

# COMMENTARY



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## Rethinking the EU's 'prosperity' agenda in Central Asia

*The EU wants to lay the ground for a more prosperous Central Asia. One potential emerging path for the EU in Central Asia would be to make use of China's economic power by fostering a favourable business environment while investing in education.*

*By Nadezhda Tatkalo*

The war in Ukraine could very well change the European Union's (EU) relationship with Central Asia. As Russian political-economic influence is likely to decline in the region, Europe will need to decide if it is ready to step up its activity, against the backdrop of quickly rising indebtedness of Central Asia on China. Whereas the EU will be mostly concerned with the events in its direct neighbourhood, it does have the possibility of increasingly working with Central Asian states on fostering sustainable economic development by participating in Central Asia-China connectivity cooperation; helping to improve the business environment; and investing in educational development.

The 2019 EU Strategy on Central Asia is a comprehensive document that reflects the EU's vision of its role in the region. It encompasses three priorities: resilience, prosperity, and regional cooperation. The first two priorities are intertwined from the perspective of their soft security focus. Prosperity, foremost understood by Brussels as sustainable economic development through trade and education, can only be reached if the 'resilience' parts of democratic development, respect for human rights, as well as stability and security are met.

This EU approach to development cooperation goes against Moscow's way of providing financial assistance to Central Asian states in exchange for political loyalty. Now, Russia's powerful political-economic position in the region is at risk due to its war in Ukraine and subsequent Western sanctions. Three effects are already beginning to show. First, war expenditures are straining the economy and could lead to cuts on Russia's loan and grant aid provision to Kyrgyzstan and Tajikistan. Second, investments in Kazakhstan and Uzbekistan as the main recipients of Russia's capital could decrease. And third, growing unemployment in Russia have depreciated labour migrants' earnings, indirectly threatening the region's standards of living.

Beijing, on its part, having considerable financial capital, gives immediate assistance through attractive far-reaching investment projects with the short-term aim of maintaining regime security in Central Asian states. However, opaque conditions and a loose regulatory environment are leading to growing debt, and Central Asian states run the risk of losing the right over the exploitation of national natural resources. Tajikistan is a case in point; the country's authorities had to give the exploitation rights of two gold deposits to a Chinese company to repay a debt over a loan for the construction of a powerplant in Dushanbe.

Against the backdrop of declining Russian influence and rising Central Asian indebtedness to China, the EU will need to streamline its focus if it wants its prosperity agenda to have an impact. Three main points are important here:

*First, facilitate Central Asian rules-based cooperation with China by engaging in Central Asia-China connectivity projects.* In the newly unfolding geopolitical realities, Beijing is likely to be more active in Central Asia. With regard to convergence of EU and Chinese interests in the region, the issue of law compliance could become a common ground. Along with EU-Asia connectivity strategy mechanisms, a new dynamic dialogue platform within the long-running Transport Corridor Europe Caucasus Asia (TRACECA) programme could be of added value. For instance, TRACECA could be used to convince Central Asian establishments of the benefits of having transparent conditions for the construction of the China-Kyrgyzstan-Uzbekistan railway that is perpetually delayed due to Kyrgyz-Chinese contradictions on the route and public concerns over Kyrgyzstan's further immersion into debt to China.

In the future, the experience of rules-based cooperation between Central Asian states and China might be helpful for Brussels in implementing its own energy and transit projects, such as the Trans-Caspian Gas Pipeline. Central Asian countries' adherence to legal frameworks could also be used to develop the new Team Europe Initiative on digital interregional connectivity, given that the lack of awareness of, abidance to and clear conditions for legal frameworks leads to continued risks of corruption and embezzlement. In this sense, the corruption scandals in Kyrgyzstan surrounding the tendering practices and implementation of the 'safe city' and Digital CASA projects come to mind.

*Second, support small and medium-size enterprises (SMEs) by encouraging the creation of a favourable business environment.* In order to develop their economies within a framework of rule of law, Central Asian societies need support to expand and fortify a middle class of entrepreneurs and craftsmen. In this respect, one of the prominent EU initiatives is the Central Asia Invest programme aimed at SMEs (see [www.eu-cai.org](http://www.eu-cai.org)). It encompasses projects to improve the legal conditions for doing business through dialogue with Central Asian authorities and to support business intermediary organisations that assist SMEs with access to finance, expansion into new markets, as well as introduction to new technologies. However, since its launch in 2008, only 41 projects worth €26.2 million have been implemented. The EU should deepen investment in this initiative, as SMEs have the potential to accelerate intra- and inter-regional trade by increasing the productive capacity of Central Asian economies, helping to mitigate the consequences of Russia's economic troubles for labour migrants by creating new job opportunities and reducing poverty.

*Third, pave the way for long-term political and economic development prospects by investing in higher and vocational education.* The development of SMEs needs not only physical capital and a favourable legal atmosphere, but also well-educated human capital. Currently, the number of Central Asians studying in Europe is still much lower than that of those studying in China or Russia. This should change if Europe wants to set the foundations to pursue its prosperity agenda and have a long-lasting impact in the region.

Beyond students, the EU should encourage the development of European studies in Central Asia and promote exchanges in higher education for academic staff of both Europe and Central Asia. This should be done through increased targeted programming, for example through Jean Monnet modules and chairs. Simultaneously, there should be increased attention to vocational training. In this sense, the recently-launched 'Dialogue and Action for Resourceful Youth in Central Asia (DARYA) project by the European Training Foundation (ETF) could focus on migrants returning from Russia, by providing them with the basics of financial awareness to set up and develop their own businesses using, for example, the money that they have earned abroad or to improve their skills. Altogether, these instruments could be effective in educating a new class of politicians and social leaders, but especially competitive businessmen and craftsmen.

The EU can best help bring prosperity to Central Asia by focusing on developing a rules-based economic relationship with China; supporting SMEs; and fostering education cooperation. The tool box for achieving these goals is already largely in place, but it needs to be activated in some cases and deepened in others. The currently changing geo-political landscape in Central Asia opens up the possibility for the EU to make strides in promoting its priorities in Central Asia. This, in turn, will hopefully have a positive impact on the development and integration of Central Asian economies and, eventually, on the establishment of locally-developed democratic systems of government and prosperous societies.

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