources and desire to diversify trade partners and supply routes met the EU's energy security and supply needs. The EU also undertook to promote dialogue within civil society and support respect for freedom of religion, in accordance with a diverse multi-ethnic and multi-cultural region.

Instruments

The EU has a range of instruments concerning Central Asia. First, there are the PCAs that provide the legal framework for relations between the EU and each state. The PCAs were concluded with Kazakhstan, Kyrgyzstan and Uzbekistan in the mid-1990s and entered into force on 1 July 1999. Negotiations on PCAs with the two other countries of the region, Tajikistan and Turkmenistan, were concluded in 1998 and 2004 respectively. The ratification process for the Turkmenistan agreement was subsequently blocked by the European Parliament, due to large-scale human rights violations in the country. Interim agreements covering the trade aspects of the PCAs and not requiring ratification by the member states have been prepared. The interim agreement with Tajikistan entered into force in May 2005 and the full agreement was due to enter into force in late 2009. On 16 September 2009, Commissioner Ferrero-Waldner urged the European Parliament to give its assent to the PCA with Tajikistan arguing that this would represent "a major step forward, allowing us to widen and deepen our cooperation." She laid particular emphasis on the long border between Tajikistan and Afghanistan and the need to stem the illicit flow of drugs.⁴⁰ The PCAs provide for trade liberalisation, economic

40 Benita Ferrero-Waldner, Speech on "EU-Tajikistan Partnership and Cooperation Agreement (PCA)," European Parliament, Strasbourg, 16 September 2009.

cooperation and cooperation in various other areas. Joint bodies, including a Cooperation Council at ministerial level and a Parliamentary Cooperation Committee, ensure a regular political dialogue. The implementation of each agreement is also supported by committees bringing together senior officials and experts.

Article 2 of the PCA states that “respect for democracy, principles of international law and human rights [...] constitute essential elements of partnership and of this agreement.” If either party considers that the other party has failed to fulfil an obligation under the agreement, it can “take appropriate measures” (including suspending the application of the agreement, or part of it). The EUSR is tasked with promoting good and close relations between the countries of Central Asia and the EU, contributing to the strengthening of democracy, rule of law, good governance and respect for human rights and fundamental freedoms in Central Asia and enhancing the EU’s effectiveness in the region. The latter should be achieved *inter alia* through closer coordination with other relevant partners and international organisations, such as the OSCE.

EU aid is given mainly through the Development Cooperation Instrument (DCI), which is replacing the TACIS programme. A Central Asia Strategy Paper (not to be confused with the Central Asia Strategy mentioned above) and a Regional Indicative Programme provide a framework for the assistance. Much of the assistance has the related objectives of improving border management and combating drugs smuggling. The main aims are to promote stability in the region and to reduce the flow of drugs to the European Union. EU aid should also support poverty reduction in the poorest countries. Slightly less than €80 million per year is allocated to Central Asia in the years 2007-2010. About a third of this amount should go to regional cooperation and the rest to national programmes. Tajikistan and Kyrgyzstan (the poorest countries) receive the highest sums. Limited funding from the European Neighbourhood and Partnership Instrument (ENPI) may be given for specific projects or programmes of a global, regional or cross-border nature. Through the European Instrument for Democracy and Human Rights (EIDHR), support is given to relevant civil society organisations (except in Turkmenistan and Uzbekistan, where government policies make it almost impossible for such organisations to survive and foreign support to them is being blocked). The Instrument for Stability (IFS) is used in Kyrgyzstan. The Commission has a delegation to Kazakhstan, with offices also in the Kyrgyz Republic and Tajikistan. It plans to open a delegation to Uzbekistan and a Europa House in Turkmenistan.

Apart from the Commission programmes that provide technical assistance, there are similar programmes run by the member states. Bilateral cooperation with individual states takes place on issues such as human rights, economic diversification, energy and other sectoral issues including youth and education. There are regular political dialogue meetings while the EU also has other Common Foreign Security Policy (CFSP) instruments to bring into play. The EU also works with the Central Asian states through bodies such as NATO (Partnership for Peace programme), the UN [especially the Economic Commission for Europe (ECE)], the OSCE, the Venice Commission, the Council of Europe, the World Bank, the European Bank for

Reconstruction and Development (EBRD), and the European Investment Bank (EIB). There are plans for twinning and seconding staff between EU and Central Asian public administrations as well as for public-private partnerships.

The EU has sought to engage Central Asia in a regular political dialogue, jointly driven by the Presidency and the EUSR. According to his website, Pierre Morel is committed to the development of the political dialogue with Central Asia which has entered into a full fledged and regular exchange. It has proved to be a key factor to extending cooperation between the European Union and Central Asia on both a regional and bilateral level. As well as maintaining this continuing dialogue with each of the Central Asian capitals, he keeps in regular contact with major actors in the region, such as Russia, China, the United States and Japan, with regional authorities and with the multilateral organisations active in these countries, particularly the OSCE and the EBRD. EU Strategy focuses on the characteristics of each of the five Central Asian countries and on the operational dimension of European engagement.⁴¹

Apart from the regular visits of the EUSR to all Central Asian states, Javier Solana visited Turkmenistan, Kyrgyzstan, and Kazakhstan in October 2007. The French Presidency hosted a ministerial troika in May 2008 and in May 2009 there was a further ministerial troika in Tajikistan with all five Central Asian states. In September 2009 there was another EU-Central Asia ministerial conference under the Swedish Presidency. The bland communiqué issued after the meeting said that the two sides discussed regional security challenges, including border management and the threats from trafficking and extremism. The role of Central Asia in helping to stabilise Afghanistan was also mentioned as the importance of respect for human rights. This meeting was held in an extended troika format. There were three foreign ministers and two deputy foreign ministers from Central Asia while the EU side was represented by Carl Bildt, Javier Solana, Pierre Morel and Olli Rehn plus a number of EU ambassadors.⁴²

The EU also agreed a number of bilateral Priority Papers with each Central Asian country that sets out the range of projects that should be covered by the EU and its member states. These papers have not been made public.

Promotion of Economic Development, Trade and Investment

The EU agreed to support economic development throughout the region by promoting deeper integration of Central Asia into world trade and economic systems, supporting the

41 Pierre Morel (EU Special Representative for Central Asia), "Mission statement of Pierre Morel for Central Asia," <http://www.consilium.europa.eu/showPage.aspx?id=1153&lang=EN>.

42 Council of the European Union, "EU-Central Asia Ministerial Conference, Presidency press release," Brussels, 15 September 2009, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/110131.pdf.

development of market economy structures, and working towards the accession of the Central Asian states to the WTO.⁴³ Furthermore, the EU has worked toward improving access for Central Asian products in the EU market, supporting economic diversification and sustainable development, improving local skills and potential, promoting small and medium-sized enterprises (SMEs), and developing basic infrastructure.⁴⁴ An example of EU support for SMEs was a 2008 grant of nearly half a million euros for SME development in Tajikistan.⁴⁵ The programme will be implemented the Aga Khan Foundation. The development of SMEs in Central Asia is a key target within the economic reforms agreed upon by the EU in order to develop the Central Asian economy, and projects such as these will continue throughout the region.

In terms of total trade, EU exports to Central Asia in 2007 were €7.5 billion while imports amounted to €15.4 billion. All five Central Asian countries are beneficiaries of the Generalised System of Preferences. The EU accounts for almost one third of all Central Asian external trade (29.1% in 2007). From the EU perspective, the EU trade with the Central Asian countries is minuscule. The share of total EU imports is 0.1% or lower for all of the countries, with the notable exception of Kazakhstan, which approaches 1%. Energy imports from Kazakhstan and exports of various goods to it are now booming, with roughly 40% increases in total imports from, as well as exports to Kazakhstan in 2006. For Kazakhstan, the EU is the most important trading partner. For Tajikistan and Uzbekistan, the EU is in the second position, for Turkmenistan, it is in the third and for Kyrgyzstan, the EU is in the fifth position. Given the deep integration of EU and Central Asian trade and economic affairs, it becomes clear that supporting and enhancing Central Asia trade development is a major EU interest. The EU has therefore offered trade-related technical assistance and advice to create legislative and institutional frameworks conducive to better business, and pledged support for substantial reforms in banking and micro credit sector, improved banking regulation, supervision and enforcement, privatisation of state banks, increased competition among banks.⁴⁶

Apart from assisting the Central Asian nations gain accession to the WTO, the EU has also sought to improve access for Central Asian products to EU markets as well as to support for the development of market economy structures, economic diversification, and financial reforms. On the trade side, priorities include making better use of available GSP and encouraging i) regional trade and trade-related technical assistance; ii) best customs practices set forth by the World Customs Organization; and iii) support for initiatives to improve capacity building.

43 Council of the European Union, *The EU and Central Asia: Strategy for a New Partnership*, Brussels, 31 May 2007, <http://register.consilium.europa.eu/pdf/en/07/st10/st10113.en07.pdf>.

44 Ibid.

45 The European Commission's Delegation to Kazakhstan, Kyrgyzstan and Tajikistan, "The EU supports natural resources management and energy," Dushanbe, 17 December 2008, http://delkaz.ec.europa.eu/joomla/index.php?option=com_content&task=view&id=500&Itemid=43.

46 Council of the European Union, *The EU and Central Asia: Strategy for a New Partnership*.

Human Rights, Rule of Law, Good Governance and Democratisation

The EU is an advanced normative power seeking to promote its values, especially democracy and human rights, around the world. In the strategy paper for Central Asia adopted in 2007, the EU established multiple approaches to human rights issues, rule of law reform, and good governance and democratisation promotion. The EU initially sought to explore mutual interests and develop increased cooperation with the Central Asian states using a multilateral approach in conjunction with the UN and OSCE.⁴⁷ The EU tasked delegations to gather information gathering regarding the human rights situation, and began to consult NGOs. The EU aimed to address specific priorities identified by individual Central Asian countries under a Rule of Law Initiative.⁴⁸ The strategy paper also provided detailed means of achieving the EU's objectives by outlining specific actions to be taken by member states. Subsequently, certain member states assumed the responsibility of funding the Rule of Law initiative, providing judicial and administrative experts to Central Asia as well as training experts from the region, offering international exchanges via specialised conferences, providing technical assistance aimed to make amendments required for accession to and implementation of the Rome Statute, and finally offering several approaches to promote and protect human rights.⁴⁹

Under the Human Rights Dialogue with Central Asian countries, the EU has managed to engage with each Central Asian state.⁵⁰ The earliest successes of Human Rights Dialogues were in 2005, beginning with informal talks in Turkmenistan. In 2007 Uzbekistan formally agreed to a Human Rights Dialogue, and by 2008 the EU had formal, structured Human Rights Dialogues with all five Central Asian States.⁵¹ In October 2008 the EU held Civil Society Seminars in Uzbekistan, aimed at opening up dialogue with academic and NGO communities in the region.⁵² More seminars were held in Tashkent and Kyrgyzstan in March 2009, and Tajikistan and Kazakhstan in May and June 2009, respectively.⁵³ Through these seminars the EU hopes to extend its position in promoting human rights reform. According to the Joint Progress Report on the implementation of the EU Central Asia Strategy 2008, all Central Asian states have agreed to engage in or continue structured Human Rights Dialogue with the EU (see annex III).

47 Ibid.

48 Ibid.

49 Ibid.

50 Jiri Kopal, "Human Rights in Kazakhstan and Tajikistan: how realistic is to expect further results after an EU open debate with civil society?" *EUCAM Commentary*, no. 4 (Madrid/Brussels: FRIDE/CEPS, August 2009), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/Commentaries/EUCAM_commentary3_Kopal.pdf.

51 European Commission, "EU Human Rights Dialogues with Central Asian countries," factsheet, April 2009, http://ec.europa.eu/external_relations/central_asia/docs/factsheet_hr_dialogue_en.pdf.

52 Ibid.

53 Ibid.

Rule of Law Initiative for Central Asia

The Rule of Law Initiative was launched at an EU-Central Asia ministerial conference in November 2008.⁵⁴ The initiative was designed to support core legal and judicial reforms and help the Central Asian states draw up effective legislation.⁵⁵ Two kinds of actions were agreed: an EU-Central Asia Rule of Law Platform, and specific long-term projects. France and Germany became lead coordinators for the EU Rule of Law Initiative. Member states are supposed to allocate funds to the initiative, provide judicial and administrative experts to Central Asian states on short-term and long-term assignments, train experts from the region, support transparent implementation of legal reform, and facilitate cooperation with international bodies such as the OSCE and Council of Europe. According to the 2008 Joint Progress Report on the implementation of the EU Central Asia Strategy, there has been limited progress in this area. The report called for intensified policy dialogue at all levels and more resources for judicial reform programmes by the EU and member states.⁵⁶ A related EU programme is the Institutions Building Partnership Programme (IBPP) which is focused primarily on civil society development and economic and administrative reforms in Central Asia.

Education and Training

The EU is also investing in Central Asia's future by tackling youth and education reforms. The European Education Initiative for Central Asia was conceived in May 2008, during talks at the Tempus Conference in Cairo regarding quality higher education.⁵⁷ Within the broader international efforts to reform education in Central Asia, the EU has primarily focused on higher education and vocational education and training, where it has the most experience and expertise.⁵⁸ The EU's Tempus and Erasmus Mundus programmes have initiated various projects in vocational education and training and have also focused on national qualification frameworks and skills development for poverty reduction.

The EU has also expressed interest in opening European Studies institutes in the region, and granting scholarships for Central Asian students to study abroad in European universities. The 2008 Joint Progress Report for Central Asia confirmed continual progress in these EU objec-

54 Rico Isaacs, "The EU's Rule of Law Initiative in Central Asia," *EUCAM Policy Brief*, no. 9 (Madrid/Brussels: FRIDE/CEPS, August 2009), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/Policy_Briefs/PB9.pdf.

55 Council of the European Union, *The EU and Central Asia: Strategy for a New Partnership*.

56 Council of the European Union and the European Commission, *Joint Progress Report by the Council and the European Commission to the European Council on the implementation of the EU Central Asia Strategy*, Brussels, 24 June 2008, http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141166.pdf (see also annex III).

57 European Commission, "EU and education in Central Asia," factsheet, April 2009, http://ec.europa.eu/external_relations/central_asia/docs/factsheet_education_en.pdf.

58 Ibid.

tives. The Commission's Directorate-General for Education and Culture visited all five Central Asian countries within the year to promote and inform them of the Commission's education programmes. Furthermore, 2008 was designated as the Year of Youth in Uzbekistan, with the nation undertaking various projects to improve the quality of its youth.

Environmental Sustainability and Water

The EU-Central Asia dialogue on the environment was launched in spring 2006 and provides the basis for joint cooperation efforts. A central aspect is the EU Water Initiative for safe water supply and sanitation and integrated water resources management. The importance of this programme is seen by the fact that almost 80% of Central Asia's irrigated water is lost due to inefficient agricultural irrigational practices. This initiative also promotes cross-border river basin management, introduces more efficient techniques like irrigation, enhances frameworks for financing of water related infrastructure projects, and promotes the production of hydropower. The EU is also seeking to cooperate with Central Asia on climate change, including implementing Kyoto Protocol mechanisms. Further priorities are cooperation to combat desertification and safeguard bio-diversity, improve sustainable management of forests and other natural resources, pollution prevention, preparation for natural disasters, and encouragement for increased environmental awareness.

The EU-Central Asia Environmental Dialogue and the EU-Central Asia Joint Expert Working Group were established to help achieve these goals. Three meetings have taken place so far and in addition national Water Policy Dialogues have been launched in specific countries, 2008 in Kyrgyzstan and 2009 with Tajikistan and Turkmenistan – to focus on country specific themes. Italy offered to be the lead coordinator on the EU side of the environment and water dialogues and a first meeting was held in Rome in 2008. The EU has helped the Central Asia Regional Environmental Centre. Another focus has been the Forest Law Enforcement on Governance and Trade (FLEGT) programme.

The EU also launched a two year programme to reduce the environmental impact of oil and gas operations in Central Asia. The programme, which began in December 2008, is worth €2.6 million and was spearheaded as part of the INOGATE programme, which promotes co-operation between the EU and the littoral states of the Black and Caspian Seas, and their neighbouring countries.⁵⁹ The dual approach has helped raise consciousness about environmental issues in Central Asia.

Combating Common Threats and Challenges

In terms of combating common threats the emphasis has been on the growing threat of terrorism and Islamic fundamentalism in the region. Given the importance of border controls, the EU has promoted a border management programme called Border Management in Central Asia

59 The European Commission's Delegation to Kazakhstan, Kyrgyzstan and Tajikistan, "The INOGATE Programme," http://delkaz.ec.europa.eu/joomla/index.php?option=com_content&task=view&id=501&Itemid=43.

(BOMCA) which was launched in 2003 and is one of the biggest assistance programmes of the EU in Central Asia.⁶⁰ Beginning in January 2009, BOMCA entered its seventh phase, focusing on institutional reform in Kazakhstan, Kyrgyzstan and Tajikistan; capacity building in agencies with border responsibilities; trade facilitation; and the fight against illegal drug trafficking.⁶¹ Additionally, the EU successfully implemented the Central Asia Drug Action Programme (CA-DA), in order to address drug trafficking issues.⁶²

Assessment

Assessing the success of the EU's strategy after one year of operation, two experts concluded that the EU had made "important progress in strengthening political contacts with Central Asia, but the strategy has yet to deliver on its promise to foster a broad range of engagements. Moreover, considerable questions remain about the political direction of the EU's approach to Central Asia and about the methods that have been used to promote the strategy."⁶³ There had been insufficient consultations with civil society and the EU had made little effort to promote itself in the region. A number of NGOs have also been critical of the EU's alleged neglect of human rights and democracy in the rush to secure energy deals with Central Asia. The EU has also admitted that greater efforts are required in these areas.⁶⁴ The EU made its own assessment of the first year of the strategy paper concluding that the results were mixed (see annex III).

The European Parliament has an important role to play in EU external relations as it has, for example, the right to ratify agreements with third countries. The parliament's resolution on the EU's Central Asia Strategy of 20 February 2008 stressed that social reforms, the fight against corruption and fair and sustainable economic development were crucial to ensuring long-term stability, security and prosperity in Central Asia. It stated that "it follows from the EU's security and other interests, as well as from its values and support for the Millennium Development Goals, that the hardship and lack of opportunities faced by many people in this region must be placed at the very core of the EU's approach to Central Asia." The parliament considered the strategy to be "insufficiently ambitious with regard to bilateral cooperation on human rights, the rule of law, good governance and democratisation." Human rights issues should carry equal weight with the EU's robust approach to energy, security and trade. The resolution condemned the persecution of human rights defenders in Uzbekistan and Turkmenistan. Other problems that were mentioned included abuse of women, child labour and extradition of asylum seekers.

60 European Commission, "Border management and the EU in Central Asia," factsheet, April 2009, http://ec.europa.eu/external_relations/central_asia/docs/factsheet_border_management_en.pdf.

61 Ibid.

62 Council of the European Union and the European Commission, *Joint Progress Report*. (see fn. 56)

63 Neil Melvin and Jos Boostra, "The EU Strategy for Central Asia @ Year One," *EUCAM Policy Brief*, no. 1 (Madrid/Brussels: FRIDE/CEPS, 8 October 2008), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/Policy_Briefs/PB_no.1.pdf.

64 Philippa Runner, "Human rights take back seat at EU-Central Asia talks," *EU Observer*, 19 September 2008.

The Council and the Commission were urged "to set clear benchmarks, indicators and targets in the areas of democracy, good governance, the rule of law and human rights."

In relation to extremism and terrorism, the resolution stated that "examples of massive repression, corruption and exploitation, and the denial of people's fundamental rights and opportunities to improve their lives, together with the absence of accepted channels for expressing grievances and participating in political processes, heighten the risks that extremism and terrorism will grow." It also noted that in some cases, the "fight against terrorism" is used as a cover for repressive actions against those who criticise the government, human rights defenders, religious movements and ordinary businesspeople. While recognising the need for regional cooperation on counter-terrorism, the European Parliament emphasised that EU contacts with security structures or EU support for security cooperation involving highly repressive states should be minimised, and that any such contacts should always be conducted transparently.

Given the huge differences between the Central Asian states, the EU must differentiate its policies accordingly. The differentiation of the EU policy between the countries should "be based in particular on the human rights situation in each country, their government's respect for OSCE commitments, their development needs and their government's commitments to improving the welfare of citizens, their current and potential importance to the EU as partners in trade, cooperation on energy and in other areas, and dialogue on international issues, and the prospects for success of EU actions, including various forms of assistance." The European Parliament considered that cooperation on the EU's external energy policy was of the greatest importance in the context of its Central Asia strategy and supported, therefore, efforts by the EU to boost gas and oil imports from Kazakhstan and Turkmenistan and to diversify transit routes. It also called for active EU energy cooperation with the region, especially with Kyrgyzstan, Tajikistan and, if possible, Uzbekistan, in order to address energy problems of particular importance to their huge human and economic development needs, difficult inter-state relations and precarious security of supply.

The resolution also includes a section on each of the Central Asian countries. The European Parliament supported the decision to let Kazakhstan assume the Chairmanship of the OSCE in 2010, made possible by Kazakhstan's pledges to defend the current mandate of the OSCE Office for Democratic Institutions and Human Rights (OSCE/ODIHR), and to democratise and liberalise the political system in Kazakhstan. Commenting on the new constitution of Kyrgyzstan adopted in October 2007, the Parliament urged the Kyrgyz authorities "to safeguard the appropriate checks and balances" in its political system. According to the resolution, the president of Tajikistan "has systematically repressed all opposition." The ratification of the EU-Tajikistan PCA should nevertheless be accelerated and the Parliament aims to give its approval "in the near future." Turkmenistan "must make progress in key areas" in order for the EU to be able to move ahead with the Interim Agreement, inter alia by allowing the International Committee of the Red Cross free and unfettered access, by unconditionally releasing all political prisoners and prisoners of conscience, by abolishing all government impediments to travel, and by allowing all NGOs and human rights bodies to operate freely in the country. Through the resolution, the

European Parliament also “confirmed its support for the sanctions against Uzbekistan imposed by the EU after the Andijan massacre. It supported the establishment of a human rights dialogue” and “rejected every tendency to use the mere existence of this dialogue as an excuse for lifting sanctions.” The Commission was urged to “lay down concrete obligations and establish more efficient monitoring mechanisms.”

CHAPTER 4

THE EU MEMBER STATES: DIFFERING INTERESTS

The EU's 27 member states also play an important role in the overall context of EU policy towards Central Asia. For the majority of member states the region is of secondary importance and there are few bilateral contacts. Many view the region as Russia's neighbourhood and few have major interests in the "Stans." This has made it difficult to agree a common EU approach to the region. There were discussions about creating EU missions in the Central Asian capitals following the collapse of the Soviet Union, but apart from some sharing of premises nothing came of the initiative due to competing interests and bureaucratic inertia. Germany and France are the member states with the largest interests, followed at some distance by the United Kingdom and Italy.

The Case of Germany

Germany is by far the most important member state in the region and the only one with embassies in all five capitals. Just as it was the driving force behind the EU's Neighbourhood Policy, Germany used its EU Presidency in the first half of 2007 to provide impetus for more intensive cooperation between the EU and Central Asia. In particular, it secured the endorsement of the EU-Central Asia strategy by the European Council at its Brussels summit on 22 June 2007. During the preparations for the Presidency, Foreign Minister Frank-Walter Steinmeier travelled to the region and was the first German foreign minister to visit all five countries. Germany also organised a foreign ministers troika in Astana in March 2007, the first such meeting in this format with Central Asia. The meeting explored the priorities of the Central Asian countries and led to agreement on core areas of future cooperation. In parallel, numerous events were organized by the German government during the first half of 2007 with participants from Central Asia.⁶⁵ Steinmeier travelled again to Central Asia in June 2009, discussing economic ties and stating that German support for Kazakhstan's chairmanship of the OSCE in 2010 was contingent upon political reforms.⁶⁶ He was critical of Turkmenistan's human rights record, but called for EU sanctions to be dropped against Uzbekistan, citing their ineffectiveness. The German government has poured several hundred million euros into Central Asia in aid and intergovernmental activities.⁶⁷ German-Central Asian ties still benefit from the former East German connections to the region.

65 For more information see the Federal Foreign Office of Germany, <http://www.auswaertiges-amt.de/diplo/en/Europa/Aussenpolitik/Regionalabkommen/Zentralasien.html>.

66 Nathan Hamm, "Germany & the EU's Central Asia Policy," *Registan.net*, 11 February 2006, <http://www.registan.net/index.php/2006/11/02/germany-the-eus-central-asia-policy/>.

67 Dan O'Huiginn, "Germany in Central Asia," http://ohuiginn.net/mt/2008/11/germany_in_central_asia.html.

Bilateral Relations with Kazakhstan⁶⁸

Germany's closest partner in Central Asia is Kazakhstan with numerous high-level visits in both directions. A special feature of the relationship is the approximately 230,000 ethnic Germans still living in Kazakhstan. Kazakhstan ranks 43rd among Germany's trading partners with Kazakhstan the 5th supplier of oil for Germany. The main German exports to Kazakhstan are machinery, electrical goods, hardware and motor vehicles; the major German imports are petroleum, metals, chemical products and ferro-alloys. There are over 400 joint ventures. German investment is still limited (aggregate direct investments amounting to nearly €0.3 billion since 1993). German companies occasionally complain about the unsatisfactory investment situation (lack of contractual compliance and legal certainty, interventions by government agencies in economic life) but also inadequate economic integration in Central Asia (Kazakhstan is too small as a market for products manufactured there) and a shortage of skilled workers. Between 1993 and 2005, Germany provided more than €115 million for development projects. Among Kazakhstan's bilateral donors, Germany ranks 4th, after the US, Japan and Turkey. The ethnic German minority receives cultural support but this is hampered by continuing but markedly declining emigration, but also by a gradual assimilation process, especially of the younger generation, which reduces the size of the target group but also impairs the language proficiency of those who remain, despite extensive German courses.

Bilateral Relations with Uzbekistan⁶⁹

Germany also has close political and economic relations with Uzbekistan. Dialogue with Uzbekistan covers not only the conditions for trade and investment but also addresses human rights issues. The provision of the air transport base in Termez for use by an air force combat wing of the Federal armed forces is seen by the Uzbek side as a contribution to the worldwide anti-terror coalition. Germany is Uzbekistan's sixth most important supplier of goods, after Russia, Kazakhstan, South Korea, China and Ukraine. Germany ranks ninth overall among Uzbekistan's trading partners, accounting for 2.3% of the country's total foreign trade. After a number of difficult years, trade with Germany has picked up again since 2001, reaching approximately €354 million in 2008, with German exports to Uzbekistan making up two-thirds of this figure. This is mainly due to increased exports of German machinery, equipment and spare parts for the agricultural and textile sectors. German companies' interest in Uzbekistan focuses on trade rather than investment. The Uzbek government is seeking to improve the investment climate, but problems remain. Uzbekistan introduced currency convertibility in 2003, but exchanging profits earned in Uzbekistan for convertible currencies involves delays. A number of obstacles prevent the potential for trade with Uzbekistan from being fully realised. In recent years, dialogue between Germany and Uzbekistan on economic policy has been stepped up and provides a platform for discuss-

68 See the Federal Foreign Office of Germany, "Political relations with Kazakhstan," <http://www.auswaertiges-amt.de/diplo/en/Laenderinformationen/01-Laender/Kasachstan.html>.

69 See the Federal Foreign Office of Germany, "Political relations with Uzbekistan," <http://www.auswaertiges-amt.de/diplo/en/Laenderinformationen/01-Laender/Usbekistan.html>.

ing the overall conditions for trade and investment. Some 50 German companies operate in Uzbekistan (though only a few with seconded German representatives), including three German banks, which finance German export transactions with Uzbekistan, among other things. Since 1992, the German government has provided a total of approximately €270 million for technical and financial cooperation projects with Uzbekistan. The Goethe Institute's language courses are in great demand. Worldwide, Uzbekistan ranks fifth in absolute numbers of German learners.

The Case of France

France was one of the first western countries to recognise the independence of the Central Asia states and to establish diplomatic relations with them. France has embassies in Uzbekistan, Kazakhstan (also covers Kyrgyzstan), Turkmenistan and Tajikistan. French involvement in the region reflects its interest in hydrocarbons, trade and supply routes to Afghanistan. The President of France has met all his counterparts in the region in recent years and there are regular ministerial visits in both directions. Foreign Minister Bernard Kouchner also received all five foreign ministers from Central Asia during the EU-Central Asia Forum on security issues, held in Paris in September 2008. These meetings gave Bernard Kouchner, six months after his visit to Ashgabat for the EU-troika Central Asia meeting on 10 April, the opportunity to discuss bilateral relations with each of the five countries, international questions and the implementation of the EU strategy for Central Asia adopted in June 2007. France has been to the fore in condemning the deteriorating human rights situation in the region, especially in Turkmenistan and Uzbekistan. France called for a review of the engagement strategy of the EBRD in both countries, which decided to suspend almost all of its loans to the public sector and to redirect its activities to promote the fight against poverty and the development of small- and medium-sized businesses.

Kazakhstan is the top trading partner for France, followed by Turkmenistan and Uzbekistan. A latecomer to Kazakhstan, Total holds 20.3% of the shares in the Kashagan oil field and hopes to acquire new stakes in the exploitation of offshore fields. Kazakhstan and Uzbekistan are eligible for the Emerging Countries Fund (*Réserve Pays Emergents*, RPE), which supports development projects. France has also taken a lead in attempting to tackle new threats (organised crime, drug trafficking from Afghanistan, terrorism) from the region. A conference on drug routes, held in Paris in May 2003, helped raise international awareness of Central Asia's strategic role in drug trafficking. This led to France pushing to enhance the role of the EU and OSCE in supporting border management, combating drug trafficking and training police forces.

Other Member States

The other member states with an interest in Central Asia include Italy, the United Kingdom, Poland, Bulgaria and Romania, and the Baltic States.⁷⁰ These member states play to their strengths

70 Sébastien Peyrouse, *Business and Trade Relationships between the EU and Central Asia*, EUCAM Working Paper, no. 1 (Madrid/Brussels: FRIDE/CEPS, June 2009), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/Working_Papers/WP-No.1.pdf.

and interests. For example, the United Kingdom is interested in financial services, Italy in textiles, Romania and Bulgaria in energy, and Poland and the Baltic States as transportation hubs and outlets for Central Asian exports.

CHAPTER 5

ENERGY: THE FIGHT FOR CONTROL

Without doubt the main interest in Central Asia (and area for rivalry) for the EU and Russia, as well as other powers, is energy.⁷¹ It is estimated that the oil fields of Central Asia are capable of producing about 4 million barrels per day (mb/d) by 2015, roughly equivalent to the daily production levels of Iraq and Kuwait combined. After living in Russia's shadow for decades, the newly independent countries of Central Asia have been increasingly able to assert themselves in their own right, thanks to their energy resources. These resources are not spread evenly throughout the region. Kazakhstan and Turkmenistan are the largest producers of oil and gas respectively. Uzbekistan has significant gas reserves but Tajikistan and the Kyrgyz Republic have limited reserves of oil and gas in amounts that thus far have not warranted much attention from foreign investors. The region's largest oil deposits as well as the three largest regional oil projects are located in Kazakhstan and Azerbaijan. These three projects are in the Tengiz and Karachaganak fields in Kazakhstan and the Azeri-Chirag-Guneshli (deep-water) field in Azerbaijan. Each project includes Western oil majors as shareholders. Potential offshore reserves of Turkmen oil in the Caspian Sea have yet to be explored or developed because of disputes between Turkmenistan, Azerbaijan, and Iran over border delineation in the southern portion of the sea. Kashagan in Kazakhstan is the biggest new oil field to be discovered for thirty years. Turkmenistan's gas production has quadrupled over the past decade to reach 67 billion cubic metres (bcm) in 2007, making it a more important gas producer than the Netherlands. At the same time, the eastward shift of the world's economic centre of gravity has enhanced Central Asia's influence. Once seen as prohibitively distant from the important markets, the region is now strategically located between the traditional customers of Europe and the fast-growing economies of Asia. Oil and gas will increasingly be able to flow not only north to Russia but east to China, and west across the Caspian through the Caucasus to Turkey and the EU. This Southern route would be the path of the proposed Nabucco pipeline. The Caspian Sea, however, still presents a daunting barrier to oil and gas exports to the EU.⁷²

A Key to Russia's Energy Domination?

The main external actor in matters of energy resources is Russia, which benefits from the interdependence in the energy sector inherited from the Soviet period and, moreover, takes advantage of the vulnerability of the Central Asian republics to apply pressure (not only regarding energy issues). Almost all the hydrocarbon production of Kazakhstan, Turkmenistan and Uzbekistan is exported through the Russian pipeline system to the Black Sea and Europe. In the absence of alternative routes, Russia has taken advantage of this situation by paying

71 Michael Denison, *The EU and Central Asia: Commercialising the Energy Relationship*, EUCAM Working Paper, no. 2 (Madrid/Brussels: FRIDE/CEPS, July 2009), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/Working_Papers/WP2_e-EN.pdf.

72 Terry D. Adams, Michael Emerson, Laurence David Mee and Marius Vahl, *Europe's Black Sea Dimension* (Brussels/Athens: CEPS/ICBSS, 2002).

extremely low prices for Central Asian gas while reselling it at international prices in European markets. Hence the interest of the Central Asian states in diversifying the pipeline system. One result of the constant gas disputes between Russia and Ukraine was that Ukraine's gas purchases were put on a normal commercial basis, albeit at prices still well below market levels. This in turn led Turkmenistan to drive a harder bargain with Gazprom over its export prices. The price of Turkmen gas to Gazprom has almost quadrupled in four years, from about US\$42 per thousand cubic metres in 2004 to US\$150 today.

Russia's access to Central Asian (speci cally Turkmen) natural gas is key to its domination of the European natural gas market, primarily because of concerns that Gazprom's production levels will not be su cient to uphold its end of gas export deals. Russian interest in Central Asian hydrocarbons is explained to a large extent by their technically simpler and economically more advantageous extraction conditions than in the north of Russia, where the overwhelming majority of Russian oil and gas elds are concentrated. Gazprom's gas export obligations cannot be met by Russian production alone, and future gas obligations will require that Russia have access to the bulk of Turkmenistan's and Uzbekistan's production. Russia therefore has an incentive to maintain its close political and trade ties with Kazakhstan, Turkmenistan, and Uzbekistan in the years to come. The most urgent threat to Gazprom's power is China, which is planning a gas pipeline from Turkmenistan across Kazakh territory. Another longer-term threat would be a trans-Caspian gas option connecting with the Baku-Tbilisi-Erzurum (BTE) pipeline, which follows roughly the same route as the BTC oil pipeline terminating in Turkey. Although Russia is expected to increase gas exports from Central Asia up to 2020, it is these future alternatives that are important for Central Asian gas producers when pressing Gazprom to pay higher prices.⁷³

At the end of 2007, the total volume of Russian investments in the oil and gas sectors in the countries of Central Asia was just over US\$5.2 billion. By far the greatest share (over 75%) is concentrated in Kazakhstan; there is a smaller share in Uzbekistan (around US\$1 billion) and an insigni cant amount in Turkmenistan, Tajikistan and Kyrgyzstan (US\$50 million in total). Russia plans to invest approximately US\$15 billion over the next ve years in the region, primarily in the search for and development of oil and natural gas elds, but also in pipeline infrastructure. In September 2008, Russia and Uzbekistan agreed to build a new pipeline through Uzbekistan to export Turkmen and Uzbek natural gas. This will double combined Uzbek-Turkmen exports from the current 45 bcm to 80-90 bcm a year. In January 2006, Gazprom Chief Executive O cer (CEO) Aleksei Miller signed a deal with Uzbek President Islam Karimov to transfer three of Uzbekistan's largest gas elds (Urga, Kuanysh, and Akchalak) to Gazprom, in effect giving the firm a monopoly over the export of Uzbek gas. It remains an open question, however, whether Russia will be able to maintain these nancial commitments in light of the current economic crisis.

73 Vladimir Paramonov, "The Future Supply of Gas from Central Asia to Russia: An Expert Assessment," *Advanced Research and Assessment Branch Central Asian Series* 08/05 (Swindon: Defence Academy of the UK, February 2008), 12.

Until new pipelines are built, the Central Asian republics remain heavily dependent on Russia. For example, some 85% of Kazakhstan's oil exports pass through Russian territory, but a large share of this goes through the non-state owned Caspian Pipeline Consortium (CPC) directly to consumers.⁷⁴ The Kazakh leadership is aware of the dangers of relying on Russian-controlled transportation routes, which allows Moscow to unilaterally decide how much oil can leave the country and to which destination it can flow, and has made clear its desire for alternative routes. Prime Minister Karim Masimov, speaking at the Third KazEnergy Forum in September 2008, stressed that Kazakhstan "will continue to vigorously implement a strategy of diversification of energy export routes (...) the country will also maintain its existing multivector policy with a special emphasis on the safety of these routes. On that basis, specific routes will be selected exclusively on the basis of economic viability and practical considerations. As before, our country will participate in all major Eurasian energy transportation projects, including CPC, BTC, Kazakhstan-China, Burgas-Alexandroupolis and Prikaspiyskiy gas pipeline."

Current pipelines in the region include:

- the BTC, with a capacity of over 1 mb/d and which runs from the Azerbaijani coast of the Caspian Sea to the Mediterranean coast of Turkey;
- the Northern (Baku–Novorossiysk) and Western (Baku–Supsa) Early Oil Pipelines, with capacities of 100,000 and 115,000 b/d, respectively and which begin on the Azerbaijani coast of the Caspian Sea and travel to the Russian port of Novorossiysk and the Georgian Black Sea port at Supsa;
- the Atyrau–Samara Russian-owned pipeline, which extends from Atyrau, Kazakhstan, to Samara, Russia. Its current capacity is 300,000 b/d, but Russia has pledged to increase its capacity to 500,000 b/d;
- the Kazakhstan–China pipeline, the first stage of which connects the Kazakh oil fields of Aktobe to the Kazakh oil hub of Atyrau is already complete. The second stage, which will run from Atasu (northwestern Kazakhstan) to Alashkanou (Xinjiang, China) and will cost an estimated US\$850 million and have initial and eventual capacities of 200,000 b/d and 400,000 b/d, respectively, is under construction.

The European Union, the Energy Game and the Nabucco Pipeline

The EU faces considerable disadvantages in the competition with Russia for energy from Central Asia. Yet it also has one advantage – it is willing to pay top prices for energy and increasingly the Central Asian states do not see why they should not gain from this EU position as opposed to Russia taking a sizeable cut. In 2004, the Baku Initiative was signed by the EU, Caspian Littoral States, and the Central Asian states Kazakhstan, Kyrgyzstan, and Uzbekistan. The initiative was built upon mutual interest for supporting gradual development of regional energy markets, enhancing attraction of funding for new infrastructures, boosting energy efficiency policies, and facilitating the

74 International Crisis Group, "Central Asia's Energy Risks," Asia Report, no. 133, 24 May 2007, 9.

gradual integration between respective energy markets and the EU market.⁷⁵ In November 2006, the EU agreed a ministerial declaration which enhanced the Baku Initiative and focused the EU priorities on a capacity building programme; preparation of regional electricity, gas, oil, renewable energy and energy efficiency action plans for partner countries; and enhancing energy security by upgrading existing networks, and adding new supply routes and relevant infrastructures for energy transportation.⁷⁶ Recently the EU initiated a programme in Tajikistan, concentrated in the Zarafshan Valley, to improve household energy efficiency and renewable energy use. The project will run from 2009 to 2011, and carry out many of the Baku initiative goals.⁷⁷

According to the 2008 Joint Progress Report on EU strategy implementation in Central Asia, much progress has been made regarding energy and transport.⁷⁸ A memorandum of understanding, already in place with Kazakhstan, was signed by Turkmenistan, technical studies are underway regarding the possibilities for a trans-Caspian energy corridor, progress was made on the Nabucco project, and the Ashgabat Foreign Ministers Meeting showed readiness to study impact of potential hydropower stations in Central Asia. Furthermore, the 2007 meeting of TRACECA approved a two-year action plan to implement the strategy regarding transportation in Central Asia. More progress is still needed, but developments are underway toward strengthening EU-Central Asia energy relations. Although Western investors have made some inroads into Central Asia, local economies are usually characterised by excessive government intervention, corruption, weak corporate governance, insufficient legislative frameworks, and incompetent, corrupt court systems.

While Russia has signed long-term deals to import Turkmen gas, the EU has been struggling to catch up, eventually realising that Turkmen gas was essential for the success of the proposed Nabucco pipeline. The planned Nabucco pipeline, backed by the US as well as the EU, would transport natural gas from Turkey to Austria, via Bulgaria, Romania and Hungary. It will run from Erzurum in Turkey to Baumgarten, a major natural gas hub in Austria. Its total length is expected to be 3,300 kilometres and its estimated cost is around €7.9 billion. The initial deliveries are expected to be between 4.5 and 13 bcm per annum, of which 2 to 8 bcm would go to Baumgarten. By 2020, the transmission volume is expected to reach 31 bcm per annum, of which up to 16 bcm would go to Baumgarten.

One of the key questions is the source or sources of gas to ensure the success of Nabucco. Among the possible sources are Azerbaijan where the Shah Deniz gas fields should come on stream in 2013 (8 bcm). Turkmenistan could possibly supply around 10 bcm if the Trans-Cas-

75 *Ministerial Declaration on Enhanced Energy Co-operation between the EU, the Littoral States of the Black and Caspian Seas and their Neighbouring Countries*, Astana, 30 November 2006, http://ec.europa.eu/energy/international/international_cooperation/doc/2006_11_30_astana_conclusions.pdf.

76 *Ibid.*

77 The European Commission's Delegation to Kazakhstan, Kyrgyzstan and Tajikistan, "The EU supports natural resources management and energy."

78 See also the assessment in the *EUCAM Watch*, no. 1 (Madrid/Brussels: FRIDE/CEPS, November 2008), http://www.eucentralasia.eu/leadadmin/user_upload/PDF/EUCAMWatch1.min.pdf.

pian gas pipeline would be built. The prospects for the supply of Turkmen gas into Nabucco have improved with better relations between Azerbaijan and Turkmenistan, and a recent report (from a European consultancy) of greatly increased reserves in Turkmenistan. These developments open the prospect of being able to reconcile Turkmenistan's existing commitments to supply large quantities to Russia (for onward sale to the EU) with a trans-Caspian pipeline to Baku (securing the viability of Nabucco) as well as a pipeline to China. Supplies from Iran would be a huge boost for Nabucco but US attitudes and pressure make this unlikely in the short to medium term. Some US political leaders and the Turkish Prime Minister, Recep Tayyip Erdogan, have held out the prospect of Iranian gas for Nabucco if a solution could be found to the nuclear issue. Securing the Iranian route would require a significant political thaw and many question whether Iran's hard line Islamic leadership would be any more reliable an energy partner than Moscow. Kazakhstan, Egypt and Iraq are other possibilities if feeder pipelines are built and there remains sufficient gas for export after domestic demand is satisfied. Finally, there is also the option for Russia to supply gas to Nabucco. Although this would apparently conflict with its own South Stream project nothing should ever be ruled out in the world of energy politics. Russia provides over a quarter of Europe's gas, and 80% of that moves over Ukrainian pipelines. By diversifying imports and redirecting some of the Russian shipments through South Stream and Nabucco, Europe could prevent a repeat of the January 2009 crisis in which all deliveries through Ukraine were suddenly cut off because of a price dispute.

The major companies involved in Nabucco include OMV of Austria, MOL of Hungary, Bulgargaz of Bulgaria, RWE of Germany, Transgaz of Romania and BOTA of Turkey. Each of them owns 16.67% of the shares. Serious discussion about Nabucco first started in 2002 when the above companies signed an agreement to pursue the project. The project was confirmed at the political level at a summit meeting in Budapest in January 2009 attended by the consortium partners (Austria, Bulgaria, Germany, Romania and Turkey), potential suppliers (Azerbaijan, Egypt, Iraq and Turkmenistan) and transit country Georgia, the European Commission and the then Czech Presidency. The summit also welcomed the Commission's initiative to establish a Caspian Development Corporation (CDC) and a Caspian Energy Company (CEC) which would buy gas in bulk from Caspian suppliers. In March 2009, the European Council agreed to offer €250 million to support the Nabucco project and in July 2009, Turkey and four EU member states (Austria, Bulgaria, Romania and Hungary) signed an agreement to proceed with the pipeline project. As the Nabucco project will deliver only around 5% of Europe's needs it will not break the EU's dependence on Russian exports. Indeed, it may in fact require supplies from Russia to fill its 31 bcm of capacity. Russia has tried to play down the likelihood of Nabucco being built even though Western partners, including the US, have stated that they would welcome Russian supplies of gas for Nabucco. US Senator Dick Lugar said Russia's involvement would help establish confidence in energy relations.⁷⁹ In the eyes of the EU, Nabucco should offer a long-term viable complementary supply of gas and it should help the economic development and energy diversification aims of the supplier countries.

⁷⁹ *Lugar Energy Report on the Nabucco Pipeline*, July 2009, <http://lugar.senate.gov/energy/press/pdf/Nabucco.pdf>.

After the July deal was signed, President Barroso said: "We have started to confound the sceptics, the unbelievers. Now that we have an agreement, I believe that this pipeline is inevitable rather than just probable. Nabucco will provide energy security to Turkey, to southeast Europe and to Central Europe. Nabucco is thus a truly European project. Turkey and the EU have tackled together a common challenge: the security and diversification of their energy supplies." Barroso also recognised the key role that Turkey would play. With reference to Turkey as an alternative energy route between Central Asia and the Middle East to Europe and the pipeline helping to overcome EU resistance to letting it join the union, the President of the Commission stated, "I believe that with the arrival of the first gas, and some experts have said this will be as early as 2014, this agreement will open the door to a new era between the EU and Turkey. Gas pipes may be made of steel, but Nabucco can cement the links between our people."⁸⁰

80 European Commission, "Remarks by Commission President José Manuel Barroso upon the signature of the Nabucco intergovernmental agreement," Ankara, 13 July 2009, <http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/09/339>.

CHAPTER 6

OTHER POWERS

The United States

Since 2001, America's policy in Central Asia has been defined by several geopolitical factors: the 9/11 events and the "war on terror," Afghanistan, Pakistan, relations with Russia, China, and the EU, as well as energy and combating drug trafficking and weapons of mass destruction (WMD). Apart from security and energy interest, the US has also pushed, especially during the George W. Bush presidency, for democratic reforms in Central Asia. There are signs that this policy may be changing under Barack Obama as this emphasis, shared by the EU, has put the US in a less advantageous position than Russia, China, Iran, or even India who turn a blind eye to the authoritarian regimes of Central Asia. While acknowledging important Russian interests, the US government rejects the notion that the region can be confined to any one "special sphere of influence," as Russia has recently claimed. On security, Kazakhstan in particular has been an important partner on nuclear non-proliferation issues, after giving up its nuclear arsenal in the early 1990s. After 9/11, Uzbekistan emerged as a critical ally, with its military bases essential to the success of the initial operation in Afghanistan. US-Uzbek relations nearly broke down, however, following the events in Andijan in 2005. Kyrgyzstan houses a US airbase that provides crucial logistical support to coalition forces in Afghanistan, and has had an inconsistent record on reform. US efforts to establish bases in the region, initially supported by Moscow, have now run into trouble, although the Russians appear to be ready to consider allowing US supplies to transit Russia.

As regards energy, US interests are primarily focused on Kazakhstan, Uzbekistan and Turkmenistan. For more than a decade, the US has worked to ensure that oil and gas from Central Asia would reach global markets via multiple pipelines, avoiding Iran and promoting alternatives to Russian controlled routes. US companies hold big stakes in Kazakhstan's two largest oil and gas projects, Tengiz and Kashagan, both of which lead to export pipelines in a westerly direction via the CPC to Black Sea ports.

Kyrgyzstan has become an unusual centre for US-Russian rivalry. Its unexpected emergence onto the international stage says much about how the war in nearby Afghanistan, the struggle for political influence in the former Soviet Union, and the competition to control Central Asia's bountiful oil and gas reserves are reshaping priorities of Russia and the US. Kyrgyzstan is the only country in the world that hosts separate military bases for the US and Russia and both major powers are bent on sustaining or deepening their presence. That in part explains why neither has publicly condemned the heavy-handed tactics of the Kyrgyz president, Kurmanbek Bakiyev, who easily won another term in July 2009 in an election that his opponents said was rigged. Bakiyev, seems quite aware that his country is the place to be. In February, while he was in Moscow to receive a roughly US\$2 billion package of loans and aid from Russia, he vowed to close the American base. The move was seen as a master stroke by the Kremlin. But

Bakiyev was working both sides and the closure “decision” was a move to extract more money from Washington. The rent on Manas will rise to US\$60 million annually from US\$17.4 million, and Kyrgyzstan is to receive more than US\$100 million in other grants. Under the new arrangement, Manas is rebranded a “transit centre,” and American officials no longer refer to it as a “base,” apparently to avoid implying that it is permanent.

China

China has been steadily increasing its influence in Central Asia over the past decade. The main motives for China's policy towards the region are to ensure the security and stability of the Western provinces of China. The riots involving the Uyghurs in Xinjiang (see below) are an example of this threat. Other Chinese motives include securing supplies of energy and other strategic natural resources; breaking alleged US and NATO encirclement; increasing its geopolitical influence; and gaining new markets for Chinese products and new access routes to European markets.⁸¹

In September 2008, China announced plans to invest US\$100 billion building roads and railways to open up remote Central Asia to the rest of the world. More than 20,000km of rail track will be built in the coming decade to bring Chinese goods into Central Asia and carry back oil and metals to China. Reaching out towards Russia, Europe, Iran and Pakistan, the railways will create a modern equivalent of the region's ancient Silk Road. China is developing a variety of energy import routes from Russia and Central Asia, including a West-to-East project to bring gas from Turkmenistan through Uzbekistan and Kazakhstan across China's Xinjiang region to Southeast China. The governments in Central Asia are now fully exploiting the fact that they are in a very strong position as regards both the possibility to supply energy and also the fact that they occupy key transit routes. They are no longer willing to deal exclusively with Moscow and are looking for the best deal from whatever source. This suits the Chinese, who have huge foreign reserves and more financial repower than anybody. Even Russia needs the financial resources from China. Russia's ESPO oil pipeline was only made possible in the midst of the financial crisis thanks to a US\$25 billion loan from China. Moscow and Beijing are also discussing major natural gas pipelines from Eastern Siberia through Xinjiang into China. Russia's massive Kovykta natural gas field could provide China with natural gas in the next decade via a proposed pipeline that would also run through Xinjiang province.

Sino-Russian relations are probably better now than ever before but they are based on expediency and pragmatism rather than common values or shared strategic interests. Both sides also gain from banding together against “US hegemony” but this card may be more difficult to play now that Barrack Obama has taken over from George W. Bush. Russia is also concerned at the implications of China's steady economic rise which Moscow believes could weaken Russia's influence. Russia is also worried about growing Chinese influence in Siberia, illegal migration

81 Bhagaban Behera, *Central Asia-China Relations Since 1991* (Delhi: Vista International Publishing House, 2006).

and potential border claims. There is a certain rivalry in Central Asia and East Asia. China did not follow Russia in recognising the independence of Abkhazia or South Ossetia. At the same time, stable Sino-Russian relations are good for the EU (and the US).

To promote its interests, China maintains strong bilateral ties to the countries of the region and also seeks to gain influence through the SCO which it initiated. The Central Asian authorities and population are concerned about the growing economic influence of the Chinese. There is a strong consensus in the region on the impossibility of local industries to compete with Chinese manufactures and with Chinese labour. This explains why China's request for joining EurAsEC was rejected and why Wen Jiabao's proposal for creating a SCO free trade zone was also discarded, although it was agreed to work for establishing a SCO free trade area by 2020.

Trade is the spearhead for Chinese economic penetration in Central Asia. Between 1994 and 2006 the bilateral trade between China and Central Asia grew thirty times to reach US\$10.8 billion. This dramatic commercial dynamic has been particularly acute since year 2000, when Beijing launched its "Go West" policy. As a result, trade with China comprised 12.7% of Central Asia total foreign trade in 2008, while exchanges with Central Asia only comprised 0.7% of China's total foreign trade for that year. These figures depict an asymmetric relationship, in which Central Asia is much more dependent of China than the other way around. This is particularly the case for those countries which share a border with China. The trade volume among the Central Asian republics and China differs from one country to another. The key country among the Central Asian trading partners of China is Kazakhstan, whose bilateral trade with China increased by 66% between 2005 and 2007.

China is not only an emergent trading partner for Central Asia, but also a prominent investor. For example, in 2005 China invested US\$1.8 billion in Kazakhstan, which received a total of US\$6.4 billion in foreign direct investment that year. Besides, China allocates soft loans to the Central Asian countries to develop their transport and communication infrastructures, their extractive sector and their hydropower capacity. These financial and economic resources are given on favourable terms with the condition of using Chinese techniques and equipment. Some projects financed under this scheme are the Hydrostation in Andijan, the Lolazor-Hulton electric line in Tajikistan, and the Moinak hydroelectric plant in Kazakhstan. At a June 2009 summit of the SCO in the Russian city of Yekaterinburg, President Hu of China offered to lend US\$10 billion to Central Asian countries hit by the global economic crisis. The loans are expected to smooth the way for China to win more energy deals in Central Asia.⁸²

One of the most serious problems for China is the potential support by Central Asian populations, if not governments, for the Uyghurs who make up just under half the population of Xinjiang. The July 2009 riots in Xinjiang led to the deaths of more than 200 people, the bloodiest known civil disturbance in China since Tiananmen Square in 1989. In a country of more than

82 Xuanli Liao, "Central Asia and China's Energy Security," *China and Eurasia Forum Quarterly* 4, no. 4 (2006): 61-69.

1.3 billion people, the 20 million in Xinjiang sound insignificant. But Xinjiang is about one quarter of China's land mass – and contains a large proportion of its inadequate reserves of oil and gas. Just as the Russians fear Chinese influence over Siberia, so the Chinese fear that Muslim Xinjiang could drift off into Central Asia. As things stand, the break-up of China looks very unlikely. Over the long term, a steady flow of Han immigrants into Xinjiang should weaken separatist tendencies. Some Uyghurs may demand separatism but they lack leadership and the international sympathy that, for example, bolsters the Tibetan cause.

Turkey is one of the strongest supporters of the Uyghurs, a mostly Muslim Turkic minority in the north-western Chinese region of Xinjiang. There was a diplomatic row in July after the Turkish prime minister likened China's treatment of the Uyghur minority in Xinjiang as "like genocide." The Chinese foreign ministry said it hoped "our Muslim brothers can realise the truth" while the state-run *China Daily* attacked the remarks by Recep Tayyip Erdogan as "irresponsible and groundless." The diplomatic row between China and Turkey threatens newly forged business ties between the two only weeks after Abdullah Gül, the Turkish President, visited China, including a stop in Urumqi, the Xinjiang capital, with a delegation that signed trade deals worth US\$3 billion. Turkey's foreign ministry said there was no question of supporting separatism but it was "only natural that we would be interested in the destiny of these people and their well-being." Immediately after the July riots and the ensuing security crackdown, the Chinese government asked a number of countries it views as friends to show their support by condemning the violence. The Central Asian nations of Kazakhstan, Kyrgyzstan, Uzbekistan and Tajikistan, which border Xinjiang and share cultural and ethnic roots with the Uyghurs, were also quick to reassure Beijing that they would not interfere. But public opinion in at least some of these countries is a different matter.

Turkey

With its historical, ethnic and linguistic connections to Central Asia, Turkey has sought to carve out a special role in the region. According to the Turkish ministry of foreign affairs,⁸³ Ankara's policy towards Central Asia is based on the following principles:

- i) to contribute to the consolidation of their state structuring;
- ii) to preserve political and economic stability and promote regional cooperation;
- iii) to encourage political and economic reforms;
- iv) to assist their integration with the international community and Euro-Atlantic structures;
- v) to develop bilateral relations in all fields on the basis of equality, mutual interest and respect for sovereignty; and
- vi) to support the transportation of their energy resources to international markets freely and through alternative routes.

83 See the Ministry of Foreign Affairs of the Republic of Turkey, "Turkey's Relations with Central Asian Republics," http://www.mfa.gov.tr/turkey_s-relations-with-central-asian-republics.en.mfa.

Turkey's twin priorities have been energy and transportation routes, and promoting stability. It has been careful, however, not to upset any of the other great powers, especially Russia. Turkey already plays a transit role in the BTC Caspian Sea pipeline and is a key player in the Nabucco pipeline from Turkmenistan to Austria (see above). Turkey is also viewed by some as a model for Central Asia, having a moderate Islamic government pursuing close ties with the West. Turkey also makes effective use of non-governmental, business, and civil society groups to further its relations and influence in the region. It has been active in seeking a solution to the water crisis in Central Asia.

When the Soviet Union collapsed, Turkey was the first country not only to recognise the independence of the Central Asian newly independent states, but also to send diplomatic delegations to the region. Interestingly, all political movements in Turkey tried to gain political credit from the emerging relations with the Central Asian newly independent states. The relations with the Central Asian "brothers" became a matter of major importance, and almost every Turkish prime minister visited Central Asia. The region became a lucrative market for the Turkish medium-scale manufacturing sector and the construction industry, which had been in stagnation after the collapse of the construction market in the oil-rich Arab countries. Often, it was the Turkish government itself that backed and encouraged the advancement of the Turkish business to the newly emerging markets of the region. As for the Central Asian leaders, Turkey often became the country of their first official visit outside the former Soviet space as presidents of independent states, as well as the forum to make their international debut, where their voices on global events were heard for the first time. In the international arena, Turkey was to become a guaranteed ally, and more importantly, an influential lobby. Contrary to Western countries, Turkey never criticised the "unlimited" power of Central Asian leaders and refrained from supporting, at least at official level, the opposition groups to the ruling power, a position which made Turkey a comfortable partner for the political elites.

In 1992, the Turkish International Cooperation Agency (TICA) was established under the Ministry of Foreign Affairs. Its primary task was developing a legal and managerial framework for liberalisation and democratisation that would help the Central Asian states to adjust to the outside world politically, socially and economically. The total value of TICA projects in various fields such as education, health, transportation, and management has reached US\$100 million. The same year, driven by Turkey's growing involvement in the region, its euphoria and self-confidence, the then Prime Minister, Süleyman Demirel, proposed the possible establishment of a "Union of Turkic States" with a common alphabet. But while welcoming Turkish assistance, the Central Asian states were wary of another "big brother" offering them protection. There are, however, irregular summits of Turkish speaking states, a multilateral forum for cooperation that brings together Turkey, Turkmenistan, Uzbekistan, Kazakhstan, Kyrgyzstan and Azerbaijan. The eighth summit was held in Antalya on 17 November 2006.

Turkey's economic relations with Central Asian countries have also rapidly developed and big steps have been taken in the fields of trade, transportation and communication. Turkey has granted approximately US\$1.2 billion in credits to these countries. The main objective of granting these

credits is to make Central Asia an attractive investment area for Turkish businessmen. The volume of Turkish trade with Central Asian countries is approximately US\$3 billion since 1992. More than 1,000 Turkish firms operate in the region. Turkish companies have invested approximately US\$3.7 billion in the region. The total value of projects completed by Turkish contractors reached US\$15.5 billion. Turkey has also excellent relations with these countries in the field of education and culture. Until now 18,000 scholarships have been granted to Central Asian countries.

Japan

Japan has been quietly building up its interests in Central Asia but lags way behind China or Russia. A number of initiatives were launched such as the 2004 "Central Asia plus Japan" dialogue marking a new multilateral approach to the region. In 2006, it was followed in by Taro Aso's initiatives of the creation of the Corridor of Peace and Stability in Central Asia as part of the Arc of Freedom and Prosperity stretching from East Asia to the Baltic States. Unlike EU member states (except for Germany), Japan opened embassies in all five Central Asian countries and has been generous with development assistance. By 2006, Japan's assistance to the region amounted to more than US\$2.5 billion, or about 30% of all the ODA by OECD countries. Central Asian states have welcomed more engagement by Japan as they can benefit from Japanese investments and technologies. The governments appreciate its generous assistance and "softer touch" with regard to political and economic reforms.

Japanese policy towards Central Asia has had to balance its relations with Russia and China with its own political and economic interests. It is still struggling to adapt to the ongoing geopolitical shifts triggered by the rise of China, transformations in Russia, and US-led wars in Iraq and Afghanistan. Relations between Russia and Japan are still hampered by the dispute over the Kurile Islands which the then Soviet Union occupied in the last days of the Second World War in 1945.⁸⁴ There have been constant divisions within the Japanese bureaucracy on how to deal with Russia. Some suggest that the dispute over the islands be put to one side, while others maintain that there can be no meaningful relations with Russia until the dispute is resolved. In February 2009, President Medvedev met with Prime Minister Taro Aso in Sakhalin. Although billed as a "get to know you" meeting, the two leaders agreed to try and solve the islands dispute "in our generation." There was also an agreement to supply Japan with 7% of the LNG exports from the Sakhalin II gas field.

Iran, India, and Pakistan

There are a number of other powers coveting the region and its resources. Iran sees the Central Asian states and Azerbaijan as its potential sphere of influence and its strategic rear. Central Asia and the Caucasus are perceived in Tehran as a market for both its goods and its ideology. Moreover, Iran would like to profit from transit fees from the traffic of energy resources

84 For a history of the Kurile Islands dispute see <http://www1.american.edu/TED/ice/kurile.htm>.

exported to the Persian Gulf via Iranian territory. The Gulf does have advantages of developed oil refining and port infrastructure, and the oil companies are certainly lured by cheaper exporting infrastructure. But so far Iran's aims have been blocked by US and EU pressure on supplier countries. Iran, with its militant Islamic Shi'ite ideology, has been contributing money to rebuild the mosques and religious educational institutions in Central Asia neglected during the Soviet era. Although there is little evidence of Iranian political sedition or terrorism in the region, the governments of Central Asia, aware of the explosive potential of religious extremism, are keeping a tight leash on Iranian activities.

India has also moved to develop its relations with Central Asia, especially Kazakhstan. President Nazarbayev's first foreign trip in 1991 was to New Delhi and he was also the guest of honour at India's 60th Republic Day celebrations in February 2009. The two countries signed a civil nuclear pact under which the uranium-rich Central Asian country would be supplying the much-needed fuel to nuclear plants in India. Kazakhstan also offered blocks for discovery of oil and gas to India. Kazakhstan also offered a number of Special Economic Zones (SEZ) to India for setting up joint projects in construction, oil and gas, minerals and metallurgy and pharmaceuticals. India's main concern in Central Asia is to ensure that the region is not dominated by any one external power.⁸⁵ Russia has enjoyed close relations with India since its independence in 1947. It valued India's leadership of the non-aligned world and there were few rivalries between the two powers. Russia is the dominant supplier of arms to India and it has shown no ambitions in South Asia where India is the dominant power. Both share the multipolar world concept and both are reluctant to bring human rights issues to the fore in relations with third countries. India's main rival in Asia is China and it has sought to ensure a balanced approach with partners to prevent China emerging as the dominant power.

Pakistan also has hopes to benefit from Central Asian energy resources. There were plans to build a pipeline from Turkmenistan to Pakistan but this has been put on hold due to the conflict in Afghanistan, whose territory it would have to cross.

85 Surendra Gopal, *Dialogue and Understanding – Central Asia and India: The Soviet and the Post-Soviet Era* (New Delhi: Shipra, 2005).

CONCLUSIONS

EU and Russian rivalry and cooperation

It is not an exaggeration to speak of a world in transition as all powers have been and continue to be affected by the global economic crisis. While the US remains the “indispensable nation,” it inevitably will have to reduce its global commitments. This will provide opportunities for other powers, notably China with its huge financial resources, to increase its influence. The EU and Russia are struggling to maintain their shares of world economy. While the EU share is over 20%, that of Russia remains static at 2.5%. Meanwhile the relatively poorer countries of Central Asia, the object of increased attention from the great powers (a new Great Game), have become poorer and are slipping back into authoritarian patterns. The prognosis for their future development is very uncertain as it depends on a number of factors difficult to predict including the price of oil, the potential impact of radical Islam and the establishment of acceptable political and social systems.

The EU and Russia are used to competing for influence in Central and Eastern Europe. Now they are competing for political and economic influence in Central Asia. With its long-standing connections to the region, Russia is far better placed than the EU to win friends and influence people. Central Asia is Moscow’s former territory and current backyard, and the Kremlin evinces a sense of entitlement here, not to mention a desire to dominate natural resources. But because of its sometimes high-handed attitude it has not always been able to get its own way. Russia has also angered some Central Asian states on a variety of issues (e.g. blame for a pipeline explosion in Turkmenistan, playing off Kyrgyzstan, Tajikistan and Uzbekistan on water issues). There is also evidence of popular discontent at the Russian presence e.g. recent opposition against the Russian military base in Kyrgyzstan near the border with Uzbekistan.

But overall Russia has many more cards to play than the EU. The EU is a new actor with growing interests in Central Asia, but limited possibilities to pursue them. The EU will always have to play the game with one hand tied behind its back because of its value driven foreign policy. Central Asian leaders do not appreciate the EU lecturing them on democracy and human rights. This is why they prefer the Russian (and Chinese) approach of non interference in internal affairs. Russia has important language and cultural links, promoted by the substantial Russian minorities in Kazakhstan and elsewhere. They have also, because of their past history, been involved in many other areas from energy and transport infrastructure to security issues in their broadest sense. Russia also has more of a stranglehold on the vital energy resources of the region. Turkmenistan and Kazakhstan are dependent on pipelines via Russia to Western markets. Russia is already buying significant amounts of gas from Turkmenistan to fulfil current contracts. Despite the signature of the intergovernmental agreement on Nabucco, there are still many hurdles to be overcome before gas flows from Central Asia direct to the EU. Given these advantages, one can only conclude that Russia has a substantial edge over any

"new" outside actor in Central Asia for some time to come. The EU has no scope for replacing Russia in region. The EU's Central Asian strategy is not regarded as important as its strategy towards Russia or its strategy towards its Eastern neighbours or Turkey. Given other priorities, the EU is unlikely to devote much attention to Central Asia, apart from in the energy field. The EU's contribution is more in terms of promoting development, especially the diversification of energy export/supply routes, and stability in region, especially near Afghanistan where several member states have forces.

Stability and cheap energy imports are the two key interests Russia has in Central Asia. Moscow has recognised that it no longer has a free hand in the region. Most Central Asian countries have built relations with other powers and are not completely in Russia's grip. Russia (and China) will seek to minimise any NATO presence and will also seek to keep the EU out of the energy sector. On the economic front, Russian energy companies will need to raise the prices paid for oil and gas at such a pace that other buyers become of secondary importance to these countries. Gazprom is already paying more every year. Russia has done well in Central Asia over the last five years, but will only continue to do so if the region receives its undivided attention for decades to come.

Medvedev will have a chance to extend Russia's stake in the economy by increasing investment and by further building the EurAsEC in which the Central Asian states are members, excluding Turkmenistan. The EurAsEC still has to prove its worth, but could grow to become a Central Asia focused economic integration organisation, including a customs union. Such Russian-led initiatives will be increasingly important in countering China's economic power and the EU's attraction. Kazakhstan is becoming a power in its own right, while it is Russia's key partner in the region. Turkmenistan will remain a land of opportunity for Russia and other players that have had no access before. Relations with Uzbekistan were strengthened after Andijan in 2005 and Kremlin ties with Kyrgyzstan and Tajikistan have been stable.

Russia has made a jump from reluctantly giving some direction to its southern neighbours in the 1990s to becoming an eager leader in the region. Competition with China, the EU, US and other players such as India, Iran, Japan and Turkey will increase over the coming decade, especially after Moscow's show of strength and determination in the Caucasus. Russia will want to increase its engagement in Central Asia and not lose too much influence to other parties. It can do so in various ways. In the security field, Russia will maintain a careful balance between using bilateral (military) relations as a base and blending these with different regional and multilateral organisations, certainly through the CSTO from a defence perspective and maybe through the SCO pending Chinese-Russian relations. Russia will need to be persuasive to assure Central Asian countries it has good intentions and respects their sovereignty and territorial integrity without any exception. Moscow has to tread with some sensitivity because of its imperial heritage.

Russia could do better economically in Central Asia. When gas and oil are excluded, trade

figures remain low. Trade levels with Central Asia, excluding hydrocarbon commodities, have risen marginally since 2003 and account for only 4% of Russia's foreign trade.⁸⁶ As long as Russia considers Central Asia as a place that solely offers cheap oil and gas, its central position will be at stake. Central Asian countries need more investments to diversify their economies and avoid "Dutch disease" symptoms. The energy-rich states will be looking for other opportunities, while their one-sided economies offer no long-term stability. Kyrgyzstan and Tajikistan have less to offer. One of their major forms of income is the export of labour to Russia's markets and construction sites. If Russia has a long-term interest in Central Asia, it will need to bind these countries to its own economy. Energy interdependence is still strong, but may not last. Only if Russia invests substantially in transport infrastructure might it be able to stay ahead of other buyers. With Russia's domestic gas output showing no growth, it remains important to buy Central Asian gas which could be sold to Europe.

Russia is also likely to continue to expand its soft power in the region by supporting Russian language education, opening schools and establishing university exchange programmes – and through media outlets or cultural festivals that emphasise a shared heritage (and future). Maybe the most powerful mechanism of Russian influence in Central Asia is culture because it reaches beyond the elites; something that EU, American and Chinese cooperation schemes largely lack. Through its cultural influence, Russia can positively forward its economic and security interests. The Russian language has made a comeback in recent years. The Russian media are raising their profile in Central Asia by buying up Central Asian companies and starting new Russian language channels.

To date, there has been no direct cooperation between the EU and Russia in Central Asia. But this could change, especially in the wake of the global economic crisis. The EU and Russia both have common interests in fighting terrorism and drugs, creating political stability and developing energy resources. They do have differing views on the politics of the region (the Andijan massacre stands out as an example) and they are rivals for energy resources. But climate change and water management are two areas worth studying for a potential common effort. The EU's experience in managing cross-border projects could be of considerable value in this regard. With Kazakhstan taking over the chair of the OSCE in 2010, there could be scope for fleshing out the rather vague Medvedev proposals on European security and linking them to the future of the OSCE.

Moscow and Brussels are both concerned at the possible overspill effects from Afghanistan, especially radical Islam. The EU and Russia are interested in Central Asia's energy resources but each pursues different methods to promote its aims. Arguably Brussels is too late in stepping-up ties with the region. It could have done so a decade ago when Russia's attitude

86 Vladimir Paramonov and Aleksey Stokov, "The Evolution of Russia's Central Asia Policy," *Research & Assessment Branch Central Asian Series* 08/21 (Swindon: Defence Academy of the UK, June 2008), 15.

was still one of disinterest. But the EU's attention was focused on enlargement and internal affairs. The EU's 2007 Strategy for Central Asia was late in appearing, but has been welcomed in the region where countries look for alternatives to Russia's economic and security dominance. Unlike the strategies the EU has with some major powers, the strategy for Central Asia is being implemented on a steady basis. The EUSR, Pierre Morel, is an experienced diplomat with extensive knowledge of the region which he visits on a regular basis. He enjoys high-level access in all five countries and has been an important catalyst in promoting political dialogue, presenting new ideas for cooperation and promoting EU programmes. Beyond official meetings, he has extensive contacts with civil society and the media. While much progress has been made since 2007, there is much room for advancement and further development of EU action in Central Asia. Although the EU and Russia are less likely to seriously collide over Central Asia – as they do in Eastern Europe and the South Caucasus – there are policy implications for Brussels because its access to Central Asia is geographically and economically blocked by Russia. This is why some EU members feel they have to make a choice between developing relations with Russia and trying to expand ties with Central Asia at the risk of further aggravating Moscow. The EU's influence is viewed as benign (unlike Russia and China). There is considerable admiration for the EU's political stability, economic success and its social and educational systems.

Afghanistan could be a wild card. No one can predict how long the US/NATO forces will remain there. Public opinion is not supportive of the war and Western forces might be forced to pull out in the not too distant future. Depending on the balance of political and military forces in Afghanistan this could have an impact on Central Asia. Russia already suffers from a huge narcotics problem, mainly from sources in Afghanistan. Moscow would not wish the Taliban to take power in Afghanistan for fear of it influencing radical Islamists within Russia's borders. Russia, like the EU, is concerned at the spread of Islamic fundamentalism and Russian worries over Afghanistan are unlikely to recede. Russia will seek to further strengthen its military presence and cooperation with Central Asia in order to avoid spill-over effects and to counter NATO influence in the region. The EU has a stake in the stability of Central Asia as a gateway for their troops moving to the Afghan theatre.

Both the EU and Russia will have to take into account the growing presence of other powers in the region. The US cannot neglect the region because of its links to Afghanistan. China's influence, backed by massive financial reserves, is rising fast. It is perhaps the most effective and least observed power in the region. Japan and Korea are both seeking to increase their influence. Turkey has a strong business presence and the densest aviation network. Iran has strong religious ties. In the final analysis, however, much will depend on internal developments within Russia as well as the willingness of the EU to maintain a steady commitment to Central and East Asia. How strong and united is the Medvedev-Putin "dream team"? What will be the impact of the current crisis on Russia's ability to project influence abroad when it is beset by problems at home? What are the limits of the energy weapon? Is the EU likely to be able to use its unique mix of instruments to gain some permanent

influence in Central Asia? Will the EU be able to develop a more coherent approach to East Asia? Answers to these questions will reveal who will gain the upper hand in the 21st century version of the Great Game.

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ANNEXES

ANNEX I

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His latest publications include:

- Cameron, Fraser. *An Introduction to European Foreign Policy*. London: Routledge, 2007.
- . *US Foreign Policy after the Cold War: Global Hegemon or Reluctant Sheriff?* 2nd ed. London: Routledge, 2005.
- . ed. *The Future of Europe, Integration and Enlargement*. London: Routledge, 2004.

ANNEX II

ABBREVIATIONS

BOMCA	EU Border Management Programme for Central Asia
BTC	Baku–Tbilisi–Ceyhan Pipeline
CADAP	The European Union's Central Asia Drug Action Programme
CIS	Commonwealth of Independent States
CPC	Caspian Pipeline Consortium
CSTO	Collective Security Treaty Organisation
EBRD	European Bank for Reconstruction and Development
ECO	Economic Cooperation Organization
ENP	European Neighbourhood Policy
ESPO	Eastern Siberia-Pacific Ocean
EU	European Union
EurAsEC	Eurasian Economic Community
EUSR	European Union Special Representative
GSP	Generalised System of Preferences
IMF	International Monetary Fund
INOGATE	Interstate Oil and Gas Transport to Europe
NATO	North Atlantic Treaty Organization
NGO	Non-governmental Organisation
OSCE	Organization for Security and Cooperation in Europe
PCA	European Union Partnership and Cooperation Agreement
SCO	Shanghai Cooperation Organisation
SME	Small and Medium-Sized Enterprise
TRACECA	Transport Corridor Europe–Caucasus–Asia
UN	United Nations
US	United States of America
WTO	World Trade Organization

ANNEX III

JOINT PROGRESS REPORT BY THE COUNCIL AND THE EUROPEAN COMMISSION TO THE EUROPEAN COUNCIL ON THE IMPLEMENTATION OF THE EU CENTRAL ASIA STRATEGY¹

Introduction

This joint Progress Report takes stock of the progress made towards implementation of the EU Strategy for a New Partnership with Central Asia, which was adopted by the European Council on 21–22 June 2007 in recognition of the increasing importance of Central Asia for EU interests in terms of security, stability, governance and energy diversification.

The Strategy provides an overall framework for EU relations with Central Asia and builds on the results in the implementation of various agreements, EU assistance programmes and other initiatives taken by the EU to engage with countries of Central Asia.

The Strategy defines EU priorities for its cooperation with the region as a whole, including in the fields of human rights, rule of law, good governance and democracy, education, economic development, trade and investment, energy and transport, environmental policies, common threats and inter-cultural dialogue, but states that implementation of these should be tailored to the specific requirements and performance of each Central Asian country. The Strategy also calls for intensification of political dialogue with all five countries of Central Asia, including holding of regular meetings at Foreign Minister level and convening annual meetings of EU Heads of Mission in the region.

The European Council asked the Council and the Commission to regularly review progress in implementing this Strategy and to submit a first progress report to the European Council by the middle of 2008.

Overall Assessment

This progress report is not a routine exercise. It reflects an unprecedented approach. For the first time in the history of EU relations with Central Asia, an ambitious framework combining strategic political goals with a joint working programme is in place, transforming strategic aims into operational working tasks. Its sustainable and consistent implementation will be a key indicator for the EU's and Central Asia's political resolve to upgrade their relations. The EU is fully engaged in implementing the Strategy, building on a broad array of assistance programmes and other initiatives taken by the EU to engage with countries of Central Asia. The implementation of the Strategy is a long term endeavour that requires patience and sustained efforts by both the EU and Central Asian states.

1 Council of the European Union and the European Commission, *Joint Progress Report by the Council and the European Commission to the European Council on the implementation of the EU Central Asia Strategy*, Brussels, 24 June 2008, http://trade.ec.europa.eu/doclib/docs/2008/october/tradoc_141166.pdf.

Overall, progress on implementing the EU Central Asia Strategy has been encouraging. After the lapse of only a year, a new quality of cooperation has evolved between Central Asia and the EU. The EU–Central Asia new partnership for the 21st century is making a difference. On the side of the Central Asian countries there is a strongly increased interest in enhanced cooperation with the EU at all levels and in practically all areas.

Concrete actions have been mutually agreed upon and are being implemented or are under preparation, both bilaterally with the five Central Asian republics, and with all on key regional issues as education, Rule of Law, water and environment. All Central Asian states have agreed to engage in or continue a structured Human Rights Dialogue with the EU. National Coordinators for the Strategy have been appointed by all Central Asian states, demonstrating that Central Asian partners assume ownership and fully engage in cooperation. High–level political dialogue has visibly intensified. All actors, especially the Commission, the EU Special Representative for Central Asia, the German, Portuguese, Slovenian, and upcoming French Presidencies as well as member states have contributed to keeping up the momentum of the EU Strategy. Among them, lead coordinators have been identified for the regional initiatives.

The EU remains committed to continue and strengthen its current efforts to implement visible and ambitious projects exercising a sustainable impact on key areas of cooperation.

Intensified Political Dialogue

In line with the Strategy, political dialogue with the countries of Central Asia has intensified significantly over the last year, which in turn has contributed positively to practical cooperation with these countries, especially as regards implementation of the Strategy on the ground.

A number of high–level meetings and visits took place in the course of the year, including those in the context of agreements between the EU and the countries of Central Asia and bilateral consultations in international fora. Two regional political dialogue meetings took place at Foreign Minister level between the EU Troika and the five countries of Central Asia: on 30 June 2007 in Berlin, at the close of the German Presidency, and on 9–10 April 2008 in Ashgabat, Turkmenistan, during the Slovenian Presidency. These meetings provided for high–level exchanges on international as well as regional issues of mutual concern, as well as Strategy implementation, which is indispensable to fostering the Strategy's ownership in the region and to encouraging its smooth implementation on the ground.

In order to foster political dialogue at the highest level, and to lend his support for the swift implementation of the Strategy, High Representative Javier Solana visited Turkmenistan, the Kyrgyz Republic and Kazakhstan on 8–10 October 2007.

Commissioner Ferrero–Waldner paid a first official visit to Tajikistan on 8th April 2008 in order to emphasise EU solidarity with Tajikistan after the very harsh winter which led to a humani-

tarian crisis, to stress the necessity of reforms, and to visit an EC-funded border management training centre (BOMCA).

Dialogue has also been enhanced by the EU Senior Officials Troika visits to all countries, begun during the Portuguese Presidency in autumn 2007, and the regular visits to all countries in the region by the EU Special Representative for Central Asia, Ambassador Pierre Morel.

These consultations confirmed the readiness of the EU to contribute to the security of the Central Asian countries as well as to developing their energy potential, but also highlighted the growing problem of rational water management use in the region and the importance of engaging in structured human rights dialogues.

All Central Asian countries have nominated a National Coordinator for Strategy implementation. The Slovenian Presidency convened the first meeting between the EU Senior Officials Troika and the Central Asian National coordinators for Strategy implementation on 10 March in Brussels for discussions on Strategy implementation and devising priority activity areas for each country. The first meeting confirmed the usefulness of this format as the appropriate body for the joint EU–Central Asia follow-up on Strategy implementation.

As indicated by the Strategy, the EU will hold an annual meeting of its Heads of Mission in Central Asia in Tashkent in July 2008.

The EU continued close cooperation on Central Asia with international partners and organizations which are active in the region, in particular the UN and the OSCE, and pursued an open and constructive dialogue with regional organisations in Central Asia, including the EurAsEC, SCO, CICA, CSTO, CAREC and CARICC. The efforts of the EUSR for Central Asia were particularly important in that regard. Beyond the regular consultations with the main actors in the region, the EUSR has also pursued exchanges on Central Asia with India, Pakistan, and South Korea.

Dual Approach: Bilateral and Regional

Efforts have been undertaken over the past year to give concrete emphasis to bilateral and regional aspects of the Strategy. The EU Senior Officials Troika visited all five countries, beginning in autumn 2007 by the Portuguese Presidency and finishing in spring 2008 by the Slovenian Presidency, to discuss Strategy implementation. In addition to that, the meetings held with each country under the Partnership and Cooperation Agreements or the Trade and Cooperation Agreements were used to discuss bilateral priorities. These discussions paved the way for the elaboration of the five “bilateral priorities papers” which combine Commission and member states’ programmes, and will guide the implementation of bilateral aspects of the Strategy in particular.

As Central Asia is a region facing significant regional challenges which require cross-border cooperation, the need for a regional approach has been duly taken into account while imple-

menting the Strategy in such areas as combating drug trafficking, modernising border management, dealing with environmental problems, including in particular water management, and fostering energy and transport links. In line with the Strategy, two regional initiatives are being developed: a European Education Initiative for Central Asia, and a European Rule of Law Initiative for Central Asia. Efforts are also underway in order to coordinate closer the EU activities in the region as regards the environment and water management.

The Strategy puts particular emphasis on the need for increased coordination between EC and member state instruments and assistance. Part of the implementation effort over the past year has included two assistance coordination meetings organized by the Commission with member states, in December 2007 and March 2008, to help further mobilisation and ensure synergy of EC and member state assistance to Central Asia. These meetings contributed to elaboration of the bilateral priorities papers and allowed for a comprehensive overview of ongoing and planned assistance and policy dialogue initiatives. In addition, Germany and Italy organised high level meetings on EU–CA cooperation on economic cooperation (Rome, 10 September 2007; Berlin, 11 November 2007) and on water management (Berlin, 1 April 2008).

Human Rights, Rule of Law, Good Governance, and Democratisation

The Strategy recognises that human rights, rule of law, good governance and democratisation underpin long-term political stability and economic development of Central Asia.

The EU is working on establishing or upgrading Human Rights dialogues with all Central Asian countries. Human rights issues were systematically raised in all the political meetings, including the meeting of National Coordinators on 10 March in Brussels and the ministerial meeting in Ashgabat in April 2008.

The Human Rights dialogue with Uzbekistan was the first to be formally agreed, as indicated in the GAERC conclusions of 16 November 2006, and is held in the framework of the Sub-Committee on Justice and Home Affairs, Human Rights and related issues under the PCA. A second round is planned for June 2008. An ad hoc Human Rights dialogue with Turkmenistan has been held since 2005 in the margins of the Joint Committee meeting under the Trade and Cooperation Agreement in force; it was agreed to expand this dialogue with the first such expanded meeting taking place in June 2008. The EU–Central Asia Ministerial in Ashgabat in April marked an agreement to begin such dialogues with Kazakhstan, Tajikistan and the Kyrgyz Republic by the end of this year.

In the context of the Strategy, a specific initiative – the EU Rule of Law Initiative for Central Asia – is being developed to support reforms and the sharing of experiences between the EU and Central Asia in the area of legal and judicial reforms, which is recognised by Central Asian countries as particularly needed. France and Germany are the lead coordinators on the EU side in developing this Initiative and a first concept paper was agreed within the EU

and shared with Central Asian partners at the Ministerial meeting in Ashgabat. The Initiative includes intensified policy dialogue at all levels and more resources for judicial reform programmes by the EC and EU member states. A Ministerial level meeting during the forthcoming French Presidency will launch the initiative.

Cooperation in the areas of human rights, rule of law, good governance, and democratisation is supported by assistance projects, both those of the EC and member states, which aim to promote reform efforts. EC assistance includes projects under thematic budget lines such as the European Initiative for Democracy and Human Rights (EIDHR), the Non-State Actors Programme, as well as the Institution Building Partnership Programme (IBPP), which also support civil society development, so crucial for ensuring citizen participation in transformation and reform efforts. Bilateral EC and member state assistance programmes are also devised to give emphasis to this area.

Youth and Education

Education is a key priority for all five Central Asian countries – 2008 has been designated the “Year of Youth in Uzbekistan” – and it is an area where they see many potential benefits from cooperation with the EU. EC programmes, such as Tempus, and bilateral exchange programmes by member states are well-established in the region.

As indicated in the Strategy, a specific initiative – the European Educational Initiative for Central Asia – is being developed in this area to respond to Central Asian requests. It was agreed that the EC would take the lead in coordinating the elaboration of this Education Initiative and a first concept paper was agreed within the EU and shared with Central Asian partners at the Ministerial meeting in Ashgabat in April. The proposals include increased education policy dialogues, at all levels, increased resources for exchange programmes, and increased awareness-raising in Central Asia of study and education exchange opportunities in the EU.

Concrete steps have already been taken to strengthen EU engagement in the area of education. The first regional meeting with the Central Asia partners took place on 8 May in Cairo, in a side meeting to the Tempus conference on quality in higher education. Academic and ministerial representatives from all 5 countries proposed and discussed priority themes on higher education, vocational educational training and education sector development. These themes will be further developed by regional working groups, with technical support from the EC, the European Training Foundation and interested EU member states.

The EC is also taking the necessary steps to increase resources which will allow the doubling of the number of available scholarships for Central Asian students and teachers. The Commission's Directorate-General for Education and Culture undertook visits to all five Central Asian countries in autumn 2007 and spring 2008 to inform of EC education programmes, an effort that will be followed by the publication of a compendium of EC and member states education and exchange programmes this summer. In the margins of the next Tempus Ministerial

meeting, to be held in Brussels, a special meeting with Central Asian partners will be set up to discuss cooperation activities.

One of the priorities under the new strategy is the setting up of an electronic highway for distance learning and life long and e-learning. The EC co-funded network would complement the currently running Virtual Silk Highway. Preparations for this project are well under way but for implementation to go ahead successfully the political commitment of the Central Asian countries is needed, including the nomination of one focal organisation that would represent the research and education community of their country in the project and the readiness to consider co-financing of the project in order to secure the longer-term viability of the project. The regional network will be implemented gradually, based on the preparedness of each country to join. A Senior Officials Meeting on the Central Asian Research and Education Network was held in Brussels on 9–10 June with participants from all Central Asian countries to continue preparations of the project.

Economic Development, Trade and Investment

The EU is already one of the major trading partners for Central Asia, but there is still much scope for further intensifying trade and economic ties. The EU supports, including through assistance programmes, WTO membership of all Central Asian countries (currently only Kyrgyzstan is a WTO member), as WTO membership is the main way for a country to achieve a better and deeper integration into the international trade and economic system. The EU expects that ongoing bilateral negotiations with Kazakhstan will conclude soon and will continue to support also other Central Asia countries in their efforts to join the WTO.

The EU has over the past year continued to encourage Central Asian partners to make better use of the EU's GSP and to increase and diversify their economic production and exports. The gradual approximation of the countries' legislation and practices to the main EU trade related acquis as foreseen in the PCAs should support this process and the EU is ready to continue providing the partners with its technical assistance in this respect. EU assistance programmes have put specific emphasis on supporting reform efforts in the area of improving the investment climate in Central Asia, as it is essential for attracting more investments into the region.

The Central Asia Invest programme was launched by the EC in November 2007 with the aim to promote the development of SMEs in Central Asia, including by institution building actions for business intermediary organizations.

Energy and Transport

Enhancing energy security is an important shared interest between the EU and Central Asia and there is a common interest in diversifying export routes, demand and supply structures and energy sources. Regional dialogue is intensifying in the framework of the Baku Initiative¹; at the bilateral level, cooperation is strengthening via bilateral Memoranda of Understand-

ing, already in place with Kazakhstan and recently signed with Turkmenistan. The INOGATE programme remains the main tool in continuing to support cooperation on energy projects of mutual interest and in collaboration with international lending institutions. The next Energy Ministerial Conference of the Baku Initiative² will be held in November 2008.

Work on exploring the possibilities for a trans-Caspian energy corridor intensified over the past year, technical studies on practical options were finalised and the results are being discussed with partners. A high-level meeting is expected to be held later in 2008 to discuss best ways forward.

The EU remains committed to the success of the Nabucco project and welcomes the progress achieved in the last six months. The EU supports the further steps needed in order to implement the project as scheduled. An intergovernmental agreement between the concerned States should be completed as soon as possible.

In the field of energy, issues related to energy efficiency, energy saving and renewables remain of key importance. Hydro-energy is high on the agenda as well. A number of EU projects are under way in these areas. During the Ashgabat Foreign Ministers Meeting, the European Union showed readiness to study the upstream and downstream impact of planned hydropower stations on an objective basis in order to facilitate cooperation between Central Asian countries.

Transport is a long-established area of cooperation between the EU and the Central Asia countries, as the extension of the trans-European transport networks and the approximation of transport regulations would facilitate transport and trade flows between the EU and the Central Asia countries. Moreover, Central Asia has a potential to eventually become a transit region for the increasing trade flows between the EU and Far East.

Regional cooperation on transport has been established under the "Baku Initiative" and the TRACECA programme on the implementation of a transport corridor.

In December 2007 the 6th Annual meeting of the TRACECA Intergovernmental Commission (IGC) was held in Astana, and the first 2-year Action plan was approved to implement the Strategy for the corridor. It was also agreed for the TRACECA Summit to take place in Baku by the end of 2008 on the occasion of the 10th Anniversary of the TRACECA Multilateral Agreement.

Environment and Water

A joint report by High Representative Solana and Commissioner Ferrero-Waldner on the impact of climate change and international security submitted to the March 2008 European Council highlighted Central Asia as a region significantly affected by climate change.

2 Energy Co-operation between the EU, the Littoral States of the Black and Caspian Seas and their Neighbouring Countries launched at the Energy Ministerial conference held in Baku in November 2004.

The most important environmental challenges in Central Asia, notably water supply and management, water sanitation and climate change, are regional, and regional cooperation is therefore essential to tackle them efficiently. Water management is the most sensitive environmental issue in Central Asia, which, if not addressed, could develop into a serious security threat for the entire region in the medium term. EU–Central Asia consultations have confirmed the need to modernise the approach to water management in the region, to address closer the growing tension between the upstream and downstream countries and to strengthen the assistance coordination among the international actors. Central Asian countries are confronted with the urgent need to combine energy efficiency with water efficiency. Italy has offered to be the lead coordinator on the EU side in the field of the environment and water management and a first coordination meeting was held in Rome on 30 May 2008.

Cooperation between the EU and Central Asian countries in the field of environment has intensified. The EC and member states implement various regional and bilateral environmental projects, including support for water governance, the Central Asia Regional Environmental Centre, and implementation of the Kyoto protocol and Aarhus Convention.

The EU–Central Asia Environmental Dialogue and the EU–Central Asia Working Group on Water, based on EU Water Initiative principles, were established to address water-related issues in Central Asia and specific cooperation proposals in that area, notably integrated water resources management systems at regional level. As a consequence, in January 2008, it was agreed to launch National Water Policy Dialogues in Central Asia, beginning with Kyrgyzstan in 2008. These dialogues will support capacity building in the area of water management. This activity is being carried out in parallel to the continued EU Water Initiative EECCA (Eastern Europe, Caucasus, Central Asia) process, including the annual EECCA Component Working Group, held on 12–13 May in Bucharest under the new Chairmanship of Romania.

Working as appropriate with international and regional organisations engaged in this area, the EU will continue to support a political process engaging both upstream and downstream countries as a key factor in tackling the increasing economic, environmental and security challenges of this issue. The EU welcomes the conference organised by UNECE on integrated water resource management in Central Asia, to be held in November 2008, which will build on the water management conference organised by Germany in Berlin on 1 April 2008.

Common Threats and Challenges

The EU and Central Asian states are attributing increasing importance to “common threats and challenges” as a cornerstone of intensified relations. In order to consolidate the shared awareness of common threats and challenges, the incoming French Presidency will launch a periodic EU–Central Asia Ministerial Forum on Security Challenges in Paris on 18 September 2008, which will address political and military threats, border management and fight against trafficking, as well as energy and environmental security.

Increased drug trafficking and drug use in Central Asian countries as well as lack of efficient border management remain key challenges in the region. The introduction of modern border management practices, creating open but at the same time secure borders would facilitate trade and economic exchanges in the region and help combat drug trafficking. BOMCA (Border Management in Central Asia) and CADAP (Central Asia Drug Action Programme) are two main EU programmes in that area and their implementation has continued successfully. A number of border crossing points (BCPs) were or are currently being modernized with BOMCA assistance. About 20 additional BCPs received equipment, while a number of border outposts (BOs) along the “green border” between BCPs were or are soon to be upgraded. In addition, BOMCA supported the refurbishment of training centres for border guards and the more effective use of sniffer dog capacities, as well as the upgrading of the infrastructure of canine centres in Central Asian countries. Numerous training sessions on Integrated Border Management for approx. 1500 Central Asian border guards and customs officers have been carried out.

CADAP has increasingly focused on demand reduction measures and activities, which logically complement BOMCA in the area of drug prevention. Operations include support to the adoption of annual drug reports by the governments, introduction of modern drug treatment methodologies in one pilot prison in each country and an awareness raising campaign on the danger of using drugs. Furthermore, support will continue to the setting up of Drug Profiling Units (DPU) at Central Asian airports and railway stations with a particular focus on providing training on precursor detection skills.

An important new project to combat drug trafficking in the region has been launched in the framework of the Instrument for Stability to support combating drugs and precursors trafficking and organized crime, and includes the setting up of a secured network of national intelligence units in the countries members of CARICC (Central Asia Regional Intelligence and Coordination Centre) and cross border cooperation with Afghanistan, Iran and Pakistan.

The increasing activities of a substantial number of stakeholders in this field, most notably the OSCE, are raising the necessity of coordination, including at political level. In addition to existing coordination mechanisms on operational matters of assistance provided, notably to Tajikistan, France as EU Presidency, the European Commission with UNDP through BOMCA, Finland as OSCE Chairman, and Germany, will co-sponsor an international conference on border management and drug control organised by the OSCE and UNODC in Dushanbe in October 2008.

Conclusion: The Way Forward

Implementation of the Central Asia Strategy is well under way. The past year has seen a significant intensification of political dialogue and practical cooperation between the EU and Central Asia in all the priority areas indicated in the Strategy. With high expectations in Central Asia and increasing relevance of Strategy priority areas such as energy diversification, the fight against drugs, or the impact of climate change on the environment, it is crucial that the current pace of implementation be maintained. New EU member states have an

important potential to contribute to EU–Central Asia relations given their own transformation experiences, like in the field of Rule of Law.

The EC is doubling its assistance to the region with €750m 2007–2013 under the Development Cooperation Instrument (DCI), when compared with the previous period. A number of member states are also actively engaging and are providing significant levels of assistance for the countries of Central Asia. Nevertheless, to support the realization of larger-scale projects of interest to the EU and Central Asia, increasing the scope of financing of International Financial Institutions (IFIs) is important. Engagement with IFIs on Central Asia should therefore continue to develop. In that context and in line with the Strategy, the European Commission adopted the proposal for a Council decision to expand the mandate of the European Investment Bank to cover Central Asia.

Strengthening relations between the EU and Central Asia requires an active EU presence in the region. In line with the indications given in the Strategy, the European Commission is proceeding with the opening and upgrading of EC Delegations in the Central Asian countries while the member states are expanding their network of embassies in Central Asia. In April, Commissioner Ferrero–Waldner opened the Europa House in Ashgabat. Preparations have also been launched with Uzbekistan for the opening of a Delegation in Tashkent in 2008. Preparations will then begin for the upgrading of the regionalised Delegations in Bishkek, Kyrgyzstan, and Dushanbe, Tajikistan. The opening of a Delegation in Ashgabat will also be considered.

The most important challenge in the years to come will be maintaining the political momentum created over the last year, namely through reinforced coordination between the EU institutions and member states, greater EU visibility in the region, increased financial resources and active involvement as well as contributions from Central Asian countries that are all essential for delivering on the ambitious goals of the Strategy.

The EU is aiming to make further substantial progress in all priority areas of the Strategy. A greater effort should be made to promote human rights and democratisation and to ensure active involvement of civil society, Parliaments, local authorities and other actors in the monitoring and implementation of the Strategy. The EU will continue work on establishing or upgrading Human Rights dialogues with all Central Asian countries. In the field of education, the Central Asia Research and Education Network (E–Silk–Highway) should get underway, a regular political dialogue should be maintained, supported by a broad exchange between European and Central Asian educational institutions. In the field of Rule of Law, solid cooperation should be established addressing key areas of legislation and the judicial system. In the field of environment and water, the EU should be supporting a dynamic political process with the aim of putting an integrated regional resource management system in place. In the field of common challenges, the EU should continue to play an active role in stakeholder coordination on drugs and borders and contribute to reaching tangible results on reducing drug trafficking and enhancing border management in Central Asia.

Finally, the EU will also have to develop further the dialogue started with other regional organisations active in the region, with an aim for its part to engage in concrete cooperation on Central Asia, especially in the fields of border and water management, as well as the fight against drug trafficking and trans-border crime.

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After many years of neglect, Russia has rediscovered the importance of Central Asia. The EU has also moved to implement a new strategy for the five Central Asian states which inevitably brings it into conflict with Russia in some areas. Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, with many differences as well as some similarities, are struggling to establish themselves and at the same time tackle a growing array of threats. They have all been severely affected by the global economic crisis. As the former colonial master, Russia is well positioned to develop its influence in the region. It has a better understanding of business practices than the EU and is also able to offer a range of inducements, from financial to security. The EU was late in coming to Central Asia and its motives were largely concerned with efforts to diversify its energy supplies. Unlike Russia, it seeks to promote democracy and human rights in the region. The main area for conflict between the EU and Russia is energy, with a struggle over new supplies and rival pipelines.

The Central Asian states are seeking to play off one side against the other. Several other powers, notably China, Turkey, the US and Iran are also engaged in Central Asia seeking to expand their influence and interests. Rivalry between the EU and Russia in Central Asia will continue with Russia best placed to develop its influence in the short term. But many in the region are attracted to the EU, especially because it eschews great power politics and has developed a political, social and economic system much admired in Central Asia.