

# Turkey

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## Historical Background

After the fall of the Soviet Union, both pessimistic and optimistic scenarios on the future of Central Asia emerged. Pessimistic views arose from the prediction of some Western analysts that Islamic fundamentalism would become the primary threat to the region's future, and from the Central Asian governments' inability to mitigate economic stagnation following the Soviet collapse. Typically, pessimists foresaw the emergence of radical Islamic nations, the proliferation of nuclear weapons, Chinese domination, wars among territorial states and clashes of civilizations. The optimists, by contrast, anticipated democratization, free market economies, integration with the West, improved economic welfare, and the total elimination of Soviet institutions and establishments. Consequent events revealed that both of these simplistic views were flawed.<sup>1</sup>

In the early 1990s the international community and international organizations noted that nearly all Central Asian States faced a difficult transition from the Soviet regime, including negative economic growth coupled with very high inflation rates. As the economies shrank, most people became poorer, governments lost power, the quality of public education decreased and public health worsened. Although the macroeconomic situation stabilized toward the end of the decade, the overall success of the transition process in the region was limited—it could even be argued that they have all failed.

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<sup>1</sup> Eric W. Sievers, "Central Asia's Lost Capital Assets: Denial of Development or Curse of Globalization", *The Geopolitical and Economic Transition in Eurasia: Problems and Prospects*, Fatih University, Istanbul, May 2001, p.1

The bureaucratic establishment and centralized decision-making systems inherited from the Soviet Union played an important role in this failure. Starting at their inception in the early 1990s, republics of the former Soviet Union labored to replace central planning with price mechanisms, and market systems. But the Central Asian republics consistently lagged behind the transition in other countries formerly in the Soviet sphere —especially the South and East European states—in indicators of economic, social and economic competitiveness.<sup>2</sup>

The distance of the land-locked Central Asian republics to major markets and democratic states contributed to the slow and unsuccessful early transition process. Conversely, the countries of East and Central Europe and the Baltic states took advantage of their geographic proximity to the European Union (EU), gaining impetus for their reform processes. They efficiently liberalized prices and the banking sector, decreased inflation, and achieved a widespread privatization of state-owned enterprises.

### **The West's Attitude Toward Central Asia**

Most western states have assumed a pragmatic but superficial attitude toward Central Asia. The United States and EU focused on the region's rich natural resources and, to a lesser extent, its security and stability. Western governments are often faced with the dilemma of weighing their strategic interests against other legitimate concerns that influence domestic public opinion, such as democratization and basic human rights.<sup>3</sup> Pragmatism overshadowed idealism as the West established and deepened relations with Central Asia. But, the 11 September, 2001 terrorist attacks caused security threats from the region to become a significant concern, which reshaped the West's perspectives and caused it to pay greater attention to Central Asia.

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<sup>2</sup> Harry Broadman, World Bank Report, "From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade", Washington D.C., 2005, p.2,  
<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:20723133~pagePK:146736~piPK:146830~theSitePK:258599,00.html>

<sup>3</sup> Vahit Erdem, "The Caucasus and Central Asia", NATO Parliamentary Assembly 1995-2005, Brussel, 2005, p201

Security in the Euro-Atlantic area and beyond cannot be guaranteed as long as stability remains fragile in some areas, leaving them vulnerable to religious fundamentalism. After all, it was the fragility of government in Afghanistan that provided the fertile ground for the Taliban regime. In a post-September 11 era, Euro-Atlantic security has been closely linked to the situation in Central Asia. The social fabric in Central Asian states, and particularly in states neighboring Afghanistan, is not immune to fundamentalist trends: organized crime, porous borders and illegal migration are all endemic problems there. These issues cannot be resolved by anyone country acting alone and must instead be tackled through a process of international cooperation.<sup>4</sup> Part of the solution is to integrate Central Asian states into global commercial and financial institutions. By ensuring their economic stability and development they will be drawn into the international community. Economic instruments are key to this process for Central Asia. World Trade Organization membership for Uzbekistan, Tajikistan, Kazakhstan and Afghanistan should be a priority of the United States and the EU, since the accession process exerts a strong liberalizing pressure on the aspiring country and will facilitate economic growth.

### **Turkey's Relations with Central Asia**

Turkey was the first nation to recognize the independence of the Central Asian republics, yet it was unprepared to deal with its new neighbors. Despite limited resources and conceptual conflicts at the state and public levels, however, the Turkish state, private sector and civil society have all put a great deal of effort into developing relations with these countries. As a result, Turkey today has a significant political and social presence in Central Asia—a presence independent of any strategic or cyclical political interest.

Turkey's political, economic and social interests in Central Asia are stronger than those of its Western allies. Official Turkish opinion from the outset saw that a constructive role in Central Asia would enhance Turkey's

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<sup>4</sup>Vahit Erdem, "The Caucasus and Central Asia", NATO Parliamentary Assembly 1995-2005, Brussel, 2005, p.205

international image and provide an opportunity to show goodwill towards its Western allies, the EU and United States in particular.

Relations between Turkey and the new states of Central Asia have now been put on a solidly rational basis after an initial period of romanticism. Immediately after independence, the new republics, quite inexperienced in international affairs, were unprepared for, and confused by, Turkey's keen interest in the region. The Turkish Cooperation and Development Agency (TIKA) was from the outset a vital instrument for providing aid, institutionalizing government policies, and devising economic strategies for Central Asia. Through TIKA, Turkey supported the new governments' state-building efforts. Indeed, 36 percent of all TIKA projects and programs focus on Central Asia, which is not surprising since the objectives of the Central Asian states mesh with Turkey's priorities. Recognizing this, TIKA since 1992 has developed and implemented numerous economic, administrative, social and cultural projects in Central Asia. The main emphasis has been on developing human resources, specifically the training of government officials, which has been supported by relevant offices of the Turkish government.<sup>5</sup> There have also been joint Turkish-Western projects, such as the Private Sector Development Center in Istanbul, which is sponsored by TIKA and the Organization for Economic Cooperation and Development (OECD). This project provides a platform for officials from developed country to share experiences with counterparts from Central Asia. Another such initiative is the OECD-Turkish Ministry of Finance Tax Training Center for Transition Economies, where training activities focus on support for small and medium-sized enterprise (SME), improving the investment climate, and reforms in the financial sector.

Political and economic instability in Central Asia is one of the most important regional challenges facing Turkish authorities, investors and non-governmental organizations (NGOs) that deal with region. However, Turkish entrepreneurs have been able to work successfully under conditions of instability, especially in SME investment, especially as compared to Western companies.

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<sup>5</sup> For more information about the TIKA projects visit [www.tika.gov.tr](http://www.tika.gov.tr).

The language barrier was another problem faced by officials and investors during the first period of Turkey's relations with the new states of Central Asia. Russian is still the *lingua franca* in these countries, especially for members of the social elite who retained political control. Yet the states' Turkic roots facilitated Turkey's penetration into different sectors of the regional economies. As a result of deepening economic, political and cultural relations, and the practical needs of Turkish investors, Turkey started a scholarship program allowing Central Asian students to receive secondary and higher education in Turkey. Thousands of Central Asian students have graduated from Turkish universities and now work in Turkey or their home country. Many have found jobs in governmental institutions and international NGOs that focus on regional development, as well as in Turkish companies.

Turkish-run universities and secondary schools have established an important presence throughout the region. Both use Western teaching methods and are supported by the Turkish government and NGOs. Many graduates of these institutions pursue further studies at Turkish universities. Over the past decade and half, Turkish high schools have become among the most prestigious in Central Asia. True, there has been some political resistance to the concept of private secondary schools, both in the region and in Turkey, yet this has not posed a serious problem<sup>6</sup>. Regardless of whether they receive public or private funding, these Turkish secondary schools serve the practical purpose of educating the region's future workforce and providing an important cultural bridge between Turkey and Central Asia.

Turkey's relations with the Central Asian states are affected by its economic and political relations with surrounding countries. China, India, Iran, Russia and Pakistan all have vital strategic and economic interests in the region of which Turkey must be cognizant. They all will play a major role in the reemergence of continental trade in Eurasia.

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<sup>6</sup>For Turkish Private Schools in Central Asia see Jean –Christophe Peuch, "Turkey's Fethullahci School's: A Greenhouse for Central Asian Elites?", [www.rferl.org/reports/turkmen-report/2004/06/0-140604.asp](http://www.rferl.org/reports/turkmen-report/2004/06/0-140604.asp) Radio Free Europe, June, 2004.

Following the Soviet collapse, Turkish private firms and NGOs became very active in Russia. Over time, these commercial and cultural relations alleviated the political animosity that had long existed between Turkey and the Soviet Union. But Russia grew anxious over Turkey's presence in Central Asia and the Caucasus and by its ties to the groups in North Caucasus that sought independence. Turkey has tried to reduce these tensions by cooperating with Russia on key strategic issues such as energy. Yet Russia still seeks to maintain its weakening influence in the Caucasus by intervening in the Abkhazia and Ossetia conflicts in Georgia, and in the Karabakh conflict between Armenia and Azerbaijan. Russia is also seeking to dominate Kazakhstan and Turkmenistan by controlling the transport routes for their most valuable commodities—oil and natural gas. Given this. It is all the more important to note that in spite of Russian opposition, the Baku-Tbilisi-Ceyhan pipeline was fully implemented, thanks to crucial support from the United States.

Turkey is a gateway for Central Asian trade and energy transit, and will become a regional transit corridor within the framework of TRACECA, the EU's transportation program. The soon-to-be-implemented integration of Turkish railways with those of the region, and with the Kars-Ahalkale connection, will alter the means and dimensions of commerce between Turkey, the Caucasus, and Central Asia.

Increased world oil prices have forced the major energy-consuming states to seek alternative energy sources and routes. This has generated great interest in alternative transport routes for oil and natural gas from the Caspian Sea region to world markets. But Russia grows nervous over every new pipeline project that it does not control — particularly the Trans-Caspian Pipeline Project. Tensions arising from pipeline issues have tremendous potential to disrupt Turkish-Russian relations.

Turkish-Chinese relations began developing after China emerged as a rising economic power in the 1980s. Turkish-Chinese trade has been increasing every year, with Turkey running a negative trade balance with China. But since the 1950s disputes over East Turkistan (China's Xinjiang Uyghur Autonomous Region) have been a source of friction between the two countries. China is anxious about the actions of members of the East

Turkistan diaspora (mainly Uyghurs) who live in Turkey, following their activities closely and lodging diplomatic protest with Turkey whenever “unacceptable” activity is detected. Despite growing trade, the Xinjiang issue remains a potential problem between the two countries in the mid- and long-term. However, expanding trade and China’s support for Turkish defense industry projects have softened tensions. Thus, defying pressure from the West, Turkey in 2001 briefly closed the Bosphorus Strait to allow passage of the *Varyag* aircraft carrier that China had purchased from Ukraine.

Turkey’s relations with India are shaped by the close Turkish-Pakistan relationship. However, Turkey’s trade with both India and Pakistan is much lower than with the other countries that surround Greater Central Asia.

Turkish-Iranian relations have moved through several phases. Until the beginning of the twentieth century, Turkic dynasties ruled Iran, and throughout this shared history Iranian Turks warred with Ottoman-Western Turks. The existing border between Iran and Turkey was created in 1639 by the Kasrı Şirin accord, yet after the agreement the two sides continued fighting.<sup>7</sup> After the Republic of Turkey was established, ties between the two countries were strengthened by the fact that both were members of the pro-Western Central Treaty Organization (CENTO) and the Economic Cooperation Organization (ECO). Relations remained smooth until the Iranian Islamic revolution in 1978. Secular Turkey feared that the Islamist movement would cross its borders, yet Iran’s eventual abandonment of the policy of exporting religious ideology to Turkey calmed relations, allowing economic and business ties once more to develop.

Yet Iran’s nuclear ambitions and the resulting tension with the United States has damaged Turkish-Iranian relations. Mindful of the chaos in neighboring Iraq, Turkey is keen to find a peaceful solution to the stand-off with Iran and wants to help mediate critical issues. Turkey has informed Iran that its nuclear activities must be kept within peaceful limits and be open to international inspection. Tensions persist, though, endangering Turkish-

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<sup>7</sup> Soner Çağatay and Duden Yegenoglu, “Exposing the myth of Lasting Iranian-Turkish Amity”, Daily Star (Lebanon), May, 2006, for more information [www.washingtoninstitute.org/templateC06.php?CID=931](http://www.washingtoninstitute.org/templateC06.php?CID=931)

Iranian relations and other relations throughout the region. Recent activity of the Azeri Turkic minority in Iran has also strained ties.<sup>8</sup> Notwithstanding, these various obstacles, Turkey wishes to maintain good relations with Iran and seeks to strengthen ties by developing economic interactions.

Economic ties between neighboring countries can mitigate actual or latent or expected tensions. In the case of Turkey and Iran this has been demonstrated clearly over the past 15 years. Yet this process is threatened by recent activities of both countries and of the United States, Russia and other powers seeking influence in the Caspian Sea region.

### **Turkey's Trade with Greater Central Asia**

A key element of Turkish foreign policy in the post-Cold War era is to develop economic relations with the newly independent states of Central Asia. Turkish businesses have gained visibility in Central Asia by signing several framework agreements in finance, customs, manufacturing, small business, energy, transportation, tourism, health and technical assistance. Ambitious governmental program of aid and credit oriented toward the region have also been initiated. Turkey has become an important regional investor, especially in SMEs, with other sectoral investments in construction, telecommunications, energy, banking, textile and retail. While current total trade volumes between Turkey and Central Asia do not reflect their full potential, both the potential and the means of achieving it are growing, thanks to high world oil prices and important structural improvements in Turkey's foreign trade regimen that promote exports, imports, and the competitiveness of domestic industries.

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<sup>8</sup> See more detailed information about ethnic problems in Iran, "Stirring the Ethnic Pod" by Iason Athanasiadis, *Asia Times*, [www.atimes.com/atimes/Middle\\_East/GD29Ak01.html](http://www.atimes.com/atimes/Middle_East/GD29Ak01.html), April, 2005

Turkey's growing economic presence is depicted on the following graph:

Figure 1<sup>9</sup>:

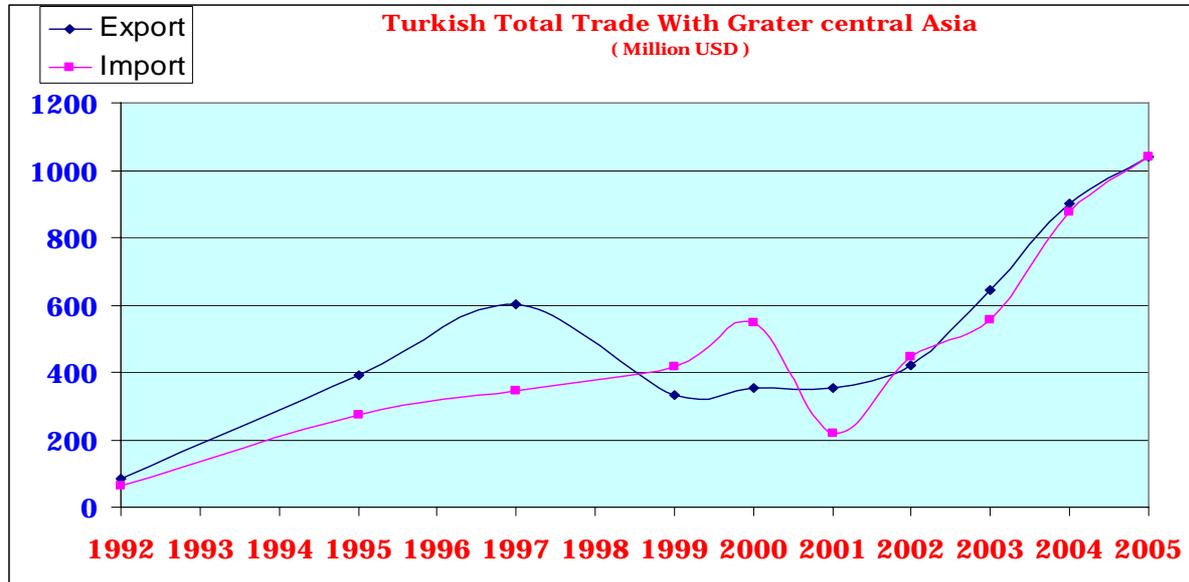


Figure I indicates that trade volume between Turkey and the Central Asia countries (Afghanistan, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan) was very low in 1992, amounted to only \$145 million. As relations intensified after independence, trade volume grew until the Russian economic crisis in 1997. Trade exports declined from then through Turkey's economic crises in 2000 - 2001.

Since 2002 Turkey's trade volume with Central Asian countries has ramped up quickly, from \$844 million in 2002 and to over \$2 billion in 2005. Trade grew by 55 percent in 2004, and 16 percent in 2005. Kazakhstan is Turkey's largest Central Asian trading partner, followed by Uzbekistan and Turkmenistan. The value of trade with these three countries is about \$1.76 billion, amounting to nearly 90 percent of all Turkish trade with Central Asian countries. It should be noted that the capital expenditures of small, unregistered businesses are not included in this data, although their role is by no means insignificant.

<sup>9</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006, and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively

*Table I: Turkey's Trade with Central Asian States<sup>10</sup>*

**Import From The Region (US\$)**

| <b>Countries</b> | <b>1992</b> | <b>1995</b> | <b>1997</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Afghanistan      | 204,000     | 65,000      | 691,000     | 698,000     | 497,000     | 420,000     | 1,053,000   | 2,684,000   | 6,776,000   | 8,300,000   |
| Kazakhstan       | 10,510,516  | 86,631,496  | 165,285,250 | 295,911,002 | 346,375,953 | 90,342,703  | 203,851,624 | 265,953,233 | 439,864,000 | 556,979,000 |
| Kyrgyzstan       | 1,442,084   | 5,512,746   | 7,555,800   | 2,779,482   | 2,349,517   | 6,307,053   | 17,622,564  | 10,577,908  | 13,097,000  | 9,156,000   |
| Tajikistan       | 7,762,099   | 6,342,334   | 3,381,913   | 4,052,532   | 16,511,405  | 13,662,054  | 40,695,917  | 56,962,111  | 62,700,000  | 47,300,000  |
| Turkmenistan     | 21,181,246  | 111,825,796 | 73,547,097  | 67,028,806  | 97,877,997  | 71,738,647  | 106,348,207 | 123,670,002 | 175,500,000 | 159,926,282 |
| Uzbekistan       | 21,019,403  | 61,528,703  | 94,772,966  | 47,476,861  | 85,794,461  | 36,045,330  | 75,342,346  | 97,781,167  | 178,671,000 | 257,453,000 |

**Export To The Region (US\$)**

| <b>Countries</b> | <b>1992</b> | <b>1995</b> | <b>1997</b> | <b>1999</b> | <b>2000</b> | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> | <b>2005</b> |
|------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Afghanistan      | 785,000     | 496,000     | 6,265,000   | 667,000     | 8,053,000   | 6,983,000   | 20,232,000  | 36,489,000  | 70,945,000  | 113,232,000 |
| Kazakhstan       | 19,411,991  | 150,774,833 | 210,577,801 | 96,595,591  | 118,701,179 | 119,795,053 | 160,152,590 | 232,644,917 | 353,170,000 | 459,198,000 |
| Kyrgyzstan       | 1,831,270   | 38,156,446  | 49,579,653  | 23,198,342  | 20,572,202  | 17,350,084  | 24,004,847  | 40,158,080  | 74,701,000  | 88,850,000  |
| Tajikistan       | 687,522     | 6,085,684   | 7,199,647   | 5,250,375   | 4,467,496   | 15,552,540  | 10,915,302  | 28,571,501  | 41,500,000  | 46,500,000  |
| Turkmenistan     | 7,288,957   | 56,290,482  | 117,533,514 | 106,627,694 | 120,155,152 | 105,277,888 | 110,020,805 | 168,972,782 | 214,500,000 | 180,414,916 |
| Uzbekistan       | 54,438,607  | 138,541,654 | 210,588,163 | 99,139,301  | 82,647,409  | 89,725,260  | 93,735,468  | 138,300,003 | 145,225,000 | 151,014,099 |

<sup>10</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, 2006, Ankara, and Country Reports of Turkish Foreign Economic Relations Board (DEIK) Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively

Turkey's exports to Central Asia consist mostly of chemicals, construction materials, textiles and food products. The major imports from the region are petroleum products and raw materials, mainly cotton.

Since the birth of the new states of Central Asia, approximately one thousand registered Turkish businesses, most of them SMEs, have invested in the region. Turkish companies are providing a diverse array of services across Central Asia. While small business activities in the region are not included in the official economic figures, their influence is as important as that of big businesses, not least because they encourage entrepreneurship among the general public in Central Asia, where individual initiative suffered under communist rule.

Turkey's entrepreneurial investments in the region are focused in energy, textiles, foodstuffs, banking and tourism sector, with total Turkish private investment standing at over \$3.5 billion, not counting investments by the small, unregistered firms. Most Turkish investments have been made in Kazakhstan, Turkmenistan, and Uzbekistan.

Turkish construction companies are very active in the region and enjoy significant competitive advantages over their rivals. Turkish companies have completed a large amount of construction work there, including educational, governmental, medical and residential buildings, as well as transportation infrastructure.

In parallel with strengthening economic and commercial relations, Turkey has invested in the modernization of business practices in the region. \$690 million out of a total of \$1,295 million credits appropriated by the Turkish Eximbank have been in support of free market reforms in Central Asia.

### **Turkey's Economic Relations with Afghanistan**

Relations between Afghanistan and Turkey entered a new phase after the fall of the Taliban regime in 2003. The Turkish public and private sector both evince a keen interest in Afghanistan, with the latter involved in construction and road projects in that country. Turkey's interest in Central Asia as a whole is paralleled by the growing commerce between it and Afghanistan. The volume of trade in 2001 was \$7 million, which

grew to over \$100 million by 2006. Turkish enterprises are becoming the lead foreign businesses in Afghanistan, with Turkish investment now standing at approximately \$115 million. Turkish firms have realized many important projects in that country, including the construction of residential complexes, business centers, and cement plants.<sup>11</sup>

Because of their extensive experience, Turkish construction firms that have carried out prestigious projects in Central Asia and the Caucasus have become major players in building critical infrastructure in Afghanistan. Such firms have moved materials, equipment, and employees to Afghanistan, taking on many projects as subcontractors. The World Bank and United States have financed most of these projects, which are valued at \$1 billion.<sup>12</sup> Because Afghanistan lacks the capacity to produce the necessary volume of construction materials, Turkey has brought them from abroad. Security concerns still obstruct business and construction activities outside of Kabul, and while there have been no deliberate attempts to kill Turkish citizens, the situation requires that they be continuously protected.

### **Economic Relations with Kazakhstan**

Kazakhstan's economic performance and political stability reflect its successful transition from a planned to a market-based economy. The volume of annual trade between Turkey and Kazakhstan has increased five-fold to \$1 billion since 2001.<sup>13</sup> This promising trend, coupled with Kazakhstan's relatively successful economic reforms, suggests that there is good potential for the further expansion of Kazakh-Turkish economic relations.

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<sup>11</sup> Country Profiles, Undersecretariat For Foreign Trade of Turkey, 2006, Ankara and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively

<sup>12</sup> Turkey's Role in the Reconstruction of Afghanistan, DEIK Document, Istanbul, August, 2005, for more information see [www.deik.org](http://www.deik.org)

<sup>13</sup> Country Profiles, Undersecretariat For Foreign Trade of Turkey, Ankara, 2006, and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively

Kazakhstan's hydrocarbons sector provides major opportunities for foreign investors. U.S. firms have the largest share of foreign direct investment (FDI) in Kazakhstan, and dominate this sector as well. Joint ventures are a common form of FDI in Kazakhstan, with the United States and western European countries, using them to tap into Kazakhstan's oil and gas reserves. Kazakh oil and gas are also important to Turkish investors, although they are more heavily invested in other sectors of the Kazakh economy.<sup>14</sup>

Approximately \$435 million in Turkish FDI flows into Kazakhstan each year, with additional capital brought from third countries by Turkish companies bringing annual total to \$1.3 billion.<sup>15</sup> Turkish investments lessened after the Russian economic crises of 1997-98, but Kazakhstan's rapidly developing economy caused Turkish investment to rebound quickly. Turkish investment has created over ten thousand jobs across Kazakhstan, mainly in telecommunications, logistics, energy, hotels, and banking. Turkish construction companies are also very active in Kazakhstan, garnering over \$3.2 billion in contracts spread among 147 different projects. It is notable that Turkish firms are carrying out 70 percent of all construction in the new capital city of Astana.

### **Economic relations with the Kyrgyzstan**

Kyrgyzstan is the only member of the Commonwealth of Independent States that is also a member of the World Trade Organization (WTO). WTO membership gives Kyrgyzstan the opportunity to be a balanced partner in the global economy, but institutional and structural problems continue to plague the development of its trade. Nonetheless, bilateral trade with Turkey reached \$100 million in 2005, four times the 2001

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<sup>14</sup> Vildan Serin, "The Impact of Foreign Direct Investment on the Socio-Economic Development of Kazakhstan", Paper Presented at the 4th Annual Central Eurasian Studies Society Conference, Cambridge, Mass, USA, October 2003, p.7

<sup>15</sup> Turkish- Kazakh Economic and Commercial Relations, [www.deik.org/bilateral\\_eng.asp?code=KAZ](http://www.deik.org/bilateral_eng.asp?code=KAZ)

figures. Turkish exports constitute 90 percent of the bilateral trade volume, making it a key trade partner for Kyrgyzstan<sup>16</sup>.

Turkish companies were among the first foreign firms to bring technology and investment to the new Kyrgyz economy. Turkish investments have focused on banking, foodstuffs, plastics, and construction materials. Turkish construction companies have completed nineteen projects in the Kyrgyz Republic at a total value of more than \$330 million. Credits from the Turkish Eximbank have done much to stimulate trade and business links between the two countries.

Turkey invested over \$100 million on supporting education in Kyrgyzstan. The Turkish education Ministry currently operates three schools and one language training centre in Kyrgyzstan. Moreover, Turkish businesses and charities have also set up 14 high schools and 1 university as well as other related institutes.<sup>17</sup>

### **Economic Relations with Tajikistan**

Compared to trade with other Central Asian countries, Turkey's economic relations with Tajikistan remained limited until 2001. Civil war, political uncertainty and structural problems long suppressed the volume of trade down. But between 2001 and 2005 Turkish – Tajik trade grew from \$29 million to \$93 million. Carpets, plastic products, machinery and cleaning materials are the primary Turkish exports to Tajikistan, while aluminum and aluminum products are Tajikistan's main exports to Turkey.<sup>18</sup>

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<sup>16</sup> Kyrgyzstan Country Profile, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006, Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively. See more information at the website of Istanbul Chamber of Commerce, [www.ito.org.tr](http://www.ito.org.tr)

<sup>17</sup> Yaşar Sarı, "Turkish Schools and Universities in Kyrgyzstan", *The Times of Central Asia*, June, 2006, see [www.turkishweekly.net/comments.php?id=2134](http://www.turkishweekly.net/comments.php?id=2134) for further information.

<sup>18</sup> Tajikistan Country Profile, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006 and Country Reports of Turkish Foreign Economic Relations Board

Turkish FDI in Tajikistan is very limited — a mere \$30 million— placing Tajikistan last among the Central Asian states in that respect. Construction, textile, foodstuffs and cleaning materials are the main areas in which Turkish companies are active.

### **Economic Relations with Turkmenistan**

After Kazakhstan and Uzbekistan, Turkmenistan is the region's third-largest Turkish trade partner. The volume of bilateral trade nearly doubled between 2001 and 2005, increasing from \$175 million to \$345 million. Turkish trade makes up about 5 percent of Turkmenistan's total trade.<sup>19</sup>

Turkmenistan receives the second largest amount of Turkish FDI in Central Asia. Most investment is via joint ventures established with Turkmenistan state-owned companies, since the privatization process has not advanced there. The most important sector for investment is textiles, as a result of which Turkmenistan has become a textile exporter. Turkish companies are also investing in agriculture, foodstuffs, banking and health care. Some 200 Turkish firms are active in Turkmenistan's construction, textile and food sectors.<sup>20</sup>

Turkmenistan is the biggest regional market for Turkish construction companies. As of 2005, Turkish firms had signed over 300 projects with an estimated value of \$5.45 billion, making Turkey a key player in the reconstruction of Turkmenistan.

Cotton and energy are Turkmenistan's primary exports and technology products are the main items of imports from Turkey. Turkmenistan's natural gas resources are of key importance to Turkey, since they could provide an alternative to Russian and Iranian gas, and, hence improve

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(DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively.

<sup>19</sup> Turkmenistan Country Profile, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006 and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively. See more information at the website of Istanbul Chamber of Commerce, [www.ito.org.tr](http://www.ito.org.tr).

<sup>20</sup> Ian Gill, "Turkey Ties", ADB Review, [www.adb.org](http://www.adb.org), Philippines, October 2005, p. 3.

Turkey's energy security. The much discussed but as yet unbuilt pipeline for Turkmen gas across the Caspian through Azerbaijan, Georgia and Turkey could provide Turkmenistan an alternative route to Western markets for its most valuable product.

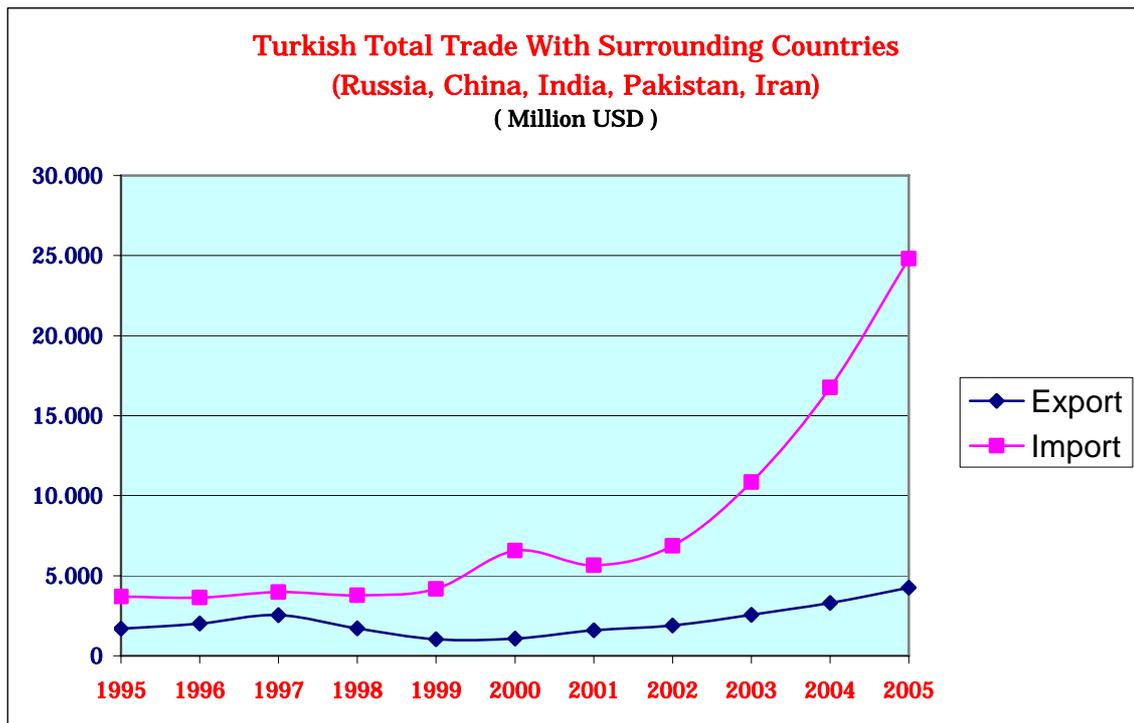
### **Economic Relations with Uzbekistan**

Due to a weak business and investment environment, inflation, and other structural problems the growth rate of the Uzbek economy is the smallest among the CIS countries . Significant free market reforms have not been implemented due to fear of social unrest. Nonetheless, Uzbekistan is Turkey's second-largest trade partner in Central Asia. Trade volume gradually increased between 2001 and 2005, peaking at \$400 million. Turkey ran a trade surplus with Uzbekistan until 2003, but went into deficit thereafter. <sup>21</sup>

Uzbekistan's main exports are copper and energy, while technology products are the main items imported from Turkey. Turkish FDI in Uzbekistan began upon Uzbekistan's independence. Down to 1995 Turkish SMEs were most active in Uzbekistan, but thereafter, large companies began also to invest. Turkish businesses have invested in the textile, automotive, tourism, banking and foodstuff sectors. As in other Central Asian states, Turkish construction companies are very active in Uzbekistan, with over 50 projects.

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<sup>21</sup> Uzbekistan Country Profile, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006 and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively. See more information at the website of Istanbul Chamber of Commerce, [www.ito.org.tr](http://www.ito.org.tr).

Figure II<sup>22</sup>:

### Turkey's Trade with Large Countries Neighboring Central Asia

Turkey's import (10.3%) and export (7.9%) figures with China, India, Russia, Pakistan and Iran were similar in 1995, but by 2005 the picture has changed dramatically. During the same period, these countries' role in Turkey's foreign trade grew. In 1995 their total share of Turkish imports reached 10.3 percent (\$3.7 billion), and 7.3 percent (\$1.7 billion) of Turkish exports. By 2005 21.3 percent (\$24.8 billion) of Turkish imports came from these countries, and they received 5.8 percent of total Turkish exports. Although the share of Turkish exports had decreased, the value had grown to \$4.2 billion.<sup>23</sup> There are several reasons for the disparity between these figures. The policies of neighboring countries and the EU accession

<sup>22</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006, [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm)

<sup>23</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006 and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively. See more information at the website of Istanbul Chamber of Commerce, [www.ito.org.tr](http://www.ito.org.tr)

process have directed the bulk of Turkish trade towards provided the EU, Black Sea, and Middle Eastern countries.

Meanwhile, Turkey's growing oil and natural gas needs have deepened its reliance on Russian and Iranian resources, and China and India exports to Turkey have increased as economies have grown. The resulting imbalance of Turkey's trade with these countries remains uncorrected.

Turkey competes economically and politically with China, India, Russia and Iran in Central Asia. It is second only to Russia in its commercial presence in the region. Turkey's political influence in Central Asia recently decreased as the Turkish ruling party, the Justice and Development Party (AKP), focused on cultivating relationships with the EU and the Middle East. But the presence of Turkish firms and NGOs, and institutions such as TIKA, assure that Turkish commercial activity in Central Asia will continue to grow.

Over the past 15 years, Turkey's total trade volume with the CAS was over \$2 billion dollars, while total trade volume with the surrounding countries—Russia, China, India, Iran and Pakistan—reached \$29 billion. Turkish trade volume with the region will continue to increase, despite Turkey's strategic considerations regarding EU accession, which have resulted in over 50 percent of Turkish trade being directed towards EU.

While most Turkish trade overall is shipped by sea, most of its commerce with Central Asian countries is conducted by road, and recently by rail. Turkey is becoming the transfer point for oil and natural gas from the Caspian basin for Western markets. This has been greatly facilitated by the opening of Bakü-Tbilisi-Ceyhan (BTC) pipeline in July 2006, the integration of Azeri gas into the Turkish pipeline system via Erzurum, and the transfer of Kazakh oil to Ceyhan via the BTC. Turkey's role as the EU's energy terminal will be assured by the NABUKO Project, currently under construction, which will transfer natural gas to Austria via Turkey, and by forthcoming projects to transfer natural gas to Italy via Greece. These projects support the transport of Kazakh petroleum and Turkmen natural gas to Europe via Transcaspian pipelines. Russia's use of natural gas pricing as a political

tool, notably against Ukraine and Georgia, has pushed European countries, including Turkey, to find alternative energy resources and routes. And Iran's restriction of natural gas transferred to Turkey during winter of 2005 underscored the need for Turkey to find new hydrocarbon resources. Russian and Iranian behavior regarding their energy sales has garnered international support for new Transcaspian pipelines.

At the end of Turkey's ninth five-year development program in 2013, Turkish exports to countries neighboring the Central Asia will reach \$13 billion dollars and imports will be around \$60 billion.<sup>24</sup> Turkey will undoubtedly try to correct this imbalance. However, its consumption of Kazakh oil and Turkmenistan natural gas are expected to increase to \$10 billion within the next seven years.

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<sup>24</sup> Nineth Five-Year Development Program of Turkey, Ankara,2006, p.25,  
<http://ekutup.dpt.gov.tr/plan/ix/9kalkinmaplani20061208.pdf>

Table II: Turkish Trade With Surrounding Countries<sup>25</sup>

| IMPORT (\$)-% | 1995           | 1996           | 1997           | 1998           | 1999           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005            |
|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|
| RUSSIA        | 2.082.352.354  | 1.921.139.118  | 2.174.258.117  | 2.155.006.116  | 2.374.132.817  | 3.886.583.276  | 3.435.672.619  | 3.891.721.401  | 5.451.315.438  | 9.033.138.484  | 12.869.945.272  |
| IRAN          | 689.476.335    | 806.335.161    | 646.401.629    | 433.026.395    | 635.928.166    | 815.730.198    | 839.800.076    | 920.971.696    | 1.860.682.809  | 1.962.058.691  | 3.469.704.708   |
| PAKISTAN      | 153.625.344    | 83.466.561     | 57.023.441     | 57.363.171     | 25.443.587     | 82.232.358     | 101.280.249    | 117.654.683    | 192.027.798    | 240.720.072    | 315.320.026     |
| INDIA         | 222.872.231    | 258.173.689    | 300.892.377    | 276.474.271    | 243.006.381    | 449.307.322    | 354.875.121    | 564.463.264    | 722.855.219    | 1.046.398.380  | 1.278.999.653   |
| CHINA         | 539.019.099    | 556.491.722    | 787.457.233    | 846.133.978    | 894.812.799    | 1.344.731.392  | 925.619.822    | 1.368.316.717  | 2.610.298.044  | 4.476.077.424  | 6.867.855.947   |
| 5 COUNTRY     | 3.687.345.363  | 3.625.606.251  | 3.966.032.797  | 3.768.003.931  | 4.173.323.750  | 6.578.584.546  | 5.657.247.887  | 6.863.127.761  | 10.837.179.308 | 16.758.393.051 | 24.801.825.606  |
| TOTAL         | 35.707.519.776 | 43.626.690.167 | 48.558.720.673 | 45.921.392.207 | 40.671.272.031 | 54.502.820.560 | 41.399.082.953 | 51.553.797.329 | 69.339.692.058 | 97.539.765.968 | 116.562.532.073 |
| EXPORT (\$)-% | 1995           | 1996           | 1997           | 1998           | 1999           | 2000           | 2001           | 2002           | 2003           | 2004           | 2005            |
| RUSSIA        | 1.238.225.601  | 2.082.352.354  | 2.056.400.339  | 1.348.002.243  | 588.663.804    | 643.902.938    | 924.106.727    | 1.172.038.590  | 1.367.590.908  | 1.859.186.551  | 2.377.001.524   |
| IRAN          | 268.433.937    | 297.521.435    | 307.007.494    | 194.696.358    | 157.814.999    | 235.784.797    | 360.535.772    | 333.962.009    | 533.786.239    | 813.031.280    | 912.753.627     |
| PAKISTAN      | 90.870.476     | 77.875.104     | 58.160.735     | 63.585.006     | 128.527.155    | 52.856.796     | 31.186.426     | 57.457.227     | 70.353.952     | 86.399.691     | 187.554.234     |
| INDIA         | 42.006.128     | 59.390.127     | 60.826.402     | 73.570.754     | 120.531.819    | 56.047.013     | 74.373.323     | 72.723.969     | 71.365.460     | 136.317.405    | 219.869.435     |
| CHINA         | 66.961.101     | 65.114.673     | 44.375.287     | 38.446.860     | 36.648.986     | 96.010.398     | 199.372.814    | 268.229.485    | 504.625.797    | 391.585.394    | 549.763.633     |
| 5 COUNTRY     | 1.706.497.243  | 2.011.535.099  | 2.526.770.257  | 1.718.301.221  | 1.032.186.763  | 1.084.601.942  | 1.589.575.062  | 1.904.411.280  | 2.547.722.356  | 3.286.520.321  | 4.246.942.453   |
| TOTAL         | 21.636.476.293 | 23.224.465.343 | 26.261.071.786 | 26.973.951.738 | 26.587.224.962 | 27.774.906.045 | 31.334.216.356 | 36.059.089.029 | 47.252.836.302 | 63.167.152.820 | 73.472.288.786  |

<sup>25</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006, [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm)

Continental trade figures will increasingly affect on Turkey's GDP and its state income; even today Turkey is receiving \$600 million annually from the customs duties paid by the Central Asian countries and China, India, Iran, Pakistan and Russia. Applying this rate to the projected \$70 billion trade volume in 2013 yields a projected state income of \$1.4 billion from customs duties deriving from regional and continental trade.

### **Economic Relations with Russia**

Russia's share of Turkish imports grew from 5.8 percent (\$2.08 billion) in 1995 to 11 percent (\$12.86 billion) at the end of 2005. Over the same period, Russia's share of Turkish exports decreased from 5.7 percent (\$1.24 billion) to 3.22 percent (\$2.38 billion).<sup>26</sup> In 1984 the two countries agreed that 70 percent of the cost of Russian gas would be paid for with Turkish goods and services. Yet this was never applied and Turkey's growing energy needs increased the trade gap. In the 1990s the value of shuttle trade between Turkey and Russia reached \$10 billion, but decreased to \$2 billion in 2005. Turkey's primary exports to Russia are industrial products, while it imports fossil fuel, iron and steel products, and unrefined goods. By the end of 2004 Turkish firms had invested \$1.5 billion in Russia, either directly or via third countries.

### **Turkey's Economic Relations with China**

China's share of Turkish imports has grown from 1.5 percent (\$539 billion) in 1995 to 5.9 percent (\$6.87 billion) at the end of 2005. Over the same period, exports increased from 0.3 percent (\$67 million) to 0.7 percent (\$549 million).<sup>27</sup> By 2006 China had become Turkey's major

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<sup>26</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006 and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively. See more information at the website of Istanbul Chamber of Commerce, [www.ito.org.tr](http://www.ito.org.tr)

<sup>27</sup> China Country Profile, Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara 2006 and Country Reports of Turkish Foreign Economic Relations Board (DEIK), for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively. See

trading partner in the Asia-Pacific region. Turkish exports to China have been limited to items like iron and steel, but export volumes decreased after Chinese production of these products grew. Conversely, China's exports to Turkey have been increasing both in volume and variety of goods, but there are as yet no significant Turkish investments in China.

### **Economic Relations with Pakistan**

There appears to be an inverse relationship between the volume of Turkish-Pakistani commerce volume and the friendliness of Turkish-Pakistani political relations. Turkish imports decreased from 0.4 percent (\$154 million) in 1995 to 0.3 percent (\$315 million) in 2005. Turkish exports decreased from 0.4 percent (\$90.8 million dollars) in 1995 to 0.3 percent (\$187.5 million) in 2005.<sup>28</sup> Turkey's primary exports to Pakistan are industrial goods, while its main imports from Pakistan are cotton and apparel. Investment levels between the two countries are very low.

### **Economic Relations with India**

Turkish commercial relations with India strengthened after India became a major exporter, but the bilateral trade volumes do not reflect the full capacity of either country. In 1995, Indian exports to Turkey were only \$226 million, but they have grown to \$1.28 billion by 2005. India imported only \$42 million worth of goods from Turkey in 1995, and a decade later this figure had grown only \$219 million.<sup>29</sup> Investment between the two countries remains very low.

### **Economic Relations With Iran**

Iran remains the main transport corridor for Turkish goods entering Central Asia and Afghanistan. In 1995, imports from Iran constituted 1.9 percent (\$689 million) of Turkey's total imports, which grew to 3 percent

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more information at the website of Istanbul Chamber of Commerce,  
[www.ito.org.tr](http://www.ito.org.tr)

<sup>28</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006,  
[www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm)

<sup>29</sup> Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006,  
[www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm)

(\$3.47 billion) in 2005. Turkish exports to Iran constituted 1.2 percent (\$268 million) during the entire period 1995-2005. A trade gap has developed due to substantial Turkish purchases of Iranian oil and natural gas. While both countries are invested in each other, FDI is a small portion of total business volume.<sup>30</sup> Recently, Turkey has become an attractive tourism destination for Iranians.

### **Benefits to Turkey from Continental Trade**

It has been noted that Turkey lacked a clear strategy toward Central Asian countries during the period immediately following their independence. Yet, over time, routine business activities brought about more intensive official and unofficial interactions, and enhanced mutual understanding. Turkey learned about Central Asia thanks to routine issues that Turkish businessmen grappled with there. Today, it appears that Turkey is well-acquainted with the region's problems, and has a good sense of how they might be overcome in the short- and mid-term.

Thousands of Turkish citizens living and work in the Central Asia, many people from these countries came to Turkey on business. Visits to Turkey by Central Asian businessmen enable them to understand practical aspects of doing business in a free-market economy. This contact also provides them with impressions of a successful a Muslim-majority, secular, and democratic state. Most Central Asians fear Islamic extremism, have no interest in close relations with Islamic countries, preferring instead to remain open to the United States, Turkey and other outside secular powers.

Business activities have provided a sound basis for cultural contacts, leading private companies to support cultural programs organized in Turkey and across Central Asia. Turkey is the first tourist destination for Central Asians who can afford to travel.

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<sup>30</sup> Iran Country Profile, Trade Statistics, Undersecretariat for Foreign Trade of Turkey, Ankara, 2006 and Country Reports of Turkish Foreign Economic Relations Board (DEIK), Istanbul, for more information see [www.dtm.gov.tr/ead/ulkegos/ulkegos.htm](http://www.dtm.gov.tr/ead/ulkegos/ulkegos.htm) and [www.deik.org](http://www.deik.org) respectively. See more information at the website of Istanbul Chamber of Commerce, [www.ito.org.tr](http://www.ito.org.tr)

Eurasian countries became significant international arena for Turkish businessmen after the radical free-market reforms initiated by Turgut Özal's government in the 1980s. The experience gained by Turkish construction companies operating in the region facilitated penetration of the more challenging EU market.

### **Caspian Basin Strategic Assets: Oil and Gas**

The natural resources of the Caspian Basin are attracting the interest of the big economical and political powers to the region. Oil and gas are the main assets have the potential to bring welfare (actually it is started) to the region and boosting factor to integrate region to outer world while creating intensive competition between big powers. The development of oil and gas resources in the Caspian region is particularly important for the development of the central Asian and Caucasian economies. Investment attracted to the oil and gas sector, including in the transportation infrastructure of neighboring countries, could provide significant revenue for the region's governments and stimulate investments in other economic sectors.<sup>31</sup>

Estimation of oil and gas reserves of Caspian basin and Central Asia varies. However figures represent 1.5% to 4% of world proven oil reserves and 6% of its gas reserves. Production levels are expected to reach 4 million barrels per day (bbl/d) in 2015 compared to 45 million bbl/d for the OPEC countries in that year. Central Asia is neither the world's largest source of oil and gas nor easily accessible; market access is hindered by political and geographic conditions, including continued Russian influence, limited access to waterways beyond the Caspian Sea, and limited export infrastructure.<sup>32</sup>

However, the region is clearly important geopolitically and geoeconomically. Russia controls the majority of oil export routes from reserves in Central Asia and the Caspian. Nevertheless, prior and

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<sup>31</sup> Hans Kauch (team leader) *Caspian Oil and Gas*, IEA Report, Paris, 1998, p.34, [www.iea.org/textbase/nppdf/free/1990/caspian\\_oil\\_gas98.pdf](http://www.iea.org/textbase/nppdf/free/1990/caspian_oil_gas98.pdf),

<sup>32</sup> Ariel Cohen, "U.S. Interest and Central Asia Energy Security", The Heritage Foundation, Backgrounder, Washington D.C., November 2006

continuing efforts by major Western oil companies, particularly the Baku–Tbilisi–Ceyhan (BTC) pipeline, as well as current and planned investments in the Central Asian oil sector by India and China, have yielded more options for non-Russian export routes and diversification of the customer base. These developments may help to break the Russian energy-transit monopoly, but they also open the region to intensified competition over energy resources on the part of other energy-hungry economies<sup>33</sup>.

The BTC pipeline - built by a consortium of 11 companies, including British Petroleum, the American firm Unocal, and Turkey's national oil corporation - is designed to bring a non-Middle Eastern source of oil to the West. This would loosen Russia's and Iran's grip on the transport of Caspian and Central Asian oil by creating a new route that is friendlier to the United States and Europe<sup>34</sup>. The realization of the BTC makes fundamental changes on the perception of in and out side of the region. Especially, in the Caucasian and the Central Asian republics, it diminishes the idea of the Russian domination over the region, and also accelerates the process of being a state<sup>35</sup>.

The reality of Russian purchasing of the Kazak oil and the Turkmen natural gas under the market prices and selling them from the market price forces these countries to seek new routes. Indeed, BTC came online at exactly the time when Kazakhstan began debating how to export the resources of the Kashagan oil field, the largest oil field discovered globally in the past two decades. Kazakhstan's stated interest in exporting oil through BTC and ongoing negotiations with Consortium is an encouraging sign that Europe and US should take advantage of by supporting politically and financially, through export credits, the

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<sup>33</sup> Ariel Cohen, "U.S. Interest and Central Asia Energy Security", The Heritage Foundation, Background, Washington D.C., November 2006

<sup>34</sup> Yigal Schleifer, "Pipeline Politics Give Turkey an Edge", Christian Science Monitor, 25 May 2005 Edition

<sup>35</sup> S. Frederick Starr, "School of Modernity", in Starr and Svante E. Cornell, eds., *The Baku - Tbilisi Ceyhan Pipeline : Oil Window to the West*, Washington D.C.: CACI, 2005, p.8, see [www.silkroadstudies.org/BTC.htm](http://www.silkroadstudies.org/BTC.htm) for more information about BTC implications.

building of Trans-Caspian oil as well as gas pipelines<sup>36</sup>. As a matter of fact that US government efforts show that the regional and the international conditions are getting adequate in order to realize the Trans-Caspian pipe lines. These strategic materials are important not only for the producer countries but also for the countries that the pipelines are passing through. If we leave the dispute between Azerbaijan and Turkmenistan related to natural gas to one side, Azerbaijan and Georgia both are not hiding the ambitions of joining to the NATO and the EU, support transfer of oil and gas through their territories. Carrying the some of the Kazak oil via the BTC is a good example. The transformation, created by the BTC in the region, obviously strengthens the position of the supporters of this idea. However, it seems to gain new allies. Because of the Turkish Government's focus on the EU process and the unrest in Iraq, Turkey has lost some of its momentum in the Caucasus in the past few years.<sup>37</sup>

Due to the geographical vicinity to both the Caspian Sea and the Middle East oil and gas, Turkey frequently mentions that it is eager for being an energy corridor and a terminal for the west<sup>38</sup>. However decreasing interest to the Caucasus and Central Asia during the AKP government with different reasons this claim has not been supported sufficiently to become reality. Of course another factor that adversely affected pipeline politics passing through Turkey to western markets is the disagreement between Turkey and US about the Iraq war and in a certain extent different views about methodology of US in Greater Middle East Project and engagement to developments in Iraq particularly Northern Iraq.

However, dependency to the Russian and Iranian natural gas, 65% and 20% respectively, and the possibility of using energy as a weapon by these countries push Turkey to search for the alternative sources and strategies. Especially, problems experienced at the delivery of gas supply last winter with Iran and disturbance of shortage because of the so-called technical

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<sup>36</sup> Svante E. Cornell, S. Frederick Starr, *The Caucasus: A Challenge for Europe*, Silk Road Paper, Washington D.C., June 2006, p.83, [www.silkroadstudies.org](http://www.silkroadstudies.org)

<sup>37</sup> Ibid., p.77,

<sup>38</sup> Zeyno Baran, "Implications for Turkey", in Starr and Cornell, eds., *The Baku - Tblisi Ceyhan Pipeline*, p.104.

excuses, Turkey accelerates its search for the alternatives. The claim being a transport corridor to west for the oil and gas transfer will not give only strategic importance to Turkey but as well Turkey will diversify its energy sources and break Russian and Iranian monopoly. With the impetus of BTC, need to diversify energy sources both for Turkey and Western Countries and relatively thawing relations with US are increasing the realization chance of pipelines all the way starting from eastward Caspian up to middle of Europe.

Some analysts project that by 2030 Europe will import more than 90% of its oil and oil products demand, about 84% of its gas demand (with 40% from Russia), and approximately 60% of its coal demand. This provides new arguments for improving energy efficiency and diversification. In addition, it suggests the need for a more stringent policy of oil and gas security storage and for actions in the field of foreign policy such as maintaining a constant dialogue with key energy suppliers such as Russian and Central Asian States, and with transit countries such as Poland, Ukraine and Turkey.<sup>39</sup>

Results of the studies, performed by various research institutions and energy companies, as well as the European Union itself, are giving signals of significant amounts to be transported via Turkey to the European countries in the near future. Within this context, studies were initiated for another route to reach the European market. This additional route is envisaged to carry the gas coming from Middle East and Caspian sources together with the route through Greece to Italy. Another route is planned to pass through Bulgaria, Romania, and Hungary to reach Austria and will reach Europe from another angle. The Greek pipeline is already contracted and will be operational in 2007. Presently, the pipeline projects related to natural gas, come from Egypt, Iraq, Turkmenistan and Kazakhstan and go to Europe (NABUCO), are on the agenda of Turkish authorities. The most important of the pipeline proposals are the

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<sup>39</sup> Jean Marie Chevalier, "Does Europe Need a Common Energy Policy?", CERA Report, May, 2006,  
<http://www.cera.com/asp/cda/client/report/reportpreview.aspx?CID=8104&KID=>

NABUCO Pipeline and the Trans-Caspian Pipeline. NABUCO, with strong Turkish support and official approval from the EU, is expected to be built in 2008. It will provide a direct link between Caspian natural gas fields and European markets without Russia as an intermediary, bringing Azerbaijani, Kazakh, Turkmen, and Iranian gas from Erzurum to Austria via Romania and Hungary even some Russian gas through Blue Stream pipeline if the related agreements realized. A Trans-Caspian pipeline would link the large gas supplies of the eastern Caspian to Baku, presumably feeding Kazakh and Turkmen gas into SCP (South Caucasus Pipeline) and subsequently to NABUCO<sup>40</sup>. On the other hand, Turkey is planning to build a bypass pipeline, at the feasibility phase, from the black sea port of Samsun to energy terminal at the Mediterranean Port Ceyhan. Considering the heavy tanker traffic at the straits and obvious threat to downtown Istanbul and increasing export potential of Caspian oil forcing the construction of new pipelines.

Just a brief look at the map of the broader Central Eurasian region shows how important corridor of BTC is for this mostly landlocked region. This pipeline is an integral part and most important pillar of the larger transportation network – also known as the new silk road- running all the way from western China and central Asia, through the Caspian and Caucasus, across the black sea, and then on to ports in Ukraine and Mediterranean. This transportation Superhighway is designed to complement existing transport roots from Asia to Europe, including the traditional and often heavily overloaded outlets via Russia. Eventually, the goal is to create a fully integrated transportation network- including upgraded highways, pipelines, railroads, ports, ferries, fiber-optic lines, electricity transmission lines- that will make it easier for the states of Central Asia and the Caucasus to trade not only with each other but also with Europe, the Middle East, and the rest of the world.<sup>41</sup>

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<sup>40</sup> Ariel Cohen, Conway Irvin, Turkey: A Linchpin in Pipeline Politics, *Central Asia-Caucasus Analyst*, November 1, 2006.

<sup>41</sup> Svante E. Cornell, Mamuka Tsereteli and Vladimir Socor, "Geostrategic Implications of the Baku-Tblisi-Ceyhan Pipeline", in Starr and Cornell, eds., *The Baku - Tblisi Ceyhan Pipeline*, p.20.

## Impediments to Turkey's Active Involvement in Continental Trade

There are significant barriers to trade in Central Asia pertaining to trade policy, transport and transit systems in the CASs, their neighbors, and trading partners. The more significant trade barriers pertaining to trade policy in the CASs include a complex tariff schedule and relatively high tariffs (Kazakhstan and Uzbekistan); escalation of tariffs (all the CASs); frequent and unpredictable changes in the tariff schedule (Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan); high implicit tariffs in the form of taxes that are levied on imported goods than domestically produced goods (Kazakhstan and Uzbekistan); explicit export taxes (Kazakhstan); and prohibition and licensing of exports and imports of certain commodities (all the CASs). Uzbekistan appears to continue using restrictions on access to foreign exchange in regulating imports and imposes relatively tight restrictions on cross border movements of people and transport equipment in an apparent effort to restrict imports from neighboring countries. Large agricultural subsidies that developed countries provide to their farmers also constitute significant barriers to trade in Central Asia<sup>42</sup>.

Private Turkish firms operating in Central Asia have suffered from a variety of business-related problems. These impediments relate to security, infrastructure, legal and institutional matters, banking and fiscal systems, customs organizations, visas and employment permission, and transportation.<sup>43,44</sup>

## Security

The Central Asian states face common security challenges from crime, corruption, terrorism, Islamic extremism, ethnic and civil conflict, border

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<sup>42</sup>Adrian Ruthenberg and Bahodir Ganiev, "Central Asia: Increasing Gains from Trade Through regional cooperation in Trade Policy, Transport, and Customs Transit.", Asian Development Bank, Philippines, 2006, pp 34-35, see more information at [www.adb.org/Documents/Reports/CA-Trade-Policy/chap3.pdf](http://www.adb.org/Documents/Reports/CA-Trade-Policy/chap3.pdf)

<sup>43</sup>Country reports issued by the Foreign Economic Relations Board of Turkey (DEIK), Istanbul, 2006,

<sup>44</sup>Hasan Selçuk, "Problems Faced by Turkish Companies at Turkic States", Investment Opportunities in Turkic Republics, Istanbul, 2004, pp.146-150

tensions, water and transport disputes, the proliferation of weapons of mass destruction (WMD), and illegal narcotics.

The problems of authoritarian regimes, crime, corruption, terrorism, and ethnic and civil strife and tensions jeopardize the security and independence of all CAS including Afghanistan, though to varying degrees. Kazakhstan has faced the potential of separatism in Northern Kazakhstan where ethnic Russians are dominant, although this threat appears to have diminished in recent years with the emigration of hundreds of thousands of ethnic Russians. Tajikistan faces the uncertain resolution of its civil war and possible separatism, particularly by its northern Soghd region. Kyrgyzstan has faced increasing demand by its southern regions for autonomy that it has tried to meet in part by promulgating a new constitution in 2003 that provides some local rights. Turkmenistan faces clan and regional tensions and declining social services that could exacerbate a succession crisis. Uzbekistan faces rising dissidence from those President Islam Kerimov labels as Islamic extremist, from a large ethnic Tajik population, and from an impoverished citizenry.<sup>45</sup>

Security is a critical pre-condition for the development of entrepreneurial activity. Although security issues threaten business ventures, Turkish businessmen, particularly in mid-sized ventures are bolder generally and have a higher tolerance for political risk than entrepreneurs from other countries. Political regimes in Central Asia are relatively unstable—despite security agreements and close ties to Western countries—creating a constantly changing strategic equilibrium. Weak regional governments, the ongoing state-building process and possibility of conflict in border regions are major factors discouraging foreign investment.

Like other countries, Turkish firms, entrepreneurs and citizens operating in Central Asia have experienced various security-related problems since independence. While the severity of these problems varies from one republic to another, security is always at the top of the business decision-making agenda. Recent attacks on Turkish citizens and their investments

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<sup>45</sup> Jim Nichol, "Central Asia's Security : Issues and Implications for U.S. Interests, CIS report for Congress, Washington D.C., January 2005, p.6

during the political upheavals in Kyrgyzstan underscores the importance of security.

Among all the sectors affected by security, transportation may be the most important since it is key to trade activity. Yet the transportation sector, particularly road and rail transport, is plagued by serious and persistent security issues. Turkish truck drivers routinely encounter serious threats, including robbery and violence, as well as excessive fees levied by local officials.

### **Transportation**

Transport related significant barriers to trade in Central Asia are high transport costs and long and unpredictable transport times for international shipments to and from CASs. This is not only landlocked and remote location of the CASs and their difficult topography, but also due to deficiencies in their transport networks, high costs and low quality of transport and logistic services in the region, and difficulties with movements of goods and transport equipment across borders and through the territories of the CASs and neighboring countries<sup>46</sup>.

Many Central Asian countries have poor quality trade-related transportation services that are excessively expensive. Borders crossings typically cause endless difficulties for Turkish transport companies, while steep taxes on road use impose withering fiscal burdens on Turkish truckers. Distribution remains imperfect and problems continue despite a major reduction in free-pass paperwork for cross-country transit. Poorly organized transit gateways to Central Asia via Iran, Azerbaijan, and Georgia create significant problems for Turkish truck drivers. Road taxes and tolls in Azerbaijan cost up to \$1,000 per Turkish truck, although these fees are often not levied on trucks from such neighboring counties as Iran. Nor is it uncommon for political instability to render a region impassable to cargo transport, further increasing the time and money spent required for continental trade.

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<sup>46</sup> Adrian Ruthenberg and Bahodir Ganiev, "Central Asia: Increasing Gains from Trade Through regional cooperation in Trade Policy, Transport, and Customs Transit.", Asian Development Bank, Philippines, 2006, pp 34-35

Figure-III and Figure-IV compare the actual transport costs and transit times for shipments by road and by rail between CASs (Kazakhstan, Kyrgyz Republic, Tajikistan, and Uzbekistan) and selected countries outside the region with the corresponding transport costs and transit times in the “ideal world” (i.e., a world with balanced transport flows, competitive markets for transport services smooth border crossing, low transit fees, and no visa problems and unofficial payments)<sup>47</sup>. Although Turkey has comparatively advantageous position than the other European countries regarding transport costs and time, still figures from cost side 1.5-2 times higher than average ideal world practices and transit times 2-3 times longer than from normal practices.

Again excluding exports of primary commodities and imports of heavy machinery and equipment, for which transport costs are relatively low, transport costs comprised an estimated 11-16% and logistics costs accounted for more than 20% of the total value of exports and imports in the CASs. By comparison, transport costs made up 8.4% of the value of the imports in Asia as a whole and 6.1% of the value of imports in the world at large 2001<sup>48</sup>.

Improving the transport infrastructure and logistic services within the Region and along the transit corridors has vital importance for the Regional countries, both for integration with world trade systems and in a way to their economic liberalization. However solving the regional transport problems often requires several inter related issues to be tackled simultaneously in more than one country.

There are several potentially important corridors across Central Asia:

1. East-West Corridors linking Asia and Europe along the former Silk Road either through Kazakhstan or through Kyrgyz Republic

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<sup>47</sup> Adrian Ruthenberg and Bahodir Ganiev, “Central Asia: Increasing Gains from Trade Through regional cooperation in Trade Policy, Transport, and Customs Transit.”, Asian Development Bank, Philippines, 2006, p 31

<sup>48</sup> Adrian Ruthenberg and Bahodir Ganiev, “Central Asia: Increasing Gains from Trade Through regional cooperation in Trade Policy, Transport, and Customs Transit.”, Asian Development Bank, Philippines, 2006, p 31

2. North-South corridors between Siberia and South-West Asia and between the Urals and the Persian Gulf.<sup>49</sup>

The EU assists the transport sector in Central Asia through its TACIS (Technical Assistance for the Commonwealth of Independent States) program mainly through its TRACECA program<sup>50</sup> (Transport Corridor Europe, Caucasus, Asia). TRACECA is one of its network development programs and mainly gives through studies in a wide range transport fields<sup>51</sup>. Basic targets of the program are: to enable political and economic stability among the member nations and encourage the cooperation directed to increase commerce; to determine the problems of transportation systems in the region; to improve the regional cooperation by the contributions of international finance organizations and private investors; and to encourage integration of TRACECA and TENs (Trans European Networks).

From 1996 till 2006, the TRACECA program, having disbursed a total amount of about 160 m EURO, supported 61 technical assistance projects and 15 investment projects. TRACECA has helped to attract large investments from the development partners, that include the European Bank For reconstruction and Development (EBRD) that have committed funds for capital projects on ports, railways and roads along the TRACECA route, the World Bank (WB) that have financed new capital projects on roads in Armenia and Georgia, the Asian Development Bank (ADB) that have allocated substantial funds for road and railway

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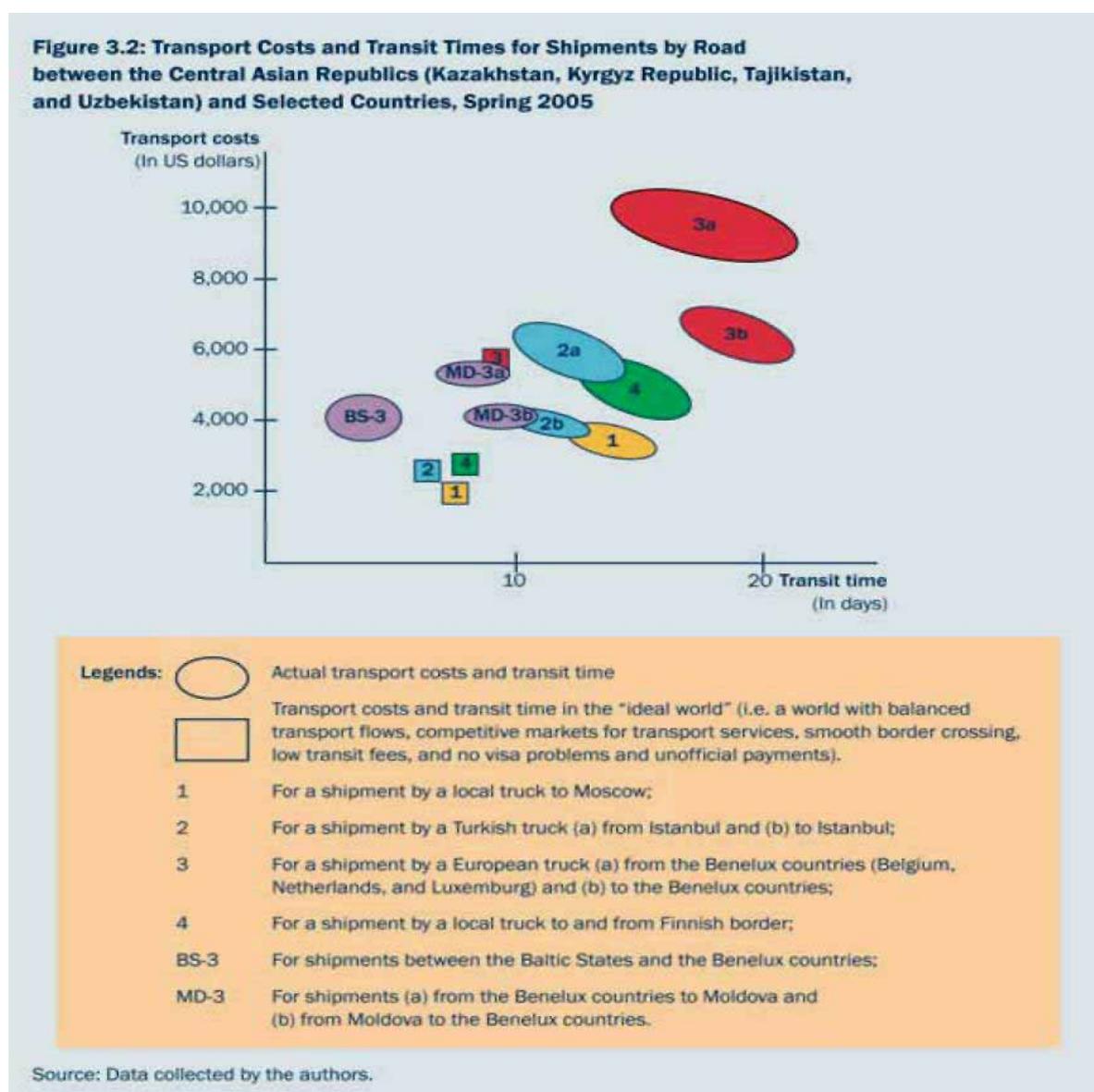
<sup>49</sup> Ian Jenkins, Paul Pezant, "Central Asia: Reassessment of the Regional Transport Sector strategy", Philippines, January 2003, p.44, for more information visit [www.adb.org/documents](http://www.adb.org/documents)

<sup>50</sup> TRACECA Program: The Transport Corridor Europe Caucasus Central Asia Program is a European Union funded technical assistance program that aims to develop a west-east transport corridor from Europe, across the Black Sea through the Caucasus and the Caspian Sea to central Asia. The Program launched at a conference in Brussels in May 1993, which brought together trade and transport ministers from the eight original TRACECA countries (Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan) . Turkey Joined to TRACECA program together with Bulgaria and Romania in Tashkent meeting in 2002.

<sup>51</sup> Ian Jenkins, Paul Pezant, "Central Asia: Reassessment of the Regional Transport Sector strategy", Philippines, January 2003, p.100

improvement and the Islamic Development Bank (IDB) that had invested into development of the transport sector in the TRACECA countries.<sup>52</sup>

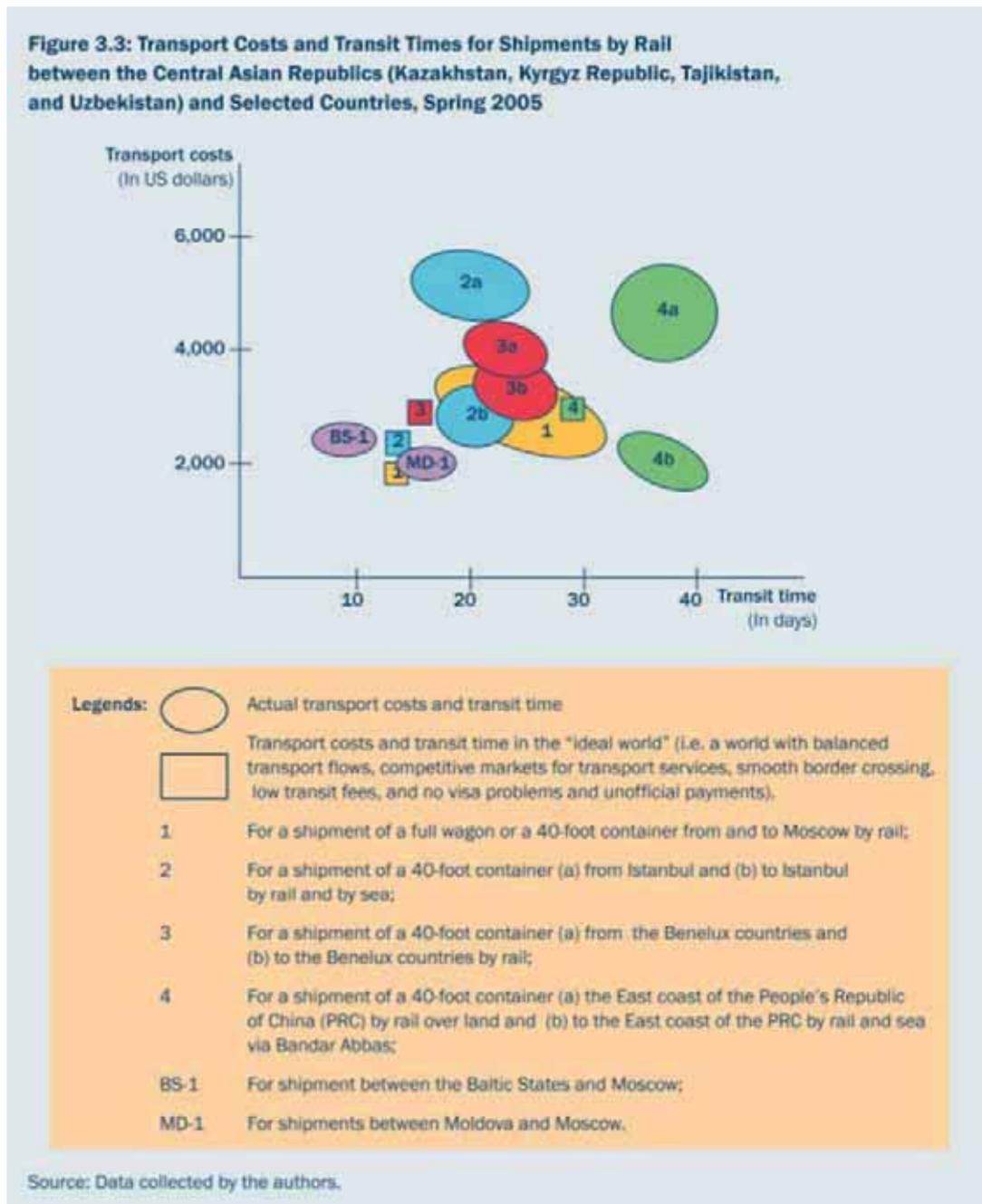
Figure III<sup>53</sup>:



<sup>52</sup> Source: <http://www.trecaca-org.org/>

<sup>53</sup> Adrian Ruthenberg and Bahodir Ganiev, "Central Asia: Increasing Gains from Trade Through regional cooperation in Trade Policy, Transport, and Customs Transit.", Asian Development Bank, Philippines, 2006, p.29

Figure  
IV<sup>54</sup>



<sup>54</sup> Adrian Ruthenberg and Bahodir Ganiev "Central Asia: Increasing Gains from Trade Through regional cooperation in Trade Policy, Transport, and Customs Transit.", Asian Development Bank, Philippines, 2006, p.30

Like the EU, many other regional and international organizations such as EBRD, IDB, JBIC (Japanese Bank for International Cooperation), USAID (United States Agency for International Development), World Bank, UNDP (United Nations development Program), UNESCAP (United Nations Economical and Social Commission), SPECA (Special Programs for the Economies in Central Asia), CIS (commonwealth of Independent States), EAEC (Euro Asian Economic Community) and ECO (Economic Cooperation Organization.) make technical assistance, financial support to Central Asian transport programs.

The Asian Land Transport Infrastructure Development project, which was endorsed by the UNESCAP at its 48<sup>th</sup> session in 1992, has three pillars: the Asian Highway (AH), Trans-Asian Railway TAR, and facilitation of land transport projects.<sup>55</sup>

The activities conducted within the context of ECO can be examined within five titles such as “Commerce and Investment”, “Transportation and Communication”, “Energy, Mining and Environment”, and “Agriculture and Industry”. However, during the past 15 years, transportation, transit routes and trade facilitation took the central position within the activities of ECO towards CASs. The Izmir Treaty (Sep. 14, 1996) which provided the basis for establishment of ECO, called for "accelerating the development of Transport and Communications infrastructures linking the member states with each other and with the outside world." To facilitate this, the ECO Secretariat annually plans eleven to fourteen ECO and non-ECO events. Besides, the member states in May 1998 adopted the Transit Transport Framework Agreement (TFA), heavily drawing on TIR convention. TTFA could become the key driver of all activities related to the removal of non-physical barriers, to the harmonization of operations and regulations, and the accession by member states to international transport conventions and standards<sup>56</sup>.

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<sup>55</sup> Source: <http://www.unescap.org/>

<sup>56</sup> ECO Prospects and Challenges in Transport and Communication Sectors, Tehran, 2002, p.8, <http://www.ecosecretariat.org/>

Turkey's only rail connection to Central Asia goes through Iran but not effectively working. Because of the problems with Armenia rail connection of Turkey to CIS countries is closed. Turkey, Georgia and Azerbaijan have been focused to join their rail networks through Kars-Ahalkala connection where feasibility study already performed and governmental negotiations are continuing and mainly focused on finance of the program. Estimated budget is slightly over 400 million USD. The capacity of the route estimated around 20 million ton/py, which will give a tremendous potential to regional countries.

Turkey's air connection to the CAS has been started immediately after dissolution of FSU. For the time being, national air carrier of Turkey-Turkish airlines has flight to all the capitals within the region (Astana, Tashkent, Dusanbe, Bishkek and Askahabat) and preferable connection for many westerners from Istanbul.

### **Infrastructure**

Limited financing remains a key problem for Turkish firms seeing to make infrastructure investments in Central Asia. Financial bottlenecks, coupled with security issues, cause serious interruptions in many projects. Although institutions like the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC) provide private sector financing, both require significant credit conditions and international financial guarantees, both which are —this is difficult for Turkish entrepreneurs given their limited assets. The credit costs for Turkish investment are further increased by the relatively low credit ratings of Central Asia states, with the exception of Kazakhstan.<sup>57</sup>

In an attempt to rectify the situation, the Turkish government is working to provide levels of credit, including new investment credits and country risk insurance programs, via the Turkish Eximbank. In the meanwhile almost all of the Eximbank's current credits programs have been

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<sup>57</sup> "Economic Relations Between Turkey and Turkic States", 8th Five Year Development Program, 2000, p127, see for more information [www.ekutup.dpt.gov.tr/disekono/oik528.pdf](http://www.ekutup.dpt.gov.tr/disekono/oik528.pdf)

suspended due to lack of repayment by the Central Asians. Indeed, Uzbekistan is the only country in the region that does not have severe problems relating to credit payments.

### **Legal and Institutional Issues**

Bureaucracy and administrative caprice are excessive in every country of Central Asia. Moreover, complex decision-making processes cause causing frequent delays in work. The interference of a seemingly endless number of various authorities on the grounds of technical, commercial, environmental, or fiscal issues imposes yet more delays.

Economic and commercial laws and regulations across Central Asia are underdeveloped. Gaps and differences in interpretation cause legal conflicts, while the mechanisms for resolving these conflicts are insufficient and entail complex and costly procedures. An effective arbitration authority is essential for the resolution of legal conflicts. To this end the Istanbul Chamber of Commerce and Chamber of Trade are establishing an internationally recognized arbitration center that can serve the region.

Problems with credit and banking often arise in Central Asia due to the underdeveloped systems of accounting, poor application of international standards for accounting, inadequate regulations for mortgages and bankruptcy, and other related concerns. Continuous changes in the regulations have created an unpredictable environment for foreign firms; indeed they might encounter different bureaucratic requirements within the same country.

Foreign firms are often subjected to repeated audits by various official agencies . Such excessive oversight chills relations with Turkish and other foreign investors. Laws concerning foreign investors and investments are often unclear, while inadequate commercial bankruptcy cause serious problems in collecting payments. In Kazakhstan, exemptions that had previously been granted were later abolished during a wave of economic nationalism. Such issues, repeated endlessly continue to raise difficulties and disadvantages for foreign investors.

The implementation of free-trade zones in Kazakhstan and the Kyrgyz Republic has been an important improvement. Yet discrepancies in the laws governing them are creating serious problems. For example, in Kazakhstan, a free trade zone that included exception from the value-added tax (VAT) has not applied the relevant laws properly, posing a serious problem to Turkish firms.

Across Central Asia foreign commerce and exchange have been subjected to rigid restriction. For example, quotas on cash transfers are still widespread, which is made worse by the general tendency not to allow the use of cash for payment. In Uzbekistan and Turkmenistan, the convertibility problem is especially serious, despite Uzbekistan's nominal decision to accept convertibility. The operations of foreign firms are further hindered by broad discrepancies between official and black market exchange rates.<sup>58</sup>

Outside of Kazakhstan, local banking services cannot meet the needs of foreign entrepreneurs. In fact, Turkish businessmen believe the region's banking concepts are incompatible with world practice. And the accreditation processes create additional problems. Other serious issues include slow transactions and processing, delays on the transfer of money orders into accounts, and the lack of cash for paying workers, even when an early notice of paydays has been given. In some of the Central Asian states, the required use of broker firms with very limited quotas further increases difficulties and raises the cost of operation.

Recent regulations in Turkmenistan, have ceased the foreign correspondent accounts of partnered banks, with all money orders now being handled by the brokerage arm of the Turkmenistan Central Bank. This increases the cost of transactions and reduces the competitive power and effectiveness of foreign-partnered banks. The Turkmen Turk Bank, which is partnered with the Turkish Ziraat Bank, has expressed grave concerns over these new regulations.

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<sup>58</sup> "Economic Relations Between Turkey and Turkic States", 8th Five Year Development Program, Ankara, 2000, p130, see for more information [www.ekutup.dpt.gov.tr/disekono/oik528.pdf](http://www.ekutup.dpt.gov.tr/disekono/oik528.pdf)

### **Customs Organizations**

The imposition of unofficial fees on cargo crossing state borders is a particularly serious customs-related problem, and is endemic in all Central Asia, as well as in Afghanistan. These are compounded by the impediments created by officialdom such as lack of coordination between border agencies on neighboring states, complex procedures, unclear codes and regulations, and the low utilization of information technology in customs operations.<sup>59</sup>

Regional customs organizations do not meet the needs of international trade. Customs employees are underpaid, undereducated, and undertrained. Frequent changes in customs regulations and insufficient control of contraband lead to unfair competition. Some SMEs take advantage the situation, bringing cheap, poor quality goods to the market. Local commerce and trade is further damaged by high and frequently changing tariffs.

Several Central Asian States have unilaterally abrogated previously confirmed exemptions on importation of raw materials and semi-manufactured products. Tariffs on raw materials and depreciation on final products undermine the development of the local manufacturing sector.

### **Visas and Employment Permissions**

Although the procedures for employing foreigners in Central Asian countries have recently been streamlined, problems persist. Visas are expensive and application process complex; these problems are particularly troublesome for temporary, specialized workers. Obtaining permanent visas is also difficult. The durations of work visas are often unacceptably short—only three months in Uzbekistan—leading to frequent re-application, which wastes both time and money.<sup>60</sup> In some

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<sup>59</sup> World Bank Report, “From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade”, Washington D.C., 2005, p. 16,

<sup>60</sup> “Economic Relations Between Turkey and Turkic States”, 8th Five Year Development Program, Ankara 2000, p. 276, see for more information [www.ekutup.dpt.gov.tr/disekono/oik528.pdf](http://www.ekutup.dpt.gov.tr/disekono/oik528.pdf)

countries, visa procedures have become even more ponderous. For instance, after the assassination attempt on the President of Turkmenistan, Saparmurat Niyazov, Turkmenistan's visa procedures became prohibitively onerous causing some firms simply to suspend operations.

### **Overcoming Trade Impediments**

The following recommendations address the impediments to regional and continental trade enumerated above, and will help integrate Greater Central Asia into the global economy:

1. Improved regional cooperation in trade policy, transport and customs transit could help the CASs lower the trade barriers, expand trade, increase the gains from participation in international trade and reduce the associated risks.<sup>61</sup>
2. Improve transport infrastructure and logistic facilities through national, regional and international programs. Donor programs regarding with transportation and trade facilitation should also be coordinated through regular meetings.
3. Provide continues engagement of international banks and organizations for establishing a base for sustainable development. Try to escape in maximum extent from contradictory Bilateral Trade Agreements (BTA) and Regional Trade Agreements (RTA). However, RTA and BTAs are very important that reflecting individual experience of each country and related region.
4. Remove the transport monopoly of the traditional trade partners, sometimes used as political pressure over CASs, through international programs. Within this context revitalization of TRACECA, AH and TAR programs crucially important. A regional transportation strategy should be developed with the participation of all relevant international organizations. The

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<sup>61</sup> Adrian Ruthenberg and Bahodir Ganiev, "Central Asia: Increasing Gains from Trade Through regional cooperation in Trade Policy, Transport, and Customs Transit.", Asian Development Bank, Philippines, 2006, p 36

strategy should focus on improving road, rail, and air transport. Current international programs in this area should be accelerated and receive increased fiscal support.

5. Construction of new pipelines through east, south and west corridors will provide to producer countries to get the market value of their oil and gas. Naturally increasing income will boost the regional economies as well as provide necessary financial sources to remove the structural problems adversely affecting trade within the region. Eventually, the goal is to create a fully integrated transportation network- including upgraded highways, pipelines, railroads, ports, ferries, fiber-optic lines, electricity transmission lines- that will make it easier for the states of Central Asia and the Caucasus to trade not only with each other but also with Europe, the Middle East, and the rest of the world.
6. WTO accession is a critical policy objective for the five regional countries that are not yet members. WTO membership will provide realistic mechanisms for each country to overcome its trade-related problems. Western countries and Turkey, having significant economic and security interests in the region, should support and accelerate the accession process by providing funding and technical assistance.
7. International economic institutions, such as the World Bank, IMF, WTO and OECD, should enhance their cooperation with the region, especially in the promotion of continental trade. The West and Turkey can collaborate to provide technical assistance and capacity-building to the countries of Central Asia, strengthening their trade-related institutions and helping them to implement and manage sound trade policies. Istanbul's OECD private sector development center can play a larger role by increasing and diversifying its training work, Turkey can also provide additional technical assistance, such as utilizing its WTO experience and establishing a WTO training center for the region under the umbrella of Turkish trade institutions.

8. Improving regional security will improve the climate for business and trade. Central Asian states should therefore be encouraged to deepen their relations with such Western institutions such as NATO and other specialized institutions that can facilitate regional military reform while at the same time encouraging the regional governments to focus on the development of democratic institutions.
9. International support and assistance aside, free market reform is largely dependent on the implementation efforts of the governments of the Central Asian states themselves. Necessary policy changes include tariff reductions, the termination of non-tariff barriers, and the elimination of export disincentives, active pursuit of WTO accession, vigorously working to attract foreign direct investment, and harmonizing existing regional trade agreements with one another.<sup>62</sup>
10. It will take time to eliminate barriers in the form of inefficient bureaucracies, customs gates, and other practices both intentional and unintentional. In the long-term, though, consistent progress in overall institutional helps eliminate these human-generated barriers as well. Among general reforms, a comprehensive strategy to eliminate poverty and social inequality is of the utmost importance.
11. In addition to the more comprehensive application of standard international policies on trade, intraregional bilateral economic relations should be institutionalized through periodic meetings and common policy mechanisms. While this institutionalization already exists between Turkey and each Central Asian country on bilateral basis, better region-wide policy mechanisms are still needed. Since many Turkish companies work in the region, they

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<sup>62</sup> Harry Broadman, World Bank Report, "From Disintegration to Reintegration: Eastern Europe and the Former Soviet Union in International Trade", Washington D.C., p.44, 2005, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:20723133~pagePK:146736~piPK:146830~theSitePK:258599,00.html>

should maintain a forum for discussing, investigating and solving the problems they experience in Central Asia.

12. TIKA is the main Turkish body responsible for aid and development programs in Central Asia. Increasing TIKA's budget could directly improve these programs. TIKA has spent fifteen years working with the region, developing considerable expertise in the process. TIKA could become a focal point for implementing aid and technical assistance programs sponsored by other international organizations and NGOs, as well as those from Turkey only.

## **Conclusions**

Despite the turbulent relations that exist from time to time, Turkey is a focus for the rulers and elites of other majority-Muslim countries as well as for the EU. It is inevitable, then, that Turkey's successful EU accession would deeply impact the Central Asian states and would in turn affect their strategic preferences.

Turkey has pursued economic, political, social and cultural relations with the countries of the Greater Central Asia since they gained independence in 1991-1992. The positive fruits of this interaction can be seen in the growth of trade, increases in the number of Turkish firms operating and investing in the region, and in the number of bilateral economic, social and cultural agreements and programs. Turkey has amassed considerable information on Central Asia, and Turkish public opinion surveys on the region are well developed. Moreover, Turkey has put considerable effort into evaluating regional issues and developing solutions, and on establishment and maintenance of regional cooperative institutions.

Stability in Central Asia is key to overcoming existing difficulties and increasing cooperation in trade. Radical reforms are still required for the full development of free market economies in the region, and international support for reforms should therefore be enhanced and accelerated. Free market reforms will facilitate economic development and reinforce the process of democratization, which in turn will help to solve continuing political and social problems.

Once positive developments have been observed Western interest in Central Asia will be encouraged to seek further opportunities for renewal and reform. Accession to the WTO, and similar organizations, and requisite free market reforms will remove barriers to international trade. This, coupled with the improved business climate, will attract more Western firms to the region, while possibly creating serious competition for Turkish entrepreneurs, this development will be beneficial to the economic and social life of Central Asia itself. The further development of continental trade will improve all the key economic, social and political indicators of Central Asian countries. But transport-related problem across the region must be solved before trade can be developed, and these have as much, or more, to do with legislation or administrative factors (i.e: the human element) as with physical infrastructure, however inadequate that may be.

