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### Economic relations and trade Analysis of the EU's comparative advantages and Central Asian interests

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Editors: Anna Gussarova, Central Asia Institute for Strategic Studies – CAISS (Kazakhstan);<sup>1</sup> Māris Andžāns, Latvian Institute of International Affairs – LIIA (Latvia)

Contributor(s): Māris Andžāns, Latvian Institute of International Affairs – LIIA (Latvia);  
Anna Gussarova, Central Asia Institute for Strategic Studies – CAISS (Kazakhstan);  
Adam Balcer – WiseEuropa (Poland)



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<sup>1</sup> Corresponding editor: Anna Gussarova, e-mail: [gussarova.anna@caiss.expert](mailto:gussarova.anna@caiss.expert)



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## Executive Summary

This paper assesses the implementation of the EU's Central Asia policy and its perception in Central Asia since 2007. It analyses the EU's economic and trade policies, as well as tangible outcomes in the relationship between the EU and Central Asian countries. It also compares the EU's approach and results with other external powers in the region such as Russia, China and Turkey, and examines how the EU is perceived in Central Asia as an economic and trading partner.

This paper concludes that for the EU and its member states to assist Central Asian countries in improving their economic development and regional stability, existing economic engagement must be maintained and built upon through tailor-made economic initiatives. In particular, the EU could continue to support small and medium enterprises, improve its explanations of EU trade and business regulations and increase awareness of the kind of trade agreements available to Central Asian countries. The EU could also further support Central Asian countries by providing technical and English language training, promoting good governance in business, assisting the countries with agricultural practices, as well as border management to facilitate cross-border trade.

## 1. Introduction

This paper evaluates the EU's Central Asian policy implementation and its perception in the region (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) in economic relations and trade. In this respect, the EU was analysed both on the Union level and on the member states level. Given that the policy of the EU is directly related to the policies of the EU member states in the region (and their effects in Central Asia might not be distinguishable compared to other world powers like the People's Republic of China, Russia or the U.S.), the role of the EU member states was not excluded from the analysis. Where possible, both the EU and its member states and their policies and perceptions were assessed. The timeframe of the document analysis covers the years 2007 to 2018 so that it coincides with the time since the inception of the first EU Strategy for Central Asia<sup>2</sup>.

In this and the two related SEnECA policy papers No. 10 and no. 12 on political and security relations as well as on culture and other relations, the document analysis was supported by semi-structured interviews. Altogether, the SEnECA consortium partners (CAISS, Kyrgyz National University (KNU), Zerkalo, Ynanch-Vepa and University of World Economy and Diplomacy (UWED)) conducted 22 semi-structured interviews (based on 17 pre-defined questions) with representatives of Central Asian academic institutions, non-governmental organisations (NGOs), businesses, and governmental agencies. Two of the interviews were conducted in Kazakhstan, six in Kyrgyzstan, four in Tajikistan, one in Turkmenistan and nine in Uzbekistan. To ensure answers that are more open and to avoid unnecessary issues for the interviewees, the interviews were anonymised revealing only the sector of operation, city, country, and date of the interview. Interviews were conducted from September to November 2018.

This policy paper constitutes the second of the three phases of the SEnECA project: mapping – analysis – recommendations. It is based on and serves as a successive analysis of the mapping exercise on the political and security relations, economic relations and trade, as well as cultural and other relations between the EU and Central Asia presented in the first nine SEnECA policy papers.<sup>3</sup> This paper will also provide a comprehensive basis for the elaboration of recommendations for future priorities for European policy-making vis-à-vis Central Asia.

The opening analytical chapter (No. 2) of this paper is devoted to the analysis of economic and trade policies, as well as instruments and outcomes in EU and Central Asian countries relations: the first sub-chapter analyses the EU approach, while the second one assesses statistics between the EU and Central Asian countries in order to analyse outcomes of EU engagement.<sup>4</sup> The second analytical chapter (No. 3) compares the EU approach and results vis-à-vis other external powers in Central Asia, especially People's Republic of China (China) and Russia: how the EU approach and its results as elaborated in the chapter No. 2 differs from other external powers? The concluding analytical chapter (No. 4) is based on the interviews conducted for this paper. It starts with the assessment of the perception of the EU as an economic and trade actor followed by analysis of the perception of investment and products<sup>5</sup> from the EU and it concludes with the Central Asian perception of the

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<sup>2</sup> Council of the European Union, *The EU and Central Asia: Strategy for a New Partnership* (Brussels, 2007), 2, 4, 10-13, [https://eeas.europa.eu/sites/eeas/files/st\\_10113\\_2007\\_init\\_en.pdf](https://eeas.europa.eu/sites/eeas/files/st_10113_2007_init_en.pdf)

<sup>3</sup> Anna Gussarova, Māris Andžāns, eds., *Policy Paper No. 4. Economic relations and trade. Mapping EU-Central Asian relations*, DOI: [10.17185/dupublico/47236](https://doi.org/10.17185/dupublico/47236); Anna Gussarova, Māris Andžāns, eds., *Policy Paper No. 5. Economic relations and trade. Mapping Central Asia's relations with other Asian states*, DOI: [10.17185/dupublico/47237](https://doi.org/10.17185/dupublico/47237); Anna Gussarova, Māris Andžāns, eds., *Policy Paper No. 6. Economic relations and trade. Mapping strategies of Russia, USA and China towards Central Asia*, DOI: [10.17185/dupublico/47239](https://doi.org/10.17185/dupublico/47239)

<sup>4</sup> In some cases, like trade and investment, the EU policies will only be partly relevant for outcomes indicated by the statistics, while in others like EU trade facilitation schemes and statistics will more be more representative the outcomes of the EU policies.

<sup>5</sup> Products originating from certain places usually have certain reputation based on their quality, price, innovative character and similar factors. This paper will generally evaluate perception of products from the EU in Central Asia and will compare it to the perception of products from other regions (based on the interviews conducted as a part of this research).

access to the EU market: how EU approach and its results are perceived in Central Asia, how the EU is perceived compared to other external powers?

## 2. The EU and Central Asia: economic trade policies and tangible outcomes

The first chapter aims to provide a conceptual outlook of policies, instruments, and outcomes of the EU's engagement with Central Asian countries. The first subchapter analyses strategies and other documents, financial and functional instruments devoted at the EU level, while the second – the statistical data of EU and Central Asian countries' cooperation in economics and trade (based primarily on data from Eurostat, the statistical office of the EU, and World Bank (WB); the period of review, where the publicly available data allows, is 2007 to 2017 – beginning with the 2007 EU Strategy for a New Partnership with Central Asia until the latest data available at the moment of the preparation of this paper).

### 2.1. EU policies and outcomes in Central Asian countries

In economic and trade issues, the EU and its member states engage with Central Asian countries in different formats and at different levels: bilaterally, trilaterally and multilaterally; at the political, official and technical level, etc. The rates of interest in engagement vary among the EU member states in general, and the same applies to the economic sector. Compared to political and security relations, culture, and other issues, in the economic sector interests of EU member states converge more, as engagement is based on the prospects of profit. Nevertheless, some of the countries and companies are more active than others.

The EU's policy towards Central Asian countries rests on the same comprehensive policy documents as in other functional sectors: from the 2016 EU Global Strategy, which did not specifically refer to economic interests of the EU in Central Asia but expressed interest in resilience of both states and societies in different regions (Central Asia among them),<sup>6</sup> to region-specific and country-specific documents. Among the region-specific documents, the 2007 EU Strategy for a New Partnership with Central Asia forms the basis, adopted during the German Presidency of the Council of the EU. It not only outlines general lines of interest of the EU in stability and prosperity of the region (it is underscored that peace, democracy, and economic prosperity are all interrelated), it also devotes significant attention to economic issues, such as supporting integration of the region's countries in the global trade and economic system, supporting economic diversification, supporting reforms of their financial systems, supporting some of the countries via the Generalised Scheme of Preferences (GSP), approximating their legislations with the EU *acquis* for a better market access, providing trade-related technical support and advice, assisting in implementation of the partnership and cooperation agreements in economics and trade issues, assisting in improving credit ratings, assisting in enforcement of the best customs practices, supporting know-how and capacity improving initiatives. A number of measures regarding cooperation in energy and transport issues are also proposed.<sup>7</sup> In addition, for the first years of the 2007 Strategy, the European Community Regional

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<sup>6</sup> High Representative of the Union for Foreign Affairs and Security Policy Vice-President of the European Commission, *Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign And Security Policy* (2016), 9, 23, [https://eeas.europa.eu/archives/docs/top\\_stories/pdf/eugs\\_review\\_web.pdf](https://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf)

<sup>7</sup> Council of the European Union, *The EU and Central Asia: Strategy for a New Partnership* (Brussels, 2007), 2, 4, 10-13, [https://eeas.europa.eu/sites/eeas/files/st\\_10113\\_2007\\_init\\_en.pdf](https://eeas.europa.eu/sites/eeas/files/st_10113_2007_init_en.pdf)

Strategy Paper for Assistance to Central Asia for the period 2007-2013 outlined the financial assistance at both bilateral and regional levels.<sup>8</sup>

The 2007 Strategy has been revisited by the Council of the EU in 2012. During Denmark's presidency, the Council of the EU underlined several measures regarding the economic sector: supporting economic diversification, supporting inclusive growth, supporting sustainable regional development with the aim to deal with poverty, supporting business services, contributing to the development of small and medium enterprises, as well as increasing efforts to strengthen economic relations between Central Asian and EU countries.<sup>9</sup> In a review of the Strategy in 2015, during the Latvian presidency, the Council of the EU underlined "the significant mutual interest in increased political and economic cooperation," while, among other things, calling "for strengthening trade and energy links," as well as emphasising the significance of socio-economic development in the region. More specifically, the Council of the EU underlined the need to do more in improving the investment climate in Central Asia, stability of the legislation, transparency, social partnerships, as well as promoting connections with the international businesses and facilitating integration at the regional level. As in the 2012 review, also in the 2015 review mutual connectivity of the Central Asian states, as well as their connectivity in terms of energy and transport with others was stressed.<sup>10</sup> In 2017, during the Estonian presidency, the Council of the EU revisited the 2007 Strategy ten years after its first publication and underlined the significance of individual approaches vis-à-vis Central Asian countries across different issues, while reiterating previously expressed interest in an improved investment climate, stability of legislation, transparency, along with other issues mostly present in previous reviews mentioned above.<sup>11</sup>

Not all of the Central Asian countries are members of the World Trade Organization (WTO) (Kazakhstan, Kyrgyzstan and Tajikistan are, while Uzbekistan is an observer),<sup>12</sup> while two of the countries are also part of the Eurasian Economic Union (EEU) (Kazakhstan and Kyrgyzstan),<sup>13</sup> and, therefore, trade relations with the EU are regulated differently. In case of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, trade is regulated by Partnership and Cooperation Agreements (PCA). In the case of Turkmenistan, a PCA is not yet ratified and therefore, an Interim Agreement on trade and trade-related matters (entered in force in 2010) regulates EU-Turkmenistan relations.<sup>14</sup> Furthermore, an Enhanced Partnership and Cooperation Agreement (EPCA) with Kazakhstan is under ratification,<sup>15</sup> a modernised and comprehensive bilateral agreement with Kyrgyzstan is under negotiation,<sup>16</sup> while negotiations have been opened for an upgraded EPCA with Uzbekistan.<sup>17</sup> It is

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<sup>8</sup> European Commission, *European Community Regional Strategy Paper for Assistance to Central Asia for the period 2007-2013*, [https://eeas.europa.eu/sites/eeas/files/regional\\_strategy\\_paper\\_for\\_assistance\\_to\\_central\\_asia\\_2007-2013.pdf](https://eeas.europa.eu/sites/eeas/files/regional_strategy_paper_for_assistance_to_central_asia_2007-2013.pdf)

<sup>9</sup> Council of the European Union, *Council conclusions on Central Asia*. 3179<sup>th</sup> Foreign Affairs Council meeting. Luxembourg, 25 June 2012 (Luxembourg, 2012), 4, [https://www.consilium.europa.eu/uedocs/cms\\_Data/docs/pressdata/EN/foraff/131149.pdf](https://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/131149.pdf)

<sup>10</sup> Council of the European Union, *Relations with Central Asia – Council conclusions on the EU Strategy for Central Asia* (Brussels, 2015), 1, 5, 7, <http://data.consilium.europa.eu/doc/document/ST-10191-2015-INIT/en/pdf>

<sup>11</sup> Council of the European Union, *Council Conclusions on the EU strategy for Central Asia* (Brussels, 2017), 2, 4, <https://www.consilium.europa.eu/media/23991/st10387en17-conclusions-on-the-eu-strategy-for-central-asia.pdf>

<sup>12</sup> "Members and Observers," World Trade Organization, Updated 2018, [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)

<sup>13</sup> "About the Union," Eurasian Economic Union, 2018, <http://www.eaeunion.org/?lang=en#about>

<sup>14</sup> European External Action Service, *EU-Turkmenistan Relations*, 1, [https://eeas.europa.eu/sites/eeas/files/2.factsheet\\_on\\_eu\\_turkmenistan\\_relations.nov\\_18.pdf](https://eeas.europa.eu/sites/eeas/files/2.factsheet_on_eu_turkmenistan_relations.nov_18.pdf)

<sup>15</sup> European External Action Service, *EU-Kazakhstan Relations*, 1, [https://eeas.europa.eu/sites/eeas/files/2.factsheet\\_on\\_eu\\_kazakhstan\\_relations.nov\\_18.pdf](https://eeas.europa.eu/sites/eeas/files/2.factsheet_on_eu_kazakhstan_relations.nov_18.pdf)

<sup>16</sup> European External Action Service, *EU-Kyrgyz Republic Relations*, 1, [https://eeas.europa.eu/sites/eeas/files/2.factsheet\\_on\\_eu\\_kyrgyz\\_republic\\_relations.nov\\_18.pdf](https://eeas.europa.eu/sites/eeas/files/2.factsheet_on_eu_kyrgyz_republic_relations.nov_18.pdf)

<sup>17</sup> European External Action Service, *EU-Uzbekistan Relations*, 1, [https://eeas.europa.eu/sites/eeas/files/2.factsheet\\_on\\_eu\\_uzbekistan\\_relations.nov\\_18.pdf](https://eeas.europa.eu/sites/eeas/files/2.factsheet_on_eu_uzbekistan_relations.nov_18.pdf)

important to mention that economic and trade relations are one of the main pillars of each of these agreements and draft agreements.

Central Asian countries receive support from the EU in a range of activities that directly or indirectly ease the conduct of the economic sector, for example, the Border Management Programme in Central Asia (BOMCA) by promoting better border management practices and thus aiding the reduction of smuggling, corruption and other issues with significant impact on the economic and trade affairs;<sup>18</sup> the Development Cooperation Instrument (DCI) by providing financial support across a range of issues relevant to trade and economic policies,<sup>19</sup> or the Transport Corridor Europe-Caucasus-Asia (TRACECA-programme) by contributing to the improvement to the international transport in various branches of the sector.<sup>20</sup>

Among region-specific investment programmes, two should be underscored – the Investment Facility for Central Asia (IFCA) and Central Asia Invest (CAI). The latter, launched in 2007, aims to support the private sector of all five Central Asian countries with a particular focus on assisting in growth and competitiveness of small and medium sized companies.<sup>21</sup> All Central Asian countries are eligible to receive support from IFCA, which was created in 2010 as a part of the DCI. It is available in situations where there are insufficient or unreasonable financing options preventing the implementation of “high priority investment projects” that could potentially support “inclusive and sustainable socio-economic development”. Under IFCA, projects related to improved energy infrastructure, environmental protection, small and medium enterprises, social services and infrastructure are eligible for support.<sup>22</sup> From 2010 to 2016, 25 projects have been approved for support with a total contribution of EUR 143 million; most of the projects supported were from Kyrgyzstan (11 projects with a total support of EUR 71.6 million).<sup>23</sup>

Furthermore, Kyrgyzstan, Tajikistan and Uzbekistan have access to GSP, which provides favourable access to the EU market and aims at supporting the “economic growth and job creation in the beneficiary country by generating increased export revenue.” Kyrgyzstan benefits from GSP+, which addresses “vulnerable low and lower-middle income countries” and provides “full removal of tariffs on over 66 % of EU tariff lines”. The other two Central Asian countries benefit from the Standard GSP addressing “low and lower-middle income countries,” and it “reduces EU import duties for about 66 % of all product tariff lines”.<sup>24</sup> Results of this scheme have been mixed in the three eligible Central Asian countries. While in Kyrgyzstan, as the European Commission concludes, the scheme “has generated considerable interest among the Kyrgyz business community, (...) [e]xports to the EU have increased, but the share of goods exported under the GSP+ scheme remains below its full potential”. From 2014 until 2016, total imports to EU have increased by 5.1 percent, while the GSP+

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<sup>18</sup> See: Border Management Programme in Central Asia (BOMCA), <https://www.bomca-eu.org/en/>

<sup>19</sup> See: “Development Cooperation Instrument (DCI),” European Commission, Updated December 13, 2018, [https://ec.europa.eu/europeaid/devco-aap-thematic/development-cooperation-instrument-dci\\_en](https://ec.europa.eu/europeaid/devco-aap-thematic/development-cooperation-instrument-dci_en)

<sup>20</sup> See: “Central Asia - Transport,” European Commission, Updated December 13, 2018, [https://ec.europa.eu/europeaid/regions/central-asia/eu-support-transport-development-central-asia\\_en](https://ec.europa.eu/europeaid/regions/central-asia/eu-support-transport-development-central-asia_en)

<sup>21</sup> “Central Asia - Private sector,” European Commission, Updated December 12, 2018, [https://ec.europa.eu/europeaid/regions/central-asia/eu-support-private-sector-development-central-asia\\_en](https://ec.europa.eu/europeaid/regions/central-asia/eu-support-private-sector-development-central-asia_en)

<sup>22</sup> “Investment facility for Central Asia (IFCA),” European Commission, Updated December 12, 2018, [https://ec.europa.eu/europeaid/regions/central-asia/investment-facility-central-asia-ifca\\_en](https://ec.europa.eu/europeaid/regions/central-asia/investment-facility-central-asia-ifca_en)

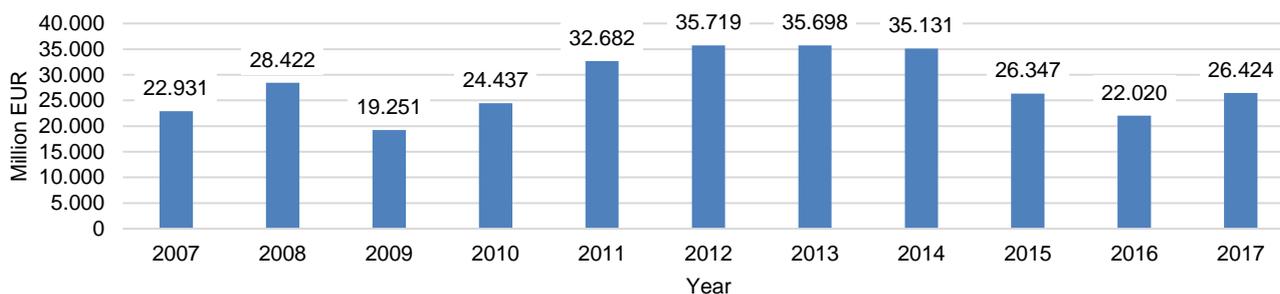
<sup>23</sup> European Commission, *IFCA Investment Facility for Central Asia. AIF Asia Investment Facility. IFP Investment Facility for the Pacific. 2016 Operational Report* (Luxembourg, 2017), 6-7, [https://ec.europa.eu/europeaid/sites/devco/files/ifca-aif-ifp\\_report\\_2017\\_web.pdf](https://ec.europa.eu/europeaid/sites/devco/files/ifca-aif-ifp_report_2017_web.pdf)

<sup>24</sup> “Generalised Scheme of Preferences (GSP),” European Commission, Updated October 9, 2018, <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/>; “GSP+,” European Commission, Updated August 2, 2018, <http://trade.ec.europa.eu/tradehelp/gsp/>; “Standard GSP,” European Commission, Updated August 2, 2018, <http://trade.ec.europa.eu/tradehelp/standard-gsp>

utilisation decreased from 68.7 percent to 53.3 percent in the same period).<sup>25</sup> In case of Uzbekistan, the Standard GSP utilisation rate in the same period increased from 79.6 percent to 86.2 percent, while in Tajikistan – from 71.0 percent to 91.3 percent<sup>26</sup> indicating a higher domestic awareness and skills of exercising the available instruments.

## 2.2. Trade and investment between the EU and Central Asia in figures

Trade volumes between EU and Central Asia have fluctuated over the last decade. The highest volumes were in the years from 2011 until 2014, when trade recovered after the global financial and economic crisis, which affected trade across the globe. After 2014, however, the trade volumes have decreased again. From 2015 onwards, the trade volumes have been lowest since 2011 (also, lower than in 2008).



**Figure 1:** Total trade volumes between EU and Central Asian countries, million EUR, 2007-2017.<sup>27</sup>

Trade between Central Asia and the EU for most of the years has been unbalanced (Figure 2). In every year since 2007, imports from Central Asia to the EU have surpassed export volumes from the EU. Here, it is important to mention, EU export volumes have remained relatively stable (highest from 2012 to 2014), while imports from Central Asia have fluctuated the most – highest from 2011 to 2014, but lowest in 2009. In the last three years, EU exports have slightly decreased, while Central Asian exports have been significantly smaller than in 2014, though grew again in 2017. Among the most obvious reasons for decrease in the trade volumes between the EU and Central Asia are the sanctions imposed by the EU in 2014 over the Ukrainian crisis<sup>28</sup> and Russia's retaliatory measures<sup>29</sup> (as a result, land transport corridors via Russia were implicated and downturn in Russian economy implicated Central Asian countries), as well as member states of the EEU since its inception in 2015 have strived to substitute import from the EU<sup>30</sup>.

<sup>25</sup> European Commission, *The EU Special Incentive Arrangement for Sustainable Development and Good Governance ('GSP+') assessment of the Kyrgyz Republic covering the period 2016 – 2017* (Brussels, 2018), 22, [http://trade.ec.europa.eu/doclib/docs/2018/january/tradoc\\_156542.pdf](http://trade.ec.europa.eu/doclib/docs/2018/january/tradoc_156542.pdf)

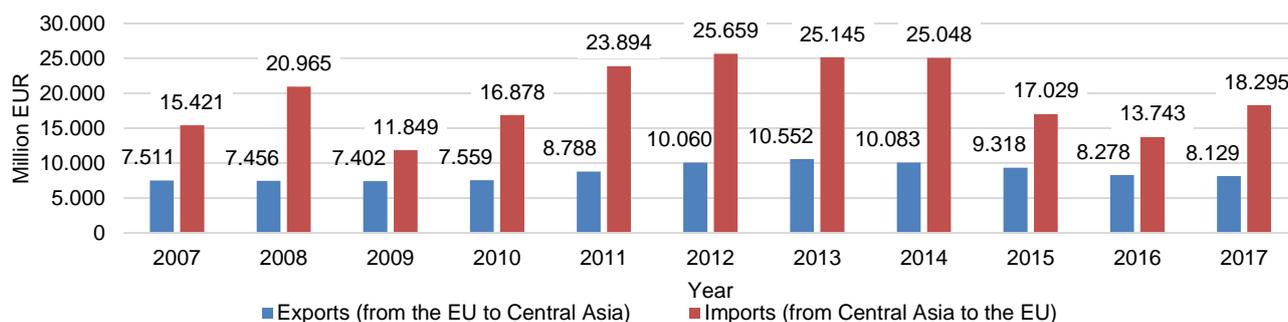
<sup>26</sup> European Commission. *Report from the Commission to the European Parliament and the Council. Report on the Generalised Scheme of Preferences covering the period 2016-2017* (Brussels, 2018), 16, [http://trade.ec.europa.eu/doclib/docs/2018/january/tradoc\\_156536.pdf](http://trade.ec.europa.eu/doclib/docs/2018/january/tradoc_156536.pdf)

<sup>27</sup> "Extra-EU trade by partner," Eurostat, Updated November 15, 2018, [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext\\_lt\\_maineu&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_maineu&lang=en)

<sup>28</sup> "EU sanctions against Russia over Ukraine crisis," European Commission, Updated January 22, 2019, [https://europa.eu/newsroom/highlights/special-coverage/eu-sanctions-against-russia-over-ukraine-crisis\\_en](https://europa.eu/newsroom/highlights/special-coverage/eu-sanctions-against-russia-over-ukraine-crisis_en)

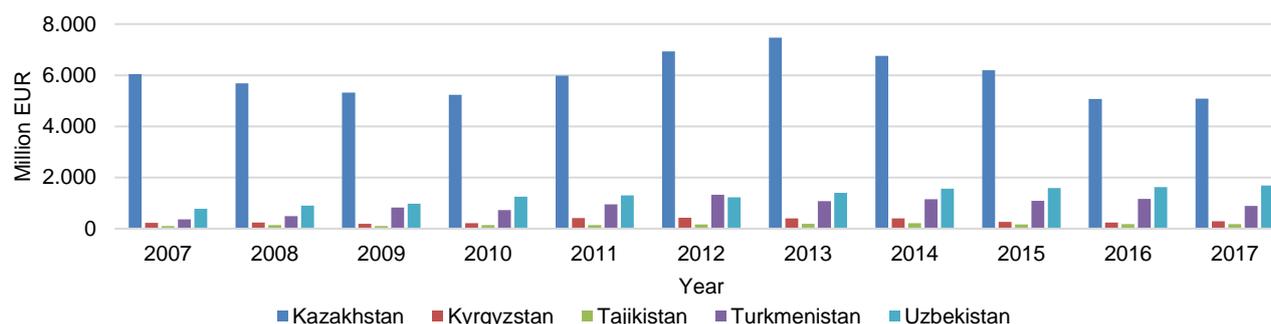
<sup>29</sup> "Ukaz o primenenii ot del'nyh spetsial'nyh ekonomicheskikh mer v tselyah obespecheniya bezopasnosti Rossiyskoy Federatsii," President of Russia, August 6, 2014, <http://kremlin.ru/events/president/news/46404>

<sup>30</sup> E.g. "Importozamesheniye v EAEC demonstriruet uverenny rost," Evraziyskaya Ekonomicheskaya Komissiya, September 13, 2018, <http://www.eurasiancommission.org/ru/nae/news/Pages/13-09-2018-2.aspx?fbclid=IwAR1TpUkFNEF5q9kSZ8Gw4Bf6BKh0CgFk-1sEp-fwUHHyzZprJ4n3UTZFvKc>



**Figure 2:** Exports from EU to Central Asia and imports from Central Asia to EU, million EUR, 2007-2017.<sup>31</sup>

As Figures 3 and 4 demonstrate, trade with Kazakhstan constitutes the most significant portion of both imports and exports between Central Asia and the EU. While the situation is more balanced in EU countries' export towards Central Asia (where apart from Kazakhstan, a notable amount of EU export reaches also Uzbekistan and Turkmenistan; considerably less Kyrgyzstan and Tajikistan (Figure 3)), the Central Asian countries' exports to EU is clearly dominated by Kazakhstan which is by far the biggest regional economy, has the highest gross domestic product (GDP) per capita and GDP per capita based on purchasing power parity (PPP),<sup>32</sup> and, among other factors, is better connected by transportation links to the EU than other Central Asian countries.



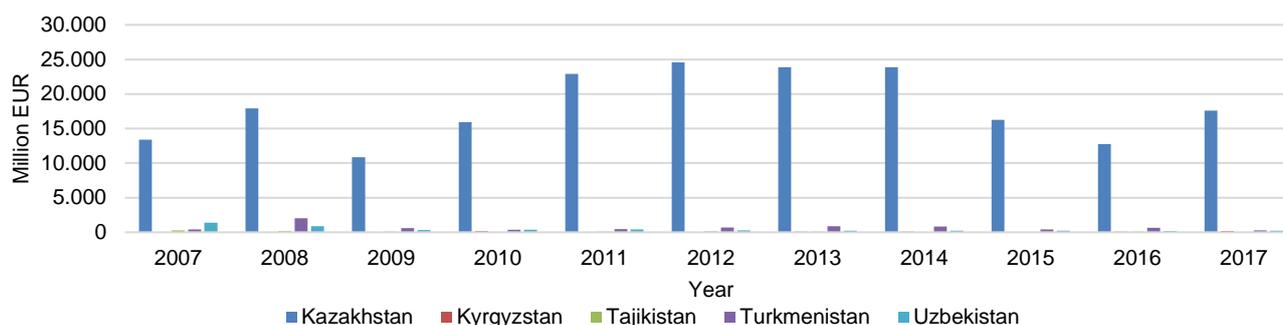
**Figure 3:** Exports from EU to Central Asian countries, million EUR, 2007-2017.<sup>33</sup>

Numbers portraying the export volumes to EU of other Central Asian countries save Kazakhstan are barely visible in the figure after 2008, with the highest amount provided by Turkmenistan in the recent years (Figure 4). This can be explained by the same factors as provided above the Figure 3.

<sup>31</sup> E.g. "Importozamesheniye v EAEC demonstriruet uverenny rost," Evraziyskaya Economicheskaya Komissiya, September 13, 2018, <http://www.eurasiancommission.org/ru/nae/news/Pages/13-09-2018-2.aspx?fbclid=IwAR1TpUkFNEF5q9kSZ8Gw4Bf6BKh0CgFk-1sEp-fwUHHyzZprJ4n3UTZFvKc>

<sup>32</sup> "GDP per capita (current US\$)," The World Bank Group, Updated November 14, 2018, <http://api.worldbank.org/v2/en/indicator/NY.GDP.PCAP.CD?downloadformat=excel>; "GDP per capita, PPP (current international \$)," The World Bank Group, Updated November 14, 2018, <http://api.worldbank.org/v2/en/indicator/NY.GDP.PCAP.PP.CD?downloadformat=excel>

<sup>33</sup> "Extra-EU trade by partner," Eurostat, Updated November 15, 2018, [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext\\_lt\\_maineu&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_maineu&lang=en)



**Figure 4:** Imports from Central Asian countries to EU, million EUR, 2007-2017.<sup>34</sup>

In 2017, Kazakhstan was the 32<sup>nd</sup> biggest trade partner of the EU,<sup>35</sup> Kyrgyzstan ranked as the 136<sup>th</sup>,<sup>36</sup> Tajikistan the 156<sup>th</sup>,<sup>37</sup> Turkmenistan the 107<sup>th</sup>,<sup>38</sup> and Uzbekistan was the 85<sup>th</sup> biggest trade partner for the EU.<sup>39</sup>

As statistics of 2017 show, EU trade with Central Asian countries is dominated by industrial products (according to AMA/NAMA<sup>40</sup> classification of products) – 98.5 percent of imports and 93.1 percent of exports, while agricultural products constituted 1.3 percent of imports and 6.8 percent of exports. According to HS<sup>41</sup> sections, in imports, the biggest share (85.1 percent) in 2017 was constituted by mineral products, ahead of only 4.4 percent of products falling under the category of “pearls, precious metals and articles thereof”, 4.0 percent of “base metals and articles thereof” and 2.2 percent of “products of the chemical or allied industries”. In exports, the biggest share (34.7 percent) was classified as “machinery and appliances”, followed by 19.5 percent of “products of the chemical or allied industries”, 12.2 percent of “transport equipment”, 6.0 percent of “optical and photographic instruments, etc.” and 4.8 percent of “base metals and articles thereof”.<sup>42</sup>

As the available statistics for years 2013–2016 on direct investments show (Figures 5 and 6), the situation is similar to the statistics of trade. Namely, direct investments between Central Asia and the EU focuses on Kazakhstan, which accounts for the most significant investment in the EU and by the EU companies in Central Asia. Uzbekistan ranks in a distant second place. The amount of the direct investment from the EU has been stable and has gradually grown from 2013 onwards (Figure 5).

<sup>34</sup> Extra-EU trade by partner,” Eurostat, Updated November 15, 2018,

[http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext\\_lt\\_maineu&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ext_lt_maineu&lang=en)

<sup>35</sup> European Commission, *European Union, Trade in goods with Kazakhstan*, April 16, 2018, 9,

[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113406.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113406.pdf)

<sup>36</sup> European Commission, *European Union, Trade in goods with Kyrgyz Republic*, April 16, 2018, 9,

[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113409.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113409.pdf)

<sup>37</sup> European Commission, *European Union, Trade in goods with Tadjikistan*, April 16, 2018, 9,

[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113453.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113453.pdf)

<sup>38</sup> European Commission, *European Union, Trade in goods with Turkmenistan*, April 16, 2018, 9,

[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113457.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113457.pdf)

<sup>39</sup> European Commission, *European Union, Trade in goods with Uzbekistan*, April 16, 2018, 9,

[http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113461.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113461.pdf)

<sup>40</sup> NAMA – Non-Agricultural Market Access.

<sup>41</sup> HS – Harmonized System.

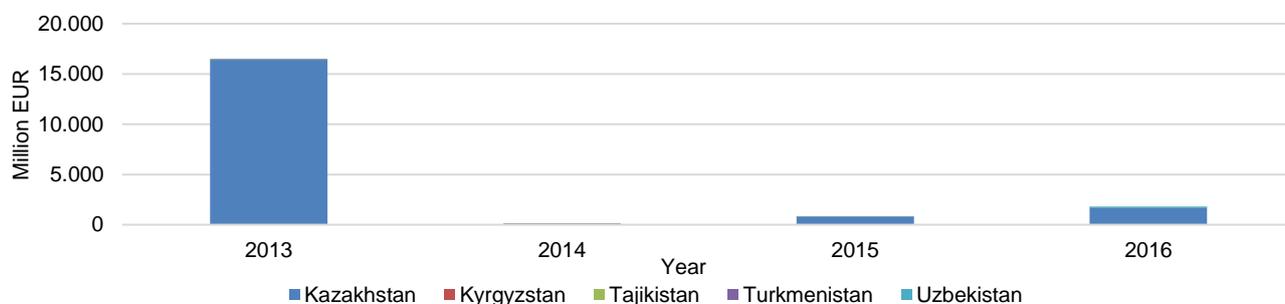
<sup>42</sup> European Commission, *European Union, Trade in goods with Central Asia 5*, October 30, 2018, 2,

[https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_central-asia-5\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_central-asia-5_en.pdf)



**Figure 5:** Direct investment from the EU to Central Asian countries (direct investment abroad – DIA; direct investment stocks), million ECU/EUR, 2013-2016.<sup>43</sup>

The situation is different when it comes to the investment amounts originating from Central Asian (Figure 6). Here, the years 2014-2016 have provided significantly smaller amounts than in 2013, with the lowest level in 2014. The data is dominated by investments originating from Kazakhstan.



**Figure 6:** Direct investment from Central Asian countries to EU (direct investment in the reporting economy – DIRE; direct investment stocks), million EUR, 2013-2016.<sup>44</sup>

### 3. The EU and Central Asia's relationship and other external powers

The second chapter is mostly based on the analysis of statistical data available from the public database of the International Monetary Fund (IMF) and summaries of statistics by the European Commission (it is important to note that even though both sources here are interrelated, there can be differences arising from the date of the data produced).

According to the data of the IMF, in 2017, the EU was the largest trade partner of Central Asian countries (mostly because of the trade with Kazakhstan), while Russia and China were the main extra-regional rivals of the EU for trade in Central Asia. Altogether, EU, China, and Russia constitute more than three thirds of overall extra-regional trade of Central Asian countries, well ahead of other external countries, according to the summary by the European Commission. However, other countries such as Turkey, Switzerland and South Korea are significant economic players in the region (see Table 1).

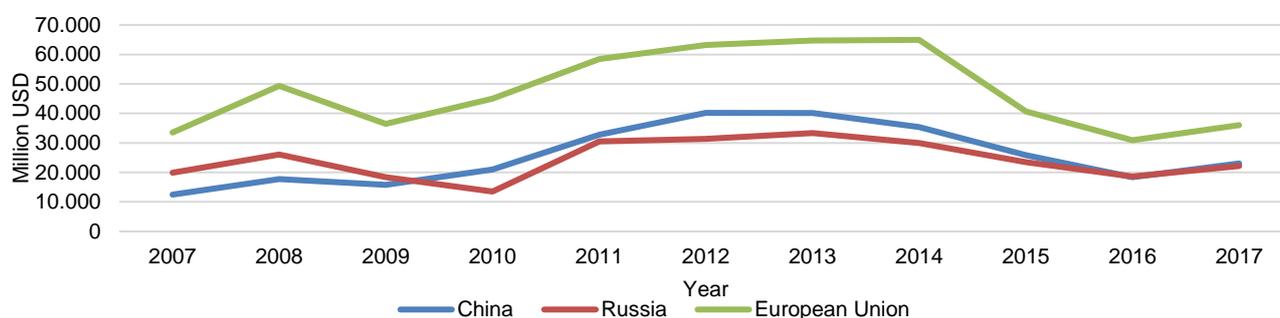
<sup>43</sup> "EU direct investment positions, flows and income, breakdown by partner countries (BPM6)," Eurostat, Updated November 12, 2018, [http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bop\\_fdi6\\_geo&lang=en](http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=bop_fdi6_geo&lang=en)

<sup>44</sup> Ibid.

**Table 1:** Top external trading partners of Central Asian countries in 2017 (European Commission, based on data of the IMF).<sup>45</sup>

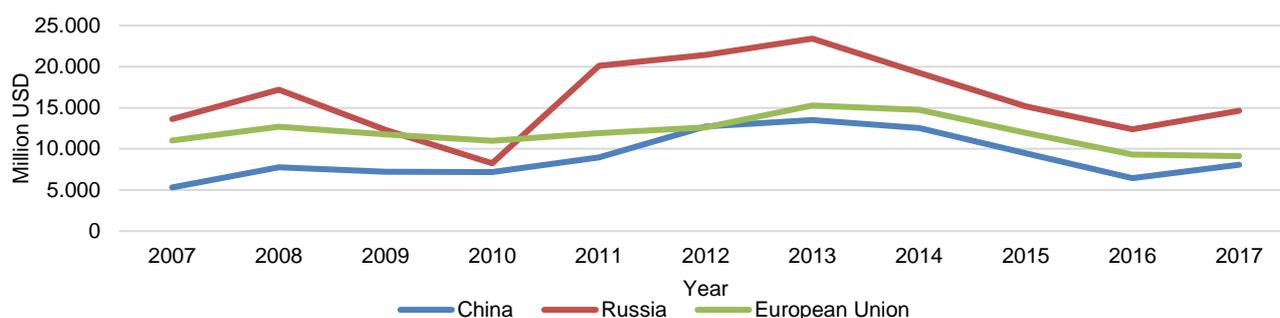
Trade partner	Percent of total external trade	Value, EUR million
1. EU	30.3	30,591
2. China	20.5	20,724
3. Russia	20.2	20,451
4. Turkey	4.8	4,855
5. Switzerland	3.5	3,565
6. South Korea	2.7	2,749
7. U.S.	2.1	2,098
8. Ukraine	1.9	1,906
9. Japan	1.4	1,393
10. India	1.2	1,255

In the recent decade, as it is shown by the following Figures, the EU has been the main trade partner of Central Asian countries combined, though the gap between the EU on the one hand, and China and Russia on the other, has decreased in the recent years (Figure 7). Moreover, in regards to imports, Russia is the largest partner for Central Asian countries combined, leaving the EU and China behind (Figure 8). In exports of Central Asian countries, the EU ranks first well ahead of other external trade partners (Figure 9).

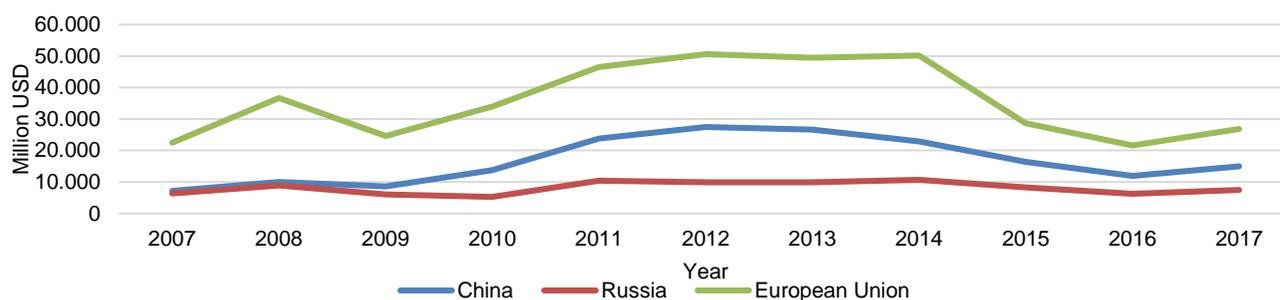
**Figure 7:** Trade volumes (exports and imports combined) between Central Asian countries and the EU, Russia, and China, million USD, 2007-2017.<sup>46</sup>

<sup>45</sup> European Commission, *European Union, Trade in goods with Central Asia 5*, October 30, 2018, 8, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_central-asia-5\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_central-asia-5_en.pdf)

<sup>46</sup> "Exports and Imports by Areas and Countries," International Monetary Fund, 2018, <http://data.imf.org/regular.aspx?key=61013712>



**Figure 8:** Import volumes of Central Asian countries from the EU, Russia, and China (CIF (“cost insurance and freight”) from partner countries), million USD, 2007-2017.<sup>47</sup>



**Figure 9:** Export volumes from Central Asian countries to the EU, Russia and China (FOB (“free on board”) to partner countries), million USD, 2007-2017.<sup>48</sup>

Out of all Central Asian countries, China is the largest trade partner for Turkmenistan and Uzbekistan. Russia ranks as the first among others for Tajikistan, Switzerland for Kyrgyzstan, while the EU is the largest trade partner only for Kazakhstan which, however, is the biggest economy of Central Asia. As mentioned, in Kazakhstan’s trade balance, EU ranks first (38.7 percent of the total), ahead of Russia, China, Switzerland and Uzbekistan.<sup>49</sup> In Kyrgyzstan’s trade balance, Switzerland (a notable importer of gold) ranks first, ahead of China, Russia, Kazakhstan and the EU (6.3 percent of the total).<sup>50</sup> In Tajikistan’s trade balance, Russia ranks number one, ahead of Kazakhstan, China, Turkey and the EU (7.1 percent of the total).<sup>51</sup> In Turkmenistan’s trade balance, China ranks number one, ahead of Turkey, the EU (11.2 percent of the total), Russia and the U.S.<sup>52</sup> Finally, in Uzbekistan’s trade balance, China ranks first, ahead of Russia, Switzerland, EU (10.5 percent of the total) and Kazakhstan.<sup>53</sup>

<sup>47</sup> “Exports and Imports by Areas and Countries,” International Monetary Fund, 2018, <http://data.imf.org/regular.aspx?key=61013712>

<sup>48</sup> Ibid.

<sup>49</sup> European Commission, *European Union, Trade in goods with Kazakhstan*, April 16, 2018, 8, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113406.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113406.pdf)

<sup>50</sup> European Commission, *European Union, Trade in goods with Kyrgyz Republic*, April 16, 2018, 8, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113409.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113409.pdf)

<sup>51</sup> European Commission, *European Union, Trade in goods with Tajikistan*, April 16, 2018, 8, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113453.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113453.pdf)

<sup>52</sup> European Commission, *European Union, Trade in goods with Turkmenistan*, April 16, 2018, 8, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113457.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113457.pdf)

<sup>53</sup> European Commission, *European Union, Trade in goods with Uzbekistan*, April 16, 2018, 8, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113461.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113461.pdf)

China is the second largest trading partner of Central Asian countries combined.<sup>54</sup> This is due to its Belt and Road Initiative, which intends to link Chinese infrastructure to that of Europe's via regions like Central Asia, has prompted Central Asian states to sign strategic partnership agreements with China, including significant economic investments in their infrastructure. Moreover, as part of the Shanghai Cooperation Organisation (SCO; members are all Central Asian countries but Turkmenistan),<sup>55</sup> China has attempted to promote multilateral SCO-based initiatives that would set up a regional development bank or trade agreement, moves that Russia has opposed.<sup>56</sup> Meanwhile, China's initiated Asian Infrastructure Investment Bank (AIIB; all Central Asian countries except Turkmenistan are members)<sup>57</sup> is increasing the scope of its operations. For example, it has approved a loan to a project to improve the border-road between Dushanbe and Uzbekistan,<sup>58</sup> while a project for a railway electrification is listed by the bank as a proposed project.<sup>59</sup> China is also one of the main investors in the region individually. In 2017, China and Uzbekistan signed approximately 100 agreements worth of approximately USD 20 billion.<sup>60</sup> It has invested in Uzbekistan's railway infrastructure, for example. Chinese investors are also well represented in other Central Asian countries, where they are engaged in improving infrastructure and construction industry. For example in 2016, a Chinese company finished a huge reconstruction work on the Dushanbe power plant (worth of USD 350 million), while a year before the same company finished a USD 390 million electricity transmission line in Kyrgyzstan.<sup>61</sup> China also has a more comprehensive and inter-regional strategy towards integrating its business associations with Central Asia, such as the e-Silk Road initiative – a Belt and Road business networking platform that connects enterprises and business associations, as well as provides incubation and investments in the digital sphere.<sup>62</sup>

Russia, the third largest trade partner of the Central Asian countries combined,<sup>63</sup> has developed economic and political initiatives through which it can engage with Central Asia. All five Central Asian countries were part of the Soviet Union, which meant also integration of transportation and energy networks, identical economic and related practices throughout the Soviet occupation period (such as planned economy, collectivisation, Russification, the same education system, integration of the economies to the other Soviet constituencies). Consequences can still be felt across Central Asia. This results in advantages for Russia and its state and commercial companies (such as the same "wide gauge" railway network standard, the widespread use of the Russian language, better understanding of the local mentalities, etc.). Moreover, after the collapse of the Soviet Union, Russia has set up new initiatives with Central Asian countries – not only the Commonwealth of Independent

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<sup>54</sup> European Commission, *European Union, Trade in goods with Central Asia 5*, October 30, 2018, 8, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_central-asia-5\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_central-asia-5_en.pdf)

<sup>55</sup> "The Shanghai Cooperation Organisation," Shanghai Cooperation Organisation, Updated January 9, 2017, [http://eng.sectsc.org/about\\_sco/](http://eng.sectsc.org/about_sco/)

<sup>56</sup> William Piekos and Elizabeth Economy, "The Risks and Rewards of SCO Expansion," Council on Foreign Relations, July 7, 2015, <https://www.cfr.org/expert-brief/risks-and-rewards-sco-expansion>

<sup>57</sup> "Members and Prospective Members of the Bank," Asian Infrastructure Investment Bank, 2018, <https://www.aiib.org/en/about-aiib/governance/members-of-bank/>

<sup>58</sup> "Tajikistan: Dushanbe-Uzbekistan Border Road Improvement Project," Asian Infrastructure Investment Bank, June 24, 2016, <https://www.aiib.org/en/projects/approved/2016/tajikistan-border-road.html>

<sup>59</sup> "Uzbekistan: Railway Electrification Project (Bukhara-Urgench-Khiva)," Asian Infrastructure Investment Bank, 2018, <https://www.aiib.org/en/projects/proposed/2018/railway-electrification-project.html>

<sup>60</sup> Bruce Pannier, "Uzbek President In China To Sign \$20 Billion In Agreements," Talk Security Radio Free Europe, May 11, 2017, <https://www.rferl.org/a/uzbekistan-president-china-visit/28480763.html>

<sup>61</sup> "Central Asia's Silk Road Rivalries," International Crisis Group, Report 245, July 27, 2017, <https://www.crisisgroup.org/europe-central-asia/central-asia/245-central-asias-silk-road-rivalries>

<sup>62</sup> "What is eSilkRoad?," eSilkRoad, 2018, <http://www.esilkroad.com/index.html>

<sup>63</sup> European Commission, *European Union, Trade in goods with Central Asia 5*, October 30, 2018, 8, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_central-asia-5\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_central-asia-5_en.pdf)

States (CIS)<sup>64</sup>, but most notably the EEU with a clear attempt to create a free market between Russia and other countries, including Kazakhstan and Kyrgyzstan, while Russia remains the dominant economic and political partner in the EEU. As the exchange of economic sanctions between the EU and Russia and its economic effects have demonstrated, they have notable effect also on the economies of Central Asian countries as a result of the close economic engagement with Russia.

The EU also faces competition from other countries. One of them is Turkey – the fourth largest trade partner of Central Asian countries combined in 2017<sup>65</sup> (the second largest trade partner of Turkmenistan),<sup>66</sup> which has invested heavily in providing technological expertise to Central Asian countries, and is also particularly interested in hydrocarbons from Kazakhstan, Uzbekistan, and Turkmenistan. Turkey also considers the Central Asian market a potentially valuable prospect for selling Turkish products and has a number of small and medium sized enterprises operating there. Turkey is particularly interested in Kazakhstan, where Turkish companies are most active in telecommunications, food manufacturing, and petroleum products. Turkey also has significant business interests in Turkmenistan in retail, construction materials, and textiles markets. The Turkish Cooperation and Coordination Agency (TİKA), a government-run agency that provides financial assistance to developing countries, has been operating in Central Asia since the 1990s and currently has program coordination offices in all five Central Asian countries.<sup>67</sup>

Central Asia is also a popular consumer market for countries like South Korea, the 6<sup>th</sup> largest trading partner of Central Asia combined.<sup>68</sup> South Korean authorities are planning to increase their economic reach in Central Asia. In 2017, it set up the Korea-Central Asia Cooperation Forum Secretariat for collaboration with all five Central Asian countries with the aim to, among other issues, improve business ties (the forum itself was created a decade earlier “as a high-level consultative mechanism”).<sup>69</sup> The Forum builds on the already strong cultural links between South Korea and countries like Uzbekistan and Kazakhstan, which have considerable ethnic Korean populations. However, South Korea's economic engagement is limited by geographical barriers – it cannot access the region by land without travelling through North Korea.

Iran has strong cultural and linguistic ties to Tajikistan, which gives it an advantage over the EU countries who may not speak the local language. Despite political instability in Tajikistan throughout the 1990s, trade between Iran and Tajikistan has steadily increased. In 2017, Iran was the 6<sup>th</sup> largest trade partner of Tajikistan.<sup>70</sup> Iran regards Central Asia as an important trade opportunity and has invested in hydroelectric power and transport infrastructure. Possible projects such as the Uzbekistan-Chabahar railway that would link the Iranian port of Chabahar to Uzbekistan, could also increase the volume of cargo shipments to Iran in the coming years, if it is completed.<sup>71</sup> Despite this, Iran's footprint in the region remains small and in 2017, it did not rank in top ten trade partners for the regional countries combined (see Table 1). Its engagement will probably be complicated by issues in its relations with the U.S., most notably as a result of the U.S. withdrawal from the so

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<sup>64</sup> See: Ispolnitel'ny komitet SNG, 2018, <http://www.cis.minsk.by>

<sup>65</sup> European Commission, *European Union, Trade in goods with Central Asia 5*, October 30, 2018, 8, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_central-asia-5\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_central-asia-5_en.pdf)

<sup>66</sup> European Commission, *European Union, Trade in goods with Turkmenistan*, October 30, 2018, 8, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113457.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113457.pdf)

<sup>67</sup> “Overseas offices,” Turkish Cooperation and Coordination Agency, 2018, <https://www.tika.gov.tr/en/overseasoffices>

<sup>68</sup> European Commission, *European Union, Trade in goods with Central Asia 5*, October 30, 2018, 8, [https://webgate.ec.europa.eu/isdb\\_results/factsheets/region/details\\_central-asia-5\\_en.pdf](https://webgate.ec.europa.eu/isdb_results/factsheets/region/details_central-asia-5_en.pdf)

<sup>69</sup> “Office launched for Korea-Central Asia cooperation,” *The Korea Herald*, July 20, 2017, <http://www.koreaherald.com/view.php?ud=20170710000880>

<sup>70</sup> European Commission, *European Union, Trade in goods with Tajikistan*, April 16, 2018, 8, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113453.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113453.pdf)

<sup>71</sup> “Official: Uzbekistan deems as important connecting to Chabahar Port via railroad,” *Fars News Agency*, October 26, 2018, <http://en.farsnews.com/newstext.aspx?nn=13970802000724>

called Iranian nuclear deal (JCPOA – Joint Comprehensive Plan of Action) and reintroduction on sanctions.

## 4. Central Asia's perceptions of the EU as an economic and trade partner

Assessment of the perception of the EU and its member states in Central Asia in economic relations and trade primarily focuses on the investment from the EU, goods produced in the EU, as well as mutual access to markets (EU companies' entry into Central Asian markets and EU market as a destination for Central Asian entrepreneurs).

The analysis provided here is primarily based on semi-structured interviews conducted across Central Asia for the purpose of this study (please see the Introduction for more information), thus providing information from a diverse set of original sources.

### 4.1. Investment and products from in the EU

All interviewees underlined that investment from the EU countries is regarded as positive and desirable in Central Asia, though the situation on the capabilities of receiving it and its actual numbers vary across the countries (as the statistics in the previous chapter demonstrated, with the most significant volumes reached with Kazakhstan).

While a Turkmen NGO representative notes that “the issue of investment at the national level is not very topical at the moment,”<sup>72</sup> interviewees from other Central Asian countries, Tajikistan and Kyrgyzstan in particular, underlined their expectations of higher levels of investment from the EU countries and noted the significant space for further progress.

Positive perception of the investment from the EU countries is supported by various factors. Most notably, the business culture of the EU companies and the respective positive impact on the conduct of business in Central Asia. As a Kyrgyz academic noted, the EU investments are seen as “model investments” and, according to the interviewee, the EU companies “usually work in a civilised manner with respect to local partners, local population, and the environment.”<sup>73</sup> Another Kyrgyz academic similarly noted that investors from the EU are seen as “more open and transparent, not prone to corrupt and shady deals, and they usually work in the limits of law, while investors from some other countries often do not meet the same standards.”<sup>74</sup> A Tajik business representative expressed that “the EU investment is not only about job creation, but also development of the local human capital, incentive to raise business standards and quality standards, inflow of new technologies, creating more competition.”<sup>75</sup> Furthermore, a Kyrgyz NGO representative noticed that the EU is significant to further encourage better region's integration in the international trade and economic system, as well as regulatory and institutional framework so that the countries could improve economic and investment climate and could diversify their economies.<sup>76</sup> Another factor for a positive perception of the EU investment, as admitted by two Uzbek academics, is that investments from the EU usually also carry new and reliable technologies and experience across different areas.<sup>77</sup>

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<sup>72</sup> Interview with a Turkmen NGO representative (anonymous) by Ynanch-Vepa, November 20, 2018, Ashgabat, Turkmenistan.

<sup>73</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 9, 2018, Bishkek, Kyrgyzstan.

<sup>74</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 18, 2018, Bishkek, Kyrgyzstan.

<sup>75</sup> Interview with a Tajik business representative (anonymous) by Zerkalo, September 22, 2018, Dushanbe, Tajikistan.

<sup>76</sup> Interview with a Kyrgyz NGO (anonymous) by KNU, October 19, 2018, Bishkek, Kyrgyzstan.

<sup>77</sup> Interview with an Uzbek academic (anonymous) by UWED, October 5, 2018, Tashkent, Uzbekistan; Interview with an Uzbek academic (anonymous) by UWED, September 26, 2018, Tashkent, Uzbekistan.

As to why investment from the EU does not reach the expected and desirable levels (at least in countries apart from Kazakhstan), different reasons are mentioned – both internal issues of the Central Asian countries and limitations of the EU investors. Internal issues include the limited size of most of the markets, the insufficient purchasing power of the local populations, lack of investors' confidence and interest. As interviewees suggest, perhaps, the problem lies in the incompetence and corruption of the local officials,<sup>78</sup> as a result of this and other aspects the conditions for doing business are not attractive.<sup>79</sup> Sources in Kyrgyzstan mentioned also the negative experiences of foreign investors either as a result of low returns or wrong local partnerships (e.g. in some instances, after completion of projects the expected results and continuation are not met),<sup>80</sup> or in other occasions local partners have not complied with their promises and thus, have left a negative image of the business environment of respective country in general.<sup>81</sup> In addition, two Tajik interviewees underlined that attracting EU investment is a very difficult and lengthy process, while the local banking and financial mechanisms are not yet ready to use the European mechanisms.<sup>82</sup>

In addition, previous negative experiences in Uzbekistan have left their traces up to date. Even though recently significant steps have been taken to improve the economic and political climate in Uzbekistan, as one interviewee in Tashkent admitted, Chinese and Korean investors seem to be more active, while the EU companies still are more cautious.<sup>83</sup>

Looking from the other side, as a Kyrgyz NGO representative noted, "it is assumed that the EU companies lack pragmatism, compared to companies from Russia or China."<sup>84</sup> Similarly, a Kyrgyz academic expressed that "Chinese, Russian and Kazakh investors often better understand the local situation and are able to navigate the local socio-cultural and economic landscape much better than their European competitors. They often speak the local *lingua franca* – Russian, which is an asset, too."<sup>85</sup> As an Uzbek business representative concluded, the EU, by doing and promoting business in Central Asia, can wield a significant influence on the situation in Central Asia in much wider terms, not only the economic development.<sup>86</sup>

As all interviewees admitted, it is universally held that products made in the EU have a high quality and good reputation, while their biggest disadvantage is price. As a Tajik NGO representative noted, "the quality is good indeed, but who can afford to buy them? The bulk of the population prefer analogical goods from China or Pakistan. Yes, these goods are of a lower quality, but people can afford them."<sup>87</sup> This view was shared by all the interviewees, though some mention also other countries as sources of analogical but cheaper goods, India, Iran, Turkey among them, as well as locally produced goods.

As similarly mentioned, in regard to the EU companies' access to Central Asian markets, a Tajik academic noted the distance as one obvious reason for higher prices of the European products,

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<sup>78</sup> Interview with a Tajik academic (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

<sup>79</sup> Interview with a Tajik business representative (anonymous) by Zerkalo, September 22, 2018, Dushanbe, Tajikistan.

<sup>80</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 9, 2018, Bishkek, Kyrgyzstan.

<sup>81</sup> Interview with a Kyrgyz NGO (anonymous) by KNU, September 27, 2018, Bishkek, Kyrgyzstan.

<sup>82</sup> Interview with a Tajik business representative (anonymous) by Zerkalo, October 4, 2018, Dushanbe, Tajikistan; Interview with a Tajik academic (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

<sup>83</sup> Interview with an Uzbek academic (anonymous) by UWED, October 5, 2018, Tashkent, Uzbekistan.

<sup>84</sup> Interview with a Kyrgyz NGO (anonymous) by KNU, October 19, 2018, Bishkek, Kyrgyzstan.

<sup>85</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 9, 2018, Bishkek, Kyrgyzstan.

<sup>86</sup> Interview with an Uzbek business representative (anonymous) by UWED, September 25, 2018, Tashkent, Uzbekistan.

<sup>87</sup> Interview with a Tajik NGO representative (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

including the objective fact of the lack of sea connections and therefore higher transportation costs (especially, when compared to the distance Chinese products have to overcome).<sup>88</sup>

Among other things mentioned, interestingly, Uzbek interviewees noted also the issue of “deficit” or difficulties to get the EU products, as well as the language barrier (related to the lack of translations of some of the product descriptions).<sup>89</sup> A Kyrgyz NGO representative mentioned also the issue of counterfeiting of the EU products – some of the counterfeits are imported, while others produced locally.<sup>90</sup> This aspect can potentially have a negative impact on the reputation of products made in the EU.

#### 4.2. EU companies in the Central Asian markets

Interviewees in Central Asia admitted that there are many issues for the EU companies to enter the Central Asian markets. Though all five countries are different, issues are similar – business environment, purchasing power, distance from other markets (the EU in particular), operating procedures of the EU companies themselves.

In this respect, a Kazakh NGO representative underlined that “almost all of the Central Asian countries are authoritarian-oligarchic-clan political regimes, and their governance structures are characterized by high-level of corruption and lack of independent judiciary. These systems are based on personal, not institutional guarantees of business.” He also noted that in such environment larger companies feel safer, but mainly in mining and oil sectors, “they tackle their problems at the political level and via personal contacts.”<sup>91</sup> He concluded that such issues significantly limit the entry of the EU small and medium sized business.

A Tajik businessperson, while agreed, however, saw also some pros in the situation, “we have political stability, but not an economic one – conditions for doing business are not ideal.”<sup>92</sup> Similarly, a Kyrgyz NGO representative underlined corruption and regional stability as one of the main detrimental factors in economy, while noting that legislation in protecting foreign investment in some countries is not favourable. According to this source, the EU investors are rather interested in short-term, not long-term investment projects due to the risks of instability.<sup>93</sup> A Tajik academic further noted that “the main weaknesses are corruption and weakness of the regulatory framework in protecting the foreign companies.”<sup>94, 95</sup>

Apart from these factors, an Uzbek academic mentioned also the high-level of protectionism, especially in Uzbekistan, the existence of informal barriers, as well as underdeveloped infrastructure (e.g. electricity shortages) and different standards, unstable legislation, banking procedures,

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<sup>88</sup> Interview with a Tajik academic (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

<sup>89</sup> Interview with an Uzbek academic (anonymous) by UWED, September 26, 2018, Tashkent, Uzbekistan; Interview with an Uzbek NGO representative (anonymous) by UWED, October 3, 2018, Tashkent, Uzbekistan.

<sup>90</sup> Interview with a Kyrgyz NGO (anonymous) by KNU, September 27, 2018, Bishkek, Kyrgyzstan.

<sup>91</sup> Interview with a Kazakh NGO (anonymous) by CAISS, November 8, 2018, Almaty, Kazakhstan.

<sup>92</sup> Interview with a Tajik business representative (anonymous) by Zerkalo, September 22, 2018, Dushanbe, Tajikistan.

<sup>93</sup> Interview with a Kyrgyz NGO representative (anonymous) by KNU, October 1, 2018, Bishkek, Kyrgyzstan.

<sup>94</sup> Interview with a Tajik academic (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

<sup>95</sup> Issues related to corruption and environment for doing business in Central Asia are evident in international ratings. While the situation in some of the Central Asian countries is more positive in terms of ease of doing business, in Kazakhstan in particular, the situation is generally worse regarding the levels of perceived corruption; see: International Bank for Reconstruction and Development / The World Bank, *Doing Business 2018. Reforming to Create Jobs* (Washington DC, 2018), 4,

<http://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2018-Full-Report.pdf>; “Corruption Perceptions Index 2017,” Transparency International, Updated February 21, 2018, [https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2017#table](https://www.transparency.org/news/feature/corruption_perceptions_index_2017#table)

registration issues, and insurance issues. In addition, previously existing experiences with currency exchange and withdrawal of profit from Uzbekistan have left traces on confidence.<sup>96</sup>

A Kyrgyz academic mentioned also the low level of corporate culture in Central Asia.<sup>97</sup> Another Kyrgyz academic, while agreeing with this, underlined the competition from the Russian and Chinese companies, which tend to be more successful in overcoming the above-mentioned difficulties compared to the EU companies.<sup>98</sup> Regarding the EU companies operating or potentially operating in Central Asia, it is mentioned that they might lack the understanding of how the local markets operate and other knowledge regarding the situation in the region.<sup>99</sup>

Among positive factors for the EU companies operating in Central Asian markets, the low labour costs are among the most frequently mentioned, while at the same time, an Uzbek business representative expressed the difficulty of hiring competent local staff.<sup>100</sup> A Turkmen NGO representative also mentioned a possibility of “full mobilization of resources if a proposal has received support and approval “at the high political level.”<sup>101</sup>

### 4.3. Central Asia's access to the EU market

Although the situation differs across all five Central Asian countries, access by the Central Asian companies to the EU market is generally seen as a problematic issue. Given the fact that not all of the countries are members of the WTO (Kazakhstan, Kyrgyzstan and Tajikistan are members, while Uzbekistan is an observer),<sup>102</sup> but two of the countries are also part of the Eurasian Economic Union (EEU) (Kazakhstan and Kyrgyzstan),<sup>103</sup> trade with the EU is subject to a different framework. Nevertheless, the EU market is universally considered as preferred by the Central Asian companies given its sheer size, comparatively high prices (thus, the potential for higher profit), high demand, stability and purchasing power. Among the negative factors, tariffs, distance, different regulations and fierce competition are often mentioned issues.

As a Tajik business representative noted, “too strict quality standards, expensive designing of the goods, and lack of conservation technologies prevent goods from entering the market of the EU states.” The interviewee also mentioned that not many companies dare to enter the EU market for these and other reasons.<sup>104</sup> Another frequent answer mentioned in the interviews performed is the geographical distance and thus higher transportation costs. As a Tajik NGO representative underlined, the distance and additional transportation costs make the products uncompetitive.<sup>105</sup> A Kyrgyz NGO representative added to this list the issue of currency conversion as well as the need of insurance of goods, and the aforementioned issue of corruption in Central Asia.<sup>106</sup>

In addition, various other Central Asian internal issues are mentioned as impediments to a better access to the EU market. A Turkmen NGO representative noted among other factors the issue of education – the lack of personnel that is qualified and knowledgeable of the EU legislation and

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<sup>96</sup> Interview with an Uzbek academic (anonymous) by UWED, September 26, 2018, Tashkent, Uzbekistan.

<sup>97</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 9, 2018, Bishkek, Kyrgyzstan.

<sup>98</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 18, 2018, Bishkek, Kyrgyzstan.

<sup>99</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 9, 2018, Bishkek, Kyrgyzstan; Interview with an Uzbek academic (anonymous) by UWED, September 28, 2018, Tashkent, Uzbekistan.

<sup>100</sup> Interview with an Uzbek business representative (anonymous) by UWED, September 25, 2018, Tashkent, Uzbekistan.

<sup>101</sup> Interview with a Turkmen NGO representative (anonymous) by Ynanch-Vepa, November 20, 2018, Ashgabat, Turkmenistan.

<sup>102</sup> “Members and Observers,” World Trade Organization, Updated 2018, [https://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)

<sup>103</sup> See: Eurasian Economic Union, <http://www.eaeunion.org/?lang=en>

<sup>104</sup> Interview with a Tajik business representative (anonymous) by Zerkalo, October 4, 2018, Dushanbe, Tajikistan.

<sup>105</sup> Interview with a Tajik NGO representative (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

<sup>106</sup> Interview with a Kyrgyz NGO (anonymous) by KNU, September 27, 2018, Bishkek, Kyrgyzstan.

standards,<sup>107</sup> a view shared by an Uzbek business representative.<sup>108</sup> As a result, as a Tajik academic noted, there is the issue of many Central Asian companies failing to understand the regulatory framework and rules of operation of foreign participants in the EU internal market.<sup>109</sup> An Uzbek business representative also mentioned misunderstandings of EU bureaucracy and EU business culture.<sup>110</sup> Furthermore, an Uzbek academic mentioned the language barrier.<sup>111</sup>

A connected issue is the lack of visibility of Central Asian products in the EU. One of the reasons is the perceived lack of resources for opening offices in EU.<sup>112</sup> Another issue is marketing – both the lack of resources and knowledge on how to promote products in the EU.<sup>113</sup> An Uzbek business representative put things straight – the inability to present and sell the final product, also ignorance of market research.<sup>114</sup> In this respect, a Tajik business representative noted the need for a considerable investment to start exporting to the EU “many companies, especially the small and medium sized ones, simply cannot afford that. A particularly problematic issue is the availability of loans for such purposes.”<sup>115</sup>

An often-mentioned issue by interviewees is the EU regulations, which are widely seen as highly complicated and too numerous. As a Kyrgyz academic underlined, one needs much investment in time, energy, and human resources to comply, while not many can afford to do so.<sup>116</sup> Another Kyrgyz academic expressed also the absence of a laboratory that could do the testing according to the EU standards (concerning certification). The interviewee goes further by saying that “the need to use exclusively Western certification centres and methodologies is often seen as an arrogant first-world thinking as it demonstrates the lack of trust in non-Western certification centres and methodologies.” As a result, Central Asian products often find their place in neighbouring countries, including Russia and China, or, as he puts it, in “unusual markets”, like Kyrgyz honey finds its place in Korea and Japan.<sup>117</sup>

A frequently mentioned issue is GSP offered by the EU (standard GSP to Tajikistan and Uzbekistan, and GSP+ for Kyrgyzstan).<sup>118</sup> As one Kyrgyz academic noted, GSP+ privileges in this country “have yet to be fully understood,” and even with employing of it, there are enough of other hurdles to access the EU market.<sup>119</sup> This coincides with the conclusions of the European Commission and the statistical data available on GSP+ utilisation rate in Kyrgyzstan.<sup>120</sup>

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<sup>107</sup> Interview with a Turkmen NGO representative (anonymous) by Ynanch-Vepa, November 20, 2018, Ashgabat, Turkmenistan.

<sup>108</sup> Interview with an Uzbek business representative (anonymous) by UWED, September 25, 2018, Tashkent, Uzbekistan.

<sup>109</sup> Interview with a Tajik academic (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

<sup>110</sup> Interview with an Uzbek business representative (anonymous) by UWED, September 25, 2018, Tashkent, Uzbekistan.

<sup>111</sup> Interview with an Uzbek academic (anonymous) by UWED, September 26, 2018, Tashkent, Uzbekistan.

<sup>112</sup> Interview with a Tajik academic (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan; Interview with a Tajik business representative (anonymous) by Zerkalo, September 22, 2018, Dushanbe, Tajikistan.

<sup>113</sup> Interview with a Tajik NGO representative (anonymous) by Zerkalo, September 23, 2018, Dushanbe, Tajikistan.

<sup>114</sup> Interview with an Uzbek business representative (anonymous) by UWED, September 25, 2018, Tashkent, Uzbekistan.

<sup>115</sup> Interview with a Tajik business representative (anonymous) by Zerkalo, September 22, 2018, Dushanbe, Tajikistan.

<sup>116</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 18, 2018, Bishkek, Kyrgyzstan.

<sup>117</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 9, 2018, Bishkek, Kyrgyzstan.

<sup>118</sup> “Generalised Scheme of Preferences (GSP),” European Commission, Updated October 9, 2018, <http://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/>

<sup>119</sup> Interview with a Kyrgyz academic (anonymous) by KNU, October 18, 2018, Bishkek, Kyrgyzstan.

<sup>120</sup> European Commission, *The EU Special Incentive Arrangement for Sustainable Development and Good Governance (‘GSP+’) assessment of the Kyrgyz Republic covering the period 2016 – 2017* (Brussels, 2018), 22, [http://trade.ec.europa.eu/doclib/docs/2018/january/tradoc\\_156542.pdf](http://trade.ec.europa.eu/doclib/docs/2018/january/tradoc_156542.pdf)

## 5. Conclusions

Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan are all different, though with many similarities that allow to treat them as one region of analysis. In economic and trade issues, the EU and its member states cooperate with Central Asian countries at various levels and in different formats. Compared to political, security, cultural and other relations, in the economic and trade, interests of the EU member states converge more, given the natural quest for profit by commercial companies.

The EU as an organisation has devoted significant attention to the cooperation with Central Asian countries in the economic sector. It has outlined various issues and aims in its 2007 strategy for Central Asia and in other documents – such as intending to both help the five Central Asian countries to raise living standards and thus stability in the region and beyond, as well as to foster economic cooperation between the EU and Central Asia. Both bilateral and multilateral engagement (Central Asia-specific and geographically wider) instruments have been employed, among them DCI, TRACECA, IFCA, CAI, GSP. Efficiency has been different across instruments and their application to concrete countries. As the most comprehensive and visible could be considered the GSP scheme, which provides smaller tariffs for access of the EU market (GSP to Tajikistan, Uzbekistan, GSP+ to Kyrgyzstan). Here, however, results are mixed, with more space for progress in the latter.

Trade volumes between the EU and Central Asian countries have fluctuated over the last decade, with the highest amounts being reached from 2011 to 2014 which followed by a lower amounts of trade volumes until 2017. Trade has been imbalanced as export amounts from Central Asia to the EU have been higher than the EU exports to the region during the whole period of analysis. Important to mention, though, that Kazakhstan is by far the largest regional partner in trade (which in general is dominated by industrial products), while others, especially Tajikistan and Kyrgyzstan, fall significantly behind. Products from the EU are considered as of supreme quality, though too expensive for the majority of local populations to afford.

According to data from the IMF, the EU remains the largest trade partner of Central Asian countries (individually to Kazakhstan only, though), ahead of China and Russia. Given the current trends and approaches of other external actors, it is likely that the EU will face increased competition from China and Russia, which have more state driven and coordinated approaches. It is often assumed that their companies (frequently state-controlled) better navigate in the local economic, political, and societal environment than the EU ones. China's Belt and Road Initiative with state-controlled companies aim to integrate Central Asian infrastructure with that of China,<sup>121</sup> while historical links and such mechanisms as the EEU allows Russia to employ beneficial trade tariffs for its Central Asian members. If the current trend with the comparatively higher prices of the EU products is to continue, goods from other markets will become even more competitive, while the EU products might further lose position in most of the spheres. In addition, it is important to mention that other external actors such as Turkey, South Korea and India can be expected to be increasingly active participants in the economic sector in Central Asia.

In Central Asia, investment from the EU is often considered as “model investment,” as it is often assumed that the EU companies tend to be more open, transparent, pay more respect to the environment, try to work in the limits of legislation, bring reliable technologies (though, investment from the EU has been predominantly focused on Kazakhstan, and the total amounts of it have gradually increased in the recent years). Thus, the EU businesses' presence has a wider impact on the local business' environment where such issues as corruption, governance, incoherent

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<sup>121</sup> Given that transportation costs are often mentioned as an issue and taken China's active role in the region and beyond, the EU could consider the use of the advancements of regional infrastructure and overland transportation connections between China and the EU also with regard to connectivity with Central Asia.

regulations, economic instability, informal rules, infrastructural limitations, lack of qualified workforce, complicate entry and operation of the EU businesses. At the same time, it is often mentioned in Central Asia that the EU companies tend to be more cautious and have insufficient understanding of the local political, societal and business environment.

What regards how Central Asians perceive access to the EU market, the situation is seen as twofold: while the EU market is considered as vast, stable, reliable, with high purchasing power and high demand, such issues as transportation costs, lack of knowledge of the EU regulations and languages, shortcomings in marketing practices, fierce competition, tariffs (for some of the countries), and corruption at home complicate advance of the Central Asian companies in the EU market.

For the EU and its member states to assist the Central Asian countries in increasing levels of development and thus the regional stability, and to maintain the current levels and scope of the economic engagement, an active and comprehensive approach in the future is necessary. Current approaches and instruments have to be reassessed, strengthened and integrated. In particular, the EU should continue supporting small and medium enterprises, providing more explanatory work of the EU regulations and available instruments, supplying technical and linguistic training, further supporting good governance, border management, agricultural development, and other aspects that can directly or indirectly contribute to economic development and engagement. The EU should also devote more attention to controlling the efficiency and deliverables of the projects it is supporting. It should foster cooperation among Central Asian countries and cooperation of entrepreneurs in these countries.

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