Study on Korea’s Policy towards Central Asian States since 1991

: Evaluation and Prospect for Policy Cooperation

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<Abstract>

Study on Korea’s Policy towards Central Asian States since 1991
: Evaluation and Prospect for Policy Cooperation

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It is likely to evaluate that Korea’s policy towards Central Asia has been successful so far and especially the bilateral relations of Korea with each CAS appears ever stable and close since its diplomatic relations established at the early 1990s. This study is focused on exploring Korea’s policy towards Central Asian states, and with emphasis on the bilateral relations with Kazakhstan and Uzbekistan since 1991 respectively. The main purpose to review so far Korea’s Central Asian policy is to understand objective circumstances of relations with Korea and CAS and also present possible policy cooperation with them in order to develop their partnership into the more firm and mutually beneficial level.

Historically, Korea and Central Asia had actively engaged in trade and exchanged cultures with each other since the 7th century. Korea and Central Asia need to recognize such common goal and to recover the ancient tradition of economic and cultural exchanges. Moreover, Korea and Central Asia are in the similar situation in that both of them are relatively small countries surrounded by neighboring superpowers, that both declared denuclearization or nuclear weapon free zone, and that both need to find a partner whose economy is complementary with their own. Especially, the Koreans living in Central Asia are valuable assets for future cooperation between Korea and Central Asia. All of these factors necessitate medium- and long-term cooperation between Korea and Central Asia in many aspects. Bilateral cooperation should also be customized according to the
specific situations in which each party lie. The important recognition should be made about the indispensable role of both governments to institutionalize cooperation and to form a friendly environment in encouraging private economic cooperation and minimizing the risk of investment and trade. The “First Korea–Central Asia Cooperation Forum” held in November 2007 was an opportunity to discuss the pending issues of their cooperation and to push the cooperative system to the point of its institutionalization.

Key Words: Korea’s policy towards Central Asia, bilateral relations, multilateral relations, Kazakhstan, Uzbekistan, policy cooperation

I. Introduction

South Korea (hereafter Korea) has been as one of the main allies of the Central Asian states (CAS) since their independence in early 1990s and more actively advanced into various sectors such as automobiles, plant, logistics complex and mineral and energy resources in recent years. Today, it is one of the largest commercial partner of Uzbekistan, with US$ 1,438 million in exchanges, and the ninth-largest of Kazakhstan, with US$ 604 million worth of exchanges in 2010 and the trade volume with each country is on increase year by year.\(^1\) Furthermore, Korea has strategically invested in energy fields by developing oil–gas fields, building refinery complex: 421 million dollars in Kazakhstan and 200 million dollars in Uzbekistan as of 2011.\(^2\) Those two countries are often presented as one of the rising

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1 Korea Export–Import Bank, 2011.
2 Evaluation of the Plant Market in Kazakhstan and Uzbekistan, KIEP, 2010.
regional powers in Central Asia, Korea continues to invest in strategic fields mentioned above and to aid the opening up of the region in terms of transport. By this regard, Korea needs to institutionalize and regularize the relations of Korea with CAS in order to keep such close and strategic relations. In recent year, as one of the efforts of such goal, the Korea-Central Asian Forum has been organized annually since 2007 and there have been useful exchange in political, economic, socio-cultural domains.

It is likely to evaluate that Korea’s policy towards Central Asia has been quite successful so far and especially the bilateral relations of Korea with each CAS appears ever stable and close since its diplomatic relations established at the early 1990s. However, there also exist some critics that economic and energy cooperation between Korea and CASs has not yet reached its full potential. Although it is fact the presidential summits have brought some visible results in cooperation and development, those could be said ‘one-off’ and ‘not-lasting’. This study, therefore, tries to find out what are problems of the current relations and what should be done for lasting and constructive cooperative relations of Korea and other CASs in a more stable and mutual way in the second chapter: evaluation of Korea’s Policy towards Central Asian States since 1991. The main purpose to review so far Korea’s Central Asian policy is to understand objective circumstances of Korea and CAS and also present possible policy cooperation with them in order to develop their partnership into the more firm level. Based on an analysis on status-quo relations of

3 Sebastien Peyrouse, South Korea’s Advances into Central Asia, CACI Analyst, 2010-09-01.
Korea and other CASs, in following third and fourth chapter, prospect for policy cooperation in bilateral and multilateral way will be discussed in depth with emphases on Kazakhstan and Uzbekistan. Last, it should be noted that this study mainly focuses on analyzing cases of Korea’s policies and presenting possible cooperation measures especially with Uzbekistan and Kazakhstan.

II. Evaluation of Korea’s Policy towards Central Asian States since 1991

Deepening bilateral relations between Korea and each of the CAS is as important as institutionalizing multilateral cooperation among them. It is important for substantial development of bilateral relations to understand the real interests of each other and to lay out a customized and phased plan of economic and cultural cooperation. Therefore, the current conditions of relations among Korea with CAS will be examined and outlined some challenges to be resolved for constructing further cooperative relationships in following pages.

Korea and CAS share the common ideal of democracy and market economy, and strive to further the reciprocal relations between them on the ground of complementary economic structure. Especially, fourteen times in total of summits were held with Uzbekistan, Kazakhstan, Kyrgyzstan, and Tajikistan after the formation of diplomatic relations, during which policy councils as well as joint commissions for trade and resource were formed, and agreements on

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5 Lee Ji Eun, ibid., p. 127.
trade, guaranty of investments and double tax avoidance were concluded mainly with Uzbekistan and Kazakhstan. As of May 2006, an agreement on guaranty of investments was concluded with Uzbekistan (1992), Tajikistan (1995) and Kazakhstan (1996), and is being negotiated with Kyrgyzstan, Azerbaijan and Turkmenistan. An agreement on double tax agreement was also concluded with Kazakhstan (1997) and Uzbekistan (1998), and is under negotiation with Kyrgyzstan, Tajikistan and Turkmenistan.6

Economic cooperation between Korea and CAS, as reflected by economic indicators, also keep increasing. The total trade volume between Korea and the CAS has shown a record increase from 1,159.28 million dollars in 2005 to 1,327.75 million dollars in 2006 (Jan – Nov). Korean export to Central Asia was 1,028.15 million dollar during the first 11 months of 2006, forming 0.35% of the total Korean export, and Korean import from Central Asia was 299.61 million dollars, forming 0.11% of the total Korean import. 58% of the Korean export went to Uzbekistan while 85% of the Korean import was from Kazakhstan.7

Major items that were exported from Korea to Central Asia included durable consumer goods such as cars, wireless communication devices, and home electronics, and consumer goods such as textiles and plastics; imported items were largely raw materials including steel, metal, agricultural products and natural fibers. 8 Foreign Direct Investments (FDI) of Korea in Central Asia totaled 919.74 million dollars (164 cases) by the end of 2006. This takes 0.5% of the total cases of foreign investments by Korea and at the same time 1.3% of the total amount of the investments. 9 Uzbekistan and Kazakhstan are the main counterparts of the investments; the amount invested in Kazakhstan was 426.60 million dollars, and that in Uzbekistan was 424.77 million dollars by the end of 2006. The main sectors in which the investments were made was chiefly medium-scale manufacturing industries like resource development and processing, home

8 Ibid., p. 190.
9 Ibid., p. 190.
electronics and textiles.\textsuperscript{10}

Recently, Korea actively participates in developing energy and resources in Central Asia. For instance, in Uzbekistan, Korea already participates in key projects in Uzbekistan: oil exploration in the Uzbek part of Aral Sea, exploration project in Namangan and Chust fields, gas exploration project in Uzunkui–Tuarkyur Block, and development and production project in Surgil gas field.\textsuperscript{11} In Kazakhstan, Korea National Oil Corporation (KNOC), Samsung, LG, SK and Daesung Oil constituted a consortium, Korea Consortium, in March 2002 to explore the potential oil fields in the Caspian Sea basin.\textsuperscript{12} In particular, the five–firm consortium of oil exploration concluded a basic contract (in Feb 2005) to develop the Zhambyl oil field in the Caspian Sea, the negotiation of which was accelerated after the Korean President Roh Moo–Hyun visited Kazakhstan in September 2004 and finally on May 2008, the consortium has concluded exploration contract with ensuring a 27% stake on Zahmbyl oil field. Moreover, KNOC, LG International Corp, SK and Saelim International Corp. participate additionally in other oil exploration projects around the Caspian Sea basin.\textsuperscript{13} Besides these major projects, there are also witnessed substantial cooperation activities in other Central Asian states.\textsuperscript{14} For

\textsuperscript{10} Ibid., pp. 190–191.
\textsuperscript{12} Ibid., p. 192.
\textsuperscript{13} Korea National Oil Company (http://www.knoc.org); 세계를 획한 국내기업 (Korean companies sweeping the world). (2 July, 2008) (http://www.fnnews.com/view?ra=Sent0601m_View&corp=fnnews&arcid=0921356458&cDateYear=2008&cDateMonth=07&cDateDay=02) (accessed 2011–07–23).
\textsuperscript{14} Turkmenistan and Azerbaijan (although Azerbaijan is not counted in this dissertation as a country of Central Asia, some argue this country is belonging to Central Asia), Korean
instance, Uzbekistan has opened the free industrial economic zone to Korean airway company – Korea Airline – to develop this zone as a logistics hub best in Central Asia. Also, Korea Gas Corporation is allowed to develop Surgil gas field by constructing petrochemical factories in this region.\textsuperscript{15} Besides, Korea considers the development of mineral resources in Central Asia, let alone oil and gas. For example, Korea Resources Corporation (KORES) and Committee of Geology and Use of Subsurface (Kazakhstan) agreed to explore jointly the mineral field (150,000 km\textsuperscript{2}) in the southeastern part of Kazakhstan, and once important minerals such as gold, copper, lead, or zinc are discovered, there will follow agreements for subsequent business.\textsuperscript{16}

Regarding FDI, Uzbekistan FDI of the Korean companies increased rapidly after Korean president's official visit in 2005. Since then, the trade turnover between the two countries in 2010 exceeded USD 1.6 billion and in January–June 2011 the figure comprised USD 780 million. So far, 360 joint ventures created with Korean partners operate in Uzbekistan, along with representative offices of 84 Korean companies.

Now Korea has unveiled a roadmap plan to expand cooperation with Central Asia in economy and diplomacy ahead of their 20 years of diplomatic ties in 2012. Korean government since 2000 has been seeking comprehensive economic cooperation with Kazakhstan,
Uzbekistan, and Turkmenistan and supplement efforts to strengthen diplomatic channels at a presidential level. In the beginning the resource and energy development agenda has been intensively focused by the Korean government but cooperation has been expanded to more areas such as construction, overseas aid, IT, post system in more countries in Central Asia. The mentioned above plan was announced at a meeting of economy ministers led by the Ministry of Strategy and Finance (MOSF) on May 17. Under the plan, Korea will create a consultative body with countries in Central Asia that have no cooperative channels, while working together with multilateral development banks. Ethnic Koreans will also participate in the course of economic cooperation. Korea will also seek its participation in a gas field development project in Turkmenistan and a uranium production project in Kazakhstan. The government will also encourage Korea’s IT businesses to tap into the local market.¹⁷

Korea keeps providing Central Asia with both credit assistance and grant-type aids, although the amount is not quite large. Korea, for instance, has conferred total 109 million dollars on Central Asia through the Economic Development Cooperation Fund (EDCF) by the end of 2005.¹⁸ The grants were used to modernize communication networks in Uzbekistan, Kazakhstan and Kyrgyzstan, and to improve job training institutions (by providing educational facilities and training


programs) in Uzbekistan; in particular, TDX-10 switchboards were supplied to Kyrgyzstan.\textsuperscript{19} Moreover, Korea granted 29.366 million dollars to CAS during 1991–2005 (including Azerbaijan), which takes 3.2% of the total grants by Korea to foreign countries. 89% of the grants went to Uzbekistan and Kazakhstan, and the grants were used to invite industrial trainees, to send volunteers and to provide commodities. Such overseas aids now reach the highest level: Korea will assist more than $200 million which is allocated for Uzbekistan from 2011 to 2013 and it will raise the number of countries eligible for economic assistance.\textsuperscript{20}

However, it is still considered that economic and energy cooperation between Korea and CAS has not yet been realized in its full potential. Although the recent summit among leaders has brought some visible results in cooperation and development, those could be said ‘one-off’ and ‘not-lasting’. The main reasons are as follows. First of all, cooperation between Korea and CAS up to now has been ill-planned and un-institutionalized in nature. Korean private companies have invested in Central Asia individually without integrated planning and implementation at the national level of investment and trade. Therefore, timely establishment of a united (officials and civilians) cooperative institution comprising Korea and CAS is called for to facilitate economic, social and cultural exchanges between both parties. Second, there has not been much traffic of human capital in political, economic, social and cultural sectors between Korea and Central Asia so that mutual understanding and friendship may be postponed to be formed between both parties. Of course, the summit

\textsuperscript{19} Ibid.
\textsuperscript{20} Ibid.
diplomacy driven by the President of Uzbekistan I.A. Karimov and the President of Kazakhstan N.A. Nazarbayev, for instance, was a significant step toward advancement of bilateral relationships between Korea and their countries. Now, it is time to expand such relationship to the lower government or private sectors. Third, the problems of poor institution of cooperation, entry barriers of trade, and lack of human resource network and industrial experts still wait to be solved by both parties.

CAS possess rich natural resources with which Korean capital and technology can be combined to create synergy effects coming from the complementary structure of both economies.\textsuperscript{21} CAS are looking forward to developing cooperative relations with Korea over the major economic sectors including IT, construction and transportation. From the perspective of Korea, the prospective areas of investments in Central Asia are so numerous to encompass oil & gas, natural resource development, social infrastructure and other construction projects, IT industry, distribution industry and real estate.

However, since CAS vary in market size, investment conditions, the amount of energy/natural resources and key industries, the investment strategy also becomes differentiated according to the situations of each country. In particular, bilateral cooperation with Uzbekistan and Kazakhstan is considered to play a leading role to establish cooperative relations with other CAS.

Korea has made consistent efforts to maintain a mutually beneficial relationship with both Uzbekistan and Kazakhstan regardless of adverse circumstances around them, since the official diplomatic relations being established in 1992. Korea took the initiative to invest

\textsuperscript{21} Ibid., p. 194.
for the CAS in 1990’s when politico-economic hardships made Japan and China, for instance, hesitated to do so. Many Korean businessmen advanced into Central Asia to start an enterprise, including Daewoo Motors who built a factory there, and a number of people from the region came to Korea to be employed in or to learn advanced skills of Korean business and industry. Thus, mutual trust between Korea and Central Asian states has been built upon a long history of cooperation especially in the era of highly unforeseeable international relations.

Now is the time to push the friendly relationship between Korea and Central Asia a step further to make a medium- or long-term plan for bilateral as well as multilateral cooperation among the interested parties. Korea and the five republics in Central Asia need to coordinate and cooperate with each other for economic development, national security, and cultural exchange. The need for cooperation in such a wide spectrum of areas calls for a higher-level scheme of multilateral cooperation between Korea and the CAS. Especially, we can expect a synergy effect arising from complementarities embedded in the economic relationship between Korea and the CAS.

III. Prospect for Policy Cooperation of Korea with Central Asian States in Multilateral Relations

Some Korean researchers recently proposed to establish ‘Korea-Central Asia Economic Community’ as a part of a higher-level

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22 Lee Ji Eun, op.cit., p. 125.
multilateral cooperation among these countries. ‘Korea–Central Asia Economic Community’ will serve as a middle-range economic cooperation organization linking between the economies of the Asian Continent and the Asia–Pacific region. This project would amount to creation of an economic community ranging from the five non-nuclear-weapon states in Central Asia to Mongol and Korea by facilitating regional peace. It is one of the top policy priorities of these countries to resolve national security issues and economic problems by establishing peaceful relations among them. In this regard, ‘Korea–Central Asia Economic community’ could be considered as a significant first step toward achieving such an important goal shared by all potential participants of the organization.

The five countries of Central Asia signed the Agreement of Central Asian Nuclear Weapon Free Zone in September 2006. The agreement is noteworthy as it provides a momentum for the concerted efforts to create a multilateral peace regime in the region. Central Asia thus becomes the sixth nuclear weapon free zone, following Latin America, the Caribbean coast, the South Pacific, Southeast Asia and Africa, regardless of U.S. attempts to make the region one of the key points of strategic nuclear weapons. Central Asia, which declares nuclear weapon free zone, has something in common with Korea,

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23 Park Sang Nam proposed this idea firstly and other experts on Central Asia like Lee Jae Young and Go Jae Nam were agreed with the necessity and urgency of this proposal in the Forum for Cooperation between Korea and Central Asia. See, Park Sang Nam, “Establishing ‘Korea–Central Asia Economic Community’” The 1st Forum for Cooperation between Korea and Central Asia (19 November, 2007), Seoul: Ministry of Foreign Affairs and Trade of Korea, pp. 24–25.

24 Among them, Kazakhstan is a former nuclear power state.

which has already declared denuclearization.

Therefore, it is suggested to create a 'Korea–Central Asia Economic Community’ as an economic cooperation organization among the nations which declared denuclearization or nuclear weapon free zone. 'Korea–Central Asia Economic Community’ can have a practical importance since it is expected to systematize multilateral cooperation in national security and economic development among the denuclearized nations surrounded by such nuclear powers as Russia, China, India and Pakistan. The needs for multilateral regional cooperation substantiated by 'Korea–Central Asia Economic Community’ can be summarized in the following three important aspects.\(^\text{26}\)

1. **Economic Aspects of Cooperation**

First, the economies of Korea and Central Asian states are complementary in structure so that synergy effect is expected from mutual economic cooperation. The CAS departed from mere resource exporting countries and are on the way of developing their petrochemical as well as other manufacturing industries. Korea can be an adequate model of economic development for those countries since economic success of Korea depends crucially on the growth of several medium-scale manufacturing industries. Therefore, Korea and Central Asia can be benefited immensely from well-organized medium- or long-term economic cooperation to share experience and know-how. Also, it is noted that Central Asia can serve not only as a

stable supplier of resources but also as a distribution center for the Eurasian Continent.

Second, Korea retains global competitiveness in both petrochemical and manufacturing industries. Petrochemistry is one of the key industries to be developed for a higher added value of natural resources and further growth of manufacturing industries in Central Asia. Korea can provide Central Asia with the best partnership in plant-building and manufacturing techniques of petrochemical industry. Moreover, Korea has potential to make a significant contribution to the economic growth of the Central Asian states since Korea maintains top-notch technologies in a wide range of industries including IT, electronics, automobile, airline, biotechnology, fashion and cultural industries.

Third, Korea is rich in experience and technologies of creating new towns and cities in a short time. Therefore, cooperation with Korea in this sector would lead to a rapid improvement of residential environments and modernization of cities in Central Asia.

Fourth, Korea-Central Asia Economic Community is expected to result in a balanced growth of economies of Central Asian states which tend to depend excessively on the economies of surrounding


superpowers such as Russia and China. The economic community will help enhance the economic autonomy of the new nations of Central Asia when they map out national development strategies.

Fifth, Korea is the first Asian country that negotiates a free trade agreement with U.S. and EU. Korea is also supposed to negotiate a free trade agreement in the near future with China, Russia and Japan. Once these agreements are concluded, Korea can provide the CAS with quintessential access to U.S. and European markets through the Korean channel.

2. Cultural and Historical Aspects of Cooperation

First, Korea and Central Asia engaged in trade through the Silk Road, an ancient trade route along the Central Asian grasslands. It was Gyeongju, the capital of ancient Korean state Silla, which was the starting point of the Silk Road. Korea and Central Asia has a long history of exchanging commodities as well as culture through the Silk Road that started from Gyeongju, passed through China and Central Asia, and reached as far as Europe. The 7th century B.C. Mural discovered in Samarkand included Korean people and as such witnessed the ancient trade between ancient Korea and Central Asia.

32 Каримова Н.Э. О сотрудничестве между Республикой Корея и государствами Центральной Азии в области культуры и образования (Cooperation in Culture and
Second, Korea and Central Asia still reserve the ancient geographical advantage in that a distribution network over the Eurasian Continent can be built up through the new Silk Road to be restored. The CAS will be able to advance into Japan, the Pacific area and U.S. through Korea whereas Korea is able to penetrate into Europe and Middle East by way of Central Asia. This appropriately exemplifies the usefulness of Korea-Central Asia Economic Community. The more the economic relationship is expanded over the Eurasian Continent, and accordingly the more the interdependence among the regional economies is deepened, the higher the importance of Korea-Central Asia distribution network becomes and also the greater the global competitiveness of economic cooperation between Korea and Central Asia is. The ongoing transport-route projects of TSR, TKR and TRASECA will considerably reduce the traveling time between Korea and major cities in Central Asia.

Third, Korea and Central Asia share a common historical root of the Altaic Civilization that is distinct historically and anthropologically from both the Chinese and Slavic Culture. The same historical origin explains much of the similarities in language, customs, manners and

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34 Ibid. - P. 26; Gombo T. "Role of the Tumen Transport Corridor in Development of Eurasian Transport Network", Eurasian Railway Symposium (3-4 April, 2002), Helsinki, Finland, 2002.
thoughts between Korea and Central Asia. The Altaic Civilization can thus be an emotional basis for the suggested economic community.

Fourth, ‘Korea–Central Asia Economic Community’ will be the first step to revitalize cultural exchanges going back to the ancient times. Resumption of the long-severed trade route between Korea and Central Asia will also help enhance economic and cultural cooperation among the Asian countries.

3. Security Aspects of Cooperation

First, both Korea and Central Asia declared denuclearization or nuclear weapon free zone while neighboring upon nuclear powers in Asia such as Russia, China, and India. In this regard, solidarity and cooperation among denuclearized countries are especially important since these states serve as neutral zones for peace and stability of the Eurasian Continent.

Second, Korea and the Central Asian states are all relatively small and so-called middle-powers whose national affairs may be swayed by adjacent superpowers. International relations in Asia are therefore highly unbalanced, unlike the European Union or ASEAN whose members are approximately equal in their national power and economic development. Therefore, mutual assistance and economic


36 Middle power is a term used in the field of international relations to describe states that are not superpowers or great powers, but still have large or moderate influence and international recognition. For further details of the term, refer to “Middle Power diplomacy” (http://en.wikipedia.org/wiki/Middle_power) (accessed 2009-01-03).
cooperation among Korea and Central Asian states would allow them to have a better condition on strengthening their economic, diplomatic and security positions against neighboring superpowers.

Third, both Central Asia region and the Korean peninsula are where geopolitically critical points meet and the interests of Eurasian superpowers collide in sharp contrast. In this respect, Korea and Central Asian states are inherently vulnerable to conflicts and hostility occurred among superpowers. By taking collective and cooperative actions, Korea and Central Asia will contribute to the promotion of peace and friendly relations among Eurasian states.

4. Other Measures for Multilateral Cooperation

If ‘Korea–Central Asia Economic Community’ cannot be realized in the near future, Korea may alternatively join as an observer or a member in SCO or other international organizations of Central Asia. Korea has already had an experience of suggesting and concluding the ASEAN +3 Summit consisting of Korea, China and Japan. Korea is able to lay, based on the past experience, the groundwork for multilateral cooperation among Korea and CAS to accomplish mutual prosperity.37

We have seen that Korea and CAS share the common goal of establishing peaceful international relations, and by doing so, solving security and economic problems. Historically, Korea and Central Asia had actively engaged in trade and exchanged cultures with each other since the 7th century. Korea and Central Asia need to recognize such

common goal and to recover the ancient tradition of economic and cultural exchanges. Moreover, Korea and Central Asia are in the same situation in that both of them are relatively small countries surrounded by neighboring superpowers, that both declared denuclearization or nuclear weapon free zone, and that both need to find a partner whose economy is complementary with their own. Especially, the Koreans living in Central Asia are valuable assets for future cooperation between Korea and Central Asia. All of these factors necessitate medium- and long-term cooperation between Korea and Central Asia in many aspects. ‘Korea–Central Asia Economic Community’ proposed as an institution of multilateral cooperation is reckoned as a catalyst in achieving the shared goal of the participants in the community.

Bilateral cooperation should also be customized according to the specific situations in which each party lie. The important recognition should be made about the indispensable role of both governments to institutionalize cooperation and to form a friendly environment in encouraging private economic cooperation and minimizing the risk of investment and trade. The first “Korea–Central Asia Cooperation Forum” held in November 2007 was an opportunity to discuss the pending issues of their cooperation and to push the cooperative system to the point of its institutionalization.
IV. Perspectives for Bilateral Cooperation between Korea and Kazakhstan and Uzbekistan

1. Uzbekistan

Korea and Uzbekistan has already shared long and deep historical and diplomatic relations throughout the Silk Road despite its distance placed between two countries. Such relations were once suspended by the Soviet Union’s control over the Central Asian region. Since Uzbekistan obtained independence in 1991, however, Korea resumed the official relations with Uzbekistan and today’s contacts are considered as “a part of revival process of the Great Silk Road.” A long time ago, there occurred simple exchanges of goods, now there are exchanges of technologies, know-how, and investment which are necessary for development of industrial infrastructure between Korea and Uzbekistan. Indeed, the Presidents of Uzbekistan and Korea have successfully realized a number of big-scale and important projects which would consequently reinforce economic independence of Uzbekistan. Recently, the forum of business circles of Korea and Uzbekistan was held in Tashkent as a part of state visit of president of Korea. In this forum, the sides signed a number of bilateral documents regarding expansion of cooperation in the fields of statistics, environment, geology, mineral resources and light

38 Lee Ji Eun, op.cit., p.131.
40 Ibid., p. 62.
industry. With being taken such progress of relationship, there will be suggested further cooperation schemes that would bring complementary results to Korea and Uzbekistan.

a) Installation of Korea–Uzbekistan Industrial Complex. Uzbekistan which is the most densely populated among the CAS maintains high-quality human resources and various mineral resources. If Uzbekistan utilizes its human resource potential successfully, then it will be able to build up a very strong manufacturing industry in Central Asia. In this regard, it is especially beneficial for Uzbek manufacturing industries to install industrial complexes for which Korea can provide necessary technologies and plants. A precedent of industrial complex is the investment by Daewoo Motors to build local plants in Uzbekistan, which turned out to be instrumental for the medium- or long-term bilateral cooperation between both countries. It is also conceivable to cooperate in the area of aviation industry near Tashkent. Tashkent was a Central Asian center for aviation industry in the former USSR, and Korea is also interested in aviation industry. Hence, cooperation in aviation industry can result in a desirable outcome for both countries. Korea can also participate, as a way of bilateral economic cooperation, in the building of new towns near Tashkent and in the rebuilding of Samarkand, which will be helpful to get rid of housing shortage.

On 5 March, 2009 in Seoul, the investment conference "Free
Industrial Economic Zone In Navoi City: New Investment Opportunities for Korean Partners in Uzbekistan was held successfully with keen interests of Korean governmental officials and private enterprises such as Daewoo International, Korean Air and Korea National Oil Corp. Now, Uzbekistan has a long-term plan to transform Navoi city to an economic hub of logistics industry to connect the Middle East with CIS countries. Taking into intentions of the Uzbek government, it is likely to say that this free zone can be a practical starting point for industrial cooperation between Korea and Uzbekistan. For instance, Korea in the early 2000s constructed a new international airport with high-technology in order to establish this international airport as a hub of transportation-transit connecting major East-Northern Asian cities. Therefore, it is expected that such know-how and experience of Korea would help the Navoi Free Industrial Economic Zone to be a hub in Central Asia.

development by Korean companies was supposed to enable gas production to begin in 2012 and the gas-chemical plant to start operating at the same time. Finally in 2011, there has been an unveiling ceremony of the foundation stone for building the plants in this region with the visit of Korean president. Fulfillment of oil field development and gas-chemical plant construction will lead to 2.8 billion m³ of natural gas, 0.36 million tons of polyethylene, and 80 thousand tons of polypropylene to be produced annually.

These gas-chemical products are planned to be sold in West Europe, Russia and China as well as Uzbekistan itself. This project requires a total of 1.8 billion dollars investment, which is the largest-scale Korean investment in Uzbekistan since the investment by Daewoo Motors, and as such, will be a crucial turning point in the history of Korea-Uzbekistan economic cooperation.

The foremost significance of the present agreement is the introduction of a large-scale gas-chemical plant and related high technologies from Korea which will make a great contribution to the growth of the Uzbek manufacturing industries. It is not merely gas exploitation but a case of archetypal economic cooperation that will bring a bright future in the Uzbek economy. The success of this project is expected to be a stepping stone on which Uzbekistan

47 Ibid.
becomes the center of gas-chemical industries in Central Asia. Similarly with Korea, the abundant labor force of Uzbekistan is regarded as the key factor for its growth to one of the countries which have the strongest manufacturing industry. Therefore, it is desirable for Uzbekistan to expand economic cooperation with Korea into other manufacturing industries like IT in which Korea retains a competitive edge.

President I.A Karimov has often shown his strong will to transform the role of the Uzbek natural gas industry from a mere exporter of resources upon exploitation to a manufacturer of various value-added products through the upbringing of the gas-chemical industry. The rich endowments of gas resources make Uzbekistan one of the best places in which a competitive gas-chemical industry can be developed. Moreover, the introduction of a modern gas-chemical industry will help Uzbekistan achieve a more advanced industrial structure. In fact, many experts rate Central Asia as one of the regions that have the highest potential for the growth of oil and gas-chemical industry.  

The main sites of the oil and gas-chemical industry were located near the markets before 2000, but they nowadays tend to move to the region where the resources are drilled out, like Iran or Saudi Arabia, as competitiveness in input costs becomes more and more important in inducing investments in plant and equipment. Moreover, the

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recent high oil prices arouse keen interests in ethane that is extracted from relatively cheap natural gas, and this makes more valuable the rich gas resources possessed by Uzbekistan, Kazakhstan and Turkmenistan. However, Uzbekistan also has problems to be solved prior to the development of a gas-chemical industry through the introduction of Korean capital and technologies.

First, Uzbekistan should make the best of its advantage that it has an easy access to rich gas resources. With regard to this, the active cooperation of the Uzbek government is required to coordinate between gas-drilling and gas-chemical companies because such coordination is crucial in stable supply of raw materials. A gas-chemical plant that requires huge investments would not be best used if stable supply of natural gas could not be guaranteed. If excessive competition and conflicts between related firms cause an interruption in the supply of natural gas, then Uzbekistan will be hit hard due not only to financial losses arising from shutdown but also to bad reputation as a center for gas-chemical industry.

Second, since the gas-chemical industry is global in nature, gigantic markets in nearby China, Russia and India are another factor that makes Uzbekistan especially attractive as a site of the mentioned industry. Uzbekistan is geographically close to China, Russia and India whose markets now grow rapidly. Moreover, the recent development of the western China, the economic growth of Pakistan and the rehabilitation of the Russian economy all contribute to a sharp increase in the demand for gas-chemical products, and this becomes a favorable sign to Uzbekistan who tries to build its own gas-chemical industry.⁵⁰ Of course, Uzbekistan as a landlocked country has also a

disadvantage that it cannot resort to the convenience of marine transportation, but it instead can use the inland transportation routes (railroads and highways) of the former USSR to access the surrounding markets in China, Russia and India. Besides, the canal project linking between the Caspian and the Black Sea recently proposed by Kazakhstan will, once accomplished, enable Uzbekistan to obtain eventually an alternative route of marine transportation.  

Third, other manufacturing industries related with the gas-chemical industry should also be included in the present project to maximize synergy effects. For example, rubber chemistry, textiles, electronics and various material industries can be developed jointly with the gas-chemical industry to reduce the cost and to raise productive efficiency. Co-development of related industries will also contribute to create more jobs in Uzbekistan. Therefore, the ongoing project of gas-chemical plant and technologies introduced by Korea must be taken as an opportunity to raise other manufacturing industries. First and foremost, the government’s plan to raise manufacturing industries should be substantial enough to attract the foreign companies who hesitate to invest in Uzbekistan since the plan is pursued as a national development strategy.

If those problematic obstacles are solved by the two governments’ level, the Surgil gas-chemical project would be the starting point of

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51 “Canal will link Caspian Sea to world”, Times online (29 June, 2007) (http://www.timesonline.co.uk/tol/news/world/europe/article2002408.ece (accessed 2008-12-15).

52 For example, China has simplified bureaucratic procedures, set up a governmental department taking exclusive charge of inducing investments, provided tax benefits, rented the lands freely and prepared risk management plans for business start-up, all serving as incentives to attract the investments of foreign companies.
comprehensive cooperation between Korea and Uzbekistan in gas-chemical industry.

c) The Needs for Korea-Uzbekistan Economic Partnership Agreement. The policy priorities of the Uzbek government for socio-economic development are well stated in the ‘Interim Welfare Improvement Strategy Paper (I-WISP)’. According to the paper, Uzbekistan wants to reform the whole society and to accelerate its integration into the global community while maintaining its own national characteristics. The paper puts an emphasis on consistent economic growth, investment in social welfare, enlargement of national finance, job creation, qualitative improvement on social services, and reduction of regional gaps in the standard of living. Also mentioned are the pressing matters in economic reforms and private investment as well as the urgent needs to reform agriculture and finance.

The paper also sets the goal of annual growth at 8.0–8.5% during 2007–2010 to become a semi-developed country in terms of per capita GDP. Besides, it promises tax cut, deregulation, and liberalization of trade and finance, which are all positive changes for the Korean companies who want to invest in Uzbekistan.

From the perspective of Korean companies, the degree of market openness and trade liberalization in Uzbekistan was low, which has been the biggest entry barrier against the investments in the latter.

54 Ibid.
55 Ibid.
country. Therefore, Korean companies who consider investments in Uzbekistan cannot help waiting for abolishment of such barrier. Uzbekistan also needs to immediately resolve these difficulties felt by Korean companies if it wants to push its economic development a step further by inducing Korean capital and technologies. At present, trade and investment between Korea and Uzbekistan are rapidly increasing.\textsuperscript{56} Abundant natural and human resources of Uzbekistan, world-level manufacturing technologies and experience in rapid growth of Korea are complementary with each other, so bilateral cooperation between both countries has great potential for mutual benefits. It is urgent for Uzbekistan to get rid of trade and investment barriers, which make Korean investors hesitant, so as to maximize mutual benefits to be reaped through bilateral cooperation. Once this problem is solved, more Korean companies will invest in Uzbekistan, and thus, Korea and Uzbekistan retain much room for cooperation even if they are remote geographically. Moreover, if Russia is admitted to WTO in 2008, the economies of CAS will be affected by this. Therefore, Uzbekistan may need to hurry to reform its business corresponding to the global standards. It is beneficial in the long run for Uzbekistan also to be a member of WTO.\textsuperscript{57}

The Uzbek President I.A. Karimov has made every effort to


\textsuperscript{57} Moscow’s ambition to join the WTO has lately been hampered again by opposition from Washington after Russia’s brief war with Georgia in August, 2008. According to Russian Foreign Minister Sergei Lavrov, repeated delays of Russia’s joining WTO is also due to Russia’s opposition to U.S. plans to deploy a missile defense system in Central Europe and NATO expansion. “Lavrov wants common economic space with Europe”, US. The European Weekly New Europe (15 December, 2008) (http://www.neurope.eu/articles/91033.php) (accessed 2008-12-16).
conclude the above-mentioned agreement as a part of bilateral economic cooperation during the recent visit to Korea. The Comprehensive Economic Partnership Agreement (CEPA) has been suggested as a permanent channel for cooperation in trade along the same line of such presidential effort. The need for the comprehensive agreement comes from the limitation of economic cooperation on the case-by-case basis. The state-led CEPA, as an extended version of a free trade agreement, will promote a cooperative bilateral relationship in every economic sector and help cement Korea-Uzbekistan ties. The CEPA can make more rewarding a cooperative project under discussion, like the recently suggested installation of a Korea-Uzbek industrial complex near Tashkent, by making easier the decision of investment and the transfer of technology. In particular, the proposed industrial complex will bring about, by help of Korea, increase of investment, modernization of production facilities and job creation in textile industry designated as one of the key industries by the Uzbek government.

Uzbekistan which is abundant in human resources has a potential for being developed into a country that is strong in manufacturing industries. Korean technology and investment will be instrumental for Uzbekistan to grow into an economic power in Central Asia, the reason why a safe investment environment for Korean private

companies is institutionally guaranteed. The CEPA is anticipated to play such a role to improve bilateral cooperation dramatically.

2. Kazakhstan

Korea can participate in the installation of petrochemical industrial complex of which the Kazakh government is in pursuit with much weight. They can also draw up a joint project to build new towns in Kazakhstan as a part of bilateral economic cooperation. Participation in space development projects around the Kazakh space station too is worth being considered by Korea. Agricultural development over the vast greenlands of Kazakhstan is another conceivable area of bilateral cooperation which may solve the future problem of food shortage.

a) Kazakh Economic Development Strategies and Cooperation with Korea. The keys to Kazakh economic development strategies are summarized in the ‘Kazakhstan 2030’ that encompasses political, economic and social development strategies at the national level, and are specified in the ‘Kazakhstan Innovative Industrial Development Strategies 2003–2015’ (denoted ‘Innovative Strategies’ below). The Innovative Strategies aim at diversification of the present energy-led industrial structure and construction of infrastructure to help a transit into technology- and service-centered economy with sustainable economic growth in mind. Full implementation of the Innovative Strategies will result in GDP growth of 8.8–9.2% and the growth in

industrial production of 8.0–8.4% on average by 2015. The Government is planning to increase the portion of industrial production out of GDP from 46.5% in 2000 to 50–52% in 2015, that of research and innovation from 0.9% to 1.5–1.7%, and that of IT & high-tech industry from 0.1% to 1% (See: Tab. 3.4. Kazakhstan ‘Innovative Industrial Development Strategies 2003–2015’).

The Innovative Strategies are divided into three major policy areas of trade, investment and infrastructure. The basic trade policy set by the Innovative Strategies is to introduce the market economic principle of self-regulated competition. The Kazakh government has realized that regulatory trade policies and protectionist stance toward domestic market did more harm than good to its industrial development, and decided to liberalize trade gradually but thoroughly while it would make collateral efforts to establish a sound competitive market structure and to use energy income in the development of other industries.

Under these basic frameworks of trade policy, Kazakhstan puts much emphasis on establishing Eurasian Common Economic Zone consisting of major CAS. Kazakhstan manifested an ambitious plan to become a Central Asian herb of high-tech industry, trade, investment and finance. Kazakhstan is now closely connected with Eurasian and Middle Eastern countries through the Single Economic Space (SES), the Eurasian Economic Community (EurAsEC), the Central Asian Cooperation Organization (CACO), the Shanghai Cooperation Organization (SCO), and the Organization of the Islamic Conference

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61 Ibid.
(OIC). Among these, the SES and EurAsEC are particularly fruitful in the growth of the participating economies.62

Joining WTO is another issue of importance in the implementation of trade policies. The Kazakh government believes that sound restructuring of domestic market for goods and services will be accelerated and that the trade and investment environments suitable for sustainable economic growth will be established if the country becomes a member of WTO. The weighted average of Kazakh import duties is 8.6% which is not much higher than 6–7% set by WTO. Moreover, the proportion of the goods to which 0–15% adequate tariff ratio is applied is already 95% of all the goods in Kazakh market, so joining WTO seems to have little effects on the Kazakh domestic market. Presently, Kazakhstan has engaged in trade with 135 WTO member countries (the total number of WTO member countries is 144) and participates in WTO as an observer.63

The basic investment policy of the Innovative Strategies is to encourage private investments, and to institutionalize public investments as well as government aid for efficient use of private investments. The government plan is to strengthen the rights of minority shareholders, to simplify the registration of business firms, and to make transparent the process of licensing for the purpose of facilitating private investments. The Kazakh government now focuses their efforts to induce investments on the establishment of the ‘Kazakhstan Investment Fund,’ the 'Kazakhstan Development Bank,'
and the ‘Innovation Fund.’

The infrastructure policy aims to diversify the existing energy-centered industrial structure by investing in social infrastructure. The policy goal will be achieved through several stages, and as a result, the proportion of manufacturing in the total industrial production is expected to increase to 31% by 2015. The government also sets a plan to specialize in high-tech IT industry and transportation since the latter can be benefited from the geographical advantage of Kazakhstan that links between Europe and Asia. A total of 23 industries are appointed as important by the ‘Innovative Industrial Development Strategies 2003–2015,’ and seven out of these are selected to be the ones for which industrial clusters are created. The selected seven industrial clusters include: oil & gas; construction materials; foodstuffs; distribution service; metals; textiles; and tourism. The Kazakh government also announced, in September 2005, 237 sub-industries of investment priorities, which were largely agriculture, light industry, metallic chemistry, machine tools, electricity, transport, and construction materials.

The Innovative Strategies also emphasizes IT as one of the future engines of economic growth. The National Information Superhighway has been constructed by investing one billion dollars during 2001–2005, and the IT cluster plan ‘Regional Business Incubator’ is now

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66 Ibid.
under consideration. The Asian Development Bank (ADB) installed a 300,000 $ worth project management system by the request of the Kazakh Ministry of Economy and Budget Planning, and the European Bank for Reconstruction and Development (EBRD) lend 110 million dollars to Kazakhtelecom, the state-owned communication corporation, for enhancement of electricity and communication infrastructure.

The Kazakh government and central bank have employed multilateral policy measures to stabilize its macro-economy, a part of which is the ‘2005–2007 Medium-Term Financial Policy Development Strategies’ visualized in September 2004. The Development Strategies are meant to minimize the variation in oil incomes by reducing the financial deficit of non-energy sectors and raising the efficiency of government expenditure. The central bank focuses on minimizing the pressure of inflation through the instruments of monetary policy such as open market operation and discount rate. The target inflation rate set by the central bank is 5.7–7.3% during 2006–2008, and recently, discount rate is increased from 7.0% to 7.5% to achieve this target. Thus, Kazakh economic development strategies can be summarized as diversification of energy-centered industrial structure toward a sustainable growth and investment in infrastructure for the transition into a service- and technology-centered economy.

Bilateral cooperation with Korea will be very helpful in executing these development strategies since Korea has sufficient experience and know-how as well as capital and technology which are useful in Kazakh economic development.

b) Korea-Kazakhstan Energy Cooperation. Kazakhstan can be an alternative supplier of oil from the perspective of Korea who is the world 5\textsuperscript{th} energy importing country and whose oil imports depend mainly on the Middle East.\footnote{KIEP Report. op. cit.} Indeed, 70–80\% of oil used in Korea comes from the Middle East, which is pointed out as a weak point of the Korean energy security.\footnote{Ibid.} Therefore, it is urgently needed for Korea to diversify its source of energy imports. The synergy effect of energy cooperation between Korea and Kazakhstan will be maximized when comparative advantages of both countries in the energy sector are optimally combined. As mentioned above, the world-level petrochemical plant and technology of Korea can play a big part to strengthen the competitiveness of the Kazakh energy industry.

\section*{V. Conclusion}

We have seen that Korea and CAS share the common goal of establishing peaceful international relations, and by doing so, solving security and economic problems. Historically, Korea and Central Asia had actively engaged in trade and exchanged cultures with each other since the 7\textsuperscript{th} century. Korea and Central Asia need to recognize such
common goal and to recover the ancient tradition of economic and cultural exchanges. Moreover, Korea and Central Asia are in the same situation in that both of them are relatively small countries surrounded by neighboring superpowers, that both declared denuclearization or nuclear weapon free zone, and that both need to find a partner whose economy is complementary with their own. Especially, the Koreans living in Central Asia are valuable assets for future cooperation between Korea and Central Asia. All of these factors necessitate medium- and long-term cooperation between Korea and Central Asia in many aspects. ‘Korea–Central Asia Economic Community’ proposed as an institution of multilateral cooperation is reckoned as a catalyst in achieving the shared goal of the participants in the community.

Bilateral cooperation should also be customized according to the specific situations in which each party lie. The important recognition should be made about the indispensable role of both governments to institutionalize cooperation and to form a friendly environment in encouraging private economic cooperation and minimizing the risk of investment and trade. The annual “Korea–Central Asia Cooperation Forum” which was firstly held in November 2007 is an opportunity to discuss the pending issues of their cooperation and to push the cooperative system to the point of its institutionalization.
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