

# Economic Connectivity Processes

Subjects: Political Science

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The term “economic connectivity” refers to various forms of economic relationships between states or groups of states in the areas of, for example, trade, business activities, finances, technology, and migration. Economic connectivity, a common feature of modern society, is characterized by various political and economic interactions and can be understood in at least two major forms. The first, including transport, communication, and energy infrastructure, is “hard” economic connectivity, while regulatory, institutional, and legal instruments or knowledge, culture, and understanding shape “soft” economic connectivity.

Keywords: economic connectivity processes ; Kyrgyzstan ; industrial development ; climate change mitigation

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## 1. Eurasian Economic Union Economic Connectivity and Integration Process

In 2010 Belarus, Kazakhstan, and Russia established the Customs Union, which later became the Single Economic Space and eventually the Eurasian Economic Union (EAEU). In 2015 Kyrgyzstan became a member of the EAEU. At the core of the EAEU is its customs tariff policy, under which no customs tariffs are imposed on commerce inside the EAEU and customs taxes are consistently applied to trade with non-EAEU countries.

Within the EAEU, Kyrgyzstan's main trading partners are Kazakhstan and Russia. Trade turnover increased by 20% in 2017 compared to 2016. Kyrgyzstan primarily exports fresh and dried vegetables to its partner nations, as well as milk and dairy products and agricultural raw materials. Clothing, comprising textiles and textile products, footwear, and clothing accessories, accounts for a large part of exports.

Following Kyrgyzstan's accession to the EAEU, exports to Kazakhstan and Russia grew, but total exports declined; this may be explained by the fall in the re-export of Chinese goods due to their non-compliance with the newly enacted EAEU local content rules. Kyrgyz exports to the EAEU are now more diverse than their exports to other countries, and trade volumes between Kyrgyzstan and EAEU nations are expanding faster than trade volumes with the non-EAEU <sup>[1]</sup>.

Existing research <sup>[2]</sup> demonstrates that the EAEU's economic connectedness and integration have the following favorable effects: (i) harmonization of Kyrgyz law in important export industries to EAEU norms, (ii) streamlining of administrative processes, and (iii) elimination of double taxation and of indirect taxes on items imported inside the same legal organization.

According to the Supreme Eurasian Council <sup>[3]</sup>, the benefits of Eurasian economic connectivity and integration include: (i) import substitution, (ii) increased exports to third-party countries, (iii) increased exports to EAEU markets, (iv) multiplier effects, and (v) increased demand for intermediate products.

The process of establishing greater economic ties with the EAEU is now under way. It includes the creation of a single energy market, a common market for excisable goods, oil and oil products, gas, transportation services, and a common financial market. These “economic-connectedness” activities are predicted to provide further advantages to Kyrgyzstan, such as price stabilization and other synergistic economic consequences <sup>[4]</sup>. Increased collaboration and integration with third-party nations, such as China, Iran, and Vietnam, with which free trade agreements have been signed, as well as Israel, Serbia, and Singapore, where free trade agreements are being negotiated, may provide further prospects.

Several development and financial institutions, such as the Russian–Kyrgyz Development Fund, the Eurasian Development Bank, and the Eurasian Fund for Stabilization and Development, facilitate economic connection inside the EAEU. There are also a number of bilateral activities with EAEU members to assist trade and logistical infrastructure development. Russia, for example, contributed funds to equip border crossings and certification laboratories <sup>[5]</sup>.

## 2. Economic Connectivity Process with the European Union

The Partnership and Interaction Agreement, in place since 1999, governs Kyrgyzstan–EU cooperation. The Agreement establishes three areas of collaboration: political discourse, economic relations, and sectoral cooperation.

In 2016, Kyrgyzstan was granted enhanced status under the EU's Generalized System of Preferences (GSP+), which is part of the EU's (GSP) for developing countries. Under GSP+, Kyrgyzstan can boost and diversify its exports to EU markets based on reduced customs taxes and zero customs tariffs for numerous items. GSP+ also mandates that Kyrgyz commodities meet technical criteria for safety, quality, and labeling. The EU is Kyrgyzstan's largest contributor, with the majority of aid going to integrated rural development, education, and rule of law support. During 2014–2020, the Development Cooperation Instrument anticipated allocating 184 million euros (EUR ) for sustainable development initiatives <sup>[6]</sup>.

In 2018–2019, the European Union issued three key strategic documents on connectivity in the Central Asian region: *Connecting Europe and Asia: Building Blocks for the EU* (European External Action Service); *European Way to Connectivity*; and *EU's new Central Asia strategy* (European Parliament). These documents include four key elements: definition of connectivity, sustainable development, good governance practices (including common rules and standards), and smarter investment. In them, the term “connectivity” covers such sectors as logistics and transportation, energy systems, digital economy, and social development (education, research, innovation, culture, and tourism). “Sustainable development” relates to the protection of environment and creation of fair benefits for local communities where infrastructure projects are being planned. “Good governance” includes the implementation of internationally recognized practices and technical standards. The European Commission is also proposing an increase in the EU's external action budget in the region and the channeling of investment through the European Fund for Strategic Investments.

## 3. Belt and Road Initiative

The Belt and Road Initiative (BRI), led by China, aims to expand economic ties with nations along the route of the New Silk Road. It also aims to provide positive inputs for joint Chinese–Kyrgyz development projects in the transportation and infrastructure sectors, such as the formation of a transport corridor involving China, Kyrgyzstan, and Uzbekistan, the goal of which would be to create a new rail corridor to deliver goods to EU countries. Several transportation interconnection projects are being developed as part of this strategy, including a Chinese railway corridor connecting Urumchi, China, with Tashkent, the capital of Uzbekistan, and southern Kyrgyzstan. Under BRI it is intended to increase access to new markets, establish terms of trade, and foster the economic growth of the country's rural regions (Xinjiang Uyghur Autonomous Region, Tibet Autonomous Region, Qinghai, Gansu, and Inner Mongolia). The program's aim is to construct a new network of trains, roads, pipelines, and other infrastructure to connect China to Central Asia, West Asia, South Asia, Europe, and Africa, among other destinations. There is still doubt, however, about the EU's reservations about the Silk Road Economic Belt (SREB) <sup>[7]</sup>. The Export–Import Bank of China and the China State Bank are behind SREB, as are the Silk Road Investment Fund for infrastructure projects and the Maritime Silk Road for Chinese goods sales.

The impacts of integration processes on the economy of Kyrgyzstan have been studied by various scientists. Most, however, covered either impacts on a single sector, such as transportation <sup>[7]</sup>, labor and migration <sup>[8]</sup>, or trade and economy <sup>[9]</sup>, or the impacts of one particular integration process, such as the impacts of the Eurasian Economic Union on Central Asia <sup>[10]</sup> and the accession of Kyrgyzstan to the Eurasian Economic Union <sup>[11]</sup>. The studies also apply a variety of methods for analysis and data collection, such as discourse analysis regarding Eurasian integration in Central Asia <sup>[12]</sup>, VAR analysis <sup>[13]</sup>, or focus on a particular region such as Issyk-Kul <sup>[14]</sup>. A holistic assessment of the various integration processes, based on a complex methodology involving stakeholders' perceptions, is, however, lacking.

## 4. Leveraging on Economic Connectivity

Kyrgyzstan faces opportunities to leverage on these different economic connectivity processes to boost its economic revitalization plans and decarbonize its economy in line with international climate change mitigation and energy security policies. While novel governance mechanisms to ensure coherent productive, investment and trade strategies contribute to building coherent strategic approaches to tackle these economic connectivity processes. This is especially important given the frequently diverging perceptions and opinions of the various Kyrgyz and foreign stakeholders involved in industrial policymaking. The development of solutions based on compromise and participatory governance will be crucial to identify and implement different industrial policy options, which should also influence the nature of the economic relationship between Kyrgyzstan and other countries in the Central Asian region.

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