

South Korea's expansion in Central Asia

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During South Korean President Lee Myung-bak's visit to Kazakhstan and Uzbekistan (23-25 August), an agreement was signed on Korean investments totalling US\$12 billion in those countries. In Kazakhstan, Korean companies will invest in the strategic petrochemical complex in Atyrau (these investments will come to about US\$4 billion), getting 50% of the profits from this project in return. In addition, a consortium of Korean companies will build a power plant worth US\$4 billion in Balkhash; it is planned to generate around 7% of the country's total electricity production. In Uzbekistan, in turn, Korean companies have obtained a contract worth US\$2.6 billion to build a gas plant on the Ustyurt deposit, as well as an agreement to further expand the Navoi air hub, which is important for the ISAF mission in Afghanistan.

Comment

- These contracts represent the culmination of South Korea's previous involvement in Central Asia; they indicate the rapidly growing scale of this activity, and demonstrate Korean companies' determination to continue investing in the region. Importantly, the South Korean offer does not only apply to the oil and gas extraction sector (investing in the raw material deposits), but more broadly includes the electric and petrochemical sectors. This means that South Korea is primarily interested in using the income that Kazakhstan and Uzbekistan will obtain from their energy exports.
- This activity is part of the observed trend of Far Eastern countries becoming increasingly involved in Central Asia. This trend is obviously dominated by China, which since the beginning of the last global economic crisis has allocated at least US\$25 billion to investments or loans for countries in the region. In China's shadow, South Korea, Japan and Malaysia are building up their positions in Central Asia ever more efficiently. We should expect that the development of economic contacts will be accompanied over time by the growth of political cooperation, and that as a consequence, the Central Asian countries will increasingly gravitate toward East Asia.
- The increase in the Far Asian countries' activity poses a challenge both to the West, which wishes to acquire raw materials (oil and gas, but also rare metals and uranium), as well as to Russia, which is interested in maintaining its sphere of influence in Central Asia. The efficiency of Asian companies clearly distinguishes them from Western and

Russian companies, which are focused on the implementation of existing contracts, yet are ineffective at attracting new assets. As a result of increasing competition, Western companies (dominated by German firms) are finding it increasingly difficult to defend their interests effectively; the latest example is the problem of recovering debts (amounting to US\$4-5 billion) from Zeromax, a company registered in Switzerland, which operates in Uzbekistan, and is linked to the inner circle of President Karimov.