

Opportunities, challenges and risks in exploring Central Asian Countries of the Great Silk Route



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Central Asian Countries of the Great Silk Route: Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan



1. Traditional business partners of Central Asian countries in the North and East are Russia and China respectively.
2. Potential business partners of Central Asian countries lie in the West (Europe and USA) and in the South (the Gulf).



1. INTERESTING FACTS

2.

- 1. Kazakhstan** is the birthplace of the apples, the business capital Almaty is translated as “full of apples”.
It is the largest land locked country in the world.
- 2. Uzbekistan** is one of the two double landlocked countries in the world alongside Liechtenstein.
The territory of Uzbekistan is believed to have been populated since the second millennium BC.
- 3. 94%** of the territory of **Kyrgyzstan** is mountainous.
Kyrgyzstan is home to Inylchek Glacier, one of the largest glaciers in the world.
- 4. Eighty percent** of the landscape of **Turkmenistan** stands covered by Karakum Desert.

**1. GENERAL
INFORMATION**

2.

Country	Population, Mln	GDP, (US\$, bn)	GDP growth, (%)	Inflation (%)	Export (US\$, bn)	Import US\$, bn)
Russia	141.95	1 585.2	4.5	6.7	376.7	237.3
Kazakhstan	15.89	130.1	5.5	7.1	59.2	30.1
Uzbekistan	27.77	37.74	8.3	15.0	13.13	9.44
Turkmenistan	4.94	8.5	9.0	12.0	9.7	4.9
Kyrgyzstan	5.32	4.51	-2.0	4.8	1.68	3.08

- Central Asian countries are low income countries according to the World Bank classification, except for Kazakhstan.

¹ All figures forecast for 2010, Economist Intelligence Unit



Central Asian countries share common characteristics:

1. Strategic position between Europe, Russia, China and the Middle East.
2. Historically strong political and economic ties with Russia.
3. Significant reserves of all known natural resources, including oil, natural gas, gold and metals.
4. Great state intervention into the economy.
5. Low economic density: 100 times lower compared to the Netherlands.
6. Historically low position in the value chain.

Central Asia is one of the fastest growing regions in the world (average growth rate is more than 5%), but the growth is driven by commodity exports.



1. Large potential for transit trade between Europe and Asia and favorable conditions for Central Asia to become a transport corridor:
 - a. geographical conditions;
 - b. historical conditions;
 - c. infrastructural conditions.
2. Central Asian countries have access to large markets of 2,5 billion consumers in China, Russia and India.
3. Central Asia is rich in high priced commodities: oil, gas, gold, metals and cotton.
4. Central Asia has high quality human capital and cheap work force.



1. Central Asia is a landlocked territory: no access to open seas and limited access to rivers and transport routes.
2. Economic isolation of Central Asia: weak transport and communication infrastructure.
3. Uneven political, economic, institutional development of countries in the region.
4. Low level of regional cooperation and integration in the Central Asia region.
5. High security risks of the region: existing political and military conflicts along the borders.
6. Competition from cheap Chinese consumer goods on the Central Asian market.



The transport sector of Central Asian countries is characterized by:

1. Remoteness from major global transport corridors: land and sea routes, oil & gas pipelines.
2. Low diversification of the transport routes and oil & gas pipelines: all main routes lead to Russia.
3. Low quality and low level of private ownership of the transport fleet.
4. Poor state of local ground-based transportation and pipeline infrastructures.
5. High transport and transit fees and custom duties.



Transfer of the bridging function between Asia and Europe from Russia to Central Asia and the Caucasus is one of the main goals of the European Committee in the Central Asia region:

1. Five Eurasian transport corridors established under the framework of EC and UN, including TRACECA and Greater Silk Road are being established in the region.
2. Turkmenistan will become the supplier for the Nabucco gas pipeline from Turkey to Austria.



1. Trade policy differences in Central Asian countries:

- a. Uncoordinated trade policies of the Central Asian countries: different fees, excises, labeling requirements and import licenses.
- b. Different stages in the WTO accession process (only Kyrgyzstan is a member of WTO since 1998).
- c. Kazakhstan is a member of the newly created Custom Union with Russia and Belarus.
- d. Restrictive trade policy of Uzbekistan: three digit import tax levels.

2. Border management delays:

- a. Lack of harmonized customs procedures in the Central Asian countries.
- b. High cost of transit convoys, lack of recognition of TIR seals (Transports International Routiers).
- c. Numerous formal documentation and registration requirements on the Central Asian borders.



According to UNDP, the price of cargo transit in Central Asia is overrated by 60-90% for railway and by 80-120% for automobile transport.



1. Central Asian countries are rich in energy resources:

Kazakhstan	Oil (Caspian basin), coal, uranium
Uzbekistan	Gas, gold, uranium
Turkmenistan	Gas
Kyrgyzstan	Hydro power

2. Kyrgyzstan is fully dependent on oil & gas exports from Russia.
3. There is electricity shortage in some areas of Kazakhstan and Kyrgyzstan.
4. The energy sector is the main sector of cooperation between Central Asia, Russia and EU.
5. The energy sector is the leading sector for FDI: the Netherlands is one of the largest investors in the oil & gas sector of the Central Asian countries.
6. Ongoing diversification of oil and gas transport routes towards China (gas pipeline from Turkmenistan) and Europe (Nabucco gas pipeline).



1. Industrial enterprises of the Central Asian countries in most of the sectors (especially, chemical, electronics, machinery, aviation) are structurally and technologically interdependent from the Soviet times: key parts of a product are produced by enterprises located in different Central Asian countries and the finished product is assembled elsewhere (for example in Russia).
2. Priority sectors are textile, machinery, construction, metallurgy.

Country	Priority industries
Kazakhstan	Metallurgy (iron and steel), chemicals and plastics, machinery and transport equipment.
Uzbekistan	Textile industry, food processing, machinery, metallurgy, pharmaceuticals .
Kyrgyzstan	Mining (mercury, gold, rare metals), textiles, food industry.
Turkmenistan	Textile industry, Petrochemical industry, food industry.



1. 50-70% of the population work in the agricultural sector in Central Asian countries.
2. In the post Soviet times the share of agriculture in the GDP declined from 30% to less than 10%.

Country	Agricultural specialization
Kazakhstan	Grain, cotton, wool, livestock, fruit & vegetables
Kyrgyzstan	Tobacco, cotton, potatoes, fruit & vegetables; livestock, wool.
Uzbekistan	Cotton, vegetables, fruits, grain, livestock
Turkmenistan	Cotton, fruits, vegetables, grain (wheat), livestock

3. The process of privatization is ongoing in the agricultural sector (the agricultural lands of Kyrgyzstan have been already privatized).
4. A recent upturn in agriculture in the Central Asian countries: due to high prices for cotton and wheat, good weather and ongoing agricultural reforms.

9.

10. OPPORTUNITIES

Transport

- Creation and servicing of the transport infrastructure.
- Construction of new and development of existing gas and oil pipelines.
- Development of the telecommunication and information management systems.

Energy

- Development of the Caspian sea oil & gas reserves.
- Development of hydroelectric resources and renewable energy sources (solar, wind).
- Energy efficiency and energy saving technologies.

Industry & Services

- Development of high-tech industries, i.e electronics, pharmaceuticals.
- Development of chemical and petrochemicals industries.
- Development of the retail sector.
- Development of tourism industry infrastructure.

Agriculture & Food industry

- Processing of cotton.
- Processing of agricultural raw materials.

Conclusions



1. Rich reserves of natural resources and vast supply of raw materials create favorable conditions for establishment of local production in the processing industries.

2. The Central Asian countries aim to attract foreign technologies in order to increase the efficiency of traditional sectors (oil & gas, mining) and to encourage the diversification of the economy towards sectors with a higher added value.



The establishment of Central Asia as a transport hub between Europe and Asia creates opportunities for the development and service of the transport and communication infrastructures.



The historical trading culture of the Central Asian people creates incentives for the rapid growth of the retail sector and the development of import and export activities with the European Union.



Armenia, a transcontinental country situated both in Eastern Europe and Western Asia, is **the link between the trade routes of Central Asia and Europe**.

1. Interesting facts:

- Armenia was the first nation to formally adopt Christianity (4th century).

2. General information:

Country	Population, Mln	GDP, (US\$, bn)	GDP growth, (%)	Inflation (%)	Export (US\$, bn)	Import US\$, bn)
Russia	141.95	1 585.2	4.5	6.7	376.7	237.3
Armenia	3.08	8.96	5.4	6.9	0.845	2.98

- Armenia is a landlocked country with few natural resources.
- Armenia is integrated into the EC regional and country development programs: Partnership and Cooperation Agreement and the European Neighborhood Policy (ENP).
- Armenia has two continuing conflicts with Azerbaijan (over Nagorno-Karabakh region) and Turkey (over the genocide of Armenians in the Turkish Empire in 1915).

3. Transport

- The borders with Azerbaijan and Turkey are closed.
- Armenian transport infrastructure is Russian owned and/or managed.

4. Trade

- Armenia is a member of WTO since 2003.
- Favorable trade conditions: no export duties.



ARMENIA

5. Energy sector:

- No oil & gas reserves. Armenia is fully dependent on the Russian energy import.
- Large hydro power potential of Armenia.

6. Industry:

- The priority sectors are mining (copper, precious metals and stones), construction materials, machinery, textile and food industries.

7. Agriculture:

- Half of the population is engaged in the agricultural sector: cotton, grain, grapes, fruit, vegetables, livestock breeding.

8. The **services sector** accounts for 40% of the GDP.

9. Opportunities:

- Trade and transit opportunities: access to CIS and Middle East markets.
- Favorable investment conditions: no limitation on foreign ownership, free repatriation of profit, investment guarantees to foreign investors.

10. Sector opportunities:

- Information and communication technologies.
- Metallurgy processing.
- Transport service.
- Construction .

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