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Objectives and Prospects in Central Asia–EU Connectivity: Challenges, New Developments and Cooperation

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EXECUTIVE SUMMARY

Fostering Central Asia-EU connectivity is becoming increasingly important for both regions, in part due to the Central Asia's strategic location. The EU can play a key role in promoting common goals such as advancing trade corridors like the Trans-Caspian Transit route, which will ultimately benefit both parties. Cooperation in investment and technology transfer under the sustainability agenda would instigate more long-term connectivity objectives. This can ensure the EU's access to resources, presence in rapidly growing markets, and, resilience, the ability to withstand competition from other actors. In addition, education is a further policy area that Central Asian and European actors should focus on, especially related to technical subjects required for development cooperation.

INTRODUCTION

Central Asia is located at the centre of Eurasia, midway between Europe and the expanding economies of East, South, and Southeast Asia. Given its strategic location, improving connectivity within the region and beyond is highly important. Existing transport corridors, including the established North-South routes, necessitate the development of alternative routes to diversify trade and enhance connectivity. Obstacles include preconditioned constraints, harsh climate conditions in the North, mountainous terrain in the East, uneven development at the country-level, and varying memberships in international treaties.

In June 2019, the European Union (EU) launched the EU Strategy for Central Asia, identifying a series of goals for cooperation. Collaboration was based on non-exclusive partnerships, positioning the EU as a factor of balance and a committed partner for reforms. Recognising that connectivity is a matter beyond individual states, the strategy prioritised investments in regional cooperation with the objective

of moving towards unified regulations and a more integrated regional market. The EU's collaboration with Central Asia is evident in trade relations—through the extension of the Generalised Scheme of Preferences Plus (GSP+) benefits and the EU's assistance to facilitate Uzbekistan's process of WTO accession. The promotion of the Middle Corridor, or Trans-Caspian Transport Corridor, as an alternative to the conventional North-South routes has the potential to mutually benefit these regions' economies. The areas of collaboration extend beyond trade to other sectors, including broadband connections, digitalisation, education, and tourism. Enhanced connectivity is seen as a multiplier of collaboration and a driver of development across various sectors of the economy.

Central Asian states' expectations from collaboration with the EU are linked with investment, technology transfer, and outsourcing of manufacturing bases in Central Asia. Investment collaboration, in particular, is seen as mutually beneficial, with EU firms taking advantage from entering a rapidly growing market. Aligning joint trade and development objectives with sustainability goals has emerged as a new priority and as an instrument of tackling regional environmental challenges. These initiatives complement the region's overarching objective of developing sustainable energy in Central Asia.

TRADE CONNECTIVITY AND THE TRANS-CASPIAN TRANSIT CORRIDOR

The Middle Corridor —also known as the Trans-Caspian Transit Corridor— is particularly important for states within Central Asia. Its development, however, is dependent on the EU granting more favourable tariffs and extended GSP+ benefits, which can level the playing field with EU trade partners. In order to align product and trade infrastructure requirements with EU regulations, Central Asian states aim to set up advanced labs in accordance with EU standards,

establish trade and logistics chains, and develop efficient mechanisms to support mutual supplies.

Changes to legal frameworks, including the shift from one-to-one Partnership and Cooperation Agreements (PCAs) to Enhanced Partnership and Cooperation Agreements (EPCAs), symbolise progress towards a multi-faceted, stronger EU-Central Asia partnership. According to the new EPCAs are aimed at:

- (a) forming a comprehensive agreement that facilitates and strengthens regional cooperation;
- (b) enhancing provisions related to trade, promoting market economy principles, including certainty; guaranteeing sustainable FDI and contributing to the diversification of the economy.¹

In terms of infrastructure investments on the Middle Corridor, China has made the movement of goods from China to Europe more direct and efficient under the Belt and Road Initiative (BRI). The EU is also providing technical assistance for many infrastructural projects on the Middle Corridor, including the Transport Corridor Europe Caucasus Asia (TRACECA) route, which is aimed at connecting Europe to Central Asia through the Black Sea, the Caucasus, and the Caspian Sea. Also the United States has promoted energy-related projects in the broader region and beyond, including the Turkmenistan–Afghanistan–Pakistan–India (TAPI) gas pipeline and the Central Asia–South Asia electricity line (CASA-1000), which benefitted the East Asian region. These efforts are complemented by recent initiatives such as the C5+1 dialogue platform between the United States and five Central Asian states (Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan), established to advance trade relations and develop the Middle Corridor.

Despite significant advancements in infrastructure, there are still longstanding obstacles related to system differences that cannot be reverted expeditiously. For example, discrepancies between past and current standards created differences among railway tracks. This has led to the formation of a bottleneck in Khorgos on the China-Kazakh border, requiring goods to be reloaded. The automation of this process, advanced under China’s BRI, has accelerated the reloading process, marking a significant step forward. This is an example of how other actors’ initiatives benefit their counterparts across trade corridors.

Diversifying corridors is important to widen the choice of available routes and enhance transmitting capacity. The creation of alternative routes directly impacts the interests of states through which these corridors pass. Hence, states’ positions on connectivity will be determined by national interests as well as geographical factors (e.g., landlocked nature, road savings, and climate conditions). With extensive expertise in integration processes, the EU can play a key role in establishing a common ground under unified standards to streamline trade.

Developing the Trans-Caspian Transit route is especially important to enhance transport and communication connectivity, however, raising the corridor’s competitiveness will require a coordinated approach. An unresolved issue is that tariffs in this direction are 1.5 times higher than in the traditional North-South routes. Possible solutions include establishing joint transportation corridors, expanding transport-logistic infrastructure in response to the rise of cargo movement, and improving North-South routes. Along with these goals, emphasising the advantages of the Trans-Caspian corridor through regular meetings between representatives of regional

¹ https://www.eeas.europa.eu/eeas/uzbekistan-european-union-and-uzbekistan-complete-negotiations-new-enhanced-partnership-and_en

transportation authorities and the EU has been proposed.

INVESTMENTS, TECHNOLOGICAL COOPERATION, AND EDUCATION

Central Asian states' expectations from the EU can also provide a glimpse of potential areas of collaboration. Technology transfer, for example, can contribute to market growth by attracting enterprises in the region.

In terms of investments and technological cooperation, various initiatives have been taken, including conducting annual industrial-technological exhibitions in the economic forum within the "Central Asia-EU" framework. There is also an interest in launching specialised instruments of financial support and outsourcing manufacturing bases in the region, together with the European Investment Bank. Establishing businesses in the region can offer competitive advantages to European corporations by securing a presence in the growing market, capitalising on access to raw materials and workforce, and withstanding competition in the region among other major actors.

China further maintaining its presence in Central Asia, providing ready solutions in terms of goods and equipment. Its aim is to establish itself as a reliable supplier, fostering long-term relations and securing a foothold in the market. Other countries, such as Japan and South Korea, have also become increasingly important investors in renewable energy projects in Central Asia. Currently, the market share in renewables is represented mainly by Asian transnational corporations. Leveraging its expertise and technology, the EU can also take a leading role in implementing targeted regional projects that can simultaneously catalyze growth and promote sustainability objectives.

Education can also be used as an instrument to enhance connectivity, for instance, through the establishment of partnerships with universities in the EU and the design of joint education programmes. Particular emphasis should be placed on promoting technical subjects required for development cooperation. Research and education projects in Central Asia could also be expanded within the framework of "Horizon Europe." The EU in particular has a longstanding leadership of excellence in education. Compared to mainly trade-related BRI initiatives, collaboration with the EU in education is multifaceted and has the potential to enhance connectivity through various instruments.

CONCLUSION AND POLICY RECOMMENDATIONS

Central Asia is becoming an increasingly important transit region for EU-China trade traffic. The EU is contributing to regional integration with various initiatives under the overarching goal of enhancing connectivity. Trade is seen as a multiplier having a spillover effect on other areas of cooperation. Diversifying transit routes means a free market and choice of exporters, which comes with tighter competition. Notably, major actors such as the EU and China can promote common goals such as advancing trade corridors, which will ultimately benefit both parties.

Diversification of routes also benefits other regions, such as recipients of trade in South Asia. This is evidenced in energy connectivity initiatives (e.g., TAPI) driven by the economic interests of exporters. Cooperation in investment and technology transfer under the sustainability agenda can instigate more long-term connectivity objectives. This would ensure access to resources, presence in new markets, and the ability to withstand competition from other actors. Cooperation between similar initiatives aiming at the common goal of regional integration can preclude duplication and strengthen their effect.

Trade exchange should furthermore be complemented by the strengthening and deepening of connectivity in the area of education, especially with regard to technical subjects required for development cooperation.

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