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EU Cooperation Programmes for Central Asia: New Challenges and Responses

Abstract

This article aims to analyse EU cooperation programmes for Central Asia, placing emphasis on the importance of cross-regional cooperation in creating a favourable environment for business development and foreign investment, aligning those cooperation programmes with the UN Sustainable development agenda and the implementation of the universal Sustainable Development goals. The author highlights regional and local social and institutional characteristics focusing on EU-Central Asia cooperation. The article assesses the importance of cross-regional cooperation in creating a favourable environment for both business development and foreign investment, and provides analysis on EU-Kazakhstan cooperation. The author applies the monographic method, as well as the graphical method, secondary data analysis, and the qualitative method in the form of an expert interview. The author concludes that the relationship between the European Union and Central Asia is of global significance and their ties are likely to increase in strength in the future bearing in mind, notably, Russia's and China's interest in retaining Central Asian countries within their own sphere of political and economic influence. The author puts forward proposals that additional EU multidimension external programmes are paramount for the EU's and Central Asia's productive relations.

Keywords: Central Asia, European Union, Development Cooperation, Sustainable Development, Connectivity

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Introduction

In the growing internationalisation of the world economy, there is a strong demand to explain the rationale for a regional approach in overall development and especially the regional approach in the development of low and middle-income economies. EU-Central Asia relations have intensified considering the most recent geopolitical developments, such as the consequences of the COVID-19 global pandemic, Russia's invasion in Ukraine, and the international community's response to Russia's aggressive actions against Ukraine, including sanctions. Global and regional shocks serve as additional enablers for enhancing EU and Central Asia cooperation, contributing to the economic resilience of both regions. Indeed, the Managing Director of the International Monetary Fund has pointed to collaboration among nations in a more uncertain and shock-prone world (Georgieva, 2023, p. 131).

Alongside the political tools of cooperation, the EU uses its development cooperation programmes to support a dialogue in order to promote sound business environments in Central Asia thus contributing to the implementation of Sustainable Development Goals (SDGs) for the sustainable development of Central Asia.

Development Cooperation as a Model for Economic Growth in a Regional Context

Without analysing the economic aspects of international development, many of the more complex issues cannot be fully explained. Growth theories and growth economics are valuable tools in the design and implementation of good governance, structural reforms, as well as catch-up policies along with international support policies and programmes. The author offers to look at assistance programmes based on growth theories, the standard business cycle model (Klenow, Rodriguez-Clare, 1997, p. 84), and shocks to Total Factor Productivity (TFP) (Hall, Jones, 1999, p. 93). Scholars focusing on the new growth theory advocate that humans, desires, and unlimited wants foster a constant increase in productivity and economic growth (Kuznets, 1971, p. 73). The new growth theory places emphasis on the key factor of knowledge and pushes economic growth in a smarter and more substantial way. Knowledge is treated as an asset for growth. Indeed, this is commonly assumed by many scholars (Rebelo, 1998; McCallum, 1996, p. 11) with whom the author agrees, and this concept is one of the central tenets of the new growth theory.

The perspective of the new growth theory motivates the identification of gaps in existing innovation data to address the role of human capital in business innovation and the aspects of innovation activity that are geographically localised. Swan (1956, p. 341) and Solow (1957, p. 71) introduced a model of long-run economic growth. The model first considered exogenous population increases to set the growth rate but, later, Solow incorporated technology changes into the model. Solow pointed to the technical progress as a source of growth in economy as an author of TFP. It plays a critical role on economic fluctuations, economic growth, and cross-country per capita income differences. As was demonstrated by Solow (1957, p. 76), cross-country differences in technology may generate important cross-country differences in income per capita. It is essential to underline the existence of studies related to the convergence of economies and countries in which the following types of convergence are discussed – firstly, absolute convergence between a selected group of countries converge to one another in the long run independently of their initial conditions (Romer, 1986, p. 1030; Lucas, 1988, p. 38; Solow, 1957, p. 79). Next, conditional convergences take place between countries characterised by similar parameters. Countries which are similar in their structural characteristics converge in the long run independently of their initial conditions (Barro, Sala-I-Martin, 1995; Mankiw, Romer, Weil, 1992). Then there is club convergence between countries, characterised by polarisation, persistent poverty, and clustering (Durlauf, Paul, 1995, p. 371). Countries that are similar in their structural characteristics converge in the long run if their initial conditions are similar (Quah, 1996, p. 112). Sala-i-Martín (Sala-i-Martín, Barro, 2003; Sala-i-Martin, 2006, p. 386) distinguishes the following elements that determine economic growth: the accumulation of physical capital, human capital, and education; a diversity of institutions favourable to the economy; the free movement of capital, technology, ideas, foreign investment; and the free flow of information. Other authors look the spatial context, focusing of the Central Place and Place-Based Theory. As regards cases of the developing world and the European Union, Fabrizio Barca, Philip McCann, Andrés Rodríguez-Pose (Barca, McCann, Rodríguez-Pose, 2012; Barca, 2009; 2011, McCann, 2023) apply examples of how – in this changing context – development intervention should increasingly focus on efficiency and social inclusion at the expense of an emphasis on territorial convergence and how strategies should consider economic, social, political, and institutional diversity in order to maximise both the local and aggregate potential for economic development.

Based on the theoretical approaches analysed, the author has created Figure 1 below of the competitiveness essentials of economies and regions.

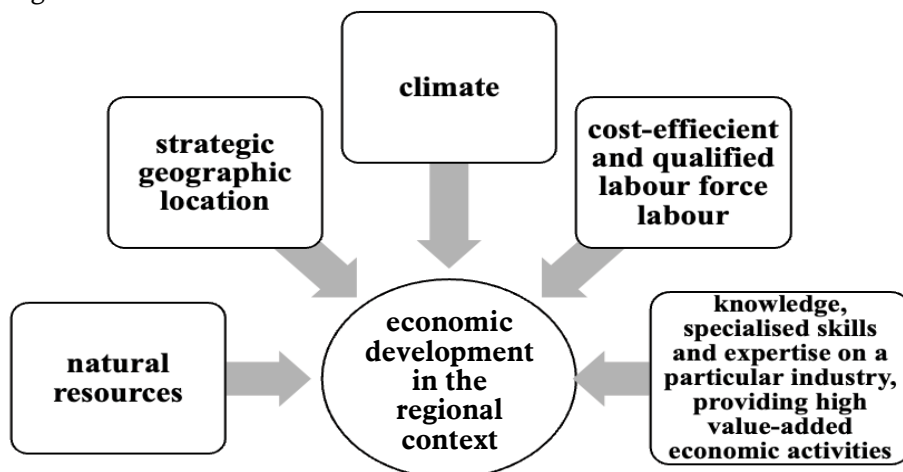


Figure 1. Competitiveness Essentials of Economies and Regions

Source: created by the author based on the relevant literature.

The scientific literature on development cooperation and aid policy debates common public goods versus human development. Faust and his work “Does Aid Contribute to Sustainable Development Goals?” (Faust, 2018, p. 62) analyses the cooperation impact of the implementation of SDGs. The ODA aid and assistance donor countries programme is designed to promote a coherent approach to support regions and countries of mostly low and middle income economies. These programmes aim at building a stimulating institutional, economic, and business environment, a favourable investment environment and, consequently, at helping to implement structural reforms that lead to the development of the catch-up potential by employing a competitive, yet reviled, advantage of recipient countries and regions.

Indicators and Instruments for Regional and Economic Cooperation in Central Asia in the Context of EU Support Programmes

The methodology of the EU support to Central Asia represents different types of practical tools aligned with political tools which the EU has its disposal. The EU has also established legal and political framework with the region by concluding agreements on financial and technical

cooperation, simultaneously creating financing for the implementation of these agreements for the EU budget. Practical support tools include regional programmes and financing instruments ensuring assistance and partnership in the transition to the market economy, sustainable economic and social development as well as the integration of Central Asian countries in the world economy. The EU perceives Central Asia as a region and applies the regional approach to enhance relationship with all five countries in that region.

The other type of methodology embraces multilateral and bilateral cooperation between CA countries, the EU and its Member States, and international and regional financial institutions in the forms of loans, equity, and guarantees and are exploited in such sectors as financial and intermediated finance, corporate sectors, infrastructure as well as areas of strategic cooperation. The financial instruments of the EU development assistance policy provide risk finance to small-and-medium-sized enterprises and foster the implementation of EU policies, notably in the fields of entrepreneurship, technology, innovation, and regional development. It is worth mentioning that the EU has created an instrument for blending investment loans from the EIB and other European financial institutions in order to support projects in Central Asia. The blending instrument is the Investment Facility for Central Asia (IFCA), which provides EU funding in support of sustainable development, economic growth, and poverty reduction in the region. The EU development cooperation policy is closely interlinked with the global-agenda-setting priorities of development cooperation. Therefore, after the adoption of the 2030 Agenda and the Sustainable Development Goals (SDGs), the EU also agreed to align itself with those SDGs. The EU's development cooperation instruments are closely interlinked with the EU's budgets, and, in the framework of each Multiyear Financial Framework (MFF), a new instrument for the implementation of the development cooperation implementation is being established. Under the current financial framework which covers the period of 2021–2027, the Neighbourhood, Development, and International Cooperation Instrument (NDICI) provides for development cooperation instruments with a budget of 79.5 billion euros and aims at achieving the SDGs as defined in the 2030 Agenda adopted by the UN in 2015.

Another tool designed by the current EU Commission is the Global Gateway Initiative which is mobilising extant resources and will also blend the resources of the EU, Member States, European financial institutions, national development finance institutions, and private sector financing. It is aligned with G7 members in order to strengthen partnerships with

others around the world and to develop a new partnership to build back better for the world through a step change in our approach to investment for infrastructure, including through an initiative for clean and green growth (G7 Leaders' communiqué, 2021). The first Global Gateway forum took place on the 25th and 26th of October 2023 in Brussels. Quite often, the Global Gateway initiative is considered as Europe's answer to China's Belt and Road Initiative. Digitalisation has become part of the EU-Asia Connectivity Strategy (EEAS, 2018) and the EU Global Gateway Initiative (EEAS, 2021), and Central Asia is now one of the pilot areas for the Global Gateway initiative, having been more concretely discussed during the aforementioned Global Gateway forum in October 2023.

The author argues that partnership with partner countries, in this case with Central Asian countries, is crucial for maximising the output of the cooperation programmes to support economies and transformation of business environment thus creating favourable conditions for EU investment in the region. As demonstrated in Figure 2, the perception of partnership is crucial in providing for reforms in partner countries thus ensuring their ownership of improving the business environment and attracting foreign investments.

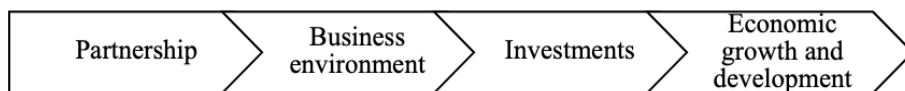


Figure 2. A Model for Growth Based on the EU Partnership Programme

Source: The figure has been created by the author, and is based on development studies' literature.

The Role of the EU and Kazakhstan in Blooming Regional Maturity

Promoting regional integration is a key EU foreign policy objective in the Central Asian region. The EU's Strategy for Central Asia was updated in 2019 via a harmonising of EU policy with new challenges and opportunities in the Central Asian region. The strategy aims at promoting welfare prosperity and regional cooperation in Central Asia, with achieving inclusive, sustainable growth remaining the main challenge for Central Asia.

Kazakhstan is the largest economy in the Central Asian region and a main destination for regional trade and investment, and the EU is Kazakhstan's biggest trading partner, accounting for 40% of its external trade. Kazakhstan's economy is highly internationalised and open to foreign investment and technology and vast natural resources. In

2023, the EU and Kazakhstan marked the 30th anniversary of enduring diplomatic relations by confirming priorities for both parties to continue cooperation in the framework of the EU-Central Asia Strategy and the Enhanced Partnership and Cooperation Agreements (EPCA, 2016). There is synergy between the Strategy's priorities and the implementation of EPCAs, including comprehensive provisions on trade. The first ever EPCA between the European Union and its Member States on the one part, and the Republic of Kazakhstan as the other, was signed in 2015 and entered into force on 1st March 2020 (EEAS, 2021). It has a very broad scope of cooperation, including economy, trade and investment, aviation, education, and research. The implementation is supported by a bilateral Cooperation Facility for the period 2021–2024 in two priority areas focused on sustainable economic growth and the rule of law supporting process reforms in Kazakhstan (EEAS, 2023a). The Cooperation Facility runs from 2021 to 2024 and has financing of 9 million euros. The EU and Kazakhstan have signed on to implementing the Memorandum of Understanding on Sustainable Raw Materials, Batteries and Renewable Hydrogen value chains and a roadmap on its implementation (Memorandum, 2022). These are examples of bilateral cooperation which go hand in hand with regional initiatives supported by the EU.

Another regional initiative set up under the umbrella of the EU – the Central Asia Strategy – is the EU-Central Asia Economic Forum. It has created a new platform for interregional economic dialogue. An EU/Central Asia videoconference on the role of private sector development in Central Asia in a post-COVID-19 recovery context has already been held, and, in December 2020, the first EU-Central Asia Business Forum took place. The second European Union-Central Asia Economic Forum was organised in Almaty, Kazakhstan on 18th–19th May 2023. The Joint Communique of Almaty Business forums highlights the need to intensify efforts in areas such as creating an attractive business environment in the Central Asia region, and enhancing green and digital transitions, as well as trade and connectivity was stressed (EEAS, 2023b). The EU/Central Asia Strategy also stresses the importance of developing services further, and of modernising infrastructures. On 18th November 2022, during that year's EU/Central Asia Connectivity Conference, the chief of the EU's foreign policy advocated for joint action to tackle the existing challenges by recovering economies after the pandemic, creating connectivity between the EU and Central Asia. Another important aspect highlighted was addressing the consequences of Russia's invasion of Ukraine in terms of the triple crisis of energy, food, and debt (EEAS, 2022).

The roadmap for the implementation of the decisions taken during the EU/Central Asia most recent ministerial meeting in October 2023 has 5 key areas of cooperation – a deepening of inter-regional political dialogue and cooperation; enhancing economic ties, trade and investment; engaging on energy as regards a climate neutral economy, connectivity under the Global Gateway and cooperating on the European Green Deal; addressing common security challenges; and strengthening people-to-people contact and mobility. Each priority has a list of actions on how to concretely move this action forward in the framework of the roadmap, and in the area of enhancing economic ties, trade, and investment there are 25 activities which will ensure that economic progress will be achieved.

The EU has adopted its financial guarantee programmes for the five Central Asian countries, focusing on green and digital economic transformation, and on support to small and medium enterprises, as well as strengthening cooperation on digital connectivity. The author conducted interviews with EU experts from the EU institutions and EU delegations in the region, as well as experts from Central Asia, notably Kazakhstan, representing business entities and government institutions, and they spoke on the impact of the EU assistance programmes to Central Asia and Kazakhstan.

According to the experts, EU assistance has been instrumental in various reform processes in the region and in individual countries. At the same time, they highlight that results always depend on the political will of partners and the speed of the reform implementation process, which is not always particularly expedient.

According to the experts taking part in the survey, Kazakhstan shows significant interest in implementing political, social, and economic reforms. Developments in January 2022 – as well as the current geopolitical situation – have only increased the government of Kazakhstan's interest to look into a diversification of their trade and transport routes. Kazakhstan has also been very vocal about the fight against the circumvention of sanctions against Russia and has showed particular interest in cooperating with the EU in this regard.

Institutional changes in the transition from that of a centrally-planned to a market economy were based on the introduction of a liberal economic policy, following the recommendations of the international financial institutions. Institutional reforms, the privatisation and restructuring of large enterprises in all branches of national economy, radical fiscal reform as supported by the reform of tax policy and tax administration as well as the reform of the budgetary process have all been carried out according

to a “policy package” suggested by the “Washington institutions” policy (Blejer, Skreb, 2002, p. 54).

According to the international institutions, reforms remain limited in all CA countries (EBRD, 2019), i.e., in the financial sector, banking, insurance, and capital markets, which are critical areas for investments inflows. Reforms are also still needed in order to improve the infrastructure of roads, railways, and urban transport. To enhance long term competitiveness, CA countries need to accelerate their reforms of the judicial systems and of the civil services, as confirmed by not only the EU experts, but also the experts from Central Asia, notably those from Kazakhstan. Other areas of reforms focus on the fight against corruption, SME support, increased spending on health care, research and education, and improvements in labour skills; jobs in CA countries are mainly in low-productivity occupations.

Kazakhstan hosts huge numbers of migrants from Kyrgyzstan and Tajikistan which are two of the three most remittance-dependent economies in the world (EBRD, 2019). These developments suggest that a new regionalisation is emerging which is largely top-down and a competitive struggle between planned, political processes of creation of regions from the top. These new regional formations are not necessarily in line with the global standards advocated by the EU but often challenge the process of regionalisation. Nevertheless, a great deal of attention from the EU and international organisations’ experts has been devoted to corruption, capital out-flows, and money laundering on a global scale (EBRD, 2019).

According to the experts, the national reform agendas of Central Asian governments should better support policies that improve transparency, improve the business environment, guarantee equal access to public services, and enhance governance and institutional quality. The experts also highlighted that despite the fact that the reform process might be slow, joint EU-and-Central-Asian-partner-country efforts are required to improve legislation in the field of business law and regulations. They also highlighted that EU Member State experts have much valuable expertise and experience to share with partner countries in this area. Furthermore, representatives from both the EU and Kazakhstan’s authorities called attention to the fact that despite the achieved progress, further reforms are needed to support the modernisation of the public infrastructure network – notably the energy sector – and reinvigorate trade and private investment which would contribute to a diversification of their sources of growth. The importance of open markets to foreign investments, good business, and an attractive investment climate, as well as transparency,

predictability, and proportionality in economic policies as means to diversify the economy and increase foreign direct investments and competitiveness cannot be understated.

The principles of applying EU standards, norms, and regulations are unfortunately very slow in Central Asia, as the region has not been subject to neighbourhood policies nor accession procedures. However, the EU Parliament emphasised that partner countries must comply with international standards of democracy, governance, the rule of law, and human rights (European Parliament Resolution, 2016). The experts from Kazakhstan were asked about the role of the European standards in improving the business environment in Kazakhstan. In their replies, the experts highlighted the importance of bringing Kazakh standards more in line with international standards.

Structural policy weaknesses and different socio-economic realities in Central Asia countries are major challenges to the successful implementation of the EU-CA approach.

Conclusions

The EU is asserting its global role and has a developed system of external action instruments. Furthermore, there is a strong, multilaterally-driven partnership between the EU and international organisations that has an impact on the coherent design and implementation of assistance programmes and initiatives. Coherence between the EU's flagship initiatives and funding instruments has been ensured. The flagship initiatives aim at achieving sustainable economic growth along with economic growth per capita reaching the level of advanced economies while being closely linked with the implementation of the SDGs. Bearing in mind the new global geopolitical order, the countries of the EU and Central Asia are responding to major challenges to the business and social environments, thereby creating a closer partnership between the EU and Central Asia and bringing about additional benefits for both regions. Furthermore, in such turbulent global settings, it is imperative for continuing international cooperation to pursue the fundamentals of the Agenda 2030 as a global sustainable development (SDG) framework. The existing global frameworks could facilitate the identification of pathways to socially, economically, and environmentally sustainable economies and societies.

The relationship between the European Union and Central Asia is of global significance and their ties are likely to increase in the future, especially should one bear in mind Russia's and China's desires to

keep Central Asian countries in their sphere of political and economic influence. More EU external programmes are paramount for productive EU/CA relations and, following their practical implications, should be multidimensional in nature. Any gaps in regional cooperation could impede the development of growth-facilitating infrastructures.

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