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ENC Analysis - Global Gateway and Investors Forum: What it means for Central Asia and geo-economics?

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About the author

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Introduction

China's Belt and Road Initiative (BRI) has long been viewed as an important source of investment and international connectivity. Despite providing huge sums of money to willing-partner countries around the world, BRI now faces a string of undesirable consequences ranging from local discontent (e.g. pollution, land possession, and protests) to issues like low labor standards, debt, and non-inclusive growth. To date, the most comprehensive and granular study of 13,427 Chinese development projects indicates widespread and unsustainable debt trends (e.g. 10% debt rates) at a time in which Beijing is facing economic uncertainty.

In parallel to this story, the European Union (EU) has been rolling out its largest-ever foreign investment and infrastructure initiative, known as the Global Gateway. In typical EU fashion, this went more or less unnoticed, despite it being worth €300 billion, or the equivalent of Portugal's entire annual Gross Domestic Product. Since its inception in 2021-2022, Global Gateway has focused primarily on infrastructure, connectivity, and investments. It distinguishes itself from BRI by rooting all its funding in strict accountability, debt sustainability, inclusive growth, and green transition. In addition, it is legally tied to improved labor conditions, tech transfer, and fostering regional integration (e.g. ASEAN, African Union, Central Asia), while constructing renewable and independent sources of energy. These concepts aim to give countries more autonomy, improved ownership, stability, and growth based on the UN's Sustainable Development Goals. One element, that guarantees more financial viability, is the public-private fundraising model, which functions through the mixing (e.g. blending) of funds from companies, governments, the EU, and international financial institutions like the European Investment Bank (EIB) and the European Bank for Development and Reconstruction (EBRD). It's clear that the initiative is rooted in a new intellectual foundation, which prioritizes geo-political stability and economic stimulus while amalgamating this with climate protection, anti-pollution, working conditions, new technology, autonomous renewable energy, as well as fairer forms of ownership and resource management. One diplomat recently referred to it as Europe's "newly created, improved and more competitive social-and-industrial offer to its closest partners around the world".

Global Gateway is geo-economic

Beyond the obvious benefits to partner countries, Global Gateway should also be seen in a geo-economic context. The EU is facing significant pressure internationally, which is translating into problems domestically (e.g. disinformation, economic crisis, forced migration, conflict spillover, radicalization, fiscal loopholes, and foreign interference). Conflict and protectionism are hiking up supply-chain prices globally to the detriment of consumer prices and Europe's industrial output. In addition, Europe faces high energy prices and the need to increase defense spending (e.g. rising conflict), which inevitably impacts economic growth as well as social spending. Reshoring supply chains to the EU, or even to nearby regions, face a significant price problem, due to labor costs. Supply chains necessitate a whole range of factors including affordable energy input, skilled employees, educated workforce, specific labor conditions and costs, transport connections, functioning and compatible infrastructure, subcontracted know-how and experience, access to critical raw materials (CRMs), regulatory frameworks, harmonized trade legislations, the lack of conflict and so forth. In other words, few geographic entities fulfill all of these criteria, which are needed for a prosperous industrial and technological base.

The Western Balkans are best positioned to cater to industrial requirements, but they remain small-in-scale and once they enter the EU by 2030-2035 labor costs and prices will shoot up. Türkiye remains a supply-chain bastion for the EU (especially for Germany), despite EU-Türkiye relations often being unpredictable. Ukraine would be an ideal candidate for supply chains, in terms of know-how, geography, and labor costs, if it weren't for the fact that there is an ongoing war. North Africa's only serious investment destinations are Morocco and Tunisia (e.g. French automotive sectors), while Egypt is in economic difficulty, Algeria lacks business experience and Libya is in civil war. That leaves the Caucasus and Central Asia: two important regions of geographical proximity with functioning regulatory frameworks, industrial know-how, skilled and educated workforces, well-priced labor, growing levels of intra-country and regional infrastructure, access to rare and CRMs, as well as abundant energy for localized production purposes.

Why Central Asia?

Central Asia has been of particular interest since the start of the war in Ukraine. To date, the EU has imposed 12 consecutive and comprehensive sanction packages on Russia, while the United States, the United Kingdom, Canada, and many other countries have imposed everything from price caps on oil to commercial and individually targeted sanctions. These actions are deviating a significant trade volume from the Northern Corridor (e.g. China, Kazakhstan, Russia, EU) towards the Middle Corridor instead (e.g. China, Central Asia, Caucasus, Türkiye, Balkans, and the EU). Some Middle Corridor trade is simply "sanctions circumvention" whereas another part is the development of alternative and more risk-free routes. In both cases, new business and economic centers are emerging across Türkiye, the Caucasus, and Central Asia; at times with links to Moscow, and at times with agency of their own. The war in Ukraine has forced the EU to think more strategically and reach out to new partners, especially as energy prices remain high, raw materials scarce and supply chains increasingly volatile. France depends on the world's leading uranium producer, Kazakhstan, for over one-quarter of all its uranium for its 50-odd active nuclear reactors. This dependency was further exacerbated over the past decade, as Paris miscalculated its actions in the Sahel and – more recently Niger, which used to be a major uranium provider to France. Germany looks at Central Asia, notably Uzbekistan and Kazakhstan, through the prism of supply-chain expansions and hubs. In a nutshell, Germany can produce at more affordable prices, while maintaining high levels of quality and connectivity at abundantly cheaper energy prices. Although around 80% of world's trade remains maritime, there is growing concern about bottlenecks, environmental damages, container prices, and the weaponization of sea-lanes through piracy and terrorist attacks. It's in part also due to this calculation that EU countries are increasingly looking towards their middle-sized neighbors to the East with the potential of developing more geo-economic links.

Despite the economic benefits (for both sides) being an important factor, it should be noted that other EU countries have also developed an interest in Central Asia because of their “shared post-Soviet past”. For EU countries like the three Baltic countries and Poland amongst others, it’s clear that both economic as well as emotional connections exist. Their shared distaste for “Russian-led oppression and Sovietization” clearly incentivizes the Baltics and other EU countries to support Central Asia’s wish to build a more independent and autonomous region in its own right, including economically, culturally, and in terms of connectivity. That’s one of the reasons why the EU’s strategy vis-à-vis Central Asia has been so firmly grounded in the idea of financing and supporting Central Asian regional unity, independent renewable energy, and inter-operable infrastructure. Uzbekistan, as well as Kazakhstan, lead the way in terms of prioritizing the development of what could become a significant East-West hub for trade, industrial supply chains and CRMs.

Uzbekistan and Kazakhstan are key within this framework. Tashkent plays a pivotal role in providing regional integration, as previous high-level meetings, conferences, and projects on border management and connectivity have shown. Uzbekistan is geographically well-situated to play the mediator role of regional connectivity, while its new leadership and large population understand the importance of strategic autonomy for Central Asians in an increasingly volatile and changing world. Kazakhstan similarly plays another, equally important, role as the forerunner and leader in terms of regulatory harmonization, trade and East-West connectivity routes.

What are the projects?

In October, last year, Uzbekistan signed an important Global Gateway agreement with the EU on CRMs. It aims to turn Uzbekistan into an industrial supply chain hub for raw materials in high demand like uranium, lithium, titanium, and copper. A prerequisite industrial component for renewable technologies (e.g. solar and wind) and nuclear energy, it’s clear that CRMs are of utmost strategic importance not only for the EU, its business sectors, and citizens but equally for Central Asia as a whole. This can be amplified across nearly all Global Gateway counties ranging from Serbia and Ukraine to Türkiye and Georgia, despite differing levels of materials and mining centers. The EU directly supports Uzbekistan through the Multiannual Indicative Program (2021-2024) worth €76 millions, while Tashkent has made serious efforts in terms of regulatory harmonization, including improved labor and environmental standards, both of which will increasingly facilitate its integration into EU supply-chains in line with **Corporate Sustainability Due Diligence Directive** (CSDDD) and separate Member State legislations. Uzbekistan recently finalized the negotiations for its most important trade agreement, namely the Enhanced Partnership and Cooperation Agreement (EPCA), which – up to date – has only been signed by one country, namely Kazakhstan. Very important developments also took place at the Global Gateway conference last October with regards to Kyrgyzstan and Tajikistan, in which ministerial-level representatives on digital and green energy joined the high-level event. The digital initiative will enhance businesses’ and citizens' access to a secure internet through trusted satellite connectivity. Earth stations with integrated Internet Exchange Points and Green Data Centers will be positioned across Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan, linking to existing broadband infrastructure. The EU will fund both the technical assistance for governance and infrastructure investment with a contribution of at least €40 million. World Bank studies show that a 10% increase in broadband penetration adds around 1% to economic growth in Central Asia, while a 1% increase in internet connectivity corresponds to 4.3% of export.

It's equally important to note that renewable and autonomous energy support and financing is paramount for the EU-Central Asia relationship since it allows the Central Asian republics to act as a regional entity and more autonomously without external pressure. In the case of Tajikistan, the Rogun Dam is a flagship EU Global Gateway priority project, which will provide an important amount of hydroelectric energy to the entire region. The Team Europe Initiative on Water, Energy, and Climate Change will contribute to the sustainable and equitable management of water and energy resources, addressing environmental challenges, climate change, and water scarcity in Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. Several countries and international organizations are pooling an initial contribution of €700 million, while EU-financed technical assistance will help Central Asian countries manage and share their limited water and energy resources sustainably while balancing the needs of upstream hydroelectricity generation and downstream water needs for agricultural production.

Another example of an EU Global Gateway flagship priority project in energy is the co-development of hydrogen by Swedish-German business Svevind in Kazakhstan. It is part of a Global Gateway Investment Agreement signed by European Council President Charles Michel during his visit to Kazakhstan in 2021. Svevind will construct solar and wind power plants with a combined capacity of 40 gigawatts, producing up to two million tons of green hydrogen that can be converted to 11 million tons of green ammonia annually from 2032. In addition, the project will allow Kazakhstan to provide large-scale hydrogen energy at competitive prices to both European and Asian markets.
Such projects are co-financed through Global Gateway and Team Europe with important support from international financial institutions. It is also worth noting that the "blending aspect" of Global Gateway is dependent on private sector involvement, which had proven limited up until recently. The past year's increase in business delegations (e.g. French, German, Swedish, and Italian) to Central Asia, however, signals a significant shift towards private-sector investment. For example, the Strategic Partnership with Kazakhstan on Raw Materials, Batteries, and Renewable Hydrogen is an initiative that helps develop a secure and sustainable supply of raw materials and refined materials, while supporting renewable hydrogen and battery-value-chains to boost the green and digital transformation in both partners' economies. It will be a direct contributor towards lower energy prices for industry across Central Asia, as well as providing novel technology, which puts the region at the peak of energy production.

Perhaps Global Gateway is best understood through more holistic governance and geo-economic stability prism. The EU offers something very different to Central Asians compared to for example Chinese investments and Russian security. Global Gateway provides for the relocation of EU and other supply chains, infrastructure developments, and renewable energy autonomy; provided that the region reforms and implements regulatory, labor, digital, and environmental standards. These reforms support a more united, stable, prosperous, and autonomous Central Asia through, for example, improved water and border management, lower levels of labor-driven protest, increased living standards, and sustainable renewable energy pricing for industrial output, domestic consumption, and exportation.

The potential of this strategy is huge, as Türkiye's rise to power clearly demonstrates. Two decades of IPA funds, regulatory harmonization, and a Customs Union Agreement has catapulted Türkiye onto the world economic stage, placing Ankara at the helm of industrial development, European automotive supply chains, textile and white-goods production, and a booming defense sector, while increasing its GDP per capita five-fold since 1995. The case for Central Asia bears important similarities, since both Türkiye and the EU could likely relocate and expand their increasingly shared supply chains into the region, provided that Global Gateway continues to invest in digital, infrastructure, cable, and other forms of inter-operable regional and cross-Caspian connectivity.

What to expect next week?

The Investor Forum is the natural next step, since the Global Gateway conference last year in October, inviting dozens of ministers from around the world to Brussels for two days (29th and 30th January). In addition, high-level business groups, trade and transport delegations, as well as EBRD and EIB will be present to negotiate, sign agreements, and discuss investments into all of the aforementioned areas of connectivity. It will also be an important platform for continued Team Europe and bilateral Member State support, as well as Partner Countries showcasing their own investment, initiatives, and work in the field, including Uzbekistan, Kazakhstan, Turkmenistan, and many other countries. After Commissioner Schina's recent visit to Central Asia, it is becoming increasingly clear that a Horizontal Aviation Treaty is on the table, as well as substantial visa facilitation, including lower waiting time, numbers, and processing. In addition, countries like Kazakhstan and Azerbaijan have – independently of the EU – worked hard and invested themselves in many areas of Middle-Corridor connectivity (e.g. Aktau and Alat ports), all of which will be discussed and presented during the days next week. Finally, everyone will be waiting to see one of the most important game-changers, namely what projects (and what amounts) EIB will finance. That will be a very important blending guarantee for additional Team Europe, bilateral, and private sector investment in the upcoming months and years. On a final note, it's important to raise the question of whether the EU is considering geo-economic security risks at a time of large-scale investments and infrastructure connectivity. From my knowledge, there is currently no real indication that the EU has a dedicated budget or projects towards the protection of critical infrastructure linked to Global Gateway. In equal terms, there appears to be no attempt at the harmonization of standards across private and public critical infrastructure, including cyber, hacking, and other forms of threats. Since the private sector has regularly expressed demand for better harmonization, and since no economic relationship is void of security risks, it might be a good time for the EU to start the discussion.