



## The United Arab Emirates as an Alternative Trade and Investment Partner in Central Asia

*Sebastien Peyrouse*

**Sebastien Peyrouse** is a Research Professor of International Affairs at the Institute for European, Russian and Eurasian Studies (IERES), The Elliott School of International Affairs, George Washington University, Washington DC. He recently published *Turkmenistan: Strategies of Power, Dilemmas of Development* (M. E. Sharpe, 2011), and co-authored *The 'Chinese Question' in Central Asia. Domestic Order, Social Changes, and the Chinese Factor* (Columbia University Press, 2012).

The opinions expressed here are those of the author only and do not represent the Central Asia Program.

The United Arab Emirates (UAE) is a late arrival on the Central Asian scene: although it recognized the independence of the post-Soviet republics in 1992, diplomatic and trade relations have been slow to take off. Turkmenistan waited until 2011 to open an embassy there, Kazakhstan until 2006,<sup>1</sup> while Kyrgyzstan, Uzbekistan, and Tajikistan have only opened consulates. The Emirates–Central Asian partnership began to blossom only in the second half of the 2000s, which saw an increasing number of official visits by both sides. The political relations between the two regions continue to be limited, however, to debating the evolution of the two regional organizations to which they belong, namely, the Islamic Cooperation Organization (ICO) and the Conference on Interaction and

### Key Points

The UAE is now Turkmenistan's fifth-largest trade partner.

The UAE presents itself as an attractive alternative partner, offering low-interest loans with no political conditions, and serving as a trade crossroads between Central Asia, the Middle East and South-east Asia.

The development of Islamic financing is one of the drivers being used by the UAE to establish itself in Central Asia.

Emirati firms are in the process of locating land for wheat production in both Kazakhstan and Uzbekistan.

Confidence Building (CICA),<sup>2</sup> or to discussing the Iranian nuclear program. At the commercial level, the UAE has stepped up its dynamism in recent years, presenting itself as an attractive alternative partner, offering low-interest loans with no political conditions, and serving as a trade crossroads between Central Asia, the Middle East and Southeast Asia.

### Continuing low-level of trade exchanges

At the level of trade, the UAE has only made real headway into Turkmenistan, whose policy of “permanent neutrality” and its reluctance to open up to Western or Russian investments has left the field free for Asian (mainly China) and Middle Eastern (mainly Turkey and Iran) actors. As of 2010, the UAE was Ashgabat’s fifth-largest trade partner. Among the Emirate companies established in the region, noteworthy are Adel Al Hussain Gen Trading Co., Kefayat General Trading Co. LLC., as well as Technosat Trading LLC.<sup>3</sup>

In Uzbekistan, the Islam Karimov regime’s traditional distrust of the Gulf countries has done nothing to help the development of commercial relations. The majority of projects to build mosques with Gulf funds were stopped halfway through the 1990s—despite the fact that the type of Islam endorsed in the UAE is not the Saudi Wahhabism—and this trend has continued. As such, the Uzbek authorities recently stopped a project to build a mosque in the center of Tashkent, financed by Dubai Properties. In 2007, subsequent to a meeting between the Uzbek president and Sheikh Mokhammad bin Rashid al-Maktum, Deputy President and Vice Prime Minister of the Emirates, more than 20 investment projects worth US\$3.5 billion were concluded,<sup>4</sup> but only few of them have been realized. Trade exchanges actually fell from \$116 million in 2005 to 93 million in 2007<sup>5</sup> and to 24 million in 2008, but the Uzbek authorities claimed a revival of trade exchanges for the year 2011, at \$147 million.<sup>6</sup>

The UAE plays up its role as a platform for the transit and re-export of products between the rest of the world and the landlocked countries of Central Asia. In fact, two other countries whose geography would seem to make them destined to play a transit role between Central Asia and the

southern seas, namely Iran and Pakistan, are for various reasons practically inaccessible to products coming in or out of Central Asia. Pakistani routes, including even the Karakoram Highway, which goes through Xinjiang, are used very little as a way of getting to or from Central Asia, whereas links with Iran are complicated due to the international ban in force on the Tehran regime. The UAE has been able to take full advantage of this situation. It receives Uzbek cotton—which alone comprises three-quarters of all Uzbek exports to the Emirates—and re-exports it to Sri Lanka and Bangladesh, with Uzbek and Kazakh hydrocarbons and chemical products headed for regions in the Indian Ocean and the Pacific. In exchange, to Central Asia the UAE transports electrical and electronic materials produced in Southeast Asia (Malaysia and Vietnam, among others), in particular home appliances, as well as equipment for the transport sector, and diverse materials linked to the building sector.<sup>7</sup> Today approximately 10,000 Kazakhstani citizens are residents of the UAE, most of whom work on a contract basis in the trade sector and in private business.<sup>8</sup>

*UAE’s Place in the Trade Total  
of Central Asian States in 2008 and 2010<sup>9</sup>*

	2008		2010	
	Millions of US\$	Rank	Millions of US\$	Rank
Kazakhstan	86.8	24	86	22
Kyrgyzstan	23.5	15	49.7	11
Tajikistan	61	9	49.1	12
Turkmenistan	549.3	6	543.3	5
Uzbekistan	24	>50	unknown	-

The UAE’s role as a trade hub has given rise to new strategies of cooperation in the sectors of freight and the transport of air passengers. At the start of the 1990s, Dubai became the first UAE destination to which Central Asians had relatively easy access: while shuttle trade had previously been limited to Istanbul and Kashgar, it quickly spread to Dubai, which became known for the sale and purchase of gold and jewelry, as well as electronic products. Dubai’s status changed in the 2000s, as key products started being delivered directly to Central Asia by Chinese companies, but the UAE’s “reconversion” to tourism and high

technology has enabled it to remain a key destination for the Asian middle- and upper-classes. Accordingly, airline routes have been expanded. Etihad Airways now flies to Kazakhstan, Air Astana to Abu Dhabi,<sup>10</sup> and Dubai is financing the construction of an international terminal at Bukhara airport.

### **A privileged sector: hydrocarbons**

Hydrocarbons constitute the main sector of cooperation between the UAE on one side, Kazakhstan and Turkmenistan on the other. The Abu Dhabi-controlled International Petroleum Investment Company (IPIC) has been interested in the Caspian Basin for several years, and signed an agreement with KazMunayGas for the construction of a petrochemical complex near Atyrau.<sup>11</sup> A joint venture between the British Petrofac and Abu Dhabi's Mubadala Development Fund, Petrofac Emirates won a contract along with ConocoPhillips for the joint operation of block N in the Kazakh part of the Caspian Sea.<sup>12</sup> The block's reserves are estimated at about 4.65 billion barrels of oil, including 2.13 billion barrels of recoverable reserves. This cooperation should guarantee KazMunayGas technology transfers for offshore exploration and exploitation. The start of commercial exploitation is scheduled for 2016.<sup>13</sup> For its part, in 2009 Turkmenistan awarded a contract of \$9.71 billion to a consortium of five companies, including Petrofac Emirates and Dubai's Gulf Oil and Gas, to develop the huge South Yolotan gas deposit. Petrofac Emirates won a second contract worth \$4 billion for the development of an annual production of 20 billion cubic meters (bcm) and the building of a sulfur extraction plant and other infrastructures on the South Yolotan site.<sup>14</sup>

Lastly, Dubai-based Dragon Oil has set up operations on the coast of the Cheleken Peninsula, situated in the western part of Turkmenistan, near Hazar.<sup>15</sup> The area was already known for its oil reserves at the start of the twentieth century and was one of the most exploited sites in all Central Asia during the Soviet period. Dragon Oil's working area covers 950 km<sup>2</sup> and contains two fields situated in the Caspian Sea, namely Dzheitune and, further to the north, Dzhygalybeg (Zhdanov), which was explored and exploited by Soviet firms in the 1960s and 1970s. In regard to the first

field, Dzheitune, Dragon Oil has begun working on the 38 existing wells and drilled 40 more. It has also restored the former platforms and built two new ones. The signed contract is valid for 25 years starting in 2000 and production is being shared between the company and the Turkmen authorities. In 2010, Dragon Oil financed the development of 11 new wells (oil and gas) for a sum of \$454 million and plans to invest a further \$150 million by 2013 in gas exploitation (and between \$600 and 700 million in oil exploitation). According to its data, the gas reserves of Cheleken are estimated to contain at least 400 bcm, which represents only half of what was initially calculated during previous assessments. In January 2012, Dragon Oil acknowledged its difficulties in reaching agreement with the Turkmen authorities on the gas sale price.<sup>16</sup>

Emirate companies are also in Kyrgyzstan, but to a lesser extent. Petrofac has been working since 1996 on the refinery of the Kyrgyz Petroleum Company (KPC), located in the Jalalabad region, which will have its processing capacity upgraded to about 400,000 tons per year of crude oil and should be able to process smaller proportions of gas condensate, naphtha, and semi-refined distillates.<sup>17</sup> Among the investment projects of recent years, Masdar, an Emirati enterprise established in the Ferghana Valley, has been working in the sector of gas preservation, in particular to reduce the loss of gas due to leaks.<sup>18</sup>

### **New niches of cooperation: construction and agriculture**

All the Central Asian regimes promote "political architecture" that aim to reshape their capital cities, and as such the architectural "experiments" in the Emirates, in particular in Dubai and Abu Dhabi, are highly regarded. Aldar Properties, for instance, has been tasked with building the huge Abu Dhabi Plaza complex in the Kazakh capital Astana at a cost of more than \$1 billion. The complex will contain a shopping center and offices, as well as hotels, a leisure center, and apartments.<sup>19</sup> The reconversion of the Emirate economies to new technologies and services is also attractive for Central Asian leaders. The Abu Dhabi-based Masdar Institute, a scientific and technological institute specialized in training people for jobs in the sector of advanced energy and sustainability,

has stated its willingness to sponsor and host 15 PhD candidates from Kazakhstan. There are already about 1,000 Kazakh students studying in various Emirati universities. Cooperation is also being considered in the space sector: the president of the state agency Kaskosmos, Talgat Musayev, recently signed a cooperation agreement with the Institute of Sciences and Cosmic Technologies.<sup>20</sup>

For its part, the UAE is interested in the Central Asian states' agricultural produce and agribusiness capacities. In the Emirates, public debates about food security are a regular occurrence: with a rising population and falling local agricultural production due to the dearth of water and arable land, they are heavily dependent on imports and therefore vulnerable to the volatility of the world market, and, like China, are seeking to shore up agricultural markets overseas, especially in Africa, Ukraine, and Kazakhstan.<sup>21</sup> Kazakhstan's rise to power as a cereal exporter, in particular of wheat, and its status as the world's second-largest exporter of flour, has raised interest in the UAE. The British–Emirati Pharos Miro Agricultural Fund, launched in 2009, is currently in the process of locating land for wheat production in both Kazakhstan and Uzbekistan.<sup>22</sup> Agricultural cooperation was also a high priority during the state visit of UAE President Sheik Shaikh Khalifa bin Zayed Al-Nahyan to Kazakhstan in October 2012.<sup>23</sup>

### **New banking and investment opportunities**

The banking sector has also established itself as a key sector of cooperation, especially in regard to Islamic financing that has proven very dynamic, with the UAE being a leader in this domain. While Kyrgyzstan was the first to accept Islamic financing, it has since been caught and overtaken by Kazakhstan in terms of the amount of financing received.

As early as 2006, Bank TuranAlem (BTA) took out a loan of \$200 million from Calyon Bank and the Abu Dhabi Islamic Bank. In 2007, Alliance Bank signed a contract to receive an Islamic finance-compliant \$150 million loan from Calyon Corporate, the investment Bank SA, and Abu Dhabi Islamic Bank. In 2008, Kazakhstan and the government of Abu Dhabi decided to create a fund of

\$1 billion to invest in energy and financial services in Kazakhstan and other countries of the Commonwealth of Independent States (CIS). The Falah Growth Investment Fund, funded by Falah Growth Fund, Aztech Investments Ltd (an IPIC affiliate organization), Kazyna Capital Management, and Ordabasy, confirmed its financing of projects in the areas of gas and oil, insurance, and commercial property.<sup>24</sup> In 2012, it reported investing \$50 million in a capacity upgrade of the Karaganda hydropower station TETS-3.

The Kazakh authorities were impressed with the viability of Islamic finance during the global financial crisis.<sup>25</sup> As the flows of foreign direct investment to the country dropped by 20 percent in 2009, the government announced its intention to seek \$10 billion of Islamic financing over a period of five to seven years.<sup>26</sup> Today Kazakhstan has a number of *sharia*-friendly organizations working in the country, such as Fattah Finance (one of the first companies to provide financial services compliant with Islamic standards), Istisna'a Corporation (one of the leading companies in terms of Islamic financial consulting), and Halal Mutual Insurance Takaful, although there is no shortage of experts who claim that the Kazakh population is distinctly wary of Islamic financing.

In light of the world economic crisis, Nazarbayev sought to accelerate this Islamic financial presence in Kazakhstan. In 2010, he ratified an agreement between the Abu Dhabi Investment Board and the Kazakh government to establish the first Islamic bank in the country, Al Hilal, which now has offices in Almaty, Astana, and Shymkent.<sup>27</sup> The bank is primarily out to obtain projects for large corporations in the framework of Islamic *murabaha* contracts; in 2010, it invested \$250 million in the Kazakh economy and is expected to invest \$1 billion more by 2012–13.<sup>28</sup> In August 2010, approval was given to Kazakhstan's Road Map for the Development of Islamic Finance, which is concerned with improving the regulation of Islamic finance, attracting investments in accordance with sharia from Islamic Cooperation Organization members, the introduction of Islamic financial standards, and the establishment of micro-finance sharia-compliant institutions. Nazarbayev also suggested that the Organization of Islamic Cooperation and the Islamic Development Bank could create specific

banking mechanisms for small- and medium-sized businesses.<sup>29</sup>

Though Islamic financing is still minimal in present-day Kazakhstan (it occupies only 1 percent of the market share, whereas the country's six largest banks account for 75 percent of the market), the development of Islamic financing in Central Asia is one of the drivers being used by the UAE to establish itself in the region.

### Concluding remarks

The growth of bilateral exchanges between Central Asia and the UAE does not mean that relations are without pitfalls: the Central Asian governments often complain about what they consider to be hidden Islamic proselytism and, unfounded or not, these complaints greatly influence the public's perception of the new partnership with the Gulf countries.

Moreover, the UAE is often considered as an accomplice in the strategies of incumbent elites to siphon public wealth and obtain occult financing. The significant amount of gold trafficking by Dubai, in particular from Uzbekistan, is widely talked about, as are the prostitution networks which send young Central Asian women into sexual slavery in the Emirates. Lastly, the Emirates play a considerable role in the Central Asian black market for hunting tourism. In Turkmenistan such "tourists" arrive by private jet and their large budgets allow them to obtain multiple permits (usually one hunter is only allowed to kill one animal), including for endangered animals that are not supposed to be hunted.

Another phenomenon is also taking shape, namely the export of labor forces. Central Asian labor migrants, who typically go to Russia and other regional destinations such as Kazakhstan, are now starting to head to the UAE, which is a major consumer of cheap labor. Formal agreements in this regard have been signed with Tajikistan and Turkmenistan, while Tajikistan also plans to sign agreements with other Gulf countries—Saudi Arabia, Kuwait, and Qatar.<sup>30</sup>

Despite the existence of some "shadowy" areas of bilateral trade, the Central Asian governments have reason to be pleased about the opportuni-

ties offered by the UAE, which include alternative investments with no political strings attached or geopolitical pressure, and which enable them to stimulate competition in order to rival the demands of the West, Russia, and China. The UAE provides hope for many Central Asians: not only does it project a modern image of Islam, one that is in tune with cultural and economic globalization, but also it does not adopt an anti-Western stance on the international stage. This alignment between the UAE and Central Asia is likely to increase in the years ahead: the coming to power of Islamist parties in some Middle-Eastern countries after the 2011 Arab Spring goes against the international positioning of the Central Asian states, which are anxious to appear pro-Western and secular, and who are looking for new partners who share similar strategies of development.

<sup>1</sup> "Turkmenistan and UAE," website of the Turkmenistan Embassy in the UAE, <http://www.tkmemb-uae.org/relation.php>.

<sup>2</sup> "Bilateral Cooperation Between The Republic Of Kazakhstan And The United Arab Emirates," website of the Kazakhstan Embassy in the UAE, <http://kazembemirates.net/info.php?p=2&n=10>.

<sup>3</sup> "V OAE sostoiatsia pervyi investitsionnyi forum Turkmenistana," *Russkie Emirati* 36, no. 2 (2010), <http://www.dxb.ru/project/re/detail.php?ID=4022>.

<sup>4</sup> "Vikiliks: Karimov, araby i den'gi na mecheti," *Uznews.net*, June 12, 2012, [http://www.uznews.net/article\\_single.php?lng=ru&cid=22&aid=940](http://www.uznews.net/article_single.php?lng=ru&cid=22&aid=940).

<sup>5</sup> Ibid.

<sup>6</sup> See Uzbekistan Statistics Committee, [http://www.stat.uz/upload/iblock/fe4/tablen\\_2012.doc](http://www.stat.uz/upload/iblock/fe4/tablen_2012.doc).

<sup>7</sup> A. Babayev, "President of Uzbekistan visiting UAE," *Uzbekistan National News Agency*, March 18, 2008, <http://uza.uz/en/politics/191/>.

<sup>8</sup> R. Ramesh, "UAE, Kazakhstan intensify ties on multiple fronts," *Gulf Today*, October 11, 2012, <http://gulftoday.ae/portal/2d40241b-2a30-4438-94a3-88813db8b081.aspx>.

<sup>9</sup> 2011 European Commission statistics, <http://ec.europa.eu/trade/creating-opportunities/bilateral-relations/countries-andregions/>.

<sup>10</sup> D. Armanov, "Sblizhaiut vozduzhnye mosty," *Kazakhstanskaia pravda*, December 6, 2008.

<sup>11</sup> “Kazmunaygas, International Petroleum Investment Company Agreed to Cooperate under West Kazakhstan Integrated Gas-Chemical Facility Project,” *CIBC Group*, [http://www.cibcgroup.com/shab\\_news\\_en.shtml?cgibin/show\\_news.pl?lang=en&id=2277](http://www.cibcgroup.com/shab_news_en.shtml?cgibin/show_news.pl?lang=en&id=2277).

<sup>12</sup> S. Carvalho, “UAE’s Mubadala, Conoco agree Kazakh deal,” *Reuters*, October 5, 2008, <http://www.reuters.com/article/2008/10/05/emirat-es-mubadala-conoco-idUSL512067420081005>.

<sup>13</sup> More details in Business Monitor International, *Kazakhstan. Oil and Gas Report, Q3 2012*, May 2012.

<sup>14</sup> T. Carlisle, “UAE firms grab slice of \$10bn Turkmenistan gas deal,” *The National*, December 30, 2009, <http://www.thenational.ae/business/energy/uae-firms-grab-slice-of-10bn-turkmenistan-gas-deal>.

<sup>15</sup> More details in Business Monitor International, *Turkmenistan. Oil and Gas Report, Q3 2012*, May 2012, pp. 51-54.

<sup>16</sup> Ibid.

<sup>17</sup> See Petrofac website at <http://www.petrofac.com/index.asp?pageid=205>.

<sup>18</sup> “MASDAR discuss issues on strengthening cooperation,” *Uzdaily*, May 18, 2010, <http://www.uzdaily.com/articles-id-10101.htm>.

<sup>19</sup> “Agreement signed to construct Abu Dhabi Plaza in Astana,” *Tengrinews*, March 29, 2011, [http://en.tengrinews.kz/kazakhstan\\_news/Agreement-signed-to-construct-Abu-Dhabi-Plaza-in-Astana-467/](http://en.tengrinews.kz/kazakhstan_news/Agreement-signed-to-construct-Abu-Dhabi-Plaza-in-Astana-467/).

<sup>20</sup> “Kazakhstan i OAE podpisali soglashenie po sotrudnichestvo v kosmicheskoi sfere,” *Kaskosmos*, November 16, 2011, <http://kazcosmos.gov.kz/ru/novosti/16-11-2011.html>.

<sup>21</sup> A. England, “UAE to invest in Kazakh agriculture,” *Farmgrab*, July 16, 2008, <http://farmlandgrab.org/post/view/2419>. See also E. Woertz, S. Pradhan, N. Biberovic, and C. Jingzhong, *Potential for GCC Agro-investments in Africa and Central Asia*, Gulf Research Center Report, September 2008, p. 4.

<sup>22</sup> O. Visser and M. Spoor, “Land grabbing in post-Soviet Eurasia: the world’s largest agricultural land reserves at stake,” *Journal of Peasant Studies* 38, no. 2 (2011): 314.

<sup>23</sup> R. Ramesh: “UAE, Kazakhstan intensify ties on multiple fronts”.

<sup>24</sup> “The establishment of an investment fund Falah Growth Fund,” *Kazyna*, September 10, 2008, [http://www.kcm-kazyna.kz/en/press\\_centra/news/the\\_establishment\\_of\\_an\\_investment\\_fund\\_falah\\_growth\\_fund/](http://www.kcm-kazyna.kz/en/press_centra/news/the_establishment_of_an_investment_fund_falah_growth_fund/).

<sup>25</sup> C. Nuttal, “Support from the top for Islamic finance market,” in *Investing in Kazakhstan 2011* (Washington, D.C.: New Desk Media, 2011), pp. 131-33.

<sup>26</sup> “Kazakhstan Embraces Non-Traditional Financial Instruments,” Kazakhstan Embassy in the Netherlands, no date, [http://www.kazakhembassy.nl/index.php?option=com\\_content&view=article&id=203:kazakhstan-embraces-non-traditional-financial-instruments-&catid=35:general&Itemid=86](http://www.kazakhembassy.nl/index.php?option=com_content&view=article&id=203:kazakhstan-embraces-non-traditional-financial-instruments-&catid=35:general&Itemid=86).

<sup>27</sup> “Al Hilal Bank Seeks to Popularise Islamic Banking in Kazakhstan,” *Gazeta.kz*, February 23, 2011, <http://engarticles.gazeta.kz/art.asp?aid=334791>.

<sup>28</sup> “Al-Hilal Bank close to Kazakhstan launch,” *Silk Road Intelligencer*, March 29, 2010, <http://silkroadintelligencer.com/2010/03/29/al-hilal-bank-close-to-kazakhstan-launch/>; “Bilateral Cooperation Between The Republic Of Kazakhstan And The United Arab Emirates,” *Kazakhstan Embassy in the UAE*, <http://kazembemirates.net/info.php?p=2&n=10>.

<sup>29</sup> “Second Islamic Finance Forum in Astana Raises Business Awareness,” *Kazworld*, September 22, 2011, <http://kazworld.info/?p=16679>.

<sup>30</sup> “Migratsionnaia sluzhba Tadzshikistana usilivaet voprosy profpodgotovki trudovykh migrantov,” *Migration.tj*, November 15, 2011, <http://www.migration.tj/ru/index/index/pageid/511/>; N. Kassenova, “The impact of the global economic crisis on Central Asia and its implications for the EU engagement,” *EUCAM Working Paper*, no. 5, October 2009.

**A non-partisan initiative, the Central Asia Program at the George Washington University aims to develop academic and policy-oriented research on contemporary Central Asia by providing a space for discussion connecting the policy, academic, diplomatic, and business communities. Its research activities focus on four main axes: security, development, state-building, and regional environment. It calls for a multidisciplinary approach combining political science, sociology, anthropology, economics, history, globalization studies, and security studies. The Central Asia Program aims to get US, European, Russian, Asian, and Central Asian counterparts working together, by promoting various forms of interaction and joint projects.**

More at [www.centralasiaprogram.org](http://www.centralasiaprogram.org)

© Central Asia Program 2012