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Central Asia and the Geopolitical Crisis: Reforms, Prospects, Future

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Executive Summary

The Central Asian region, comprising Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, is strategically significant with abundant natural resources. Its stability is crucial globally, and the multi-vector strategic policies of the five states have garnered attention.

The first section, **Central Asia: Country-level Analysis**, provides both a general cross-country analysis and a detailed analysis of each Central Asian country.

Kazakhstan, the largest economy, has shown consistent growth but remains a middle-income country. The manufacturing industry in Kazakhstan is comparable to the mining sector, but undernourishment remains a challenge. The government is actively investing in the agricultural sector to improve food security. Uzbekistan, despite high economic growth rates, remains among the lowest in Central Asia in terms of GDP per capita. The country's manufacturing industry is mainly represented by low-tech production. Tajikistan has the lowest GDP per capita in the region. The country's economy is heavily reliant on remittances from migrant workers, mainly from Russia. Kyrgyzstan has shown positive economic growth, largely driven by gold mining. The country's main trading partners are China and Russia. Kyrgyzstan has undergone political instability and changes of government, but the situation has stabilized since 2021. The country has implemented a range of reforms, including constitutional reform and administrative reforms. Turkmenistan is the most closed country in the region, with limited access to economic data. The country's economy is heavily reliant on the oil and gas industry.

The second section, **Central Asian Regionalism: Retrospect and Prospect**, places the above issues into perspective for the region.

The region's path toward integration has been uneven, marked by periods of cooperation and fragmentation. In the aftermath of the Soviet Union's collapse, the Central Asian states initiated integration processes, focusing on economic cooperation and shared development objectives. However, these attempts faced challenges due to varying levels of economic development, political instability, and the emergence of authoritarian regimes. Despite the obstacles, the region has witnessed renewed efforts toward integration in recent years. The countries have engaged in bilateral and multilateral formats, utilizing instruments such as the Shanghai Cooperation Organization (SCO), the Eurasian Economic Union (EAEU), and the C5+1 diplomatic platform. Kazakhstan, with its leading economy and active participation in regional initiatives, has emerged as a key driver of integration. The region's strategic significance, including its role as a transit corridor and its proximity to major powers, has added further complexity to the integration process.

Central Asia's future integration prospects depend on addressing several challenges, including political stability, economic disparities, and the need for sustainable development strategies. The region's vast potential can be unlocked through deeper cooperation, resource management, and global engagement.

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Introduction

According to the definition adopted by most international organizations, the Central Asian region includes 5 countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. And the role of this region in the global political system has been increasing since the beginning of the 21st century. Moreover, if earlier the region was mainly recognized as a “trading hub” of the West and East, then due to the current global fragmentation, the region also gained the status of a “geopolitical centre” against the background of the fact that this region borders and, in fact, connects 4 nuclear powers - Russia, India, Pakistan, and China. At the same time, Russia is already at war with Ukraine, and China’s relations with Taiwan are an area of the most significant geopolitical risk. In this regard, the stability of the Central Asian region has become important on a global scale, and the multi-vector strategic policy of the five states has become the focus of attention of the entire world community.

Against the backdrop of the region’s growing political weight in the world, the interest of international players in its economic state is also rising. The purpose of the current report is to form a full-fledged socio-economic picture of the region.

The first section, entitled **Central Asia: Country-level Analysis**, provides both a general cross-country analysis and a detailed analysis of each Central Asian country. Emphasis is placed on the significant heterogeneity of the region in the economic aspect: out of the 5 Central Asian countries, only Kazakhstan has an above-average income per capita, while the rest of the countries belong to the group with below-average incomes. The uneven economic development is becoming an obstacle to the full integration of the region: the countries face significant challenges to equalize the economic situation in order to achieve a single development trajectory.

The second section, entitled **Central Asian Regionalism: Retrospect and Prospect**, places the above issues into perspective for the region. The prevailing political systems in Central Asia remain authoritarian, however, the degree of economic and political freedoms differs significantly. In this regard, Kazakhstan has achieved the greatest success, taking a leading position in the region in terms of attracting investments. The latter is also explained by the country’s increased reputation on the world stage: Kazakhstan has demonstrated its stability three times over the past 5 years, both economically and domestically – during the transit of power, the coronavirus pandemic, and the January 2022 events. In turn, other Central Asian Countries are more closed in their economies. Nevertheless, the report examines in detail the steps taken by countries towards democratization and greater openness. In particular, the most significant economic liberalization reforms over the past 3-5 years have been carried out in Uzbekistan and Kyrgyzstan.

Finally, the report also provides a brief history of the region’s integration, analysing the stumbling blocks and identifying opportunities for further strengthening their integration processes. The new situation in the world allows the Central Asian countries to significantly intensify trade and economic ties with each other and with the rest of the world.

Central Asia: Country-level Analysis

Kazakhstan

General Information for the Period 2013-2023

Population as of January 1, 2024 (million people)	20.0
GDP for 2023 (in current prices, million tenge)	120,561,096.4
GDP for 2023 (in millions of US dollars)	264,208.8
GDP per capita for 2023 (US dollars)	13,276.7
Economic growth rate for 2023 (% YoY)	5,1%
Inflation in 2023 (December to December, in %)	9,8%

Table 1. Overview of key socio-economic indicators of Kazakhstan

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

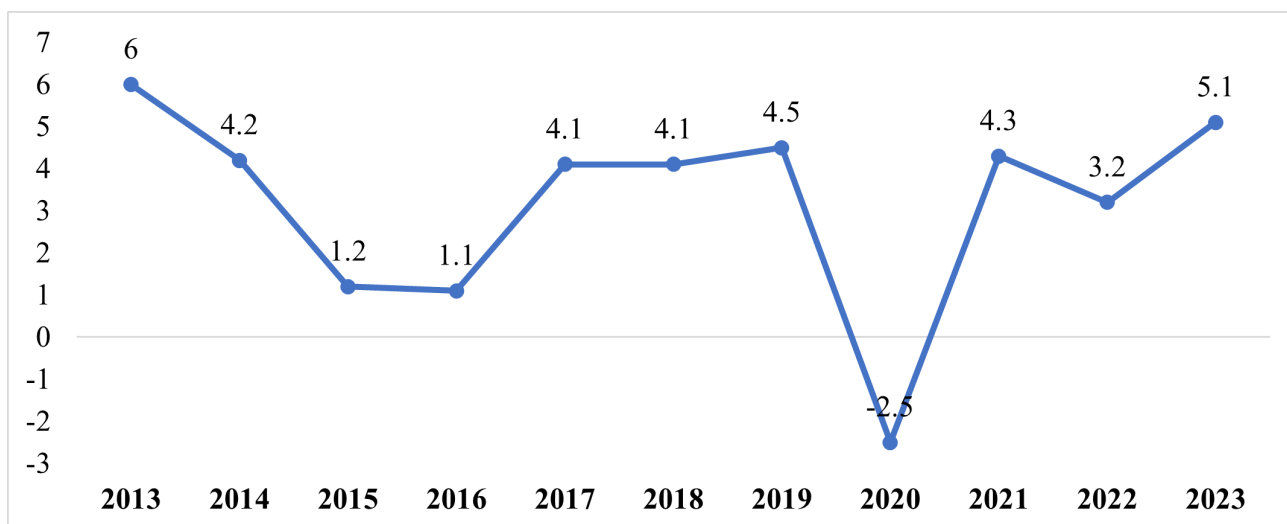


Figure 1. The growth rate of Kazakhstan's real GDP, in % YoY.

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

<https://stat.gov.kz/ru/industries/economy/prices/>

GDP: the economy is in a “middle-income trap”, despite nominal and real growth.

Kazakhstan’s economy, despite the average annual economic growth of 3.2% over the past ten years, is still that of a middle-income country unsuccessfully trying to get out of the so-called “middle-income trap”. During the period under review, the country’s economy, in nominal terms, increased 3.3-fold, from KZT 35.9 trillion in 2013 to KZT 120.6 trillion by the end of 2023. However, in dollar terms, the economy of Kazakhstan in 2023 amounted to 264.2 billion USD, and it grew by only 11% compared to 2013. At the same time, Kazakhstan remains the largest economy in Central Asia, both in terms of GDP and per capita income. Despite the fact that GDP per capita for 2013-2023 increased in nominal terms in the national currency from 2,113.2 thousand tenge in 2013 to 6,058.3 thousand tenge in 2023, or almost 3-fold in dollar terms, the indicator decreased from 13.9 thousand USD to 13.3 thousand USD during this same period when the official average exchange rate of tenge to the USA dollar is taken into account. This is an indicator of the “middle income trap”, which implies stagnation of the indicator over the past decade. It is not for nothing that the World Bank, in its latest winter report on the economy of Kazakhstan, notes that the period from 2012 to 2022 is a “lost decade” for the economy of Kazakhstan. Experts indicated that during this period, a slowdown in factor productivity growth was recorded from 4.5% to 0.9% per year¹.

Year	2013	2016	2019	2020	2021	2022	2023
GDP per capita, tenge	2,113,171	2,639,710	3,755,745	3,766,810	4,418,275	5,284,727	6,058,293
The average annual rate of USD/KZT	152.13	342.16	382.75	412.95	426.03	460.48	456.31
GDP per capita, USD	13.891	7.715	9.813	9.122	10.371	11.477	13.277

Table 2. Dynamics of GDP per capita in Kazakhstan

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan and the National Bank of Kazakhstan

Demographics: a positive rate of quantitative population growth since 2013, but a historically negative balance of migration, which only turned into a plus in 2023.

According to official statistics, the population of Kazakhstan has grown dynamically over the past ten years and as of January 1, 2024, the total number amounted to 20.0 million people; 62.2% of the population lived in urban areas, and 37.8% in rural areas. The gender structure was as follows: men – 48.8%, women - 51.2%. The average annual rate of natural population growth for 2013-2023 remains positive, which amounted to approximately 1.4%. Sharp jumps in the birth rate were recorded during the pandemic – in 2020 and 2021 with an increased rate of 6.1% and 4.6%, respectively. And over the past two years, on the contrary, there has been a significant decrease in growth rates: by 9.5% in 2022 and by 4.0% in 2023. Meanwhile, the mortality rate also increased sharply during the pandemic years, increasing by 21.2% in 2020 and by 13.1% in 2021, and in 2022 the mortality rate decreased by almost 27%. As of January 1, 2024, the population density of Kazakhstan was 7.4 people per square kilometre, and the largest city of Almaty had a population of 2.2 million people. Nevertheless, the balance of international migration over the last decade has been consistently negative and only by the end of 2023 it entered the positive zone, amounting to 9,293 people. This happened for the first time since 2011.

¹ <https://www.vsemirnyjbank.org/ru/country/kazakhstan/publication/economic-update-winter-2023-24>

Industry: an increase in the share of the manufacturing industry, which is comparable to the mining sector.

According to the results of 2023, the volume of industrial production in Kazakhstan amounted to 46,401.7 billion tenge at current prices, of which in the mining industry - by 21,773.3 billion tenge (46.9% of the total volume), in manufacturing - by 21,640.7 billion tenge (46.6%). According to official statistics, as of January 1, 2024, the number of operating industrial enterprises in Kazakhstan was 29,100. The index of physical volume of industry in 2023 amounted to 104.6% (YoY), and the average annual growth rate of industry in the period from 2013 to 2023 reached approximately 2.2%. Over the past decade, there has been a positive trend towards an increase in the share of the manufacturing industry in total industrial production from 32.8% in 2013 to 46.6% in 2023. On the contrary, another structural shift in industrial production is the reduction of the share of the mining industry to 47% in 2023 from 60% a decade earlier. At the same time, it is worth noting that the manufacturing industry remains predominantly of low and medium technological complexity. This can be judged from the official static data on exports of the manufacturing industry for January-December 2023, where the share of exports of goods with low technological complexity amounted to 45.1% and the share of exports of goods with medium technological complexity at the level of 17.6%.

Types of economic activity	2013	2023
Mining and quarry development	15.2	12.9
Wholesale and retail trade; repair of cars and motorbikes	15.1	18.0
Manufacturing industry	10.7	12.1
Real estate transactions	8.4	7.5
Transportation and warehousing	7.5	5.6
Construction	6.0	5.5
Agriculture, forestry and fisheries	4.5	4.3
Professional, scientific and technical activities	4.2	3.6
Education	2.9	4.6
Financial and insurance activities	2.7	2.9
Information and communication	2.6	2.1
Provision of other types of services	2.6	2.6
Public administration and defence; compulsory social security	2.0	1.9

Administrative and support services activities	1.8	2.4
Supply of electricity, gas, steam, hot water and air conditioning	1.6	1.3
Public health and social services	1.6	3.0
Provision of accommodation and catering services	0.9	1.1
Art, entertainment and recreation	0.7	1.0
Water supply; waste collection, treatment and disposal, pollution control activities	0.3	0.2
Activities of households employing domestic workers; activities of households producing goods and services for their own consumption	0.1	0.1
Gross value added (GVA)	91.4	92.7

Table 3. The structure of GVA in Kazakhstan's GDP

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan

In Kazakhstan's GDP, the leading sectors by the end of 2023 were trade and industry, which together account for about 45% of the economy. Thus, the share of wholesale and retail trade, including car and motorcycle repairs, in the structure of the GVA amounted to 18.0%, followed by the mining industry (12.9%) and the manufacturing industry (12.1%). Over the past 10 years, the structure of the economy has not undergone significant changes, although it is possible to distinguish an increase in the share of trade and manufacturing in the GVA. Nevertheless, the progress of economic reorientation remains extremely limited and indicates a weak pace of diversification.

Food and Agriculture

Agriculture (including fisheries) was deemphasised after Kazakhstan achieved independence and turned its attention to other pressing economic issues. Infrastructure was allowed to decay, and vital expertise in food production was lost. As of 2023, agriculture, forestry and fisheries accounted for just 4.3% of Kazakhstan's GDP, which is down from 4.5% as of 2013. Undernourishment has affected a relatively constant 2.5-2.6% of the population since 2012. In spite of these trends, the Food and Agricultural Organization of the United Nations estimates that the availability of dietary energy as kilocalories per day per capita is now increasing more rapidly than the pace of population growth. The government's investment in food and agriculture is also growing relative to the sector's share of GDP. Emphasis is on processed and value-added products, which are anticipated to account for 70% of the total by 2026-2027. In late 2023, President Tokayev emphasised the growth of the livestock industry and highlighted an annual investment of 358 million USD in innovative value-added agricultural projects. Ongoing cooperation with China to facilitate One Belt and One Road (BRI) investments in Kazakhstan is also continuing to open opportunities for trade in food and agricultural products.

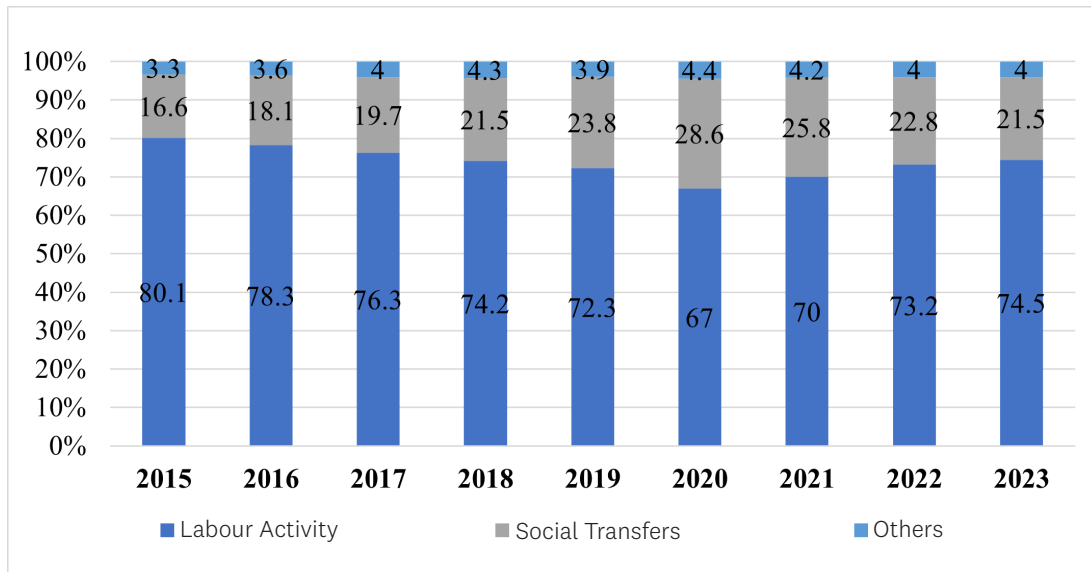


Figure 2. The structure of monetary incomes of surveyed households in Kazakhstan

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, <https://stat.gov.kz/ru/industries/labour-and-income/stat-life/dynamic-tables>

Living standards and incomes of the population: at least 20% of the population’s income is generated by state social transfers.

In December 2023, the average per capita nominal monetary income of the population, according to preliminary statistical estimates, amounted to 187.1 thousand tenge, which in nominal terms is 10.2% higher than in December 2022, but real monetary incomes increased by only 0.4% over the specified period. In turn, nominal monetary incomes of the population increased by 14.2% in January-December 2023, but real monetary incomes fell by 0.3% over the same period. In the income structure of the population, there is a recovery in the share of labour activity as a source of income, after a significant decrease in the pandemic 2020. At the same time, the share of social transfers in the income of the population remains significant at a level of at least 21% since 2018.

Inflation and monetary policy (MP): the transition to an inflation-targeting regime and the formation of a market exchange rate of the national currency.

Since mid-2015, the National Bank of Kazakhstan (NBK) has switched to an inflation-targeting regime when conducting monetary policy. This also meant abandoning the fixed exchange rate regime and, on the other hand, the active use of classic monetary short-term instruments such as the base rate, open market operations and macroprudential standards to influence inflation in the economy.

The transition to the new MP regime in 2015 came during a time of geopolitical crisis involving Russia’s major trading partner, which caused the Kazakh economy to face the negative consequences of international sanctions against the Russian Federation. Nevertheless, inflation decreased from a double-digit figure of 13.6% in 2015 to a minimum of 5.3-5.4% in 2018-2019. Further, the onset of the pandemic, the growth of global food inflation, as well as the new and armed conflict between Russia and Ukraine stimulated inflation, as a result of which annual price growth jumped to a record 20.3%. However, thanks to the coordinated actions of the National Bank and the government, inflation gradually declined in 2023. On the other hand, the transition to a free-floating exchange rate of tenge to the USD, which began to form at market auctions, allowed the economy to take external shocks more gently, as well as to stop the permanent use of the country’s gold and foreign exchange reserves to support the

exchange rate. Nevertheless, it is worth noting that after the announcement of the transition to the new monetary policy regime and the “vacation” of the exchange rate, the national currency tenge began to fall rapidly against the USD, and over the past 10 years, the average annual exchange rate of the USD/KZT currency pair has weakened almost 3-fold from 152 in 2013 to 456 in 2023.

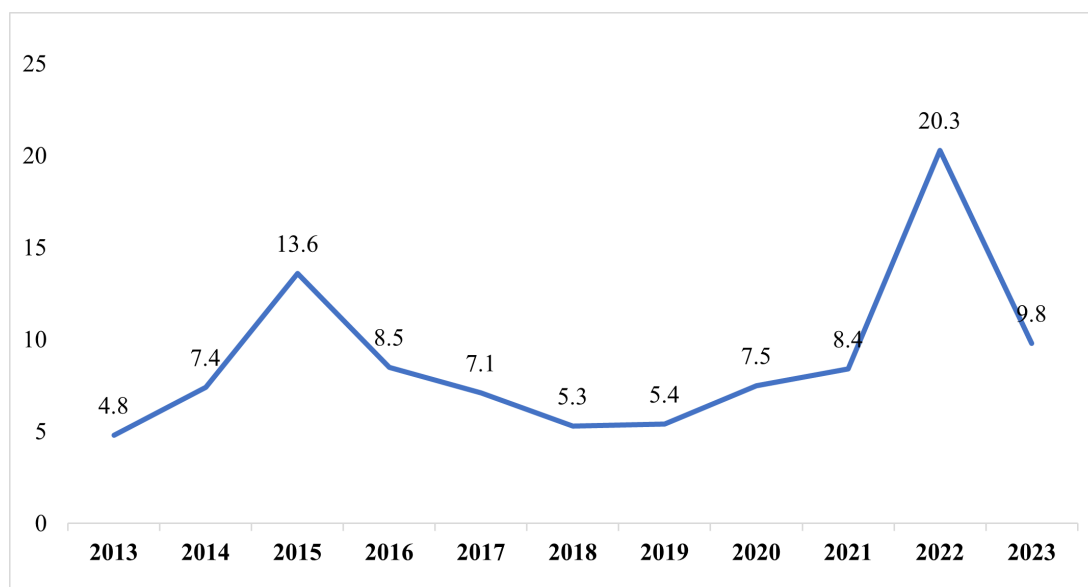


Figure 3. Dynamics of consumer inflation in Kazakhstan for the period 2013-2023, in %, December to December previous years

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, <https://stat.gov.kz/ru/industries/economy/prices/dynamic-tables/?period=year>

Foreign trade: China and Russia are key trading partners in the dominance of commodity exports.

Kazakhstan’s foreign trade turnover (FTT) in January-December 2023 amounted to 139.8 billion USD. Compared to January-December 2022, it increased by 3.2% in nominal terms, including exports of \$78.7 billion. (-2.0% YoY) and imports of \$61.2 billion (+20.1% YoY). The key trading partners of Kazakhstan in foreign trade in 2023 were China, with a turnover of 31.5 billion USD. and a 22.5% share in the foreign trade turnover, and the Russian Federation, with a turnover of 26 billion USD and a share of 18.6% in the foreign trade turnover. Italy closes the top three with a turnover of 16.1 billion USD or 11.5% of the foreign trade turnover share. Meanwhile, in January-December 2023, Kazakhstan’s foreign trade turnover with the Eurasian Economic Union (EAEU) countries amounted to 28.5 billion USD (20.4% of the total foreign trade turnover), and decreased by 2.8% over the year. The main share in Kazakhstan’s exports for the 12 months of 2023 was for groups of goods such as: fuel and energy products, including crude oil (56.4%), metals and products made from them (15.4%) and others. It follows that 71.8% of Kazakhstan’s exports in 2023 were for low-value goods.

The main export destinations were Italy (18.9%), China (18.7%), Russia (12.4%), the Netherlands (5.2%), Turkey (5.2%), and the Republic of Korea (5.0%). By import, the largest share in the group of goods for 2023 was: passenger cars (5%), telephone sets (3%), bodies and cabins (2.6%), medicines (2.3%), parts and accessories of motor vehicles (1.9%), and other aircraft (1.7%). The key countries for Kazakhstan’s imports were China (27.4%), Russia (26.5%), Germany (5.2%), the USA (4.2%), the Republic of Korea (3.6%), and Turkey (3.3%).

Interestingly, in dollar terms, the indicator of the country’s foreign trade turnover by the end of 2023 practically did not change to the indicator of 2013, that is, it remained the same after more than 10 years.

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Trade turnover	133.506	120.755	76.524	62.114	78.103	94.770	97.775	86.470	101.736	135.528	139.833
Export	84.700	79.460	45.956	36.737	48.503	61.111	58.066	47.541	60.321	84.593	78.675
Import	48.806	41.296	30.568	25.377	29.600	33.659	39.709	38.929	41.415	50.934	61.159

Table 4. Kazakhstan's foreign trade for 2013-2023, in millions of USD.

Source: Bureau of National Statistics of the Agency for Strategic Planning and Reforms of the Republic of Kazakhstan, <https://stat.gov.kz/ru/industries/economy/foreign-market/dynamic-tables/>

Kazakhstan's Foreign and Domestic Policy in the Period From 2013 to 2023.

Political transformation and transit of power: Launching large-scale economic reforms against the background of global uncertainty and geopolitical risks.

Since 2013, Kazakhstan's foreign and domestic policy has been developing in the context of significant changes on the world stage and within the country. During this period, Kazakhstan took a number of initiatives aimed at strengthening its role on the international stage and achieving internal stability, both political and economic. A multi-vector approach has always been a priority in the country's foreign policy. First of all, this was reflected in integration into international structures: Kazakhstan actively promoted the idea of regional integration and multilateral cooperation. In 2015, Kazakhstan became a member of the World Trade Organization (WTO), which was an important step towards integration into the global economy. Kazakhstan has also participated and continues to participate in international organizations, actively engaging in the activities of organizations such as the United Nations, the OSCE and others. Kazakhstan became a non-permanent member of the UN Security Council for 2017-2018, where it promoted anti-nuclear initiatives, as well as supported peacekeeping and counter-terrorism efforts.

It is also possible to highlight Kazakhstan's participation of the Organization of Islamic Cooperation (OIC) countries, within which Kazakhstan is promoting initiatives to strengthen relations with the Islamic world. Kazakhstan is a member of the Collective Security Treaty Organisation (CSTO), where it has strengthened cooperation with the participating countries, contributing to the coordination of security policy in the region. As one of the founding countries of the Shanghai Cooperation Organization (SCO), Kazakhstan has used this platform to highlight issues of regional security, combating terrorism, extremism and drug trafficking. Kazakhstan hosted the 2024 SOC meeting and made arguments for a multilateral focus on important issues of broad concern, especially peace, stability and economic cooperation. In a speech earlier this year, President Tokayev outlined his vision of Kazakhstan as a leader in generating the trust and goodwill needed for sustainable development and prosperity in Central Asia. Deepened economic ties, development of the region as a transport and logistics hub, regional approaches to water-energy-food security, and emphasis on science and education are high on his list of priorities.

A special place in international integration is occupied by the EAEU, which was officially established on January 1, 2015, on the basis of an agreement on deeper economic integration, where Kazakhstan, together with Russia and Belarus, became the founders of the organization. Later, Armenia (2015) and Kyrgyzstan (2015) joined the organization. An important aspect for Kazakhstan is cooperation and partnership with the nearest neighbouring states, especially in Central Asia, to strengthen regional security and economic stability.

Kazakhstan's domestic policy has gone through significant changes over the past 10 years and is characterized by various important events. In 2019, President Nursultan Nazarbayev resigned after almost 30 years in power, handing over his post to current President Kassym-Jomart Tokayev. Nazarbayev continued to maintain significant influence as Chairman of the Security

Council and leader of the ruling Nur Otan party. However, the full-fledged transit of power was accompanied by political instability in the form of protests in 2019 after the elections, as well as the bloody events of January 2022. Large protests caused by rising prices for liquefied natural gas quickly escalated into larger-scale anti-government actions, which led to riots, violence, and the imposition of a state of emergency. President Tokayev has taken tough measures, including requesting assistance from the CSTO to stabilize the situation. Having gained full power, the new president began to carry out reforms aimed at modernizing the political system by, for example, the creation of the National Council of Public Trust and the gradual reduction of the influence of the Security Council. It is particularly worth highlighting the constitutional reforms in 2022, which were implemented through a national referendum. The initiative was aimed at reducing the powers of the president, strengthening parliament, and creating a mechanism allowing citizens to introduce legislative initiatives.

Another key block was socio-economic reforms, including measures to diversify the economy, reduce dependence on the oil sector, support small and medium-sized businesses, and develop agriculture. Social reforms included the launch of social programs aimed at reducing poverty and improving housing conditions. For example, after Tokayev came to power in 2019, various amnesties were announced, including a limited credit amnesty, and in 2021, for the first time, citizens were given the opportunity to withdraw part of their pension savings from the Unified Accumulative Pension Fund (UAPF) ahead of schedule to improve housing conditions and other purposes. Measures have also been taken to increase the transparency of the social assistance system through the introduction of targeted social assistance and the development of a digital family map.

Over the past decade, against the background of several external negative factors, such as the Crimean crisis, the COVID-19 pandemic and the outbreak of the armed conflict in Ukraine, Kazakhstan's economy has faced challenges, which led to increased government spending and increased use of its international reserves in the form of a National Fund, which is an international "oil" fund. The peak of accumulation was in 2014 when the Fund's assets reached more than \$70 billion. Since then, the Government has withdrawn about \$10 billion from it as a result, assets currently do not exceed \$60 billion. One of the main reasons is considered to be the permanent increase in government spending, which in the period from 2013 to 2023 increased by an average of 14-15% per year only in the republican budget, and the procyclical nature of the budget due to the lack of an effective budget rule, which led to an expansion of the budget deficit. For example, in 2023, the deficit of the consolidated budget amounted to 0.6 trillion tenge, having changed insignificantly compared to the previous year (0.8 trillion tenge). Transfers from the National Fund continued to provide significant support to public finances, which officially amounted to 4.0 trillion tenge (unofficially, considering the purchase of shares of the national company KazMunaiGas JSC at the expense of the Fund, more than 5.3 trillion tenge in 2023, after 4.6 trillion in 2022, as well as by borrowing 5.5 trillion tenge in 2023 after 4.2 trillion in 2022).

Review of the Reforms From 2022 to 2024 and Their Implementation

The change of the top political leadership in Kazakhstan in 2019, as well as the full-fledged transit of power after the January events, was marked by a reboot of the country's political system, key approaches to further development, carrying out the necessary political, social and economic transformations in modern conditions, and the relationship between the state and society. The key reforms in the policy of President Kassym-Jomart Tokayev were: the reanimation of the Constitutional Court, amendments to the Constitution of Kazakhstan through a national referendum, the adoption of laws in the field of education, the development of the stress asset market, the development of multipartyism, political competition, and pluralism of opinions according to the formula "Strong President – influential Parliament – accountable Government."² The law on the direct election of akims was also adopted, which, according to the idea, will be the beginning of the introduction of the practice of electing local executive bodies. Also, a new single term for the election of the President for 7 years without the right to re-election was adopted. At the same time, this norm is not subject to revision and changes, and the term of office of judges of the Constitutional Court became longer than the presidential and parliamentary ones. Already in 2023, elections of deputies of the Mazhilis and maslikhats of all levels were held according to the new rules. For the first time, elections of akims of districts and cities of regional significance were held. Elections of heads of villages and towns of regional significance continued, as a result of which about 700 rural mayors were elected last year³.

² https://www.inform.kz/ru/reformy-kasym-zhomarta-tokaeva-stanovlenie-novoy-politicheskoy-kul-tury_a4017313

³ <https://www.inform.kz/ru/kak-progressivnaya-natsiya-mi-dolzhni-smotret-tolko-vpered-intervyu-glavi-gosudarstva-kasim-zhomarta-tokaeva-1217ed>

One of the key economic reforms was the adoption of the concept of the new economic policy of Kazakhstan, according to which the strategic goal is to double GDP by 2029.⁴ As part of this, the process of restructuring key state planning documents began, and this year, an updated National Development Plan until 2029 was presented to the public, where, together with the goal of doubling GDP, priority sectors for development were identified, and some mechanisms and an action plan for the medium term were proposed.⁵ Kazakhstan has also launched a major reform on the de-monopolization of the economy, which is aimed at establishing honest and clear economic rules, including reducing the share of the state and reducing pressure on business. Thus, in 2022, the IPO of the largest national company NC KazMunayGas JSC from the portfolio of the National Welfare Fund Samruk-Kazyna was successfully conducted, as a result of which the company attracted 137.5 billion tenge from investors.⁶ Already in 2023, another national company, the Air Astana Group, was successfully listed on the stock exchange, which simultaneously conducted an IPO on the London Stock Exchange and on the Kazakh exchanges KASE and AIX.⁷

Finally, at the end of 2022, the law “On the restoration of solvency and Bankruptcy of citizens of the Republic of Kazakhstan” was adopted, which gives Kazakhstanis the right to file for bankruptcy and get rid of the debt burden. However, the law has not been as effective since its introduction. If the Agency for Regulation and Development of the Financial Market predicted that about 1.1 million Kazakhstanis could apply for bankruptcy, by now only 80,000 have done so, and about 80% of them have been refused. According to the World Bank, too strict requirements for debtors could become a problem. Among the shortcomings of the law, they note: limitation of debts borrowed from banks and microfinance organizations, which does not include tax arrears or other debts; the presence of debt in excess of 5.9 million tenge; and the debtors’ lack of property. Also, the debtor must be the subject of either enforcement proceedings or debt settlement negotiations.⁸ In Kazakhstan, the authorities are also actively discussing amendments to these procedures to increase coverage and effectiveness.⁹

Discussion of the Impact of Individual Countries on Kazakhstan

Russia

Kazakhstan’s cooperation with Russia is based on centuries-old historical, economic, and cultural ties. In addition, Russia and Kazakhstan share one of the longest extended land borders in the world. Russia’s influence on Kazakhstan is manifested in various spheres. Economic cooperation: Kazakhstan and Russia are members of the EAEU, which ensures close integration and free movement of goods, services and labour. Russia is one of the largest trading partners of Kazakhstan. Kazakhstan also exports significant amounts of oil and gas through Russian pipelines.

Economic impact: Kazakhstan’s main exports to Russia include oil and petroleum products, metals and agricultural products. Imports from Russia include machinery, equipment, food, and chemical products. Also, Russian companies are actively investing in the economy of Kazakhstan, especially in the oil and gas industry, metallurgy, agriculture and transport. This provides jobs and facilitates technology transfer. Kazakhstan and Russia are members of the Eurasian Economic Union (EAEU), which ensures the free movement of goods, services, capital and labour between the participating countries. This deepens economic integration and interdependence between the economies of Russia and Kazakhstan. Kazakhstan is heavily dependent on Russian pipelines to export oil and gas to world markets, in particular through the CPC, through which about 80% of Kazakhstan’s oil is exported. In addition, Russia is a key transit route for the export of goods from Kazakhstan to Europe.

Political influence: Kazakhstan maintains close political relations with Russia within the framework of the CSTO and the SCO. These organizations ensure cooperation in matters of security and regional stability.

Cultural influence: Kazakhstan and Russia have a common historical base. Russian plays an important role in Kazakhstan, and many citizens speak it as a second language. The cultural influence of Russia is manifested in educational and media relations.

4 <https://vlast.kz/jekonomika/56568-poslanie-tokaeva-novaa-ekonomiceskaa-politika-bez-programmy.html>

5 <https://legalacts.egov.kz/npa/view?id=14924428>

6 <https://www.gov.kz/memleket/entities/ardfm/press/news/details/472815?lang=ru>

7 https://kase.kz/files/emitters/AIRA/aira_completion_ipo.pdf

8 <https://blogs.worldbank.org/en/psd/new-beginnings-resolving-consumer-insolvencies-central-asia>

9 <https://kz.kursiv.media/2024-03-06/zhrb-rk-kz-bank/>

Military cooperation: Russia and Kazakhstan closely cooperate in the defence sector, including the supply of military equipment and joint exercises within the framework of the CSTO.

Labour migration: Russia is a major destination for labour migration of Kazakhstanis, as well as Kazakhstani companies employ Russians, especially in the western regions of the country. Although it is worth noting that after the outbreak of the armed conflict between Russia and Ukraine and the general mobilization announced in the fall of 2022, many relocants (people subjected to relocation) used Kazakhstan as a trans-shipment point and for permanent deployment.¹⁰

USA

The influence of the United States on Kazakhstan is manifested in various spheres, such as economics, politics, education, and security. The United States is one of the largest foreign investors in the economy of Kazakhstan, especially in the oil and gas sector. American companies are actively involved in oil and gas production in the country, as well as in renewable energy projects. Kazakhstan and the United States cooperate on security and regional stability issues, including within the framework of agreements on the non-proliferation of nuclear weapons and countering terrorism. The United States actively supports educational programs in Kazakhstan, such as scholarship programs aimed at educating students and academic researchers at American universities. There is also a cultural exchange program to support understanding between the peoples of the two countries. Although trade between the United States and Kazakhstan is not as significant as with Russia or China, it includes a variety of goods. The United States exports agricultural machinery, aircraft, and medical equipment to Kazakhstan, and imports minerals and agricultural products. Kazakhstan cooperates with the United States on security issues and participates in various joint programs aimed at strengthening border control, combating terrorism, and ensuring security.

China

China has a significant influence on Kazakhstan, and this is manifested in various spheres. By the end of 2023, China is the largest trading partner of Kazakhstan, surpassing Russia. Kazakhstan exports oil, metals and agricultural products to China, and imports machinery, equipment, chemical products, and consumer goods from China. China is also actively investing in Kazakhstan's economy, especially in infrastructure, energy, and industry. The BRI initiative involves the development of transport corridors through Kazakhstan to improve ties between Asia and Europe. As it was noted, China is a major consumer of Kazakh oil and gas and, therefore, actively invests in the country's oil and gas industry. Chinese companies are involved in the extraction and transportation of hydrocarbons, as well as in the pipeline construction. In recent years, China has been intensively financing and building railways, highways and ports, helping Kazakhstan improve infrastructure and logistics. Joint projects include the modernization of transport corridors. Kazakhstan and China cooperate in the field of security, especially within the framework of the SCO, in order to combat terrorism and maintain stability in the region. Finally, China supports cultural and educational programs in Kazakhstan by providing scholarships for students and strengthening exchanges between universities.

Turkey

Trade between Turkey and Kazakhstan is constantly growing. Kazakhstan's main exports to Turkey include petroleum products, metals and chemical products, while Turkey exports textiles, machinery, electronics, and food products to Kazakhstan. Turkish companies are actively investing in the economy of Kazakhstan, especially in construction, logistics and the agro-industrial sector. Kazakhstan provides favourable conditions for foreign investors, which attracts Turkish companies. Kazakhstan and Turkey maintain very close political relations and cooperate in the international arena, including within the framework of the Organization of Turkic States, which aims to develop cooperation between the Turkic states. The presence of a common Turkic culture and language style increases the connection between the countries. Turkish educational programs and Turkish cultural events are popular in Kazakhstan. Turkey is also a popular tourist destination for Kazakhstanis.

Afghanistan

This country is of particular interest to Kazakhstan due to the emerging logistical opportunities, especially to South Asia and markets such as India. For example, the parties recently agreed to build a large logistics hub in the Afghan province of Herat to develop regional trade. Although Afghanistan's influence on Kazakhstan is limited compared to other countries, nevertheless

¹⁰ <https://tass.ru/obschestvo/20711735>

it should not be underestimated. Afghanistan's main influence on Kazakhstan is related to issues of security and stability in the region. Kazakhstan, like other Central Asian countries, is concerned about the possible spread of extremism, terrorism, and drug trafficking from Afghanistan. Therefore, Kazakhstan actively supports international efforts to stabilize Afghanistan. Trade between Kazakhstan and Afghanistan is also limited. Kazakhstan mainly exports wheat, flour and other food products, as well as petroleum products and construction materials. Afghanistan, in turn, supplies textiles and dried fruits. Kazakhstan provides humanitarian assistance to Afghanistan, especially in the form of food, medical care and educational programs. Kazakhstan also provides scholarships to Afghan students to study at Kazakh universities. Afghanistan is interested in access to Kazakh ports on the Caspian Sea and uses transit corridors through Kazakhstan to enter the markets of other countries.

EU

Of course, the EU is one of Kazakhstan's largest trading partners and a key source of investment. Kazakhstan exports oil, metals, and agricultural products to the EU countries. In turn, the EU exports machinery, equipment, and chemical products to Kazakhstan. Since the outbreak of the conflict in Ukraine and the imposition of economic sanctions against Russia, the EU has strived to diversify energy sources and considers Kazakhstan as an important partner in this area. Kazakhstan exports oil and gas to Europe and participates in pipeline construction projects that help diversify energy supply routes. The EU provides ongoing support to Kazakhstan in matters of economic and social modernization. The cooperation also includes projects in the areas of judicial reform, education, health and environmental protection. Kazakhstan participates in various EU student exchange and academic cooperation programs, such as Erasmus+. This helps to strengthen ties between educational and cultural institutions. Equally important, the EU provides technical assistance to Kazakhstan to enhance its capabilities in the areas of public administration, rule of law, and civil society development.

The Arab world

Kazakhstan and the Arab world countries have been actively cooperating in trade and investment, especially in recent years. Arab countries, especially the Gulf States, invest in various sectors of Kazakhstan's economy, including agriculture, oil, and gas industry and construction. For example, Kazakhstan and Qatar launched investment projects worth \$17.6 billion in March this year.¹¹ Also, there is information that a Qatari bank may purchase the former daughter of a Russian savings bank in Kazakhstan, Bereke Bank.¹² There are several Islamic banks operating in Kazakhstan, and the country is committed to developing Islamic finance and banking. Investments from Arab countries help the development of this industry in Kazakhstan. As a Muslim country, Kazakhstan has cultural and religious ties with the Arab world. Arab countries are often involved in supporting educational and religious projects aimed at developing Islamic education and culture. Kazakhstan maintains friendly relations with most Arab countries, and cooperates in the international arena on a number of issues related to peace and security in the region. Although the influence of the Arab world on Kazakhstan is not dominant, it is nevertheless significant and manifests itself in various spheres, especially in the religious, economic, and cultural fields.

11 <https://primeminister.kz/ru/news/kazakhsko-katarskie-otnosheniya-na-novom-urovne-pravitelstva-po-porucheniyu-glav-gosudarstv-pristupili-k-realizatsii-investproektov-na-176-mlrd-27601>

12 <https://kapital.kz/finance/123192/katarskiy-lesha-bank-nameren-kupit-kazakhstanskiy-bank.html>

Uzbekistan

General Information for the Period 2013-2023

Population as of January 1, 2024 (million people)	36.8
GDP for 2023 (in current prices, million amounts)	1 066 569
GDP for 2023 (in millions of US dollars)	90,870.82
GDP per capita for 2023 (US dollars)	2522.4
Economic growth rate for 2023 (% , YoY)	6,0%
Inflation in 2023 (December to December, in %)	8,8%

Table 5. Key economic indicators of Uzbekistan.

Source: Agency for Statistics under the President of the Republic of Uzbekistan

GDP: Despite the high rates of economic growth, the country has a low GDP per capita. Since 2009, Uzbekistan belongs to the group of countries with lower-than-average incomes.

Over the past 10 years, Uzbekistan’s GDP in nominal terms has grown almost 7-fold from 153.3 trillion soums in 2013 to 1.07 quadrillion soums in 2023. But in dollar terms, the country’s GDP amounted to only 90.8 billion USD in 2023. For comparison, Kazakhstan’s GDP for the same year 2023 amounted to 261.4 billion USD. At the same time, the permanent population of Uzbekistan at the beginning of 2024 amounted to an impressive 36.8 million people. As a result, despite the high rates of economic growth (see Figure 1), the country remains among the “outsiders” in Central Asia in terms of GDP per capita. For example, in 2023, GDP per capita (in nominal terms) amounted to only 2.52 million USD. Even in 2020, the country did not face a drop in real GDP, but only a slowdown in growth rates to 2% per annum.

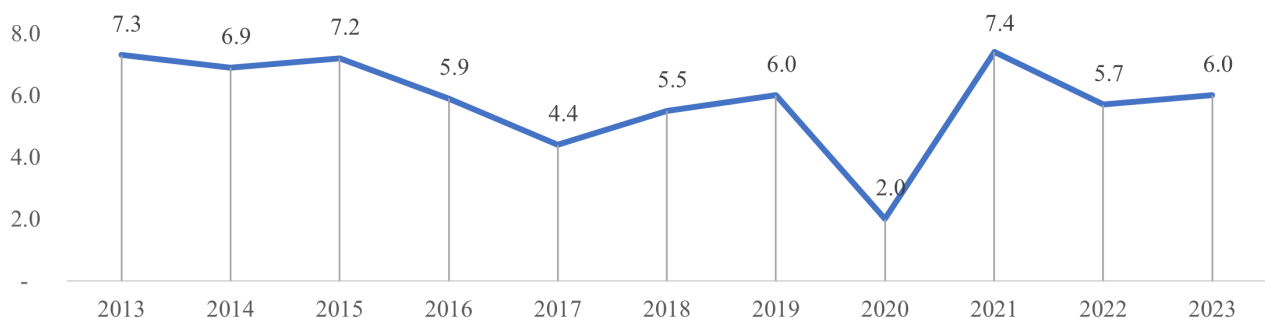


Figure 4. The growth rate of Uzbekistan’s real GDP, in % , YoY

Source: Agency for Statistics under the President of the Republic of Uzbekistan.

<https://stat.uz/ru/ofitsialnaya-statistika/prices-and-indexes>

Demographics: the average population growth rate over the last 4 years is 2% per annum.

According to the Statistics Agency under the President of the Republic of Uzbekistan, as of January 1, 2024, the permanent population of the country amounted to 36.8 million people. From 2021 to 2024, the annual population growth rate ranged from 1.9%-2.2%. The gender structure of the population is as follows: 50.3% are men, 49.7% are women; 51% of the population lives in urban areas, 49% in rural areas. As of January 1, 2024, the population density in the country was 82.0 people/sq. km. compared to 80.2 people per sq. km a year earlier. Tashkent has the highest population density (6787.5 people/sq. km). The birth rate in 2023 in Uzbekistan increased by 3.2% compared to 2022, which corresponds to the level of 2019-2020. A sharp jump in the growth of the birth rate was observed only in 2021 – at the level of 7.5%. As for mortality, in 2023, mortality increased by 0.4% compared to 2022. The highest mortality rate in 5 years was observed in 2020: then the mortality rate increased by 13.6% compared to 2019.

Industry: more than 80% of industrial production is represented by manufacturing, but low-tech industries.

The volume of industrial production in Uzbekistan in 2023 amounted to 655.8 trillion sums at current prices. The index of the physical volume of industry amounted to 106.0% (YoY). At the beginning of 2024, 69,400 industrial enterprises operated in the republic. The share of the manufacturing industry in the total volume of industrial production in 2023 amounted to 84.4%, and the mining industry – 8.4%.

The average real growth rate of industry in 2013-2023 was 5.8%. Over the past 10 years, structural shifts have been observed in Uzbekistan’s industry: the share of manufacturing in the total volume of industry is growing (in 2013 – 79.4% versus 84.4% in 2023), and the share of the mining industry is decreasing (in 2013 – 11.6% versus 8.4% in 2023). But despite this, the manufacturing industry is mainly represented by low-tech production. Thus, in 2023, in the structure of the manufacturing industry, the share of high-tech industries amounted to only 1.4%, medium-high-tech - 24.8%, medium-low-tech - 37.5% and low-tech - 36.3%.

Also, in general, agriculture, forestry, and fisheries still prevail in the country’s GDP. Thus, in 2023, the share of agriculture, forestry and fisheries in the GVA amounted to 24.3%, manufacturing industry – 20.6%, construction – 6.2%, mining industry – 3.7% (Figure 5). Although minor structural changes have been observed over 10 years: for example, in 2013, the share of agriculture, forestry and fisheries in the GVA was 30.7%, and the manufacturing industry – 12.8%, the process of reorientation of the economy is slow.

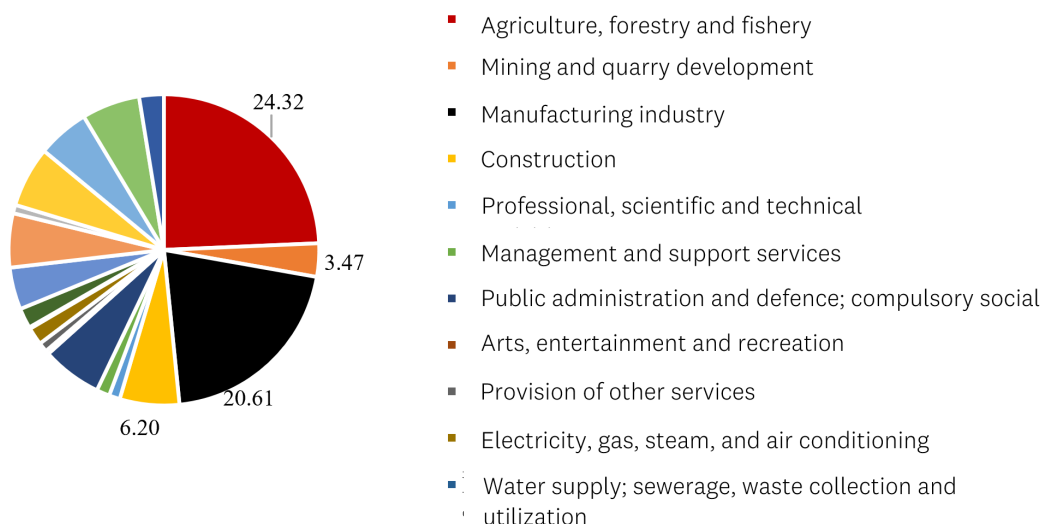


Figure 5. The structure of the GVA by sector of the economy for 2023, in %

Source: Agency for Statistics under the President of the Republic of Uzbekistan

<https://stat.uz/ru/ofitsialnaya-statistika/national-accounts>

The standard of living of the population: one-quarter of the income of the population is still formed by transfers (receipts from abroad and government subsidies).

In 2023, the total per capita income amounted to 20 million soums (1,704 USD at the average annual exchange rate for 2023)¹³ – growth in nominal terms amounted to 12.6% compared to 2022. However, in real terms, household incomes in 2023 increased by only 2.4% (YoY). At the same time, 26.7% of the total income of the population in 2023 was generated through transfers.¹⁴ Of these, 39.8% were social transfers (pensions, allowances, scholarships), and the remaining 60.2% were other transfers.

According to the Statistics Agency, in January-December 2023, 18.5 trillion soums of benefits and material assistance were allocated for social support of the population. Of these, the extra-budgetary Pension Fund financed only 33.7% of insurance benefits, and the remaining 66.3% was allocated from the republican and local budgets. In general, the share of transfers in household income remains stable; for example, in 2017, the share of transfers in income was 24.7%. That is, for more than 5 years, there have been no significant structural changes in the sources of income generation in the country.

Inflation and monetary policy reforms: the country switched to a free-floating exchange rate and inflation-targeting policy only in August 2019, which is why the dynamics of inflation are unstable, and annual inflation is still 1.76 times higher than the target of the Central Bank.

Inflation has not stabilized in Uzbekistan over the past 10 years (see Figure 3). The highest inflation rates for the period 2013–2023 in the country were recorded in 2017 and 2019 – at the level of 14.4% (December to December) and 15.2% (December to December), respectively (see Figure 6).

The surge in inflation in 2017 is explained by the signing of a decree “On priority measures to liberalize monetary policy” by the President of the country on September 2, 2017 (the decree was first published on the evening of September 4 on the website of the Central Bank). This decree actually marked the beginning of reforms to transition the country from a fixed exchange rate to a floating one. In the decree, the second priority in the measures of liberalization of monetary policy was indicated to be “the exclusive use of market mechanisms in setting the exchange rate of the national currency against a foreign currency”.

The day after the publication of the decree (that is, on September 5, 2017), the Central Bank of Uzbekistan announced that the exchange rate was set at 8,100 soums per USD (in fact, the rate was devalued twice, because the day before, the rate was 4,210.35 soums). Thus, the official exchange rate of the soum equalled the so-called “black rate”. From that moment on, the Central

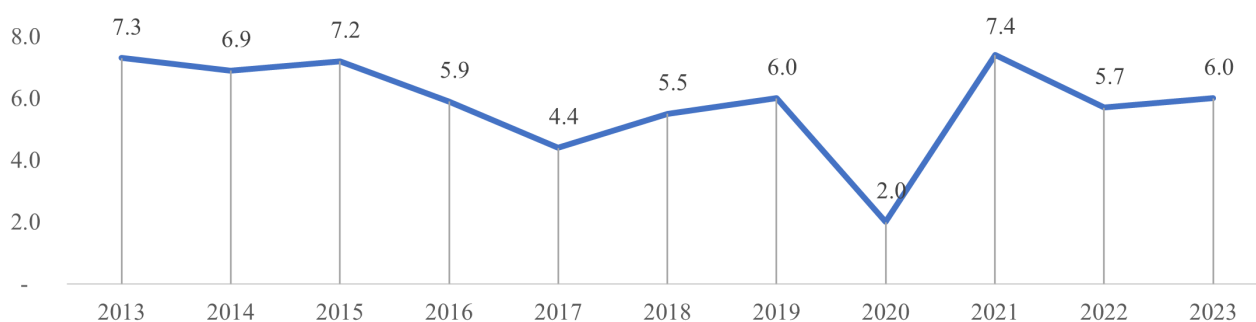


Figure 6. Inflation at the end of the year in Uzbekistan, in%, December to December of previous years

Source: Agency for Statistics under the President of the Republic of Uzbekistan.

<https://stat.uz/ru/ofitsialnaya-statistika/prices-and-indexes>

¹³ The average annual exchange rate of the soum to the US dollar in 2023 was 11,737.2 soums per dollar (see the press release on GDP for 2023 Statistical Agencies under the President of the Republic of Uzbekistan)

¹⁴ “Transfers in statistics of Uzbekistan are understood to mean goods, services and assets that enter households from other households, states, legal entities, from abroad and are not subject to return in the future” (see the press release on statistics on the standard of living of the population for 2023. Statistical Agencies under the President of the Republic of Uzbekistan)

Bank switched to regulated swimming (a maximum of 5% deviation was allowed when forming the sum rate from the officially established one). This is a partial liberalization of the foreign exchange market, and it caused a surge in inflation (due to the rise in the cost of imported goods).

There was a second spike in inflation in 2019. Then, on August 20, the country officially and definitively switched to a free-floating exchange rate and an inflation-targeting policy. The inflation target was set at 5% per annum. Since the transition to inflation targeting, the inflation trend has become downward. However, the trend is still unstable.

Food and Agriculture.

Agriculture, fisheries, and forestry account for a whopping 25% of Uzbekistan's GVA. This figure is down from 33% as of 1991, but Uzbekistan is still arguably an agrarian nation. It ranks an unimpressive 52 among the 119 countries in the Global Hunger Index, indicating that food security for a growing population is a persistent challenge. Agriculture in arid Uzbekistan is heavily reliant on irrigation infrastructure that was first installed during the Soviet era, primarily to produce cotton. Uzbekistan maintained its emphasis on irrigated cotton after independence, leading to sharp international criticism about the drying up of the Aral Sea and the use of forced and child labour during harvest.

Cotton retains its place as a bedrock of Uzbekistan's economy, but the dynamics changed after Mirziyoyev became president in 2016 and implemented liberal reforms. A 2019 governmental decree anchored sustainable development of food production into state policy. It further pledged to increase food security, reduce state involvement, create a favourable climate for agri-business and bolster investment in agriculture. A second decree in 2022 allocated land formerly used for cotton to small farmers, who began to grow high-value fruits and vegetables. Aggressive targets for the export of food products were also set.

Cotton yarn currently accounts for 8.3% of Uzbekistan's total exports, but the land area devoted to cotton is declining, and as of 2022, the International Labour Organization has certified that Uzbekistan is "free from systemic child and forced labour." Vegetable and fruit production increased by 1.7- and nearly 7-fold, respectively, between 1991 and 2021. Aquaculture (fish farming) is also growing rapidly as a source of protein, with ambitious support from the state and international development agencies. Total agricultural output grew 4.1% YoY in 2023, as the value of food industry production reached 6.8 billion USD and that of exports reached 150 million USD. Primary food export markets were Pakistan and Russia, which had market shares of 26.6% and 26.1%, respectively.

Foreign trade: the country's main trading partners are China and Russia. Gold and services account for the largest share of the country's export structure, while machinery and equipment account for the import structure.

Uzbekistan's foreign trade turnover (hereinafter referred to as the FTT) in January-December 2023 amounted to 62.6 billion USD and represents an increase of 12.1 billion USD or 23.9% compared to January-December 2022. At the same time, the volume of exports amounted to 24.4 billion USD (+23.8% for the year), and imports – 38.1 billion USD (+24% for the year). China (21.9%), Russia (15.8%), Kazakhstan (7%), Turkey (5%) and the Republic of Korea (3.7%) took the largest share in Uzbekistan's FTT in 2023.

	China	Russia	Kazakhstan	Turkey	Turkmenistan	Kyrgyzstan
Share in foreign trade turnover	21,9%	15,8%	7,0%	5,0%	1,7%	1,5%
FTT, USD million	13 722	9 884	4 399	3 100	1094	953.4
Exports, millions of dollars	2 462	3 308	1 373	1 249	171.2	631.5
Imports, millions of dollars	11 260	6 576	3 026	1 851	923.2	321.9

Table 6. The countries with the largest share of foreign trade with Uzbekistan according to data for January-December 2023.

Source: Agency for Statistics under the President of the Republic of Uzbekistan

<https://stat.uz/ru/press-relizy/34345-press-reliz-2023>

It is important to note that China and Russia alternate in the championship for a share in Uzbekistan's FTT. So, in 2017 Russia took the first place and China took the second place; in 2018 Russia took the second place with a share of 18.1%, and China took the first place with a share of 18.2%. In 2021, Russia again took the largest share in Uzbekistan's FTT (17.9%), while China took second place (17.6%). But in 2022, against the background of sanctions, China's share exceeded Russia's share in trade with Uzbekistan.

Uzbekistan's FTT with the CIS countries in 2023 reached 20.6 billion USD, when the volume of exports amounted to 8.1 billion USD, and the volume of imports was \$12.5 billion USD. And in the structure of Uzbekistan's foreign trade turnover with the CIS countries, the largest share belongs to Russia (48.1%). Next comes Kazakhstan (21.4%), Turkmenistan (5.3%), Kyrgyzstan (4.6%), Tajikistan (3.7%). The share of FTT with the EEA countries in 2023 amounted to 25.4% of the total volume.

In terms of commodity nomenclature, the largest share of exports from Uzbekistan in 2023 was represented by non-monetary gold (33.4% of total exports in 2023, or 8.1 billion USD). But it is important to note that previously the share of non-monetary gold in the country's export structure was lower. For example, in 2022, this share was only 21.3%. Despite these fluctuations, non-monetary gold remains, in one way or another, the country's main export commodity. Services are in second place in the export structure (21.2%), and industrial goods are in third place (16.6%).

Separately, we note that the export of services in 2023 amounted to \$ 5,179.7 million. Transportation services (43.2%), travel (tourism) (41.4%), telecommunications, computer and information services (8.5%), and other business services (3.1%) account for the lion's share of exports of services.

Machinery and transport equipment (39.2%), industrial goods (16.6%), as well as chemicals and similar products (12.8%) occupy the main share in the structure of Uzbekistan's imports.

Foreign and domestic policy of Uzbekistan

Serious reforms both in the domestic policy of the country and in relations with other countries began in the country in 2017 after the change of government. But the reforms are slow and uneven. Reforms require government spending, which violates fiscal discipline. The country needs fiscal consolidation in the near future, but it is clear from the rhetoric of the authorities that government spending will continue to grow. For the first quarter of 2024 Uzbekistan has already [reached a record 12-year state budget deficit](#).

After the change of leadership in 2016, the new government of Uzbekistan initiated a rapid detente of interstate relations in order to restore strained ties with neighbouring countries. The official proclamation of the new regional foreign policy course was made by President of Uzbekistan Mirziyoyev at the 72nd session of the UN General Assembly. Within this framework, he stated that the most important direction of Uzbekistan's foreign policy will be the Central Asian region.

The main change in Uzbekistan's foreign policy since the beginning of 2017 can be characterized as a turn of the country as a whole from a politically-oriented approach to an economically-oriented one, in which the state encourages foreign economic activity in priority areas.

As a result, in 2017, Uzbekistan adopted a strategy on 5 priority areas of development for 2017-2021, which reflected the task of "creating a belt of security, stability, and good neighbourliness around Uzbekistan". Already at the end of 2016, the country launched a negotiation process on the delimitation and demarcation of borders with all Central Asian countries. At the same time, more than 200 international agreements were concluded with foreign partners, trade, economic and investment agreements, and contracts worth about 60 billion USD were signed. In addition, more than 40 roadmaps were approved for the development of practical cooperation with foreign countries, and international organizations, including the Central Asian countries. To quickly resolve territorial and border problems, on April 5, 2018, President Mirziyoyev approved the decree "Priority directions for the development of foreign policy and foreign economic cooperation of the Republic of Uzbekistan with major foreign partners in the medium term".

Since 2017, the Uzbekistan authorities have moved to reforms to subsequently set the soum exchange rate based on market principles, eliminated restrictions on payments and transfers on current account transactions, took measures to liberalize restrictions on Foreign Direct Investments (FDI) inflows, and allowed the sale of foreign currency in cash to resident individuals.¹⁵ Since the change of government in the country, a gradual opening of the economy has taken place, the liberalization of the business environment, prices, trade, and the foreign exchange market has begun, investments have increased, a course has been taken to increase the production of high-value-added goods and export diversification. This improved the investment climate and increased the potential for attracting external financing. The share of investments in GDP [increased](#) from 22% on average in 2012-2017 to 35% in 2018-2021.

The share of the EAEU in Uzbekistan's foreign trade turnover does not exceed 25-26%. Since the country has not yet equalized the level of per capita income with such major players in the EAEU space as Russia and Kazakhstan, the country's participation in the EAEU remains questionable. By the end of 2023, the volume of direct investments in Uzbekistan turned out to be less than in the previous two years. The Ministry of Investment, Industry and Trade of Uzbekistan [noted back in 2019](#) that the methodology for calculating the inflow of foreign direct investment by the Central Bank (which refers to the IMF) does not reveal the full picture of attracted and mastered FDI into the country.

At the same time, the opening of foreign trade and the increase in domestic investment led to the formation of a current account deficit, which amounted to 6.1% of GDP on average in 2018-2021. In 2022, the current account deficit dropped sharply to just (-)0.8% of GDP or (-) 611 million USD. This was due to the historical increase in money transfers from citizens working abroad, in particular from Russia, and strong gold prices. But already in 2023, the current account deficit reached a historic high since 2016: (-) \$7.8 billion, or (-)8.6% of GDP. The need to finance the current account deficit has led to an increase in Uzbekistan's external debt. Nevertheless, the gross debt of the expanded government (including external state guarantees) is at an acceptable level of 36% of GDP at the end of 2023 (for comparison, the current median of expanded government debt to GDP for countries assessed by Fitch at the "BB" level is 52% (Uzbekistan "BB-")). But despite this, the risk for the country is that by the end of 2023, 92.6% of the external debt was denominated in foreign currency – this makes the financial stability of the country highly susceptible to exchange rate differences.

The reforms carried out in the country require significant expenditures of the state budget, which leads to an increase in the budget deficit. Thus, in 2023, the deficit of the consolidated budget of [Uzbekistan](#)¹⁶ amounted to a record 59 trillion soums (over 5 billion USD), [exceeding the figures of previous years](#) (for comparison, in 2022 the deficit was 35.3 trillion soums, in 2021 – 40.8

¹⁵ IMF (2020) Annual Report on Exchange Arrangements and Exchange Restrictions 2019. Available at: <https://www.imf.org/-/media/Files/Publications/AREAER/AEIEA2019001Overview.ashx>

¹⁶ The consolidated budget includes the state budget, budgets of state trust funds, extra-budgetary funds of budgetary organizations and funds of the Fund for Reconstruction and Development (sovereign fund).

trillion soums, in 2020 - 26.1 trillion soums). Therefore, the maximum allowable level of the state budget deficit to GDP, defined in the law on the state budget, in the country in 2023 was [changed](#) from 3% to 5.5%, the annual limit of external debt increased from 4.5 billion to 5.5 billion USD. The build-up of the state budget deficit and the lack of fiscal discipline is becoming a risk to the country's economic development in the medium term, as indicated by the IMF in its [report](#) after a visit to the country in December 2023. In particular, the IMF noted as further directions for work in the country that "the expansionary fiscal policy pursued in 2023 should be replaced by a course towards budget consolidation".

Review of the Reforms From 2022 to 2024 and Their Implementation

In general, since the change of power in 2016 and the country's "turn" in favour of economic liberalization and democratization, Uzbekistan's image in the international arena has begun to improve. The country began to be watched as an example of a possible "dismantling" of an authoritarian regime. But since 2022, the speed of implementation of reforms has decreased in the country, which is accompanied by discontent among the population of Uzbekistan. On the one hand, there is an objective reason for slowing down the reform process in 2022-2024; the most ambitious and necessary reforms, such as liberalization of capital flows, the foreign exchange market, improvement of foreign trade conditions, liberalization of the domestic financial market, have already been carried out in the first 5 years since the change of power (2016-2021), and subsequent reforms are "complementary" in nature, and therefore their effect may not be realized immediately. On the other hand, there are objective reasons to believe that the "dynamism" of the implementation of reforms has indeed decreased, and further reforms are being implemented to a greater extent "on paper", encountering the continuing de facto authoritarianism of the political regime. The processes of privatization in the economy are opaque and uneven across regions. Administrative reforms have not yet solved de facto issues of civil liberties (in 2023, there were [persecutions](#) of bloggers and the media). The change of the Constitution and the extension of Mirziyoyev's presidency caused a wave of discontent in the country, showing the instability of the domestic political situation even after a 5-year period of reforms.

Individual reforms:

Socio-economic strategy: in 2 years, there has been a change of two similar medium-term strategies. At the same time, there were no objective reasons for changing one strategy to another, except for a change in the regulatory and institutional environment (the adoption of a new Constitution).

Large-scale socio-economic reforms in the country began with the period of change of power in 2016. The main reforms from 2017 to 2021 were aimed at liberalizing the economy and were implemented within the framework of the then-adopted "Action Strategy on 5 priority areas of Republic of Uzbekistan Development of 2017-2021". The continuation of the course taken in economic reform formed the basis of the idea "from an action strategy to a development strategy" and found expression in the adoption in 2021 of the new strategy "New Uzbekistan 2022-2026: macroeconomic stability". The [New Uzbekistan Strategy](#) contains 7 priority policy directions.

However, before it could be implemented in 2022, the strategy "New Uzbekistan" was replaced by the new strategy "Uzbekistan 2030". The strategy "Uzbekistan 2030" was approved by Decree of the President of Uzbekistan on September 11, 2023, shortly after the adoption of the new Constitution of the country. The document of the Uzbekistan 2030 project itself says that the new strategy was developed "on the basis of the experience gained during the implementation of the New Uzbekistan Development Strategy and the results of public discussion". A more objective reason for changing the strategy can be considered just a change in the institutional and legal conditions in the country (the adoption of the Constitution in a new version, after which "repeated" presidential elections were held on November 9). It is noteworthy that the strategy itself is now designed not for 5 years, but for 7 years, and the strategy "Uzbekistan 2030" identifies 5 priority areas instead of the previous 7. Namely:

- creating decent conditions for realizing the potential of each person
- ensuring the well-being of the population through sustainable economic growth
- saving water resources and protecting the environment
- ensuring the rule of law, the organization of public administration focused on serving the people
- a consistent continuation of the policy based on the principle of "a safe and peaceful State"

To implement the strategy, a Republican Commission was established, headed by the Prime Minister of the country. An [online platform](#) was created to track the progress of the program: it was assumed that Uzbekistan citizens would be able to assess progress in the implementation of the strategy and send their opinions and initiatives.

If we talk about the 'quantitative' goals of the strategy, the strategy "Uzbekistan 2030" [sets the goal to bring the country's GDP to 160 billion USD by 2030](#), the per capita income to 4,000 USD, and thus to join the ranks of countries with an above-average income level. In fact, there is an ambitious goal of almost doubling GDP per capita in dollar terms. Since the program was launched relatively recently, it is too early to evaluate the results.

Privatization and IPOs: the stock market is not yet active – there are few retail and domestic investors in the market, and the market is high-risk for foreign investors. In addition, many IPOs in the country over the past 2 years have been criticized for their "opacity".

Before the change of government, Uzbekistan was characterized by a significant share of state participation in the economy through the ownership of large enterprises. Since 2017, the country has been preparing for the gradual privatization of state-owned enterprises. As a result, in 2022, state-owned enterprises were privatized in the [amount of 11.3 trillion soums](#). The efficiency of individual enterprises has increased after privatization; for example, on the basis of the Andijan Pilot Plant, which was inactive for many years, a textile enterprise was organized with investments of 18 million USD, a thousand jobs were created, products worth 40 million USD were exported. Sale of the state share in Mortgage Bank for 324 million USD and in Coca-Cola Uzbekistan for 252 million USD became the largest deals of 2022. However, privatization in 2017-2022 was uneven; if 112 facilities were privatized in the Tashkent region, then less than 30% were sold in the regions. As a result, in March 2023, [a resolution was issued](#) "On additional measures to reduce state participation in the economy." During the implementation of the people's IPO on the principle of "One share – one lot" in 2023, three companies were put up on the [Republican Stock Exchange](#) (RSE) Tashkent at once – the UzAuto Motors plant, the telecommunications giant Uzbektelecom and the Uzbekinvest insurance company.

In comparison with 2022, the number of transactions at the RSE [increased 5-fold](#). The UCI stock index rose by 82%, and seven times more purchase and sale transactions took place with bonds. However, the volume of funds raised in the stock market did not exceed 10 million USD for each company, which is very modest for the economy of Uzbekistan. For example, at the IPO of the carmaker UzAuto Motors, it was possible to sell only 0.29% of the company's securities instead of 5%, which were announced at the roadshow. The company [raised about 5 million USD](#) with expectations of raising 90 million USD. Although 7 times more transactions took place with bonds than in 2022, the number of transactions itself was only 477. The country's government bonds are still unattractive, and it is less profitable for enterprises to issue debt securities in comparison with loans from banks due to the availability of state support for loans in a number of sectors of the economy. At the same time, there is criticism of privatization processes as being opaque. An example is the sale of the state-owned Uzcard payment system in October 2023 for 210 billion soums (19 million USD). Then the sale took place without competition, so there is a high probability that the asset could have been sold more profitably.

Administrative reforms: the reduction of departments and the staff of civil servants has been approved by the population and is an important area of administrative reforms in the country.

In accordance with the presidential decree, from January 1, 2023, out of the 8 usual deputy prime ministers and 3 advisers, only 4 deputy prime ministers remain in the Government. At the same time, the remaining deputy prime ministers will not simultaneously hold a ministerial or other senior position and will not directly direct the activities of ministries and departments. In the structure of the Government itself, the number of ministries will decrease from 25 to 21, and 20 departments will be completely abolished. In particular, the Ministry for the Support of mahallas (local governments) and the older generation is being abolished. They are also united into single ministries - economy and finance, construction, housing and communal services, higher education, science and investment, pre-school and school education. Law enforcement agencies, including the Ministry of Foreign Affairs and the Ministry of Emergency Situations, have not undergone structural changes.

The new Constitution: amendments on the abolition of the autonomy of Karakalpakstan and the "reset" of the terms of Mirziyoyev's presidency caused unrest in the country. They were able to adopt a new Constitution only on the second attempt. This attracted the attention of the international community, and it became clear that the domestic political regime in the country is still unstable.

A constitutional referendum has been expected in Uzbekistan since 2021, against the background of the fact that the current

president Mirziyoyev planned to be re-elected for a second term. But without zeroing out the first term, the president would not have been able to legally re-elect for a second-term again. In the spring of 2022, the authorities launched the procedure for amending the Constitution. However, when the Uzbekistan authorities published the first version of the new Constitution, there was a wave of public discontent in the country. The main reason was that in the presented version of the Constitution, the Republic of Karakalpakstan, which is part of Uzbekistan, was deprived of its autonomy. In the summer of 2022, riots were barely suppressed. According to media reports, almost 80 people died as a result, and hundreds were arrested. As a result, the amendments on the abolition of autonomy had to be withdrawn. But the issue of autonomy of Karakalpakstan was not just “adjusted” in the Constitution: of all the regions of Uzbekistan, Karakalpakstan is the most depressed. High poverty, underdeveloped infrastructure, and environmental problems lead to the fact that this region provides almost a third of all migration from Uzbekistan.

On the second attempt, the constitutional referendum was successfully held. According to official data, the turnout was more than 84%, 90% voted in favour. A week after the referendum, Mirziyoyev called early elections for July 2023, during which he was re-elected for a second term. With Mirziyoyev’s re-election for a second term, the country’s image has again declined somewhat. In 2023 Uzbekistan took the 148th place out of 167 countries in the ranking of democracy, remaining in the group of authoritarian countries. But it is worth noting that Kazakhstan turned out to be slightly higher – on the 120th line of the rating. The [report says](#) (see page 53): “The political reform processes in Kazakhstan and Uzbekistan have produced few results in 2023. Referendums on Constitutional reform, as well as parliamentary and presidential elections were held during the year. Several new parties have emerged in Kazakhstan, whose independence from the government is questionable; elections remain unfree and unfair. Uzbekistan lags behind Kazakhstan in many areas of democracy, including political participation.” Therefore, both countries have gained a foothold in the group of authoritarian countries.

Discussion of the Impact of Individual Countries on Uzbekistan

Russia

Russia is one of Uzbekistan’s main trading partners (second in foreign trade turnover in 2023). In view of this, the Russian economy has an impact on the economy of Uzbekistan through the trade channel. For example, the recent weakening of the Russian ruble makes imports from Russia to the country cheaper. On the one hand, this reduces the import component in Uzbek inflation. On the other hand, the competitiveness of Uzbekistan goods in comparison with Russian ones is decreasing. It should also be noted that in addition to trade, the countries are connected by cash flows. Russia remains the largest source of money transfers to Uzbekistan, accounting for about 80% of the total volume of money transfers to the country in 2022-2023 (in 2020-2021 this share was equivalent to 50%). Accordingly, the weakening of the ruble leads to a decrease in the volume of transfers to the country in the national currency. Since the beginning of Russia’s war in Ukraine, Uzbekistan has become more cautious about ways to establish relations with Russia. So far, Uzbekistan is not a member of the EAEU, and therefore is considered by Western countries as a more “neutral” country in relation to Russia compared to other countries in the region. But due to the historically high degree of interaction between the two countries, Uzbekistan cannot simultaneously replace the Russian market both in terms of imports and exports. In addition, Uzbekistan’s problems with energy make cooperation with Russia beneficial for the country, which is why the processes of interaction are growing, and, as a result, the influence of the Russian economy on the economy of Uzbekistan is growing.

In recent years, Uzbekistan has been experiencing acute problems in the energy sector related to disruptions in work, especially in the cold winter. The previous Minister of Energy of Uzbekistan, Alisher Sultanov, admitted that over the past 30 years, nothing has been invested by the state in the oil, gas, and energy industries. In 2023, even in Tashkent, people had to build bonfires at their entrances, stand in queues at gas stations for hours. Due to low gas pressure, cement production at two cement plants – Kuvasaycement and Akhangarantcement – stopped. Even the street lighting system in Tashkent, the capital of Uzbekistan, began to operate in a restricted mode, and the government of Uzbekistan stopped the operation of gas stations. Against this background, on October 7, 2023, an agreement was signed between Kazakhstan, Uzbekistan and Russia on the supply of Russian gas to Uzbekistan through Kazakhstan. Uzbekistan has agreed to buy 2.8 billion cubic meters of gas per year from Russia under a commercial contract.

China

China took the first place in Uzbekistan’s foreign trade turnover in 2023. The most striking evidence of China’s interest in developing trade and investment relations with Uzbekistan can be considered primarily the agreements reached on January

25, 2021, during the China–Central Asia summit between the leaders of Uzbekistan and the People’s Republic of China. The agreements were consolidated by the signing of agreements between Uzbekistan and China on trade, investment, financial and technical cooperation totaling 15 billion USD at the SCO summit in Samarkand on September 15, 2022.

But the relationship between the countries is not limited to trade. China is Uzbekistan’s main creditor. According to the results of the first half of 2023, the state external debt of Uzbekistan amounted to 25.9 billion USD, of which 3.8 billion was owed to various credit institutions in China. In Uzbekistan, Chinese government loans and borrowings are mainly used to finance projects for the development of transport and other infrastructure, including the construction of roads, tunnels, thermal power plants, power lines, and other facilities. But the financing is conditioned by the fulfillment of a number of requirements for the Chinese side, including the involvement of contractors from China, materials, equipment, and labour in projects. In many cases, this is since the receiving party does not have the necessary resources to implement the credited facilities and is not ready to take on possible risks.

Unlike government investments, private Chinese investors are most interested in investments in oil and gas, chemical, textile, electric power, coal industries, as well as in agriculture and water management, logistics. The inflow of Chinese direct investments into this country is quite stable, and after 2012 ranges from 2 to 2.5 billion USD.

As of January 1, 2022, the total number of enterprises with foreign participation in Uzbekistan amounted to 13,700. Chinese companies (1927 in total) entered the top five foreign investors, second only to companies with Russian capital (2309). Thus, China is able to influence the economy of Uzbekistan through both trade and financial and investment channels.

USA

The United States is not among Uzbekistan’s key trading partners. Bilateral contracts have been signed between the countries, mainly in the oil and gas and agro-industrial sectors. Diplomatic relations between the two countries began to strengthen in 2022, since Uzbekistan is not part of regional associations in the post-Soviet space together with Russia. One of the main achievements of Uzbek-American interparliamentary contacts was the creation of the “Caucus on Uzbekistan” in the House of Representatives of the US Congress in 2018 (Caucus is a group of lobbyists or an association of the legislature to develop a single course of action). The reason for the increased attention of the United States to Uzbekistan is in the issues and actions on the peace settlement process in Afghanistan. In general, the influence of the United States on the economy of Uzbekistan can only be indirect. The focus of cooperation is based on geopolitical interests.

Turkey

Relations between Turkey and Uzbekistan began to improve after the change of power in Uzbekistan. Since that moment, Turkey has entered the top 10 trading partners of Uzbekistan. The countries are also cooperating in the field of security, and they have signed an expanded military framework agreement. The document is aimed at strengthening bilateral cooperation in the military sphere and developing combat training and military education. But despite the improvement in relations between the countries, Turkey’s presence in Uzbekistan in terms of trade and investment remains low compared to Russia and China (see the volume of foreign trade turnover above).

Afghanistan

The country has a common border with Afghanistan, and therefore issues of common security. The internal political and economic instability in Afghanistan poses a threat to Uzbekistan. Following talks during the Afghan president’s official visit to Tashkent in December 2017, the two sides signed 20 joint documents on security, energy and transport, as well as 40 commercial contracts worth 500 million USD to supply Afghanistan with construction materials, food products, wheat, household appliances, and vehicles.

EU

The Partnership and Cooperation Agreement (PCA) between the EU and the Republic of Uzbekistan has been in force since 1999. The EU provides financial assistance to Uzbekistan annually, primarily aimed at promoting economic development. For the period 2014-2020, EU financial assistance to Uzbekistan amounted to 168 million euros, which is 124% more than in the period 2007-2013. The intensity of trade between the EU and Uzbekistan began to grow slightly against the background of sanctions

against Russia. Chinese goods, which were previously supplied through Russia to Europe, are now supplied through Uzbekistan. As a result of increased cooperation with the EU, Uzbekistan's trade volume with European countries has more than doubled in six years — from 1.98 billion USD in 2016 to 4.5 billion in 2022. The EU's influence on Uzbekistan may be indirect.

The Arab world

Of the Persian Gulf countries, Uzbekistan has been cooperating most actively with Saudi Arabia since the change of power. During the visit of the Saudi delegation to Uzbekistan in November 2023, agreements were signed on projects in the fields of chemistry, energy, agriculture, pharmaceuticals, IT, and infrastructure development worth \$12 billion. ACWA Power from Saudi Arabia is the largest investor in alternative energy in Uzbekistan. Even before 2023, the company was engaged in the implementation of projects in the republic totalling \$ 7.5 billion.

Among them are the following construction projects:

- combined-cycle gas power plant with a capacity of 1.5 GW in the Syrdarya region,
- the world's largest wind farm with a capacity of 1.5 GW in Karakalpakstan, and
- two wind farms with a total capacity of 1 GW in the Bukhara region.

On November 30, 2023, it became known that ACWA Power had started the implementation of the 1st stage of the green hydrogen production project in Uzbekistan. In November 2023, agreements were additionally signed for the construction of 2two more wind farms in Uzbekistan with a total capacity of 800 MW. The volume of foreign direct investment in both projects will amount to a total of 1.085 billion USD. Uzbekistan is the 2nd largest ACWA Power market in terms of investments.

Tajikistan

General Information for the Period 2013-2023

GDP

Tajikistan has demonstrated steady economic growth, with an average annual GDP growth of 7.2% over the past ten years. Tajikistan's economy grew by 8.3% in 2023. Economic growth was mainly driven by active construction, agriculture, and transfers from migrant workers, mainly from Russia.

Agriculture in Tajikistan plays a fundamental role in the country's economy, accounting for 24.3% of GDP¹⁷ and 19% of exports.¹⁸ Employment in this sector accounts for more than 60% of the population of the republic,¹⁹ and most of the workers are employed in crop production, which forms 98.5% of the total volume of agricultural production. Despite the leading position of agriculture, the sector continues to be underdeveloped. This underdevelopment forces the country to depend on imports, which are necessary to meet 75% of food needs and more than 50% of the needs for agricultural production resources such as seeds, seedlings, pedigreed animals, fertilizers, and agricultural machinery.

The service sector, which includes a wide range of activities from education to tourism, accounts for 17.5% of GDP. Industry, remaining the key engine of modernization and technological development, contributes at the level of 16.2%. Trade, reflecting active domestic and foreign commercial activity, accounts for 14.9%, demonstrating the importance of this sector for meeting the needs of the population and integration into the global economy.

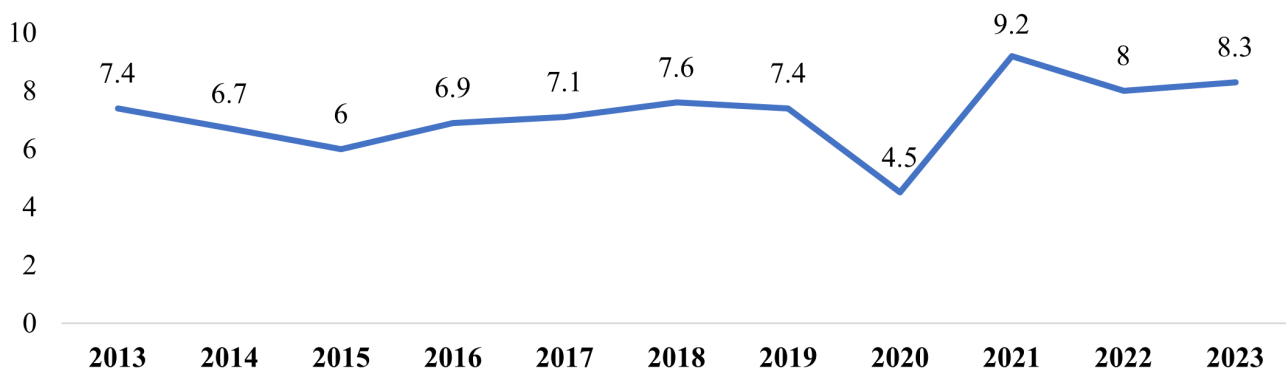


Figure 7. Dynamics of Tajikistan's economic growth, %.

Source: [World Bank](#), [Interstate Statistical Committee of the Commonwealth of Independent States](#), [Asian Development Bank](#).

Tajikistan continues to be the main recipient of money transfers on a global scale. According to the World Bank, in 2022, the volume of money transfers to Tajikistan amounted to 50.9% of GDP.²⁰ About one million migrants from Tajikistan live in Russia, where most of them are employed in the construction and trade sectors. Money transfers from Russia account for more than 85% of the total income from migrants to Tajikistan, which makes them one of the most significant in the region.²¹

¹⁷ The National Bank of Tajikistan.

¹⁸ [The World Bank](#).

¹⁹ [The World Bank](#).

²⁰ [The World Bank](#).

²¹ [The World Bank](#).

Industry

Most enterprises are concentrated in the manufacturing industry, which generates 57.5% of all industrial production. It is followed by enterprises of the extractive industry, which make up 11% of the total number of industrial enterprises and contribute 21.6% to the total volume of industrial production.²²

In the manufacturing sector, the main directions include the production and distribution of electricity, gas, and water, which accounts for 20.9% of total industrial production. Food production accounts for 19.6%, while the textile and clothing industries account for 10.5%.

Tajikistan is rich in natural resources, including gold, silver, uranium, and other minerals. The extraction of these resources has a significant impact on the country's economy. Tajikistan is a major producer of aluminium in Central Asia, and the main enterprise here is TALCO (Tajik Aluminum Company), the largest aluminium plant in the region. This industry plays a significant role in the country's economy due to the export of aluminium, which is considered one of the main sources of foreign currency.

Tajikistan has significant potential in the field of hydropower due to its river resources. The country is actively developing this sector and building new hydroelectric power plants, such as the Rogun Hydropower Project. This project is designed not only to meet domestic electricity needs, but also to provide the opportunity to export electricity to neighbouring countries, which contributes to economic growth.

The Rogun Hydropower Project, which is under construction, has the potential to bring significant economic, social, and environmental benefits to Tajikistan and other Central Asian countries if it is implemented in a financially, environmentally and socially sustainable manner. Once completed, the Rogun Hydropower Project will be crucial to meet Tajikistan's domestic electricity needs, especially in winter, as well as to support neighbouring countries by exporting surplus electricity generated.²³

Food and Agriculture

There are three reasons for the outsized significance of agriculture in Tajikistan's economy: it accounts for almost one-quarter of GDP, it employs more than 45% of the population, and it is a key tool to combat the rising problem of inadequate food security. The World Food Program estimates that 30% of Tajikistan's population is moderately food-insecure and that acute food insecurity is rising. Tajikistan is also in the unenviable position of having Central Asia's highest incidence of stunting (inadequate physical development) in children under five years of age.

Food insecurity in Tajikistan is partially an economic challenge related to poverty and high prices, but it also reflects shortcomings in the republic's food production system, which supplies only about one-quarter of domestic needs. The remaining 75% of food must be imported from world markets that are subject to price shocks and disruptions. Agriculture in Tajikistan is underdeveloped and faces serious headwinds. According to USAID, only 7% of the land is arable, and most of it suffers from soil degradation. Farms are small, difficult to mechanize, and lack access to modern technology. The domestic supply of high-quality seeds, fertilizer and equipment also cannot meet needs. Tajikistan's vulnerability to climate change, especially drought, is also the highest in Central Asia.

The state understands that the food and agriculture sectors must be strengthened to safeguard Tajikistan's economic future. The government's National Development Strategy 2030 plan pays serious attention to the sector, highlighting investments in land reclamation, soil improvement, and increased irrigation to improve domestic food production. The plan identifies a series of policy measures to strengthen and diversify small farms, resolve farmer debt, enhance market access, and manage risk. It also proposes to reduce agricultural imports (currently dominated by wheat, wheat flour, and barley from Kazakhstan), in part by import substitution. The coming years will determine if and how these ambitious plans can be implemented.

²² [Database portal of the Agency for Statistics of Tajikistan.](#)

²³ [The World Bank.](#)

Inflation

In 2023, Tajikistan’s economic policy demonstrated significant success in controlling inflation, which is at a level of 3.8%. This is significantly below the target corridor of the National Bank of Tajikistan, which is set at $6\% \pm 2\%$. Such low inflation indicates that the National Bank of Tajikistan has effectively used the instruments of monetary policy, despite the continuing challenges in the field of economic stabilization.

One of the main instruments of macroeconomic policy was the exchange rate, which acted as an “anchor” to contain inflation. This is especially important in the context of weak transmission mechanisms of monetary policy, due to the insufficient development of money markets and the predominance of cash in economic turnover. Cash accounts for three-quarters of the money supply in the economy, which makes monetary policy less effective and increases dependence on the exchange rate.

The strict policy of the National Bank of Tajikistan and the strengthening of the somoni made it possible to contain inflation and ensure macroeconomic stability. However, the transition to inflation targeting requires further modernization of the monetary system and strengthening of monetary policy transmission mechanisms, which remains a key challenge for Tajikistan’s future economic development.

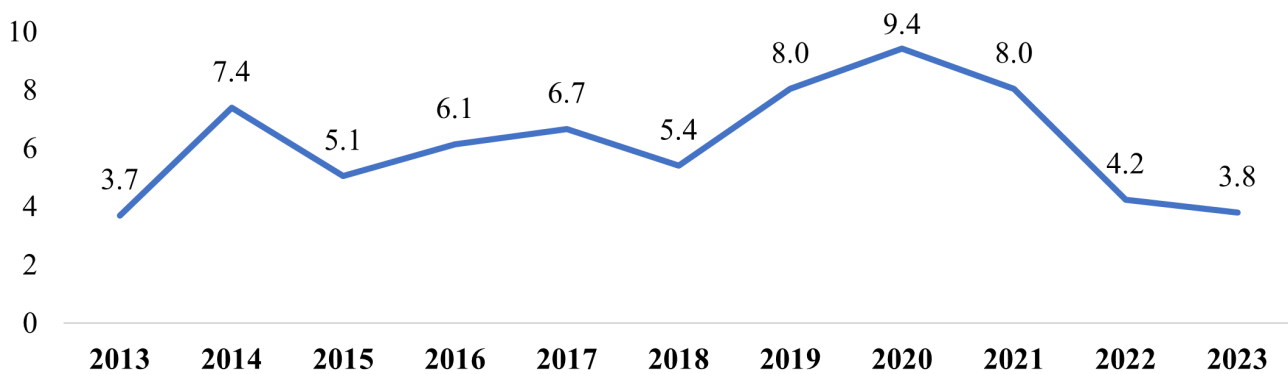


Figure 8. The dynamics of inflation in Tajikistan, %.

Source: [World Bank](#), [Interstate Statistical Committee of the Commonwealth of Independent States](#)

Development potential

Tajikistan has significant potential in the field of hydropower due to its river resources. The construction of new and modernization of existing hydroelectric power plants, such as the Rogun Hydropower Project, are already outlined as key projects to increase electricity production.

Tajikistan is rich in minerals such as gold, silver, uranium, and other rare metals. The development of new fields and the introduction of modern extraction and processing technologies can significantly increase production and exports.

The manufacturing sector, which includes food production and textile production, also has great potential for development. The opportunities lie in upgrading equipment, improving product quality and expanding export markets. Improving production standards and the introduction of new technologies can help to increase the competitiveness of products in international markets.

The production of mineral fertilizers and other chemical products is another promising area for investment. This will not only support local agriculture but also create new export opportunities.

Anti-export policy

The country's trade policy is aimed at stimulating the substitution of imports by domestic production at the expense of exports. Although tariffs are low compared to other countries with similar economic indicators (an average of 4.6%), their increase helps protect national producers and creates conditions less favourable for exports. The different levels of protection provided to individual industries distort competition by favouring certain activities and stimulating production for the domestic market to the detriment of export activities. The gap between tariffs on imported and exported resources is increasing, which especially protects consumer goods of domestic production. High protection rates in sectors such as fruits and vegetables (35.5%), beverages and tobacco (52.9%), cereals (11.7%), and textiles (18.7%) encourage production for domestic consumption instead of exports, creating anti-export conditions.²⁴

Demographics

The population of Tajikistan is characterized by its youth, multiculturalism, and dynamic growth. In 2023, the country's population was 10 million people. Over the past 10 years, the growth rate has been 2.1%. Tajikistan is one of the most densely populated Central Asia countries. Most of the population lives in rural areas, although there has been a trend towards urbanization in recent decades, with an increasing number of people moving to large cities in search of work and better living conditions. Tajikistan's population is young, with more than 30% of residents under the age of 15.²⁵ This creates certain challenges for the economy, especially in the fields of education and healthcare, where it is necessary to provide adequate services for the rapidly growing younger generation. Limited employment opportunities within the country also leads to a large outflow of young people and a strong economic dependence on remittances.²⁶

The Tajik nation consists mainly of Tajiks, who make up about 84% of the population. Uzbeks are the second largest ethnic group, accounting for about 13.8% of the population. In addition, Russians, Kyrgyz, and other national minorities live in the country.

Labour migration has increased significantly in recent years: It was reported that between one third and half of households have at least one family member working abroad as a migrant. Remittances have played a crucial role in reducing poverty in Tajikistan: more than 80% of remittances are spent on food consumption and about 10% goes to meet other basic needs such as health, housing and education.²⁷ Strong economic growth and higher wages have helped reduce the poverty rate from 32% of the population in 2009 to about 12.4% in 2022 (taking into account the international poverty line of \$3.65 per day).²⁸

Domestic and Foreign Policy of Tajikistan²⁹

Response to the Civil War

Tajikistan felt the consequences of the collapse of the Soviet Union more acutely than other countries in the region, largely due to the brutal and prolonged civil war that took place on its territory. This conflict has significantly predetermined the trajectory of the development of the country's internal political structure. The end of the civil war did not lead to the end of the political struggle between the opposing factions. In accordance with the agreements reached, opposition political structures, including the religious Islamic Renaissance Party of Tajikistan (IRPT), were legalized. The opposition has sought to use this status to weaken the position of the ruling elite for many years.

The key moment in this struggle came in 2015, when the IRPT was declared a terrorist organization, and its leader Muhiddin

²⁴ [The World Bank](#).

²⁵ [The World Bank](#).

²⁶ [The World Bank](#).

²⁷ [The World Bank. Report on the economy of Tajikistan](#).

²⁸ [The World Bank](#).

²⁹ <https://www.imemo.ru/files/File/ru/publ/2024/Post-SovietStates-Solovyev.pdf>

Kabiri was forced to leave the country. In 2018, outside opposition groups, including the IRPT, signed a declaration on the creation of the National Alliance of Tajikistan.

Domestic political challenges

In Tajikistan, like many modern states, formally there are all three branches of government: executive, legislative and judicial. However, the implementation of an effective system of checks and balances between these institutions remains insufficient. The executive branch, headed by the President, has significant prerogatives and expanded powers, which distinguishes it as the dominant element of public administration. Over time, the powers of the President continue to expand.

The stability of the current ruling elite in Tajikistan is accompanied by serious socio-political and socio-economic challenges. One of the main problems in the socio-political sphere is the complex interaction between the central and regional authorities, especially noticeable in the Gorno-Badakhshan Autonomous Region, where mass riots took place in 2021.

In addition, Tajikistan is facing the threat of religious radicalism, which is exacerbated by the current situation in Afghanistan. In this context, the migration factor is also evident: among Tajik youth, including migrants, the attractiveness of political Islam is increasing, which poses a potential risk to the stability of the region.

Foreign policy under the new conditions

In recent years, Tajikistan has faced a number of foreign policy challenges affecting the internal conditions of the country. These include the border conflict with Kyrgyzstan and increased military and political tensions in Afghanistan. In the field of security, Tajikistan continues to rely on Russia's support, which is illustrated by the example of the Russian 201st military Base, which plays a key role in maintaining stability both in the republic itself and in the region. In this context, there is a deepening of bilateral cooperation between the countries.

However, against the background of events in Afghanistan, Tajikistan is seeking to diversify its international relations, strengthening contacts with Western countries. This deepening of interactions was especially intensified in 2022, when Western countries paid increased attention to the region, including Tajikistan.

In the economic sphere, the republic is strengthening relations with China, one of the main economic partners, along with Russia. At the same time, the deepening of economic cooperation with China is accompanied by an increase in public debt to the Chinese Eximbank, which accounts for 60% of Tajikistan's public debt.

In addition, Tajikistan is expanding cooperation with Iran, with which projects in the field of energy and transport infrastructure are already being implemented, as well as strengthening ties with the monarchies of the Persian Gulf, in particular, Saudi Arabia, which continues to demonstrate investment activity in the republic.

Thus, Tajikistan is pursuing a multi-vector foreign policy, adapting to new international conditions and continuing to diversify its foreign relations. In domestic politics, the ruling elite retains control over the processes, ensuring relative stability in the country.

Review of Reforms in 2022-2024

Stagnation and dependence on transfers from Russia³⁰

Despite the progress achieved, Tajikistan remains vulnerable to external economic shocks, due to a number of factors. In particular, the high dependence of the economy on migrant remittances, insufficient diversification of the economic and export structure, as well as the increased risk of a debt crisis significantly increase this vulnerability.

In the medium term, economic activity is projected to slow down to 4.5-5% per year. It is expected that after a period of growth in 2022, money transfer flows will stabilize. It is also assumed that a decrease in global production will lead to a decrease in

³⁰ <https://documents1.worldbank.org/curated/en/099062723061535693/pdf/P179653130e091e01b03a14b6d1b9d31d3b00c7c14ab.pdf>

demand for key Tajik export goods, including metals and minerals. In addition, a reduction in remittances, combined with a global tightening of monetary policy, may put additional pressure on the national exchange rate.

In the absence of significant structural reforms, especially in areas such as improving the business environment, reforming the public sector, and ensuring socio-environmental sustainability, Tajikistan's GDP growth potential is expected to remain at 4.5-5% in the medium term. It is assumed that the main engines of economic growth will be the services sector, mining, consumer goods production and construction, supported by various developing projects.

Internal problems and risks such as fiscal sustainability, inefficiency of State-owned enterprises, financial stability and private sector development remain important obstacles to economic development. The introduction of a new Tax Code and a possible slowdown in economic activity may threaten the volume of government revenues, which is critically important for maintaining social spending and ensuring public welfare. The slowdown in structural and institutional reforms aimed at strengthening the protection of property rights, fulfilling contractual obligations, creating a competitive economic environment, regulating investments and simplifying trade procedures creates significant obstacles to the development of the private sector in Tajikistan.

It is expected that the slowdown in economic growth in Russia may lead to a weakening of the ruble and a decrease in money transfer flows. The recent terrorist attack in Crocus increases the risk of a further reduction in remittances from Russia, which may be due to a possible tightening of migration policy, increased control over migrant workers and increasing tensions between the countries. These measures may lead to a decrease in the number of Tajik migrants in Russia, which will directly affect the volume of transfers.

Such changes are projected to increase pressure on the depreciation of the exchange rate and lead to higher inflation for imported goods in Tajikistan. In line with the medium-term inflation and price stability targets, the National Bank of Tajikistan is expected to continue to pursue a tight monetary policy.

External conditions may put additional pressure on the exchange rate. A significant depreciation of the Russian ruble may increase Tajikistan's dependence on this currency in the context of money transfers and trade flows, which may lead to a decrease in the current account and a decrease in foreign exchange reserves.³¹

Reforms: Targeted social assistance

The Government of Tajikistan is actively engaged in strengthening the social protection system through the implementation of new policies and programs. In 2023, a reform of Targeted Social Assistance (TSA) was initiated, the purpose of which is to increase the resilience of the most vulnerable segments of the population and low-income families to socio-economic shocks. As part of the reform, significant changes have been introduced: firstly, a new formula for checking indirect neediness (CIN) has been introduced, which allows for a more accurate assessment of the welfare of beneficiaries; secondly, a new method for calculating the number of benefits has been developed, especially by increasing the number of payments for children under 16 years of age.

It is planned that the amount of the TSA allowance will increase to 10 budget units in 2024 and to 11 budget units in 2025, while an additional unit will be provided for each child. All amounts will be adjusted for inflation. The updated TSA system is expected to reach about 1.4 million people and expand coverage of the poorest segments of the population from 38% to 63%. The program's budget is expected to increase from 128 million somoni in 2021 to about 300 million somoni in the next three years.

Free school meals

In addition to the current measures, the Government of Tajikistan plans to expand the coverage of the recently implemented pilot program of free school meals, which is part of initiatives to strengthen the social protection system. Launched experimentally in 2022 in 24 rural areas, the program is aimed at socio-economic support for low-income children. In 2023, it is planned to expand it to 25 districts, including the addition of the Temurmalik district in the Khatlon region, one of the poorest regions of the country. It is estimated that approximately 15,338 primary school students from 43 schools will receive daily meals under this program.

³¹ [The World Bank](#).

It is expected that these reforms will lead to a doubling of the budget allocated for social support, which will increase the total budget allocation from 0.1% of GDP in 2021 to 0.2% of GDP by 2025.³²

The strategy for the development of social protection of the population until 2040

The “Social Protection Strategy” of Tajikistan establishes long-term development directions in the field of social protection, focusing on institutional reforms and comprehensive provision of social protection for citizens at various stages of their lives. The main goal of the strategy is to strengthen social justice through the implementation of activities focused on key life stages: pregnancy and childhood, working age and old age.

By 2040, the strategy calls for a number of significant improvements, including optimizing resource management, reforming the pension system, expanding voluntary social insurance and improving access to social care services. The strategy also takes steps to increase income levels, ensure food security and improve employment conditions.

The program includes regular legislative reviews and cost structure analysis, with the participation of both local and international experts, which is aimed at evaluating and further improving the social protection system.³³

The Employment Assistance Program of the Republic of Tajikistan for 2023-2027

The program provides for a set of active and passive measures aimed at improving the employment conditions of citizens. Within the framework of the program, steps are being taken to involve the unemployed in vocational training, participation in paid public works, the provision of preferential loans for private business activities, as well as the provision of vocational guidance services. Additionally, employment initiatives are being implemented through job fairs and the creation of new jobs in various sectors of the economy. Special attention is paid to the employment of vulnerable categories of citizens through the system of quota jobs and the payment of unemployment benefits.

It is expected that the successful implementation of this program will lead to a reduction in unemployment and strengthen social protection for various groups of the population, including youth, women and other vulnerable segments of society. The program also aims to promote inclusive learning and skills development, which will facilitate the wider introduction of digital services into the activities of labour and employment authorities, ensuring more effective access for the unemployed and job-seekers to these services.³⁴

The new tax code

Tajikistan has achieved a significant reduction in the overall State budget deficit, which decreased from more than 3% of GDP in 2020 to about 1.2% in 2021-2022. This result was achieved through a number of measures, including a policy of limiting government spending, increased grants from partner development and increased non-tax revenues. However, the introduction of the new Tax Code had a negative impact on tax revenues, which decreased by 1.5% of GDP compared to the pre-pandemic level.

In 2022, a new Tax Code was adopted, the goals of which were to streamline the tax system, simplify administrative procedures and increase transparency of tax policy and administration. The changes made to the Tax Code led to a reduction in tax collections in the first years after its adoption by about 1.8 billion somoni (1.6% of GDP). The recorded decrease in tax revenues in 2022 coincides with initial forecasts: the share of tax revenues in GDP decreased from 20.3% in 2017-2019 to 18.8% in 2022. Particularly noticeable losses occurred due to the abolition of the road tax and a decrease in income from value added tax and social contributions.³⁵

³² [The World Bank](#).

³³ [The World Bank](#).

³⁴ [Government of the Republic of Tajikistan](#).

³⁵ [The World Bank](#).

Decree of the President of the Republic of Tajikistan “On the expansion of non-cash payments”

In 2023, there was a significant increase in the use of bank cards by households, especially after July, when this figure reached 80% in the last quarter of the year. This growth is also associated with important initiatives to improve the financial system, in particular with Presidential Decree No. 586 dated June 22, 2023.³⁶ This decree introduces measures to expand the use of non-cash payments to pay taxes, state duties, fines, contributions to compulsory state insurance funds, as well as payments for medical care, utilities and other public services throughout the country. With the entry into force of the decree on August 1, 2023, steps have been taken that not only contribute to strengthening the digital economy, but also facilitate financial transactions for both individuals and businesses.³⁷

A grant from the World Bank

On January 12, 2023, the Board of Directors of the World Bank approved a grant in the amount of 50 million USD from the International Development Association (IDA) for the implementation of a Project to support development policy in Tajikistan. This project is aimed at maintaining a reform program that contributes to strengthening the stability and sustainability of economic development aimed at reducing poverty and improving the quality of life of the population.

In accordance with the reform priorities defined by the Government of the Republic of Tajikistan, the project seeks to support the sustainability and stability of economic growth through a three-component approach: 1) improving the business environment and enhancing the integrity of the financial sector; 2) strengthening the efficiency, transparency and accountability of the public sector, including state-owned enterprises; 3) improving social and environmental resilience to crises, including the consequences of the COVID-19 pandemic.³⁸

Relations of Other Countries with Tajikistan.

Russia

Russia has a significant influence on Tajikistan, which is due to the historical, economic, social, and political ties between the two countries. One of the most significant aspects of Russia’s economic influence on Tajikistan is labour migration. Tajikistan is one of the countries that are most dependent on remittances from its citizens working abroad, mainly in Russia. These transfers make up a significant part of Tajikistan’s GDP, and any changes in Russia’s migration policy or the economic situation in the country have a direct impact on Tajikistan’s economy. According to the World Bank, in 2022, the volume of money transfers to Tajikistan amounted to 50.9% of GDP.³⁹ About one million migrants from Tajikistan live in Russia, where most of them are employed in the construction and trade sectors. Money transfers from Russia account for more than 85% of the total income from migrants to Tajikistan, which makes them one of the most significant in the region.⁴⁰

Russia is also an important trading partner of Tajikistan, exporting essential goods to the country, including food, machinery and equipment. Russia accounts for 30.5% of imports and 4.9% of exports.⁴¹

In addition, companies from Russia invest in various sectors of Tajikistan’s economy, including the energy sector, mining and banking sectors. According to statistics from the National Bank of Tajikistan, from 2013 to the third quarter of 2023, Russia’s share in foreign direct investment in Tajikistan is 7.6%.⁴²

³⁶ [IS Continent.](#)

³⁷ [The World Bank. Economic and social monitoring using the Listening to Tajikistan survey](#)

³⁸ [The World Bank.](#)

³⁹ [The World Bank.](#)

⁴⁰ [The World Bank.](#)

⁴¹ [Economic and Social Commission for Asia and the Pacific \(ESCAP\).](#)

⁴² <https://nbt.tj/ru/statistics/tavozuni-pardokhti-jt/sarmoyaguzori-oi-mustakimi-khorii/sarmoyaguzorihoi-mustakimi-khoriji-ba-jt-az-r-kishvarho.php>

Russia maintains a military presence in Tajikistan through its base in Hissar, which is one of the manifestations of the strategic partnership between the countries. This presence provides Russia with influence on security in Central Asia and supports Tajikistan's military security, especially with regard to threats from Afghanistan.

Russia is actively involved in Tajikistan's political life, supporting the current government and influencing the country's domestic and foreign policies. This cooperation often includes assistance in carrying out reforms and consultations on economic and political issues. Russian remains widely used in Tajikistan, being the language of interethnic communication and education. Cultural exchanges between the two countries continue to strengthen ties, forming a positive perception of Russia among the population of Tajikistan.

China

China is becoming an increasingly important partner for Tajikistan, influencing the economic, political, and social development of the country. China is one of the largest foreign investors in Tajikistan. Through the Asian Infrastructure Investment Bank and the One Belt, One Road initiative, China is financing a number of major infrastructure projects in Tajikistan, including the construction of roads, bridges and power plants. These investments play a key role in modernizing Tajikistan's infrastructure and improving its transport accessibility. According to information provided by the National Bank of Tajikistan, Russia's share in foreign direct investment from 2013 to the third quarter of 2023 reached 60.6%⁴³.

China also plays an important role in economic relations with Tajikistan, being one of the key trading partners. Mutual trade between the countries is characterized by exports from Tajikistan of goods such as aluminum, cotton and minerals, while imports from China include engineering products, electronics and consumer goods. At the same time, China occupies 16.2% of Tajikistan's imports and 2.1% of its exports.⁴⁴ China is actively involved in the political life of Central Asia, including Tajikistan, through bilateral and multilateral formats such as the Shanghai Cooperation Organization.

China also contributes to Tajikistan's social and cultural development through educational initiatives. For example, Chinese universities provide scholarships to students from Tajikistan, and Confucian institutes in Tajikistan promote the study of Chinese language and culture.

USA

The United States does not invest much and does not trade with Tajikistan, but trade may occur indirectly through various support programs.

Kazakhstan

Kazakhstan's influence on Tajikistan is reflected primarily in the economic and regional aspects of the interaction, as Kazakhstan is one of the key economic partners in Central Asia. Kazakhstan holds the position of one of Tajikistan's main trading partners. The structure of exports from Kazakhstan to Tajikistan is dominated by petroleum products, metals, and cereals. On the other hand, Tajikistan supplies mainly aluminum, zinc, copper and agricultural products to Kazakhstan. Kazakhstan's share in Tajikistan's total imports is 19.4%, while in exports it is 24.4%.⁴⁵

Universities of Kazakhstan and Tajikistan cooperate in the field of science and education. This includes student and faculty exchanges, joint research projects and conferences that contribute to deepening academic ties between countries.

Turkey

Turkey's influence on Tajikistan is manifested in several key aspects, including economic cooperation, cultural and educational ties, as well as political interaction.

43 <https://nbt.tj/ru/statistics/tavozuni-pardokhti-jt/sarmoyaguzori-oi-mustakimi-khorii/sarmoyaguzorihoi-mustakimi-khoriji-ba-jt-az-r-kishvarho.php>

44 [Economic and Social Commission for Asia and the Pacific \(ESCAP\)](#).

45 [Economic and Social Commission for Asia and the Pacific \(ESCAP\)](#).

Turkey is one of Tajikistan's important economic partners. Turkish companies are actively investing in Tajikistan, especially in sectors such as construction, textile industry and tourism. Turkish construction companies are involved in the construction of significant infrastructure facilities, including roads, bridges and residential complexes. In addition, Turkey supports Tajikistan in modernizing its textile industry, which contributes to the development of the country's light industry. According to statistics provided by the National Bank of Tajikistan, Turkey's share in foreign direct investment from 2013 to the third quarter of 2023 amounted to 4.3%.⁴⁶ Tajikistan's trade relations with Turkey, the latter occupies 3.8% in the structure of imports and 15.7% in the structure of exports of the country.⁴⁷

The joint venture "AKIA AVESTO AUTOMOTIVE INDUSTRY", specializing in the production of buses, was launched in Dushanbe. This enterprise not only strengthens industrial ties between Tajikistan and Turkey, but also significantly increases Turkey's economic presence in Tajikistan.

Cultural cooperation between Tajikistan and Turkey is being strengthened through various programs and initiatives. There are Turkish schools and universities in Tajikistan that provide education according to Turkish educational standards and promote the dissemination of the Turkish language and culture. These educational institutions are a bridge for cultural exchange and education of Tajik students, many of whom continue their education in Turkey. Both countries are members of various international organizations such as the Organization of Islamic Cooperation (OIC).

Afghanistan

The relationship is dominated by refugees and the tense situation at the border.

European Union (Switzerland)

Switzerland accounts for 24% of exports. Switzerland mainly buys gold from Tajikistan.

The Arab world

There is no significant effect. Although cooperation with Iran is noted in open sources, Iran is almost not present in the statistics of foreign direct investment and in Tajikistan's trade turnover.

⁴⁶ <https://nbt.tj/ru/statistics/tavozuni-pardokhti-jt/sarmoyaguzori-oi-mustakimi-khorii/sarmoyaguzorihoi-mustakimi-khoriji-ba-jt-az-r-kishvarho.php>

⁴⁷ [Economic and Social Commission for Asia and the Pacific \(ESCAP\)](#).

Kyrgyzstan

General Information for the Period 2013-2023

Population as of January 1, 2024 (million people)	7,161
GDP for 2023 (in current prices, million soum)	1,228,898.8
GDP for 2023 (in millions of US dollars)	13,980.6
GDP per capita for 2023 (US dollars)	1,969.2
Economic growth rate for 2023 (% , YoY)	6.2
Inflation in 2023 (December to December, in %)	7.3

Table 7. Key economic indicators of Kyrgyzstan

Source: National Statistical Committee of the Kyrgyz Republic

Geographical features: Kyrgyzstan is rich in natural resources (especially gold) and has the potential to develop hydropower, agriculture, and tourism.

Kyrgyzstan is in the northeast of Central Asia. It borders with such countries as Kazakhstan (in the north), Tajikistan (in the south), Uzbekistan (in the southwest) and China (in the east and southeast). The territory of Kyrgyzstan is 199,900 square kilometres, 90% of which is located above 1500 m above sea level. There are more than 3,500 thousand rivers and rivulets in the country, 1,923 lakes, and 44 deposits of underground fresh and mineral waters. There is no access to the sea.

Kyrgyzstan is vulnerable to climate change due to its terrain and poor infrastructure. Since 2010, the scale and frequency of climate-related natural disasters (heatwaves, droughts, floods) have increased by 150%. Temperatures are projected to rise by more than 5°C by 2090, and water resources will decrease dramatically as glaciers melt

In the Issyk-Kul region there is one of the highest mountain deposits (at an altitude of over 4000 meters above sky level) of gold in the world – Kumkor. The development of the deposit is carried out in an open-pit manner using generally accepted methods of drilling, blasting, loading and transportation. Gold production at this mine has been carried out since 1997.

Gross domestic product: the positive dynamics of economic growth are observed, despite the influence of external economic factors.

According to the National Statistical Committee of the Kyrgyz Republic (hereinafter – NSC KR), real GDP in 2023 increased by 6.2% compared to the previous year and amounted to 1.2 trillion soums, which is equivalent to 13.98 billion USD. The economic growth is due to the fact that the sectors of the Kyrgyz economy have begun to increase the volume of products produced. GDP growth was provided by the sectors of commodity production (+3.6%), the service sector (+6.2%) and taxes on products (+12.7%). In its report, the Eurasian Development Bank highlights the acceleration of economic growth in Kyrgyzstan and the growth of investment activity, especially in construction.

In 2024, the World Bank expects a decrease in GDP growth to 4.5% in Kyrgyzstan due to a slowdown in the growth of the service sector, noting that investment and exports will become the engines of growth

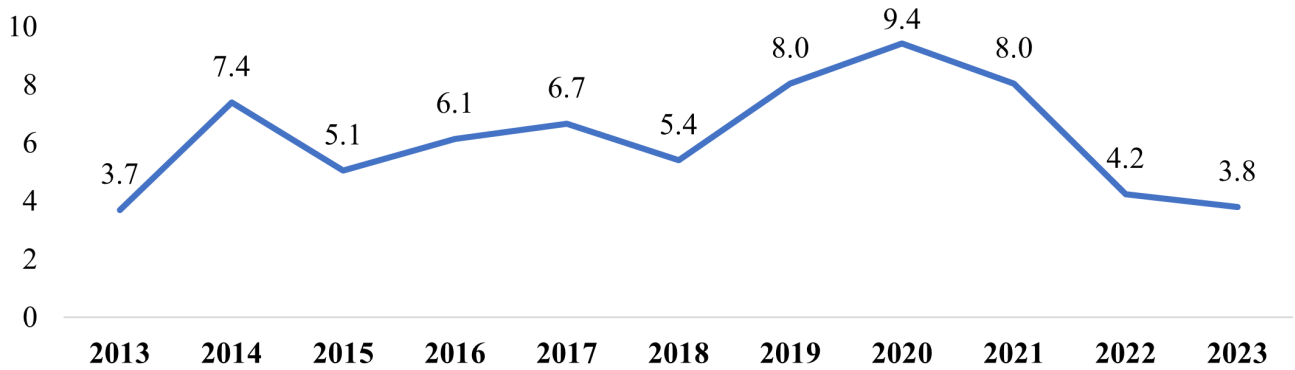


Figure 9. The growth rate of Kyrgyzstan’s real GDP, in % YoY
Source: National Statistical Committee of the Kyrgyz Republic

Since 2021, there has been an acceleration in economic growth, which has led to a significant increase in GDP per capita, which in 2023 amounted to 1,969 USD. The country’s income level is below the world average.

The largest share in the structure of Kyrgyzstan’s GDP in 2023 is occupied by the service sector (50.8%). Industry makes up 16%, agriculture 9.7%, construction 6.6%, the rest 16.9%. The rest refers to net taxes on products.

Demographics: the population of Kyrgyzstan is steadily increasing.

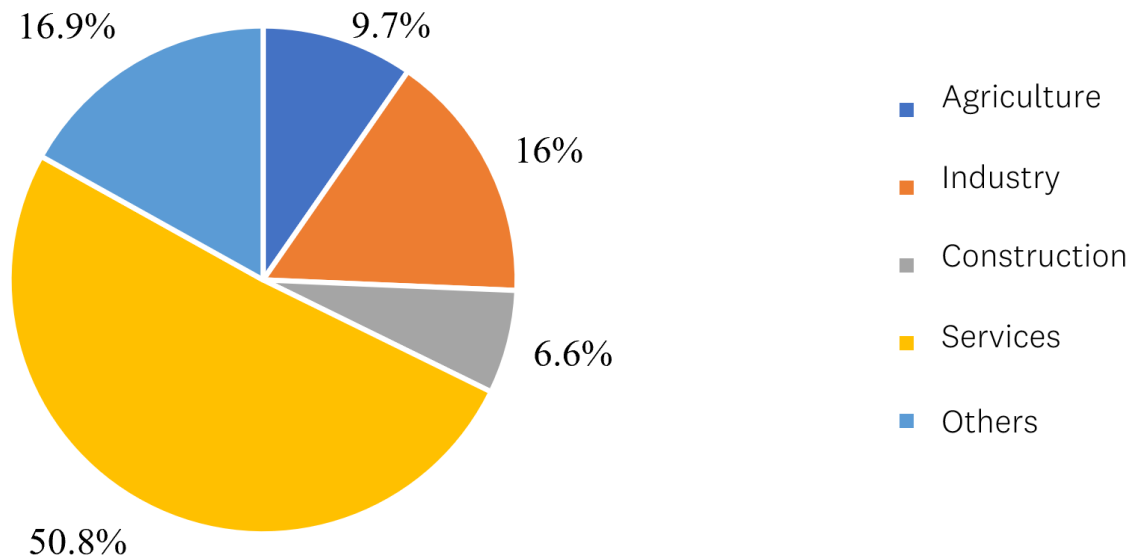


Figure 10. The structure of Kyrgyzstan’s GDP by industry, %
Source: National Statistical Committee of the Kyrgyz Republic

According to the National Statistical Committee of the Kyrgyz Republic, the population as of January 1, 2024, amounted to 7.2 million people, of which 65.1% live in rural areas. The gender structure is as follows: 50.5% are women, 49.5% are men. The capital is the city of Bishkek, whose population at the beginning of 2024 amounted to 1.65 million people.

The main concentration of the population is observed around two territorial zones – Bishkek and along the axis of the cities of Osh - Jalalabad, which in the future may put pressure on socio-economic infrastructure, ecology and food security. The natural population growth in 2023 in Kyrgyzstan amounted to 114,477 people, which is 3.7% less than in 2022. The birth rate in 2023 decreased by 2.8% compared to 2022. As for mortality, in 2023, mortality increased by 0.3% compared to 2022.

Industry: Gold mining as a driver of the country's economic development.

The economic growth of Kyrgyzstan is, to a certain extent, ensured by gold mining. Gold mining is of strategic importance for the formation of the state budget in the country's GDP. Gold mining is mainly concentrated in the Kumtor field.

The main industries are also hydropower, non-ferrous metallurgy, mining, mechanical engineering, instrumentation, light, and food industries.

The growth in manufacturing production in 2023 compared to 2022 was ensured by an increase in the volume of production of rubber and plastic products, other non-metallic mineral products (+69.9%), production of computers, electronic and optical equipment (+57.6%), production of pharmaceutical products (+34.9%), other production, repair and installation of machinery and equipment (+22.6%), production of wood and paper products, printing (+19.6%), textile production, production of clothing and footwear, leather and other leather products (+19.2%).

Food and Agriculture

The food security situation in Kyrgyzstan mirrors that in its neighbouring mountain Republic, Tajikistan. Although just one in ten Kyrgyz households is food insecure, half of the country's population confronts this challenge at some level. Dietary diversity is low, and prices of imported staple foods in 2023 exceeded pre-covid levels by 50%. Responding to these issues, the state developed a "Food Security and Nutrition Program in the Kyrgyz Republic 2019-2023" plan to stabilize price fluctuations, control currency inflation, and calm other market forces. The plan also called for improvements in the availability, volume and stability of domestic food production.

Kyrgyzstan's food and agricultural sector has been described as disorganized, undercapitalized, and underdeveloped. Only 7.2% of the land is suitable for crop-based food production. Most of the remaining land is mountainous, but it is also home to two-thirds of the country's population. Food production in the mountains is based on livestock, which graze on abundant but highly degraded pastures. Crops are also produced on small plots of cultivated land. Farming units are small, and food tends to be consumed locally and without processing. As in Tajikistan, vulnerability to climate change and other environmental shocks is high.

The state has committed itself to increasing domestic food production in two recently adopted plans: the "Resolution 418 to Validate Development of Agriculture in the Kyrgyz Republic for the Period from 2023 to 2027" and the "National Action Plan for Development of Family Farming, 2023-2028." The food and agriculture sector also features prominently in the "National Development Program of the Kyrgyz Republic until 2026." The overall goal of these plans is to increase the scale of agricultural units, in part by organizing clusters of agricultural cooperatives that can enjoy the advantages of scale for investments in infrastructure and processing. New policies for credit, management, and the legal framework are also envisioned, and there are provisions to increase food exports, which are currently dominated by dried legumes destined for Afghanistan, Russia, and Turkey.

The standard of living of the population: by the end of 2022, 2.295 million people live in poverty.

The standard of living of the Kyrgyz population remains extremely low. According to the National Statistical Committee of Kyrgyzstan, the poverty rate in 2022 was 33.2%. After the COVID-19 pandemic, the indicator in the country deteriorated sharply.

In January-September 2023, the formation of monetary incomes of the population occurred mainly due to income from work (71.6%), social transfers (14.2%), and income from the sale of agricultural products produced in a personal subsidiary farm (10.6%). At the same time, 20.2% of income from work was generated at the expense of income from work outside the country.

Inflation

The main objective of Kyrgyzstan's monetary policy in 2024 is to keep inflation near the upper limit of the medium-term inflation target. The inflation target is set at 5-7% in the medium term.

In January-December 2023, the increase in consumer prices in the country amounted to 7.3% compared to December of the previous year, despite pessimistic forecasts at the level of 10-12%. In 2022, the increase was 14.7%. The change in prices for food and non-alcoholic beverages is the main factor that caused the trend of inflationary processes in the country.

A significant decrease in the inflation rate in 2023 indicates successful measures taken to stabilize prices for socially important goods. Additional measures to limit the increase in prices for flour and products made from it have had a beneficial effect on the cost of a number of socially important goods.

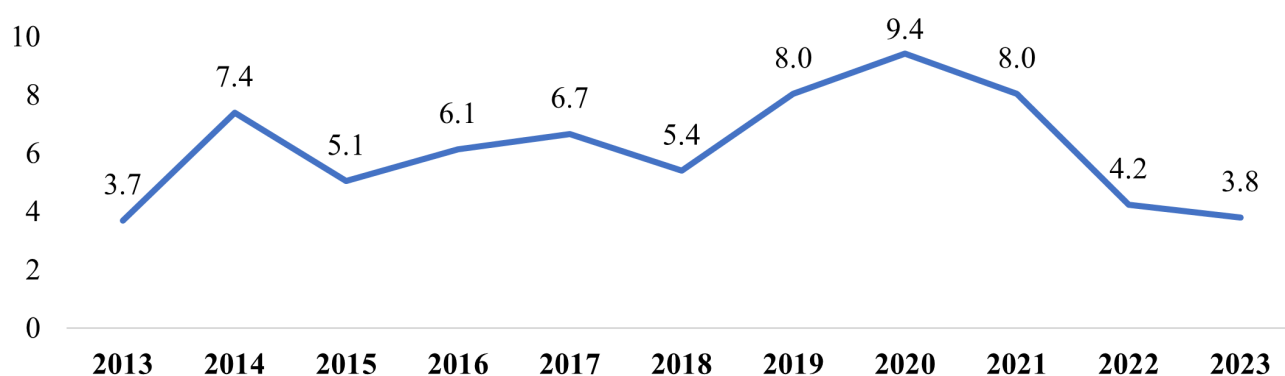


Figure 11. Inflation, in %, December to December last year.

Source: National Statistical Committee of the Kyrgyz Republic

International trade: the main trading partners are China and Russia. The largest share in terms of value in the country's export structure is occupied by gold, ores and concentrates of precious metals, as well as petroleum products, and passenger cars and equipment in the import structure.

Kyrgyzstan's foreign trade turnover in 2023 amounted to 15.66 billion dollars. The United States represents an increase of \$3.602 billion or by 29.9% compared to 2022. At the same time, the volume of exports amounted to \$ 3,308 billion (+46.7% for the year), 46.2% of them to the CIS countries (77.9% in 2022). The volume of imports reached \$12.351 billion (+26% for the year), of which 29.5% belongs to the CIS countries (38.3% in 2022). The negative trade balance in 2023 amounted to \$9.043 (in 2022 - \$ 7,548 billion).

Foreign trade turnover with the CIS countries in 2023 decreased to \$ 5,175 (33% of the total WTO), while in 2022 it amounted to \$ 5,512 billion (45.7% of the total FTT). It is worth noting that the decrease occurred both in exports of goods and services to the CIS countries and in imports.

The largest share in the foreign trade turnover of the Kyrgyz Republic in 2023 was occupied by China (34.7%), Russia (18.7%), Kazakhstan (8.4%), Switzerland (7%), Uzbekistan (4.4%), and Turkey (3.9%). In 2023, a significant decrease in commodity turnover occurred with Russia (compared to 2022, trade turnover decreased by 16%). For example, Russia's share in the total turnover of Kyrgyzstan in 2022 was 28.8% (\$3,475.7 million).

	China	Russia	Kazakhstan	Switzerland	Uzbekistan	Turkey
Share in the FTT	34,7%	18,7%	8,4%	7%	4,4%	3,9%
FTT, USD million	5,433.7	2 930.7	1 317.8	1 102.7	693.9	606.5
Exports, millions of dollars	80.4	747.8	455.7	1 088.7	290.7	153.1
Imports, millions of dollars	5 353.2	2 182.9	862.1	14.2	403.2	453.4

Table 8. The countries with the largest share of foreign trade with Kyrgyzstan according to data for January-December 2023.

Source: National Statistical Committee of the Kyrgyz Republic

Gold exports account for the lion's share in the export structure (38.8%), followed by ores and concentrates of precious metals (5.9%) and petroleum products (3.2%). And in the structure of imports, passenger cars (22.4%), and equipment (8.3%) were dominant.

The Foreign Policy of Kyrgyzstan and International Cooperation

The Kyrgyz Republic is a member of over 100 international organizations, including the United Nations (since 1992), the OSCE, and the World Bank. Kyrgyzstan is also a member of various regional associations, such as the Eurasian Economic Union (EAEU), the Collective Security Treaty Organization (CSTO), the Commonwealth of Independent States (CIS), and the Shanghai Cooperation Organization (SCO).

In 2004, The Kyrgyz Republic became one of the founding states of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG). Kyrgyzstan has 32 agreements on mutual encouragement and mutual protection of investments, as well as 34 agreements on the avoidance of double taxation. It is also a participant in bilateral agreements on the promotion and protection of investments with more than 20 countries (USA, China, South Korea, Switzerland, Germany, India, Great Britain, Kazakhstan, and Russia).

The simplified migration policy within the EAEU contributes not only to the relocation of Kyrgyz citizens to permanent residence in neighbouring countries, but also to significant pendulum labour migration. The most important economic and political partner of Kyrgyzstan is Russia, which employs a significant number of Kyrgyz citizens. For example, the inflow of cross-border money transfers from individuals in 2023 amounted to \$2,706.1 million of which 93.5% (\$2,531.5 million were carried out from Russia). At the same time, the outflow amounted to \$ 561.2 million, of which 85.9% was transferred to Russia.

Among all the neighbouring countries, the closest relations are with Kazakhstan. Every year, economic ties with China become closer and closer, which confirms the rapid growth of trade turnover.

Domestic Policy of Kyrgyzstan

The Kyrgyz Republic gained independence in 1991. The country faced political upheavals, which resulted in the removal of presidents in 2005, 2010, and 2020. The last change of government took place in October 2020 amid protests after the parliamentary elections, which later turned into riots. As a result, the voting results were cancelled, President Sooronbai Jeenbekov resigned, and Parliament elected Sadyr Zhaparov, who was released from prison during the riots, as prime minister. In 2004, Zhaparov won the presidential election and announced a constitutional reform.

From 2010 to 2022, more than 10 governments changed in Kyrgyzstan, which made it difficult to implement long-term policies, weakened administrative capacity, and reduced fiscal space for investments in social protection, education and healthcare.

Since 2021, the political situation in the country has stabilized, and there has been an increase in presidential power. Parliamentary elections were held in November of 2021.⁴⁸

Review of the Reforms From 2022 to 2024 and Their Implementation

Constitutional reform

In 2021, a constitutional referendum was held in Kyrgyzstan, at which more than 79% of those who showed up at the polling station voted in favour of amending the Constitution. According to the new Constitution, the country has made the transition from a parliamentary-presidential to a presidential form of government. The same president can lead the country for no more than two five-year terms (previously, no more than one six-year term). The President also received the right to determine the structure and appoint the composition of the Cabinet of Ministers and heads of regional administrations. At the same time, the impeachment procedure has become more complicated. In addition, the institute of the People's Kurultai (assembly) is being introduced.

Government agencies and ministries have been reformed, and domestic and international projects are being implemented. The main result of the constitutional reform was the strengthening of the presidential power in the Kyrgyz Republic. The draft of the new Constitution is the beginning of a chain of reforms.

Socio-economic strategies

To date, Kyrgyzstan is implementing the National Development Strategy of the Kyrgyz Republic until 2040, within the framework of which the National Development Program of the Kyrgyz Republic until 2026 has been developed.⁴⁹ The National Development Strategy addressed UN Sustainable Development Goals (SDGs). The need to develop a new policy document was related to the changes that have taken place in Kyrgyzstan in recent years, especially the COVID-19 pandemic and its negative impact on the socio-economic situation in the country, as well as socio-political upheavals related to the change of government in 2020. Restrictions on interaction with the outside world have increased dramatically and access to resources has narrowed.

Within the framework of this program, it was noted that there are obvious problems in management, and it is necessary to build a new management system that meets external challenges and internal needs, namely:

- reform of the executive branch
- Digitalization of management and development of digital infrastructure
- reform of the administrative and territorial structure
- reform of the fiscal system
- reform of judicial and law enforcement agencies.

⁴⁸ <https://www.vsemirnyjbank.org/ru/country/kyrgyzrepublic/overview>

⁴⁹ <https://mineconom.gov.kg/ru/direct/9/16>

Reform of the fiscal system

The new version of the Tax Code entered into force in 2022, and in 2023 several changes were made to the Code as part of ongoing tax reforms. In particular, the changes affected areas such as construction, trade, mining, agriculture, banking, IT industry, tourism, and the Creative Industries Park. The reform of the fiscal system has allowed the introduction of modern solutions such as cash register machines (CRM), electronic consignment notes (ECN) and electronic invoices (EINV), online analytical platforms, and there has been a significant simplification of the accounting and tax collection process.⁵⁰ In general, the tax reform is aimed at fair competition, consumer protection, and full payment of taxes to the budget.

Statistical data shows the positive impact of the reforms carried out in the tax system of Kyrgyzstan. As a result of the reforms, there has been an increase in tax collection.

The IMF also gave a positive assessment of the digitalization of tax administration in Kyrgyzstan, stressing that “Kyrgyzstan has significantly strengthened compliance with tax legislation, which has increased revenue collection.”⁵¹ We are talking about the widespread use of cash register machines. The current fiscal policy on the introduction of electronic invoices, electronic consignment notes and cash register machines will be continued in order to increase budget revenues and reduce the shadow economy, contraband and counterfeit products.

The main tasks for 2024 are the transition of entities engaged in trade activities based on a patent to a simplified taxation system based on a single tax and other regimes, assessment of the effectiveness of existing tax benefits, analysis of taxation of the garment sector and the construction of residential and non-residential buildings, continuation of work on the completion of the legalization company, development and promotion of the draft NPA to reduce rates of insurance premiums for business entities, continued work on the fiscalization of tax procedures, and improvement of tax legislation.⁵²

Administrative and Territorial reform (ATR)

In Kyrgyzstan, the ATR is being piloted in six regions, the cities of Bishkek and Osh from 2022, as a result of which the ayyl aimags and cities will be enlarged, and the territory of the capital will almost triple.⁵³ The main goal of the reform is to create conditions for the provision of high-quality services to the population and the rational use of natural resources. The positive results of the ATR, implemented in a pilot mode, confirm the correctness of the chosen policy aimed at eliminating obstacles in the development of regions and gaps between levels of government, improving interregional relations, creating conditions for the effective use of resources and improving the well-being of the population in the regions.⁵⁴

Discussion of the Impact of Individual Countries on Kyrgyzstan

Russia

More than 120 agreements and other documents on cooperation have been signed between the countries. Kyrgyz-Russian relations are characterized by close cooperation in bilateral and multilateral formats within the framework of the United Nations, the CIS, the EAEU, the CSTO, and the SCO.

Russia is a leading partner of Kyrgyzstan. Within the framework of the X Russian-Kyrgyz Interregional Conference in October 2023, more than 20 documents on the implementation of investment projects in various sectors of the Kyrgyz economy were signed. Russia's economic assistance to Kyrgyzstan is largely due to a geopolitical factor. Since 2003, Russia uses the Kant military air-base located in the Chui region of Kyrgyzstan in accordance with an interstate agreement.

⁵⁰ https://24.kg/ekonomika/274613_gns_reformyi_vfiskalnoy_sisteme_kyrgyzystana_uvelichivayut_sbor_nalogov/

⁵¹ International Monetary Fund <https://www.imf.org/ru/>

⁵² Ministry of Economy and Commerce of the Kyrgyz Republic <https://mineconom.gov.kg/ru/post/10025>

⁵³ https://24.kg/obschestvo/283843_novaya_reforma_zachem_ukrupnyayut_goroda_iaymaki_vkyrgyzystane/

⁵⁴ https://kaktus.media/doc/493324_nachalas_administrativno_territorialnaia_reforma_v_pilotnom_rejime_na_yrovne_sel_i_gorodov.html

President Sadyr Zhaparov made his first foreign visit to Russia on February 24-25, 2021, with a working status, which indicates the priority of interstate relations between the two countries.

China

China's influence is growing rapidly, especially in the economic sphere. The length of the state border between the countries is 1,063 km. The trade turnover between the two countries increased sharply and in 2023, trade with China accounted for the largest share (34.7%) among all countries. Obviously, this growth is largely due to sanctions against Russia, namely the growth of transit supplies from China through Kyrgyzstan, which confirms the growth of imports from China and exports to Russia.

In recent years, the growth of the Kyrgyz economy has been largely associated with an unprecedented increase in transit supplies from China. In May 2023, China hosted a meeting on the "5+1" Central Asia –China format, which discussed not only cooperation in the economic sphere, but also cooperation in the fields of culture, security, science, and education. In fact, issues that were previously considered "belonging" to Russia were discussed. That is, to date, Russia's influence in Central Asian countries is decreasing against the background of the war in Ukraine, while every year there is a new impetus for the growth of China's economic influence in the Central Asian region.

Specific economic projects worth more than one billion dollars were envisaged for Kyrgyzstan in such areas as energy, transport, mechanical engineering, agriculture⁵¹. This included:

investment agreement between the Ministry of Energy of the Kyrgyz Republic and China Power International Development Limited on the construction of a 1 GW solar power plant;
investment agreement between the Ministry of Agriculture of the Kyrgyz Republic and Hebei Bai Dou Jia LLC on the implementation of a project for the construction of a fertilizer plant;
agreement of intent on cooperation in the export of electricity from the Kyrgyz Republic to China between the Ministry of Energy of the Kyrgyz Republic and TBEA; an agreement between TNK Shumkar and Xian Yuanchao on the establishment of an assembly plant to produce heavy trucks and special purpose vehicles of the SHACMAN series in Kyrgyzstan.

USA

At the end of July 2023, the United States imposed sanctions against four Kyrgyz companies for cooperation with Russia. For January-December 2023. The FTT with the United States amounted to 437.8 million USD. The United States accounts for 2.7% of the total turnover of Kyrgyzstan, of which 98.3% is imports. Compared to 2022, the trade turnover increased by 77.3%. However, the United States is still not the main trade and investment partner for the country.

Kyrgyz-American relations are mainly focused on issues of support for democracy and civil society.

Turkey

Turkey was the first country to recognize Kyrgyzstan's independence. Today, Turkey is strengthening its influence in the trade, economic, military, and political spheres of Kyrgyzstan. The creation of a party supporting the ideas of the "Great Turan" is being discussed.

In January-December 2023, the trade turnover between the countries amounted to 606.5 million USD (3.8% of the total turnover of Kyrgyzstan), of which 74.7% are imports from Turkey. Within the framework of Kyrgyz-Turkish relations, it is planned to increase the volume of bilateral trade to 5 billion USD. This goal was announced at the talks between Chairman of the Kyrgyz Cabinet of Ministers Akylbek Zhaparov and Vice President of Turkey Cevdet Yilmaz in February 2024.⁵⁵ Turkey became the largest investor in the Kyrgyz economy in 2022. The total amount of investments from Turkey amounted to 341.6 million USD.

⁵⁵ https://www.ng.ru/cis/2024-02-11/1_8945_kyrgyzstan.html

Afghanistan

There are two dangers from Afghanistan today. Firstly, extremist and terrorist groups in Afghanistan have recently been actively moving from the South to the North of the country in close proximity to Kyrgyzstan. Secondly, there is a humanitarian disaster in Afghanistan due to drought, which may affect the mass migration of people in need to the territory of Kyrgyzstan.

Kyrgyzstan, following other post-Soviet Central Asian countries, expressed its readiness to develop mutually beneficial ties with Afghanistan. In January 2024, the Government of the Republic sent delegates to Kabul to discuss trade and economic cooperation issues.⁵⁶

EU

The European Union is one of the main donors to the Kyrgyz Republic. The EU provides support in security-related industries, in particular through programmes on long-term border management, water security, and drug abuse prevention. In the economic sphere, in addition to loans from financial institutions such as, for example, the European Investment Bank and the European Bank for Reconstruction and Development, the Investment Fund for Central Asia provides grants from the European Union.⁵⁷

For January-December 2023 the FTT with the EU amounted to \$2,254.0 million (14.4% of Kyrgyzstan's total trade turnover), of which 51% are exports to EU countries. Switzerland accounts for the largest trade turnover with EU countries (\$1,102.7 million), and Germany (\$ 429.4 million).

Kyrgyzstan exports gold to Switzerland, and imports passenger cars, land transport vehicles, equipment, pharmaceutical products, and medicines from Germany.

The Arab world

Saudi Arabia was one of the first Arab countries to recognize the independence of the Kyrgyz Republic, and in 1992 a protocol was signed on the establishment of diplomatic relations between the countries. Since then, the Government of Saudi Arabia has been supporting development programs implemented in Kyrgyzstan through the Saudi Development Fund, which finances a number of projects in such areas as roads, education, and healthcare. In general, trade turnover with Arab countries is insignificant.

⁵⁶ <https://rg.ru/2024/02/07/afganskaia-ottepel.html>

⁵⁷ https://www.eeas.europa.eu/sites/default/files/04-13_kyrgyzstan_factsheet.pdf

Turkmenistan

General Information on Turkmenistan for the Period 2013-2023

Table 9. Overview of key socio-economic indicators of Turkmenistan:

Population according to the census of December 17, 2022 (million people)	7.1
GDP for 2022 (in constant prices, billion manats)	109.8
GDP for 2022 (in current prices, billion USD)	42-45
GDP per capita for 2022 (thousands of USD)	6,8-7,3
Economic growth rate for 2023 (% , YoY)	2,4%
Inflation in 2023 (December to December, in %)	5,9%

Table 9. Overview of key socio-economic indicators of Turkmenistan

Source: Official data of Turkmenistan and estimates of the [International Monetary Fund](#)

GDP and inflation: The closeness and inaccessibility of accurate information creates significant distortions and assumptions.

According to the World Bank and the International Monetary Fund (IMF) and other sources, due to the lack of accessibility and openness of economic data, the relevant ones are presented above in the form of estimates. According to the IMF and the World Bank, Turkmenistan's GDP in 2023 is estimated at about 42-45 billion USD. However, due to limited transparency and access to reliable economic data on Turkmenistan, accurate estimates may vary. According to the IMF, GDP per capita is approximately 6,800-7,300 USD in 2023. The IMF estimates Turkmenistan's GDP growth at 1.6% - 3% for 2023. However, these estimates may be inaccurate due to limited transparency and statistical data in the country. Also, according to the international rating agency Fitch Ratings, Turkmenistan's economic growth reached 2.4% in 2023 from 1.6% in 2022 (IMF data, which differ from official government data, according to which the economy grew by 6.2%), against the background of increased investments and real incomes.⁵⁸ Official inflation data is not always available or accurate. It is estimated that inflation in Turkmenistan has fluctuated between 10-20% in recent years, although the exact figures vary depending on the source. According to the same Fitch Ratings, inflation is decreasing, but it is structurally high. The inflation rate decreased to 1.4% at the end of 2023 from 3.0% at the end of 2022 (and 21.1% at the end of 2021), but the level of non-food inflation is only 0.1%, due to the base effect, reducing disruptions in supply chains, higher domestic food production, lower world prices and continued control over regulated prices. At the same time, the inflation rate in Turkmenistan remained at a relatively high level, averaging 11% in 2018-2022, and monetary policy is underdeveloped, and the main instrument of such a policy is credit targeting.

Demographics

The population varies greatly depending on the sources. According to official statistics, and according to the results of the continuous census of population and housing stock, as of December 17, 2022, the population of Turkmenistan amounted to 7.1

⁵⁸ [Fitch Ratings](#)

million people.⁵⁹ Men and women made up to 50% each, and the urban population of the country was 47.1% and 52.9% in rural areas, respectively. More than 1 million people live in Ashgabat, the capital of the country.

Industry

The economic and industrial development of Turkmenistan in recent years has been characterized by the following features:

Oil and gas industry: Turkmenistan has some of the largest natural gas reserves in the world, and the oil and gas industry plays a dominant role in the country's economy. The export of gas and petroleum products makes up a significant part of the state's revenues.

State control: Turkmenistan's economy is heavily regulated by the state. Many sectors, including energy, agriculture and transport, are under direct government control.

Infrastructure projects: The government invests in major infrastructure projects such as the construction of new gas pipelines, the modernization of transport networks, and the development of new ports on the Caspian Sea.

Isolation from global markets: limited integration with the global economy and lack of transparency hinder the inflow of foreign investment and the development of foreign trade. This makes it difficult to diversify the economy and create jobs.

Economic reforms: Despite efforts to implement reforms aimed at improving the business climate and attracting investment, Turkmenistan's economy remains highly centralized. Regulatory constraints and lack of transparency remain major obstacles.

COVID-19 pandemic: The pandemic has exacerbated the economic challenges faced by the country, especially regarding trade and declining global energy demand.

In general, Turkmenistan's economic development has the potential for growth due to natural resources, but the realization of this potential requires additional reforms and greater openness to foreign investment.

Food and Agriculture

Turkmenistan's harsh environment, 80% of which is desert, is not well suited for food production. Low rainfall places severe constraints on crop production and also limits animal husbandry on natural pastures, which have become degraded. The former Soviet government installed vast irrigation infrastructure at a tremendous environmental cost, devoting most of the newly arable land to cotton. Although Turkmenistan's cotton output still ranked 14th in the world as of 2019, efforts are underway to diversify crop production and produce more food. Although reliable statistics are scarce, the World Bank estimates that agriculture, forestry, and fishing exceeded 30% of Turkmenistan's GDP at independence. This percentage declined progressively thereafter until about 2010 when it stabilized at about 10-12%.

About half of Turkmenistan's citizens live in rural areas, and as much as 30% of the population is employed in the agricultural sector. The state restricts the privatization of land, preferring instead to lease it to farmers, who are organized into cooperatives. Farmers receive subsidies and services from the government, but the state issues orders for cotton, wheat, and meat production—and it requires farmers to sell their products to the government at prices that are fixed centrally. In 2019 and with the goal of increasing food security, Turkmenistan restructured governmental oversight of the agricultural sector and established a Ministry of Agriculture and Environmental Protection. After assuming office in 2022, President Berdimuhamedow issued orders to increase the production of potatoes, cereals, and cattle. The state is also updating irrigation infrastructure and attempting to lure foreign investment.

Exports from the agricultural sector (mostly tomatoes to Kazakhstan and China) remain negligible, but imports of wheat and flour (recently valued at 123 million USD and 20.3 million USD, respectively, and almost all from Kazakhstan) are significant. Domestic food production, which is unpredictable, covers just 40% of demand. Turkmenistan has consequently endured a

⁵⁹ <https://www.stat.gov.tm/>

series of food crises over the past 10 years. Food prices, which are linked to the fluctuating value of petroleum exports and the dollar, more than doubled in 2015. Later disruptions due to poor harvests, COVID-19, and the Ukraine war have contributed to the misery, as has a general decline in purchasing power. Sporadic protests have sprung up in recent years, as Turkmen, who prefer to shop at state stores that sell staple foods at subsidized prices, face shortages and rationing of items such as flour and vegetable oil. There is little hope that food pricing dynamics will stabilize in the near future.

Standard of living and income of the population

Due to the critically limited transparency of statistical data in the country, it is difficult to accurately assess the level of income of the population. For example, the official website of the Statistical Agency of Turkmenistan does not contain up-to-date data on the average incomes of the population.⁶⁰ This is also confirmed by data from international organizations, which indicate a significant gap between official statistics and the real situation of the economy.

It is known that most sectors of the economy are controlled by the state, which affects the distribution of income and employment of the population. Therefore, it is difficult for many citizens to find well-paid jobs outside the public sector. The State provides certain benefits, such as subsidies for utilities and social benefits, which affect the well-being of citizens.

Inflation in the country remains quite high, which has an impact on the purchasing power of the population. The limited range of goods on the market and government price controls also affect the availability and cost of basic goods and services. Official employment data do not always reflect the real situation. Many people are employed in the informal sector of the economy or engaged in agriculture, which does not always provide a stable income. Although official poverty data often indicates low levels, real poverty rates may be higher due to a lack of reliable statistics.

In general, the standard of living and income of the population in Turkmenistan is difficult to accurately assess due to limited access to reliable statistics, but the data indicates that a significant part of the population is facing economic difficulties.

Foreign trade

According to the Uzbek news agency, Daryo, citing a representative of the Ministry of Finance and Economy of Turkmenistan, Turkmenistan's foreign trade in 2022 amounted to 20 billion USD, including exports (12.7 billion) and imports (7.3 billion).⁶¹ As a result, the country has achieved a positive foreign trade balance of 5.4 billion USD in 2022. In comparison, the total foreign trade turnover of Turkmenistan in 2021 amounted to 15.1 billion USD (with a surplus of 2.61 billion, compared to a surplus of 691.5 million in 2020).

It is noted that energy is one of the priority sectors of Turkmenistan's economy, accounting for almost 80% of national exports. In recent years, the country has focused on the production of high-value-added products, actively developing the gas chemical industry. The production of synthetic gasoline, polymers and mineral fertilizers has already been established. In 2022, China was the country's largest trading partner, as it is the main buyer of Turkmen gas. It was followed by Turkey and Russia. Gas exports (buyers being China, Russia, Azerbaijan, and Uzbekistan) in 2022 increased by more than 60% compared to a year earlier, and electricity exports (Afghanistan, Iran, Kyrgyzstan and Uzbekistan) increased by almost 30%. Turkmenistan also sells petroleum products, textiles, carpets, and food products to world markets.

Foreign and Domestic Policy

Turkmenistan's foreign policy is based on the principles of neutrality, sovereignty, and non-interference in the internal affairs of other countries. The main aspects of Turkmenistan's foreign policy include permanent neutrality, according to which Turkmenistan officially declared its permanent neutrality in 1995, which is enshrined in the country's constitution and recognized by the United Nations.⁶² This implies non-interference in conflicts of other states and refusal to participate in military alliances.

⁶⁰ <https://www.stat.gov.tm/>

⁶¹ <https://daryo.uz/ru/2023/04/10/turkmenistan-vo-vnesnej-torgovle-sohranaet-proficit-ministerstvo>.

⁶² <https://news.un.org/ru/story/2013/12/1234251>

Turkmenistan strives to maintain good relations with all its neighbours in Central Asia and the regions of the Caspian basin. Special attention is paid to security, energy, and trade issues. The country's foreign policy is also aimed at diversifying energy exports. Turkmenistan is actively developing trade relations with China, Russia, Turkey, and the European Union.

Turkmenistan participates in several international organizations, including the UN and the OSCE, but is not a member of economic and military alliances such as the EAEU and the CSTO. Turkmenistan is focusing on security issues in the region, especially in light of the instability in Afghanistan. At the same time, the country seeks to resolve such issues diplomatically, strengthening borders and supporting peace initiatives. Turkmenistan is actively promoting gas export projects, seeking to diversify supply routes and minimize dependence on individual markets. The country is strengthening cultural ties with different countries, striving to develop educational and cultural exchanges.

On the contrary, Turkmenistan's domestic policy is characterized by a high degree of centralization, government control and the closeness of internal political processes. Domestic policy is aimed at strengthening national identity, culture and language, often based on an ideological platform established by the Government. The main aspects are presented below:

Authoritarian rule: Turkmenistan's political system is characterized by strong authoritarian rule, with a focus on unity of command. The President of the country has significant powers, including appointment and control over the executive, legislative and judicial branches of government. After the country gained independence in 1991 and after the adoption of a new Constitution in 1992, the first president, Niyazov Saparmurat Atayevich, came to power and ruled until his death in 2006. He was replaced by Gurbanguly Myaligulyevich Berdimuhamedov, who was at the helm of the country for 16 years. In 2022, he handed over power to his son Berdimuhamedov Serdar Gurbangulyevich, who is the current head of state.

As already noted, the country's economy is largely regulated by the state. The main industries, such as the oil and gas industry, agriculture and energy, are under total state control. The country implements various programs aimed at social support for the population, including subsidies for basic goods and utilities, as well as housing construction and infrastructure improvements.

The media is tightly controlled by the state, and independent media and freedom of speech are limited. Internet control is also strict, with limited access to some sites. The education system and cultural initiatives are under the control of the Government, which promotes national identity and ideology. The Government pays great attention to security and population control. Law enforcement agencies and special services exercise strict control over public order.

Despite its authoritarian nature, the leadership of Turkmenistan periodically announces plans for reforms and modernization, including in the economic sphere, but their implementation faces obstacles due to a lack of transparency and openness.

Review of the Reforms From 2022 to 2024 and Their Implementation

Reforms in Turkmenistan have traditionally focused on modernizing the economy and strengthening social support, but the reform process faces various challenges due to the high degree of centralization of power and limited transparency. Some of the most notable reforms and their results:

Economic reforms: The government has tried to reform the economy to increase investment and diversification in order to reduce dependence on natural gas exports. However, strict government controls make it difficult for the private sector to grow.

Foreign exchange market reform: Turkmenistan has taken measures to liberalize the foreign exchange market, but foreign exchange controls are still strict, which makes it difficult for foreign investors to work.

Reforms in agriculture: there are attempts to modernize the agricultural sector and increase production efficiency. However, efficiency is limited by government policies that control prices and quotas for agricultural products.

Health and education reforms: The government is investing in improving infrastructure in these sectors, but problems with the quality of services and access remain.

Transport and infrastructure: Significant investments were made in the development of transport and logistics infrastructure, including the construction of roads, railway networks, and the modernization of ports.

Social protection: The State supports subsidies for utilities and basic foodstuffs, as well as provides housing and social benefits.

Administrative reforms: the authorities declare the modernization of public administration, however, due to the high level of government control, the effectiveness of these reforms is limited.

In general, the results of reforms in Turkmenistan are mixed. Total State control, lack of transparency and limited integration into the global economy make it difficult to implement reforms and develop the private sector.

The Influence of Individual Countries on Turkmenistan

China

China's influence on Turkmenistan is evident in various spheres, largely due to economic interests, especially in the energy sector. As noted earlier, China is one of Turkmenistan's largest trading partners. China supplies Turkmenistan with equipment, machinery, electronics and consumer goods, and imports energy resources in return. In addition, China is the largest consumer of Turkmen natural gas. Most of Turkmenistan's gas exports go to China via the Central Asia–China pipeline, which makes it a key trading partner in this area.

Chinese investments are directed to such sectors of Turkmenistan's economy as energy, infrastructure and agriculture. Investments are often accompanied by loans that help finance large projects. China invests in Turkmenistan's infrastructure projects, such as the construction of roads and logistics facilities. These projects are aimed at improving transport links in the region and integrating Turkmenistan into the One Belt, One Road initiative. China provides loans to Turkmenistan on preferential terms, which allows financing large infrastructure projects and economic programs.

China is also striving to develop cultural and educational ties with Turkmenistan. This includes student exchange programs and cultural events. In general, China strives to ensure long-term energy supplies, which strengthens its position as a key partner of Turkmenistan.

Russia

Russia's influence on Turkmenistan is based on a long history of cooperation and close ties in various fields, but despite the fact that Russia retains an important influence on Turkmenistan, its scope has changed due to the reorientation of Turkmenistan's foreign policy to other countries such as China and Turkey.

Russia has traditionally been a major buyer of Turkmen natural gas. However, in recent years, Turkmenistan has increasingly focused on exporting gas to China. Despite this, Russia remains an important player in Turkmenistan's energy sector. Russia is one of Turkmenistan's main trading partners, and trade includes exports of petroleum products, chemicals, metals, and food. In turn, Turkmenistan supplies textiles, chemical products and agricultural products to Russia.

Russian companies are actively investing in such sectors of Turkmenistan's economy as energy, construction and telecommunications. The country also cooperates with Russia in the field of security, including border cooperation and information exchange on regional security issues. Russia has a significant cultural influence on Turkmenistan. Russian is still widely used in the country, and many Turkmen students study at Russian universities. Finally, an important aspect is the labour migration of Turkmen citizens to Russia, which creates financial ties between the countries in the form of money transfers.

USA

The USA's influence on Turkmenistan is evident in several areas, but it is extremely limited due to government controls and strict business conditions.

The USA is showing interest in Turkmenistan's energy sector, which has large reserves of natural gas. American companies have invested in Turkmenistan's oil and gas industry, but their presence is limited. The United States maintains relations with Turkmenistan, focusing on security issues, including countering extremism and combating drug trafficking.

The United States helps Turkmenistan in the development of various programs related to education, health care, and the promotion of human rights. Such programs are aimed at strengthening civil society and improving the quality of life. However, trade between the USA and Turkmenistan is relatively small compared to other trading partners of Turkmenistan. USA exports to Turkmenistan include machinery and equipment, while USA imports include cotton, textiles and petroleum products.

The United States offers educational programs and exchanges for students and professionals from Turkmenistan. Cultural exchange programs promote mutual understanding and cooperation. The USA's influence on Turkmenistan is limited compared to other countries, such as China and Russia, mainly due to geopolitical factors, strict government control, and limited access to the Turkmen economy.

Turkey

Turkey's influence on Turkmenistan is noticeable and expressed in several key areas, which is largely due to common historical and cultural proximity, as well as common economic interests.

Turkey is one of Turkmenistan's leading trade partners. Bilateral trade includes the export of Turkmen gas and textiles to Turkey, and Turkey supplies machinery, electronics, construction materials and food to Turkmenistan. Turkish companies are actively investing in the economy of Turkmenistan, especially in construction, textile industry, logistics, and infrastructure. Turkish contractors are involved in the implementation of major construction projects in the country.

Turkey and Turkmenistan maintain close political ties and cooperate in the international arena, especially within the framework of the Organization of Turkic States, promoting the common interests of the Turkic countries. As noted, Turkey and Turkmenistan have common historical, cultural and linguistic roots. Turkey promotes cultural and educational ties by supporting student exchanges and cultural programs.

Turkey supports Turkmenistan in various humanitarian programs, including the development of the health system and education, and considers Turkmenistan as an important transit hub for promoting trade in Central Asia. Joint projects in the field of transport and logistics strengthen trade ties between the two countries.

Afghanistan

Afghanistan's main influence on Turkmenistan is manifested primarily in issues of regional security, trade, and economy.

Instability in Afghanistan is causing concern in Turkmenistan due to the threats of terrorism, extremism, and drug trafficking. Turkmenistan is taking measures to strengthen the border with Afghanistan and supports efforts to stabilize the situation. Despite the instability, trade between Turkmenistan and Afghanistan continues. Turkmenistan exports electricity, oil, gas and food products to Afghanistan, as well as imports fruits, vegetables, and dried fruits.

Turkmenistan considers Afghanistan as an important transit corridor for entering the markets of South Asia. Joint projects on the construction of roads, railways, and pipelines are aimed at improving infrastructure and developing trade in the region. The country is considering the possibility of expanding economic cooperation with Afghanistan, in particular in the field of gas and electricity exports. Finally, Turkmenistan provides humanitarian assistance to Afghanistan, especially in the form of food, medical care, and fuel supplies. This is part of an effort to maintain stability in a neighbouring country.

EU

The influence of the European Union, as in the case of the United States, on Turkmenistan is limited compared to other countries such as China and Russia, due to the lack of access to the Turkmen economy and the complexity of political relations.

Nevertheless, the EU is one of Turkmenistan's important trading partners. Turkmenistan's main exports to the EU are oil and petroleum products, textiles and chemical products. European companies are also investing in Turkmenistan's oil and gas sector and infrastructure. The EU is interested in diversifying energy supplies and considers Turkmenistan as a potential partner in this area. An important project for the EU is the Southern Gas Corridor gas pipeline, which may include supplies of Turkmen gas.

The EU and Turkmenistan maintain a dialogue on security, economic development, and human rights issues. The EU is committed to developing relations with Turkmenistan, despite restrictions on human rights and a lack of transparency in the political system. The EU provides humanitarian and technical assistance to Turkmenistan in the fields of health, education and infrastructure development. This is aimed at improving the quality of life and maintaining stability. Turkmenistan participates in several EU educational programs, including Erasmus+, which promotes academic exchange and skills development.

The Arab world

The influence of the Arab world on Turkmenistan is limited from a political point of view, but it is noticeable, especially in the cultural, economic, and financial spheres.

Turkmenistan maintains trade relations with several Arab countries, primarily with the States of the Persian Gulf. These countries are interested in importing Turkmen energy resources and are investing in various sectors of the Turkmen economy, including infrastructure and agriculture.

Turkmenistan is showing interest in Islamic finance. Some Arab countries and financial institutions support Turkmenistan in the development of Islamic finance and provide funds on preferential terms. As a Muslim country, Turkmenistan has cultural and religious ties with the Arab world. This is reflected in the promotion of Islamic education and support for various cultural events.

Turkmen students can study in Arab countries, especially in Islamic universities. Arab countries also provide scholarships for Turkmen students. Turkmenistan maintains diplomatic relations with the countries of the Arab world and participates in various international initiatives to strengthen cooperation between Muslim States.

Central Asian Regionalism: Retrospect and Prospects

Comparative Analysis of Central Asian Countries

Among the countries of the region, Kazakhstan is a clear leader in economic indicators, which surpasses other countries in terms of the size of its economy and per capita income. At the same time, over the past decade, despite the weak growth of the dollar indicator of Kazakhstan's GDP, the country continues to maintain a strong leadership, outpacing the economies of other countries combined. The same goes for GDP per capita, which in leading Kazakhstan even declined from \$13.9 thousand in 2013 to \$13.3 thousand at the end of last year. On the contrary, the most noticeable growth in GDP per capita among Central Asian countries over the past 10 years has been shown only by Kyrgyzstan, where the indicator increased by 54% from \$1.3 thousand up to almost \$2.0 thousand.

In 2023, the average annual economic growth in the region significantly decreased, which amounted to 5.6%, after 8.4% at the end of 2013. Tajikistan is the leader in economic growth in 2023, while Turkmenistan showed the weakest growth. A decade earlier, there was a completely different picture, where Kyrgyzstan and Turkmenistan were the leaders with growth of 10.9% and 10.2%, respectively. At the same time, the average annual consumer inflation in the region decreased slightly from 7.2% in 2013 to 7.1% last year. Kazakhstan became the anti-leader in price growth in 2023, where prices for goods and services increased by 9.8% on average over the year, and the lowest annual inflation was recorded in Tajikistan.

Indicator	GDP at current prices, millions of USD.		GDP per capita in current prices, USD.		Real GDP growth, in %		Inflation (YoY), in %		Population, million people	
	2013	2023	2013	2023	2013	2023	2013	2023	2013	2023
Kazakhstan	236.635	264.209	13.891	13.277	6.0	5.1	5.8	9.8	17.0	20.0
Uzbekistan	73.180	90.871	2.420	2.522	7.3	6.0	11.8	8.8	30.2	36.8
Kyrgyzstan	7.335	13.981	1.282	1.969	10.9	6.2	6.6	7.3	5.7	7.2
Tajikistan	8.448	11.860	1.038	1.018	7.4	8.3	5.0	3.8	8.1	10.0
Turkmenistan	39.198	42.000	7.050	7.100	10.2	2.4	6.8	5.9	5.6	7.1

Table 10. Key socio-economic indicators of Central Asian countries in 2013 and 2023

Source: World Bank and national statistical agencies

It is worth noting that the demographic situation in the region has remained almost unchanged. Uzbekistan has been and remains the most populated country in Central Asia, where the total number has grown from 30.2 million people in 2013 to 36.8 million people by the end of 2023. Uzbekistan has shown the most dynamic growth over the years (+21.8%). Kazakhstan is significantly lagging in this regard, where the total population has grown by only 3.0 million people over the past 10 years and reached 20.0 million people for the first time.

In general, it can be noted that Kazakhstan retains the title of a key player in the region in terms of innovation in its economy and plays the most active role in the CIS as a whole and, above all, in Central Asia. This is supported by the fact that Kazakhstan stands out most clearly in the field of digitalization of the economy, educational services and labour migration. Separately, political and socio-economic reforms can be noted with the coming to power of Kassym-Jomart Tokayev and the beginning of a complete reboot of the public administration system, political institutions, economic liberalization, as well as the expansion of social justice after the January events. These processes can give not only Kazakhstan, but also the entire region, a huge impetus for further economic and political development.

Probably, the gradual development of Kazakhstan as an independent integration core is primarily due to the fact that the country remains the largest economy in Central Asia, whose GDP level is significantly higher than other Central Asian countries, which makes the country more attractive to investors, as well as in the field of trade, education, and labour migration. At the same time, it is important to take into account that Uzbekistan, Turkmenistan and Kyrgyzstan, following Kazakhstan in economic indicators, have huge potential, which is constrained by various political and economic barriers. This is especially true in the case of Turkmenistan, where total state control and the closeness of the economy limit the inflow of foreign investment. On the contrary, Uzbekistan and Kyrgyzstan have shown positive dynamics over the past 10 years in terms of economic liberalization and opening to the global economy.

The History of Integration of the Central Asian Countries

For the first time, Central Asia was isolated into a separate region by the German scientist Humboldt A. in 1843.⁶³ It was about the territory “south of Altai up to the northern slope of the Himalayas”. During the existence of the USSR in the Eurasian space, the terminology “Central Asia and Kazakhstan” was used in relation to a region similar in borders. Before the countries gained independence, the name “Central Asia and Kazakhstan” had only a geographical colour. Only in the period after the collapse of the USSR in January 1993, a meeting of the heads of 5 states – Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan – took place, at which it was decided to abandon the Soviet concept of “Central Asia and Kazakhstan” used in relation to these countries in favour of the new term “Central Asia”. This was a kind of statement by the countries that the region cannot be considered the equivalent of “Soviet Central Asia and Kazakhstan”. Thus, the term “Central Asia” has already acquired a geopolitical colouring, outlining the coordinates of 5 independent states.

However, today, there are still inconsistencies in the interpretation of the borders of the Central Asia region at the international level. For example, UNESCO also includes Mongolia in its designations as part of “Central Asia” (see, for example, UNESCO Science Report, 2021). But in general, all international organizations agree that Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan are included, both geographically and geopolitically, in the “Central Asia” region. The differences are often only in the inclusion/non-inclusion of Mongolia, Afghanistan and certain regions of China in the specified region. Here and further, we will interpret the region of “Central Asia” as it is interpreted in the Eurasian space, that is, as the territory of 5 countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.

Geopolitical and Geographical Features of the Region

The geographical feature of the region is the lack of access to the World Ocean and the presence of large reserves of minerals. If the first defines the role of the region as a transit corridor important for international trade of the “west” and “east”, then the second is the basis for the increased interest of developed countries in the region.

The geopolitical feature of the region is its proximity to 4 nuclear-weapon states: Russia, China, India, and Pakistan. This raises the urgency of the issue of regional security not only for the Central Asian countries themselves but also for the entire world community. The latter does not always turn out to be a positive thing for the region: Since many countries have an interest in controlling the central space of Eurasia, geopolitical instability often arises. To reduce security threats, the Central Asian States have become members of the Economic Cooperation Organization, established by Iran, Pakistan and Turkey. Of note is the accession of the Central Asian countries to the NATO Partnership for Peace program and the Partnership and Cooperation Agreement with the European Union.

⁶³ Chou Tz. The importance of the Central Asian countries in the global political system. Management consulting. 2017;(3):164-171. <https://doi.org/10.22394/1726-1139-2017-3-164-171>

Culture, Religion and Values – As the Centrifugal Force of the Region

The peoples of Central Asia are united by historical and cultural relationships, a form of economic activity, and material culture. This similarity is marked by the fact that for many centuries, they were in a state of intense interaction; they had a common history, economic, historical, and everyday contacts. Linguistic proximity and the similarity of national customs and traditions are powerful factors for regional unity. Despite their extreme diversity, the peoples of Central Asia have many similar national traditions, which reflect the worldview of the concept of peace inherent in the peoples. Rituals, customs and beliefs have echoes of the modern concepts of birth, marriage, and death accepted in society. A very significant factor of proximity for the Turkic peoples of Central Asia in the early era was a single religion – Tengrianism, which existed until Islam was adopted.

Conditions at the “Start” and Subsequent Authoritarianism

The Central Asia countries are connected by a common historical past – being in the structure of the USSR. This predetermined almost identical conditions at the time of independence of the countries: planned economy, non-market institutions, shortage of goods, lack of their own currency, etc. Accordingly, the priority tasks facing the countries were also similar – they consisted of the need to liberalize the economy and switch to “market rails”. However, the need for market reforms could not be separated from the need for countries to democratize. However, the Central Asian countries failed to cope with the latter: an authoritarian regime was established in the countries. Along with its establishment, market reforms were carried out with distortions: the processes of privatization in states after independence turned into the formation of oligopolistic markets, and the clan structure of society (Rekk, 2020⁶⁴). This has made the region unattractive for investments in areas outside the raw material potential of the countries. As a result, the countries fell into a “raw material trap.”

To this day, Kazakhstan, Turkmenistan, Uzbekistan, Tajikistan and Kyrgyzstan, according to the British Democracy Index 2022, belong to the group of countries with an authoritarian regime. But despite this, it is important to understand that the degree of concentration of political and economic power and market freedoms is still very different. Kazakhstan was characterized by greater dynamism of market transformations. In turn, more stringent forms of political regime have been adopted in Turkmenistan, Uzbekistan and Kyrgyzstan. Inequality, lack of civil liberties, and high unemployment led to the phenomenon of “voting with their feet”: people of working age began to leave these countries in search of work, as a result of which the dependence of economies on remittances increased. For example, in Kyrgyzstan, migrant transfers account for about 30% of GDP.

The different levels of economic and political freedoms reflected the different levels of economic development of the Central Asian countries. Kazakhstan is the only country with an above-average income level. Different levels of economic well-being are reflected in the structure of the economies of the countries. The structure of Kazakhstan’s GDP is typical for countries with an above-average income level: the economy is dominated by the service sector and industry, while agriculture accounts for a small share. Industry dominates in Turkmenistan, which is associated with the country’s specialization in mining. In Kyrgyzstan, Tajikistan, and Uzbekistan, the structure of the economies is typical for lower-middle-income countries, where agriculture is of great importance. Different levels of economic development and market capacity determine the difficulties of comprehensive market integration of countries.

The History of the Integration Process

The integration processes in the region after the collapse of the USSR began almost immediately but went inconsistently. Kazakhstan and Uzbekistan were the first to be interested in integration processes. Kyrgyzstan later joined them. In particular, back in July 1993, an Agreement on Measures to Deepen Economic Integration for 1994-2000 was signed between Kazakhstan and Uzbekistan. In April 1994 Kazakhstan, Uzbekistan, and Kyrgyzstan signed an agreement on the creation of a single economic space (SES). In July of the same year, at a meeting in Alma-Ata, Kazakhstan, Uzbekistan, and Kyrgyzstan began to create supranational bodies: an Interstate Council agreement was signed. In August 1994, the Regulation on the Executive Committee of the Interstate Council was adopted. The following year, the Economic Integration Program for 1995-2000 was approved. At the Issyk-Kul Summit in 1994 Kazakhstan, Uzbekistan, and Kyrgyzstan adopted a Declaration on regional cooperation. The Council

64 Rekk. D. A. (2020). Clans of Central Asia: History and modernity. *The Post-Soviet Continent*, No. 3 (27), pp. 86-102.

of Prime Ministers, the Council of Foreign Ministers and the Council of Defence Ministers were established. The temporary name Central Asian Economic Cooperation (CAEC) became official in 1998.

“Over the period 1995-2001, more than 150 different documents were signed between the three states. But during the 8 years of the existence of the Central Asian Economic Cooperation, none of the set goals have been realized: the organization of a single market, compliance with customs duties and taxes, a common export policy, etc.”⁶⁵ Although in 2002, The Central Asian Economic Cooperation was transformed into the Organization of Central Asian Cooperation (CAC), the countries failed to develop a unified regional strategy, which was reflected in the failure of regional integration. As a result, in fact, the development processes of the CAC were abandoned. This was partly due to the fact that countries “switched” to integration processes outside the region: namely, in 2001, Kazakhstan, Kyrgyzstan, and Tajikistan began to move towards developing cooperation with Russia and Belarus, which resulted in the creation of a new EurAsEC regional association. But subsequently, in the process of deepening integration within the EurAsEC and transforming it into the EAEU by 2015, only Kyrgyzstan and Kazakhstan remained in the integration association from the Central Asian countries (recall that the EAEU is now represented by Kazakhstan, Kyrgyzstan, Russia, Belarus, and Armenia).

Although starting in 2016, a change of power (transit) began to take place almost alternately in the Central Asian countries, followed by a new wave of democratization reforms. The vision of further economic development of the countries began to converge again. This was followed by a strengthening of the integration processes of the countries. In particular, Kyrgyzstan and Uzbekistan set a course for an open economy, which contributed to a new strengthening of the countries’ interaction with each other and with Kazakhstan. For example, after 2018, the format of consultative meetings of the heads of state of Central Asia was resumed. Since the complication of the geopolitical situation in the world in 2022-2023, the Central Asia countries, in contrast to the general fragmentation, have taken an even greater course towards rapprochement. Although, it is important to recognize that this process of rapprochement is mostly represented by bilateral interactions (country-country), rather than full-fledged interaction of all 5 countries at once.

Existing Instruments of Regional Integration

In Central Asia, there are various instruments and formats of regional integration aimed at strengthening cooperation between the countries of the region. Here are some of the most notable:

Central Asian Cooperation (CAC): In the past, the CAC was the main regional bloc, but in 2005 the organization was integrated into the Eurasian Economic Community (EurAsEC).

The Eurasian Economic Union (EAEU): Although the EAEU is not exclusively a Central Asian organization, Kazakhstan and Kyrgyzstan are its active members. The Union aims to integrate the economies of its members, which implies the creation of a common market for goods, services, capital, and labour.

Shanghai Cooperation Organization (SCO): Although it is not exclusively a Central Asian organization, Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan participate in it, and Turkmenistan has observer status. The SCO deals with issues of security, economic, and cultural cooperation.

Collective Security Treaty Organization (CSTO): includes Kazakhstan, Kyrgyzstan, and Tajikistan from Central Asian countries, which closely cooperate in the field of security and defence.

Conference on Interaction and Confidence-building Measures in Asia (CICA): The forum includes the countries of Central Asia and focuses on strengthening confidence-building measures, security, and economic cooperation in Asia.

Organization of Turkic States (OTS): The OTS includes Kazakhstan, Kyrgyzstan, and Uzbekistan. The organization deals with issues of economic, cultural, and humanitarian cooperation among the Turkic countries.

⁶⁵ Chou Tz. The importance of the Central Asian countries in the global political system. *Management consulting*. 2017;(3):164-171. <https://doi.org/10.22394/1726-1139-2017-3-164-171>

Central Asian Regional Economic Cooperation (CAREC): This is a partnership of 11 countries, including all Central Asian countries. CAREC supports transport, energy, and trade projects for the development of the region.

Central Asian cooperation within the framework of the United Nations: The United Nations Central Asia Programme aims to strengthen stability and development in the region, including through projects on water resources and combating climate change.

The International Fund for Saving the Aral Sea (IFAS): cooperation between the countries of Central Asia on the conservation and restoration of the Aral Sea and solving environmental problems in the region.

Despite the existence of various instruments, the level of integration in the region remains limited due to the different political, economic, and geopolitical interests of the countries of the region.

C5+1

The C5+1 is a regional diplomatic platform established in November 2015 that unites the governments of the United States and five Central Asian countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan.⁶⁶ Initially initiated by Japan in 2004 as a dialogue format, the United States has transformed it into a full-fledged platform for cooperation on security, environmental and regional trade issues, as well as for improving trade and investment relations with the region.⁶⁷

The first significant event after the creation of the format was Secretary of State John Kerry's visit to all five Central Asian countries in 2015. In August 2016, a C5+1 format meeting was held in Washington. However, with the arrival of the new US administration, the dynamics of the platform's work changed slightly, partly due to the unstable participation of the top American diplomatic corps. In September 2017, on the sidelines of the UN General Assembly, the foreign ministers of the Central Asian countries held a meeting with Rex Tillerson, the first Secretary of State of the Donald Trump administration.

In July 2018, under the new leadership, but without the participation of the US Secretary of State, the C5+1 meeting was held in Tashkent, Uzbekistan. Despite Tillerson's replacement by Mike Pompeo earlier that year, the meeting was led by Acting Deputy Assistant Secretary of State for Central Asia Henry Ensher. In August 2019, a "C5+1 High-level Security Discussion" was organized in the capital of Kazakhstan, where the US Secretary of State was absent again, but in the same year, on the sidelines of the UN General Assembly, Pompeo held his first meeting in this format.

Before the onset of the COVID-19 pandemic in 2020, Pompeo visited Central Asia and met with regional colleagues in Tashkent on February 3. In April 2021, under the auspices of the new administration, an online C5+1 meeting was held, at which Anthony Blinken acted as Secretary of State. The personal meeting took place in July of the same year under the leadership of the Deputy National Security Adviser, Elizabeth Sherwood-Randall.

In 2022, amid the Ukrainian crisis, the United States announced the launch of a \$25 million economic initiative aimed at strengthening ties with Central Asia.⁶⁸

In September 2023, President Joe Biden met with the leaders of the C5+1 countries on the sidelines of the UN General Assembly.⁶⁹ The meeting between U.S. President Joe Biden and the leaders of the five Central Asian countries in New York, although more symbolic, emphasised the strategic importance of the C5+1 format. This summit was President Biden's first personal interaction with the heads of State of the region, reflecting the serious attitude of the United States to strengthening diplomatic and economic ties with Central Asia.⁷⁰

66 <https://rus.azattyq.org/a/32604189.html>

67 <https://rus.azattyq.org/a/kazakhstan-media-review-biden-invites-tokayev-tenge/32565816.html>

68 <https://thediplomat.com/2023/08/will-we-soon-see-a-central-asia-us-leaders-summit/>

69 <https://kz.usembassy.gov/ru/readout-of-president-bidens-meeting-with-the-c51-leaders-at-unga/>

70 <https://www.inform.kz/ru/-16aa6e>

The meeting outlined key areas for future cooperation, in the field of security and sustainability of supply chains. This is especially important to support the future energy landscape in the face of global change. The United States initiated the launch of the C5+1 Dialogue on Essential Minerals, which is aimed at developing the mineral resources of Central Asia and strengthening the security of essential minerals.⁷¹

Apart from the C5+1, China is actively developing its relations with Central Asia within the framework of the C+C5 format, which is focused on deepening economic and strategic ties between China and these states. An important component of these relations is the One Belt, One Road (BRI) initiative, aimed at improving regional connectivity and economic integration. China carries out extensive economic cooperation and infrastructure projects in Central Asia, including the construction of pipelines, railways, and trade corridors. In addition, China stresses the importance of promoting the use of national currencies instead of the US dollar to strengthen economic sustainability and reduce dependence on Western financial systems (Vivekananda International Foundation) (Xinhua).

China is also showing significant geopolitical interest in the region, seeking to stabilize its borders and expand its influence through economic measures, primarily as a counterweight to the interests of the United States and other foreign powers in Central Asia. This strategy includes addressing not only traditional but also non-traditional security threats, promoting regional cooperation through platforms such as the Shanghai Cooperation Organization, as well as direct bilateral relations with Central Asian countries (Vivekananda International Foundation).

Thus, C5+1 and C+C5 are separate mechanisms through which the United States and China, respectively, interact with Central Asia, each pursuing their own strategic interests and contributing to various areas of cooperation.

U.S. funding through C5+1: The United States is actively involved in the development of regional economic sustainability and security in Central Asia. As part of the C5+1 program, the United States has initiated projects worth more than \$34 million aimed at improving security, economic connectivity and the environment. Among the key initiatives are the development of energy security, strengthening trade and transport corridors, as well as support for sustainable energy projects through programs such as USAID Power Central Asia (The White House) (State Department) (USAID).

Financing from China through C+C5: China, through the C+C5 mechanism, focuses on economic cooperation and infrastructure development related to the “One Belt, One Road” initiative. The projects include the construction of roads, pipelines and other infrastructure. China is also promoting regional integration through the development of transport corridors and digital infrastructure aimed at strengthening Central Asia’s ties with the Chinese market (Xinhua) (Vivekananda International Foundation).

Thus, both countries play a significant role in the economic and political development of Central Asia, each with its own unique goals and methods.

Regional Cooperation in Central Asia on the Water, Energy, and Food Nexus

There may be no region in the world where the water-energy-food nexus is more complex and dramatic than Central Asia. The region has been tortured in this respect, particularly since the collapse of the Soviet Union. Central Asia moved from centralized control and scarce resource management from Moscow to a situation of independent pursuit of “national” interests that often seemed sharply incompatible (and had the potential for serious regional conflict). Countries in Central Asia with abundant water resources are deficient in fossil fuel resources and vice versa, so there is pressure on water-rich countries to increase hydroelectric generation capacity (and some irrigation for marginal agriculture)—moves traditionally opposed by downstream oil and gas-rich countries which claim substantial water flows for elaborate (and often unsustainable) irrigation efforts of their own.⁷² Much of the water and energy sharing imbalance has roots in the legacy of misguided Soviet agricultural and environmental

⁷¹ <https://www.gazeta.uz/ru/2023/09/20/dialogue/>

⁷² For an expanded discussion of these challenges, see: Norman A. Graham and Şuhnaz Yılmaz, *Energy, Environment and Geopolitics in Eurasia: Search for Security in the Water-Energy-Food Nexus* (London: Routledge, 2024), Ch. 4.

policies that diverted water resources for unsustainable agricultural production goals, on the one hand, and permitted unfettered industrial pollution of rivers, lakes, and seas on the other. The Soviet water and energy transmission network may have made some sense in Moscow for autarkic economic and heavy industrialization goals under Stalin and his immediate successors, but the damage done to the natural environment and the prospect for sustainable habitation and prosperity in the successor republics to the USSR was appalling. The network of water and energy transmission managed centrally from Moscow in Soviet times disintegrated into decaying infrastructures managed by national authorities beset with conflicting domestic imperatives and seemingly myopic policy priorities -- complicated in most cases by limited economic resources for much of the early post-Soviet period. The ravages of climate change now clearly accentuate the challenges for sustainable development, as the glaciers in China, Kyrgyzstan and Tajikistan (and China) recede.

There is some promise for sustainable development, however, in the recent urgency placed on economic diversification generally and agricultural development and diversification specifically. This has been encouraged by a sustained period of volatile oil and gas prices globally on the one hand, and new Presidential leadership in Kazakhstan and Uzbekistan on the other.

Central Asia became a key focus for cotton production soon after it was conquered by the Russian Empire; in part, this was encouraged by the constraint on global supply caused by the US Civil War. The dominant global industry in the late 19th Century was textiles, and the growth and processing of cotton were key to the expansion of that industry. The search for land suitable for cotton cultivation was intense, and the fact that there had been modest cotton production in Central Asia for some time by indigenous peoples made it seem a likely candidate for Russian expansion.

The region was not ideal, however, due to its arid nature. Substantial irrigation would be required, given the limited annual rainfall in the region. The seeds largely came from the US, and the expansion of production through the construction of an elaborate irrigation system began. Replacing imports of “white gold” from the US was important to Russia, given its own burgeoning textile industry. Cotton produced in Central Asia became an important export crop as well. This approach worked well until the Russian Revolution. Anti-Bolshevik rebels tried to use the chaos of the revolution to promote independence movements in the Central Asian regions of the Russian Empire. Some irrigation networks were destroyed, and agricultural production diminished generally, leading to serious famine.

Stalin’s efforts to collectivize agriculture were felt severely in Central Asia. The massive famine that accompanied it in Ukraine, afflicted Kazakhstan harshly as well. Part of the challenge was to “persuade” the nomadic populations of Central Asia, particularly Kazakhstan, to settle and convert their lives to collectivized production.

The Soviets turned their attention to the “transformation of nature” for expanded agricultural production in Central Asia. The Great Fergana Canal was constructed in 1939 in just 45 days! Remarkably, it was 270 kilometres long, diverting water from the Syr Darya River to irrigate the fertile Fergana Valley primarily for cotton production, but it was also justified as a means to improve rural access to reliable water supply and to increase the production of vegetables and wheat. It reportedly was achieved by employing more than 160,000 Uzbek and Tajik collective farm workers.

The pace of constructing the irrigation network picked up after World War II. This included an effort to tame the dry winds coming off the desert areas through an extensive program of afforestation. The trees tended to wilt in the hot, dry areas, however, so four large irrigation projects were announced in 1950. The fourth of these was based in Central Asia and focused on diverting water from the Amu-Darya River to irrigate desert areas along the lower river and beyond as far as the south-eastern coast of the Caspian Sea through the long Turkmen and Karakum canals. Six million hectares were converted to cropping in Turkmenistan, and another 22 million for expected additional grazing land created from semi-desert areas. Irrigation was not new to the region, but the scale was larger and perhaps the target was less rational than the irrigation used in Central Asia before it was conquered by the Russians (given the clear, stronger focus on cotton production). Cotton production expanded substantially as a consequence of irrigation and ready access to cheap (forced) labour. The Aral Sea gradually diminished from the reduced water flow. Central management from Moscow made the production system somewhat “viable” for the upstream and downstream regions, assuming the disappearance of the Aral Sea was acceptable.

The Soviet leadership had ambitions to transform nature with even more dramatic river diversion plans. In October of 1984, the Central Committee of the CPSU approved a long-term program of irrigation to overcome the continued stagnation in Soviet

agricultural production. This included a dubious plan to divert Siberian rivers to Central Asia through new canal construction by 2000. The Siberian River diversion program was cancelled in 1986, however. Questions were raised about the ecological impacts of such a massive project, but it may simply have been a question of the massive costs involved –at a time when the Soviet economy was seriously weakening.

Expansion of Soviet grain production in Central Asia was an important long-term goal, particularly after the death of Stalin. Nikita Khrushchev, in fact, used the post-World War II agricultural production crisis to support his struggle against other Politburo contenders, especially G.M. Malenkov, to succeed Stalin. Most notable in this was his launch of a “Virgin Lands Campaign,” first outlined in a memo on January 22, 1954.

There was some hope that the collapse of the Soviet Union might enable agricultural reform –and it did in some of the successor states. Central Asia, however, did not take agricultural restructuring seriously in the early post-independence years. The region was beset with several key areas of environmental distress, and the transition reform process was far from optimal.

It was hardly surprising that the dissolution of the Soviet Union in December of 1991 led to a period of dislocation and chaos in Central Asia. The search for stable political regimes and economies in the wake of sudden independence was uncharted territory for the successor states, especially those where much of the leadership initially seemed unsure of the desirability of independence (from the well-understood processes and expectations under the Soviet umbrella). Several crucial challenges arose immediately.

The long-term negative environmental impacts of policies begun under the Soviet regime affected all Central Asian countries to some extent – unchecked pollution, water wastage, destroying habitat and reducing, even eliminating formerly productive fisheries. These actions were long in the making, and not easily remediated. The most striking fact, however, is that until recently none of the successor regimes in Central Asia sought to address, on the one hand, the harmful effects of wasteful irrigation to grow inappropriate crops like cotton and rice in excessively arid regions, and on the other to pursue less expansive hydroelectric generation strategies and polluting practices that had disrupted human and animal/fish habitat so dramatically. The desertification of the Aral Sea in Kazakhstan and Uzbekistan is a well-publicized, well-studied case and the most striking example of this tragic set of policies. The elimination of this formerly productive fishery had obvious direct impacts on the livelihoods of the fishers, but the nearly complete destruction of the Aralsk/Kzyl-Orda and Muynak/Karakalpakstan regions in Kazakhstan and Uzbekistan respectively, and their broader populations, through the secondary impact of soil encrusted with salt and poisoned by pesticide runoff and then spread through the air in the common regional dust storms, was nothing short of devastating. Uzbek President Islam Karimov reflected on the disaster of the Aral Sea and its causes in some detail in 1998. By then it was likely too late to stop much of the deterioration, but his analysis did suggest some real awareness of the situation, if not an actionable program of near-term remedy, given the regional dynamics.

Unfortunately, the newly independent governments mostly chose not to turn their backs on the Soviet policies and system that had wreaked havoc on fish habitats and the larger environment. The Soviet imperial policies of autarky and self-sufficiency (especially behind the cotton monoculture focus on Central Asia) were no longer in play as a political justification for bad economics and agriculture, especially in the increasingly globalized economy of the post-Cold War world. The extent of environmental degradation was dramatic.

One can argue that the political leadership in each country was distracted by more pressing governance and economic development challenges in the early years of independence – indeed for Tajikistan, civil war raged on during the early years. More pedestrian, but nonetheless evident, was the fact that most of the regimes were more focused on other elements of economic and development policies. Environmental policy was well down the list of reform priorities, as was agricultural reform and rural development more generally. The political change from life as part of the Soviet Union was massive, but many assessments suggested that the centralized administrative system and structures were remarkably similar to the Soviet system, for many years after independence.

It is clear that countries with abundant water resources - Kyrgyzstan and Tajikistan - have not been able generally to monetize this resource, at least not in comparison with what the oil and gas-rich countries have been able to do with theirs. They generally needed to switch to electricity for winter heating as the market prices for fossil fuels rose dramatically from what they were

under the Soviet system. Indeed, schemes to compensate water draw down with energy resource transfers, while the subject of serious negotiation and some agreements, most notably between Kazakhstan and Kyrgyzstan, on the one hand, and Uzbekistan and Tajikistan on the other, have not worked well.

Indeed, former Uzbek President Islam Karimov suggested possible recourse to military action in response to potential cuts in water flows, for example, if the Tajiks completed construction of the Rogun dam. The “energy-water” nexus was clearly a challenge, as Tajikistan and Kyrgyzstan, on the one hand, and Uzbekistan and Kazakhstan, on the other, have seemed to court serious conflict over the hydroelectric generation plans of the former, in competition with the downstream irrigation demands of the latter. Irrigation needs are also problematic due to ageing and poorly maintained structures, harsh climate, and soil quality deficiencies. The International Crisis Group and the World Bank both suggested systems for sharing and domestic reform in an effort to resolve the regional conflicts of interest and ambitions, as early as 2002. As each country sought advantages and independent solutions to their energy-water nexus constraints, a regional solution seemed out of reach.

Tajikistan sought to control the water and hydropower resources by constructing the high Rogun Dam, over the objections of Uzbekistan. Turkmenistan planned the creation of the Golden Century Lake in the Karakum Desert, ostensibly from agricultural irrigation run-off, but with the widespread expectation that the Amu Darya would be drawn upon to replace the shortfall. Uzbekistan revived interest in the diversion of Siberian rivers (Irtysh and Ob) to meet its water needs (potentially capitalizing on Russian interest in more influence in the region). None of these options were supported by foreign assessments. Indeed, emphasis was placed on revising the existing sharing and barter agreements based on realistic and fair economic and environmental impact assessments of the five participants. Implementation of Integrated Water Resources Management (IWRM) measures supported by international donors, including water user associations and market pricing mechanisms remain unresolved. The feasibility of a fair water and energy resource sharing and barter arrangement had to be connected with the realistic prospects for oil and gas development and export performance in the three downstream, energy-rich countries: Kazakhstan, Turkmenistan, and Uzbekistan.

Kazakhstan’s early natural gas exports largely went through the Russian network. In 2013, however, 100 million cubic meters were transported through the new pipelines to China. This grew to 1.1 billion cubic meters in 2017 and averaged more than 6 billion cubic meters annually from 2019 to 2021. Exports to Russia continued at a substantial level, above 10 billion cubic meters, and increased to 20.6 billion cubic meters in 2019, but then dropped dramatically in 2020 and 2021 to 7.1 and 4.6 billion cubic meters respectively.

Uzbekistan’s natural gas exports were divided between China and Russia beginning in 2014, after being mostly focused on the Russian network in the early years. In 2017, Uzbek natural gas exports to China amounted to 3.4 billion cubic meters, down from 4.3 billion cubic meters in 2016. Exports to Russia were 6.7 billion cubic meters, down from more than 10 billion cubic meters in 2009 and 2010.

Turkmenistan proceeded cautiously in its energy relationship with Russia initially, while continuing a longstanding supply relationship with Iran. Similar to Kazakhstan, however, it did establish a strong natural gas supply relationship with China beginning in 2010. What began as a lucrative supply relationship soured after a few years, given low global natural gas prices and the fact that the Chinese continued to deduct the costs for constructing the Turkmenistan-China pipeline from the natural gas import bill.

Turkmenistan has faced a price war with its neighbours in Kazakhstan and Uzbekistan for natural gas supplies to China and Russia. A 2017 decision by Russia’s Gazprom to cancel its supply relationship with Turkmenistan apparently was based on much cheaper price quotes from the Kazakhs and Uzbeks; at about the same time, a contract dispute between Turkmenistan and Iran suspended that supply relationship as well. This left China as Turkmenistan’s only customer. Plans to construct an additional gas pipeline from Turkmenistan to China (making a total of four in the network that connects all three supplier countries in Central Asia) have been shelved for the time being.

With the decline in oil and gas prices after the peak of the early 2000s, Central Asian fossil fuel suppliers began to confront the realities of the resource curse. Diversifying their economies became a more serious preoccupation. This meant some attention to the support of new manufacturing enterprises, especially in Kazakhstan. Subsequently, agricultural reform and modernization

became an important focus, though not without important challenges and constraints.

A comprehensive assessment of the extent to which these factors are at work in fossil fuel-rich economies of Central Asia is beyond the scope of this report, but some should be kept in mind as we strive to understand the challenge of economic diversification, including recent attention to agricultural development and modernization. The Kazakh and Uzbek cases are particularly interesting in this respect, as we focus on the water-energy-food nexus.

The picture that is commonly drawn about the water resource constraints facing Central Asia is to cast primary blame on the apparent (irrational?) long-term commitment of Kazakhstan, Tajikistan, Turkmenistan, and especially Uzbekistan to cotton cultivation as a/the primary focus of agricultural production. Notwithstanding increased analysis of the impact of climate change, especially real and anticipated glacier melt and precipitation change, the policy discussions often emphasise alternative cropping and dramatic improvements in irrigation efficiency. In the decade or so following independence, concrete progress in these areas was modest.

The record of cotton production and exports in Central Asia since independence suggests motivation to reduce squandering limited water resources. Uzbekistan has led the region in both categories by far, ranked in the top ten producers and exporters globally each year. Turkmenistan is next, followed by Tajikistan and Kazakhstan. However, all four have seen a substantial decline in cotton production since independence. Kyrgyzstan produces cotton as well, but the totals have not been among the top 30 globally in any year from 1989 to 2022.

The decline in Central Asian dependence on cotton production is promising; the Soviet legacy appears to be weakening, and the governments seem to be motivated to diversify their agriculture cropping, especially in recent years. For Uzbekistan and Kazakhstan, the change is, in part, a consequence of explicit policy and program reforms. Uzbekistan seeks to make its agriculture more sustainable and less dependent on water and manual labour, and there is a focus on producing smaller amounts of high-quality cotton in order to support the export of finished high-value textiles and clothing instead of raw cotton. Kazakhstan seeks more diverse and productive agriculture for rural development and to help adjust to low or at least volatile global prices of oil and gas. There is new energy in the agricultural development effort, after many years of relative neglect. Former President Nursultan Nazarbayev stressed this diversification priority in his annual messages on the economy, most notably in 2016 and 2017. This being said, the torturous history of developing a more diversified economy and achieving general food security has faced numerous challenges and missteps.

On the positive side, there appears to be real promise in entrepreneurial efforts to modernize aquaculture. For example, a sturgeon farm was established in 2022 in the village of Koldi, about 90 kilometres from Almaty. The design and support of the system were modern and well-staffed, with a plan to help recover significant production of sturgeon and beluga caviar by 2025. It includes an exterior fishpond which may be the site of development for sport fishing outings for tourists and business retreat groups. Nearby, is a modern Trout farm, already in production for the fish markets of Almaty and beyond. Developing an export market for China, Russia and Europe is the objective of both of these enterprises. Essentially, they take the place or at least compensate for the former Soviet state aquaculture establishment at nearby Chilik. The Chilik pond farm was privatized after the collapse of the Soviet Union, but it did not prosper under the lack of government support for modernization and commercialization in the early years of Kazakhstan's transition.

President Kassym-Jomart Tokayev has provided new attention to the challenge of economic diversification. Shortly after being designated as Nazarbayev's successor, he promised to bring new accountability to governance in Kazakhstan, but this was tested severely during the violent domestic energy price protests that erupted in January of 2022. A range of reforms followed the stability that Russian "peacekeeping" support helped to provide under the CSTO ties. Tokayev won re-election handily with 81.3% of the vote in a snap election held on November 20, 2022, and has continued both his somewhat independent foreign policy and domestic reform agenda. These reforms have included a strong agricultural development orientation, including efforts to rebuild the Aral Sea fishery and to explore the prospect of developing a sustainable meat export industry by finding ways to use the vast Northern grasslands for expanded cattle grazing. Tokayev has also raised the prospect of a more independent and "multi-vectored" trade policy by criticizing the Eurasian Economic Community at a session of the Eurasian Economic Forum in Moscow. He warned against efforts to politically integrate the EaEU membership. He stated that Kazakhstan sees the union as an exclusively economic bloc, as specified in the 2015 Treaty.

Turkmenistan, which, of course, is not a member of the EaEU, has made similar noises that the fossil fuel price volatility required a substantial campaign of economic diversification, including targets for more diverse agricultural production. As yet, however, there have been no detailed strategy documents released publicly.

The Uzbek Ministry of Agriculture noted that while Uzbekistan has for some time been at least the sixth-largest producer and fifth-largest exporter of cotton in the world, there has been a long-term effort to steadily reduce the area devoted to cotton (from 1.83 to 1.071 million hectares 1991 to 2018); the 2016-2020 plan was to reduce the area of cotton cultivation by 170,000 hectares and convert it to production of grains, vegetables, potatoes, oilseeds, and fruits. By 2021 the area devoted to cotton was targeted to be .95-1.0 million hectares. Cotton production did not decline dramatically, because the Ministry encouraged much more intensive and mechanized cultivation. In the early years after independence, only 4-5% of the cotton produced was processed in Uzbekistan; now that figure is 40-50%. Grain production has increased substantially in Uzbekistan, as cultivation priorities changed. Orchards increased from 138,600 to 272,700 in the same period, and the gross volume of fruit production increased from 516,800 to 3,076,300 tons.⁷³

The privatization and expansion of non-cotton farming in Uzbekistan has not been without challenges; new and especially young farmers need training, and there is a strong motivation to reduce chemical pesticide and herbicide use. Organic farming and integrated pest management have been introduced, but training and research into new methods need attention. The Ministry of Agriculture is working closely with key Uzbek agriculture universities since the election of President Shavkat Mirziyoyev on reforms and agriculture development.⁷⁴

A key element of the Uzbek agricultural reform effort is the commitment in recent years to reduce child labour in the harvesting of cotton. Jonas Astrup of the UN's International Labour Organization has argued that the implementation of labour reforms in Uzbekistan under President Mirziyoyev must be regarded as a clear success story. According to an ILO assessment, almost two million people are recruited every year for the annual cotton harvest in Uzbekistan, but forced labour and systemic child labour were essentially eradicated during the 2021 cotton production cycle.

Capture fisheries have not really revived in Uzbekistan, indeed in Central Eurasia generally, since the dissolution of the Soviet Union, but aquaculture operations have expanded and modernized. In Uzbekistan, 307,000 hectares were devoted to aquaculture, producing some 80,000 tons of fish in 2017. The Ministry's projection was that 150,000 tons would be produced by 2021. 282,000 hectares of aquaculture are managed in natural reservoirs; 25,000 hectares are operated in artificial ponds.

Uzbekistan's greatest challenge, along with most of Central Eurasia, may be to overcome the Soviet legacy in agriculture and economic backwardness. For Uzbekistan, this was, in large part, the Soviet (and Tsarist) assignment to the role of main cotton producer. The Mirziyoyev reforms have offered some hope to maximize the promise of substantial and more diverse agricultural productivity. There remain substantial domestic economic interests at play, but the new regional opportunities, given Russia's alarming actions in Ukraine and President Mirziyoyev's apparent commitment to change, provide reason for optimism.

It is often argued that the key obstacle poorer Central Eurasian states face is the lack of investment funds to modernize and diversify agriculture and aquaculture. Indeed, there is a tendency to focus the limited financial and manpower resources on crops like rice, tobacco, and wheat in Kyrgyzstan.

As stressed before, this is complicated for countries that depend so much on transborder water sources. Kazakh officials and environmental researchers commonly note that 80% of Kazakhstan's water comes from foreign sources. In addition to the Aral Sea crisis discussed earlier, one should note the rising threat to the sustainability of the Ili River/Lake Balkhash Ecosystem. The water of the Ili River and its tributaries begins its flow high in the Tian Shan mountains of Xinjiang, China, making its way through an increasingly developed Chinese agricultural area before reaching the Kazakh border near Yining. There is some evidence that the water flow from China has been reduced and that the dynamics of the fish population in Lake Balkhash have changed substantially. It is a complicated ecosystem affected by glacier melt in the Chinese mountains as well as a Soviet hydroelectric system built in 1969 in what is now Kazakhstan, creating the Kapchagay Reservoir. The future of Lake Balkhash may not be

⁷³ Uzbekistan, Ministry of Agriculture, Briefing, May 23, 2018.

⁷⁴ Uzbekistan, Ministry of Agriculture, *Progress Report on the Last Quarter Century*, May, 2019.

as dire as what led to the desiccation of the Aral Sea, but it is clear that equitable trans-border water sharing remains elusive. A similar challenge is evident in the Irtys River ecosystem which involves concerns about increased Chinese consumption before the water reaches Kazakhstan and Russia. Some effort to engage the Chinese and Russians in a tripartite negotiation on equitable sharing has thus far had little agreement.

Chinese-Kazakh negotiations on water sharing arrangements have been underway for more than fifteen years with little concrete result. Some have argued that while the reduced water flow via the Ili River to Lake Balkhash has had an important impact on the associated Kazakh fisheries and agriculture, the Kazakh government has not pressed China for a proper sharing agreement vehemently, given the importance of other geopolitical considerations up to now. On the other hand, the centrality of this region of Kazakhstan to the success of China's Belt and Road Initiative (BRI) for a new Silk Road to Europe would still seem to provide the Kazakhs with important bargaining leverage.

Tajikistan offers the clearest example of urgent hydroelectric generation capacity development, sometimes without due consideration to rural population and fish habitat impacts. A large number of construction and rehabilitation projects have been initiated. For Tajikistan, the key dam constructions were the Rogun and Sangtuda hydropower projects. Rogun was begun during the Soviet period but was abandoned with independence and the turbulent civil war. Resurrected, it is set to solve Tajikistan's annual winter energy crisis with an expected installed capacity of 3,600 Megawatts. Unfortunately, sited on the Vakhsh river, a key tributary of the Amu Darya, it threatened to displace 42,000 people from surrounding mountain villages. The World Bank was slow in approving the project; President Mirziyoyev softened Uzbek opposition to the project. Uzbek researchers and officials see little prospect, however, for the government to embrace a system of direct compensation for water supplies from rivers sourced in Tajikistan. The notion of trading energy supply for water supply as a direct commercial deal seems off the table for now.

Certainly, there is no common willingness at present to accept supranational authority and effective regional regulation to respond to the water-energy-food challenges in Central Eurasia. While individual states enjoy substantial income from oil and natural gas exports at times, the prospect for a substantial regional pool of financial resources for investment in environmental remediation and sustainability projects seems unlikely in the near term. Scientific expertise and technical assistance possibilities are available, but national financial resources and political will have been in short supply. Fortunately, the region has drawn the attention of external donors like the Asian Development Bank and the World Bank, which seem committed to a regional approach to the water crisis; China's Asian Infrastructure Investment Bank and its BRI strategy may also be an important source of support if the commercial motivations can be harnessed to an ecologically sound development strategy.

The way forward for Central Eurasia's energy and water challenges is relatively straightforward, albeit politically challenging: 1) adopt and enforce regional and complementary national rules to prevent, excessive irrigation, pollution and overfishing; 2) address trans-border water sharing, conservation and management aggressively on a regional basis before the resources are degraded beyond recovery - the partial recovery of the Kazakh portion of the Aral Sea is a promising start; 3) continue to expand aquaculture research, development and commercialization to replace collapsed fisheries that cannot be revived; and 4) expand essential hydroelectric generation capacity in Kyrgyzstan and Tajikistan, but do so within a framework of environmental impact assessment that includes consideration of alternative strategies to reduce potential fish habitat loss, as well as efforts to limit human dislocation and trans-border tensions. The way is straightforward, but the required level of political commitment and compromise will not come easy, given the nature of the Central Eurasian regimes.

Martha Olcott argued as early as 1996 that a confederation of Central Asian states was a desirable way forward to meet some of the challenges the emerging independent states faced. Closer cooperation certainly would be desirable to address the common environmental and external challenges apparent now - more than twenty-five years after she made that suggestion.⁷⁵

⁷⁵ Martha Olcott. *Central Asia's New States: Independence, Foreign Policy and Regional Security* (Washington, DC: U.S. Institute of Peace Press, 1996), pp. 144-152.

Perspective on the Integration of the Region

For centuries, Central Asia has stood as a unified geopolitical and cultural landscape, abundant in natural resources, human capital, and a rich tapestry of history and tradition. The region's unique identity, forged through the interplay of nomadic and sedentary cultures, has shaped a resilient and tolerant socio-political fabric. This enduring legacy has allowed Central Asia to play a pivotal role in the development of the Great Silk Road and the broader Eurasian continent.

I. Shared Development Objectives

In recent decades, the nations of Central Asia have successfully navigated significant challenges, defying predictions of instability and asserting their place in the global community. Each country has cultivated its own distinct experience in state-building, market economy development, cultural preservation, and national identity formation. Infrastructure advancements—such as new railways, highways, and social facilities—have further integrated national economies into the global market.

Significant progress has also been made in education, healthcare, and social security, enhancing the overall well-being of the population. Inter-state relations have matured, leading to increased bilateral and multilateral cooperation. Noteworthy achievements in resolving complex issues, particularly in the water and energy sectors, have laid the groundwork for deeper collaboration in areas like border management, transportation, and citizen mobility.

II. The Region's Evolving Role in Global Development

Strategically located at the crossroads of major civilizations, Central Asia has historically facilitated cultural exchange and inter-civilizational dialogue. Today, the region continues to fulfil this role, with its states adopting a unified stance on global issues such as sustainable development and security. Their active participation in multilateral organizations and dialogue platforms highlights Central Asia's growing influence on the international stage.

The region's development strategy is a blend of traditional values and a commitment to modernization and innovation, positioning Central Asia as an increasingly self-reliant and influential player in global affairs. With its expanding economic potential, openness to innovation, and intellectual capital, Central Asia is poised to become a key driver of global economic and political transformation.

III. Advancing Regional Cooperation

The concept of "Central Asia" gained geopolitical significance following the dissolution of the Soviet Union, delineating the territory of five independent states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The region's strategic location, coupled with its vast mineral wealth, underscores its importance as a critical transport corridor between East and West. Moreover, its proximity to four nuclear powers—China, Russia, India, and Pakistan—elevates the significance of regional security.

Kazakhstan has emerged as a leading force in regional integration, driven by its robust economy, rich natural resources, and active participation in global initiatives like the Eurasian Economic Union and the Shanghai Cooperation Organization. However, challenges such as political instability and economic disparities continue to limit the region's capacity to form a cohesive strategy, making it reliant on external influences like the C5+1 and C+C5 frameworks led by the United States and China.

Despite these challenges, Central Asia has developed a unique cooperative framework rooted in mutual respect for sovereignty and territorial integrity. Regular high-level meetings, including the Consultative Meetings of Central Asian Heads of State, have deepened and expanded regional ties. These summits have facilitated the development of joint economic projects, the establishment of a Business Council, and the initiation of key treaties aimed at fostering regional cooperation.

IV. Strategic Priorities for Future Cooperation

Peace and Security: Ensuring long-term stability in Central Asia and its surrounding regions is vital for sustainable development. Kazakhstan's balanced foreign policy, which emphasises adherence to international law and respect for sovereignty, plays a critical role in fostering a comprehensive regional security architecture. This includes developing a catalogue of security risks and collaborative measures to mitigate them.

Economic Growth: The region's vast resources provide a strong foundation for multilateral economic collaboration. With significant reserves of uranium, oil, and natural gas, Central Asia has the potential to become a global hub for trade, investment, and innovation. Transitioning from a resource-based economy to one driven by digitalization and creative industries is essential for long-term growth.

Transport and Logistics: Central Asia is emerging as a key link in global transportation networks, supported by initiatives like China's "One Belt, One Road" and the Trans-Caspian International Transport Route. Enhancing transport infrastructure and expanding transit capacities are crucial for the region's future economic integration.

Resource Security: Addressing water scarcity and ensuring energy and food security are critical challenges for the region. Collaborative efforts, such as the construction of hydroelectric power plants and the development of a regional food security strategy, are essential for mitigating these issues and fostering sustainable development.

Youth and Education: With one of the world's youngest populations, Central Asia has a unique advantage in driving innovation and economic growth. Strengthening educational ties, expanding youth engagement, and fostering inter-university cooperation are key to unlocking the region's full potential.

Cultural and Humanitarian Cooperation: The shared historical and cultural heritage of Central Asia forms a strong foundation for regional unity. Enhancing cultural ties and preserving historical memory is vital for fostering a cohesive regional identity and ensuring the region's global competitiveness.

V. Central Asia's Future on the Global Stage

Regional integration and cooperation are not only necessary but also critical for Central Asia's future in a rapidly changing world. By strengthening mutual trust and embracing global openness, the region can secure its place as a dynamic, innovative, and culturally rich hub in the international system. As Central Asia continues to evolve, it must seize the opportunity to shape its collective future, positioning itself as a new centre of global influence. Through strategic efforts in security, economic development, transport, education, and cultural cooperation, Central Asia can emerge as a powerful actor on the world stage, contributing to a more stable and prosperous global order.

The concept of "Central Asia" acquired geopolitical significance after the collapse of the USSR, singling out the territory of five independent states: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan. The geographical location of the region, which has no access to the world ocean, as well as rich mineral reserves, attracts the attention of developed countries and emphasises its role as a key transport corridor between East and West. The Central Asian countries also find themselves about four nuclear powers, which increases the relevance of regional security issues.

In recent years, Kazakhstan has begun to play a more active role in regional integration processes, turning into an involuntary centre of Central Asia. This is due to several factors: the country has the largest economy in the region, significant reserves of natural resources and actively participates in international economic and political projects. Kazakhstan is a key participant in initiatives such as the Eurasian Economic Union and the Shanghai Cooperation Organization, which underscores the country's desire to strengthen economic and strategic ties in the region.

Nevertheless, political instability, authoritarian regimes, and economic difficulties limit the ability of Central Asian countries to form a unified regional strategy. The C5+1 and C+C5 programs of the United States and China have a significant impact on the economic development of the region, but also emphasise its dependence on external finance and political directives.

Central Asia remains at the crossroads of international interests and regional ambitions, which makes it critically important for understanding modern geopolitics and demonstrates the strategic importance of the region in the global arena.

In addition, the Central Asian region is a unique geopolitical “node” that connects the four nuclear powers – China, Russia, India, and Pakistan. The role of the region is determined by its intercontinental importance for trade routes between the countries of Asia, the Middle East and Europe.

It is worth noting that the Central Asian integration development is determined by the general directions of development of the post-Soviet space. Russia retains a decisive role in the region, and China has been strengthening its influence on Central Asia in recent years. For example, the foreign trade turnover of the Central Asian countries with China is growing rapidly every year.

Summing up, it can be noted that today the formation of the geopolitical landscape of Central Asia is in an active phase. In general, the Central Asian region has significant development potential, having resource and strategic attractiveness.

Final Conclusions

Kazakhstan, as a “middle” power, is making efforts to develop its southern neighbours for reasons including its own security.

The name of the “middle power” Kazakhstan received a recent [report](#) from the German analytical centre “Foundation for Science and Politics”. The country received this definition against the background of the fact that its economy is currently the leading one in Central Asia. The stability of Kazakhstan’s economy in comparison with other Central Asian countries, as can be seen from the analysis above, is explained by the course towards greater political and economic freedoms, which made it possible to carry out the necessary market transformations more fully and therefore allowed the country to raise its investment image in the international arena, increase entrepreneurial business activity within the country. Over the past 4 years, Kazakhstan’s economy has shown its stability three times: during the transit of power (it passed peacefully), at the time of the COVID-19 pandemic (economic growth decreased by only 2.5%), and in January 2022 – the bloody January events did not lead to civil war, but on the contrary, contributed to the consolidation of society together with a large-scale political restructuring (the government was dismissed). It is noteworthy that in this situation, the President of Kazakhstan resorted to the CSTO Treaty, calling the advice of Western countries to start peace talks with terrorists “stupidity”. The preservation of political and economic stability in the country after these events allowed Kazakhstan to maintain its “face” in the international arena.

But now, Kazakhstan’s role in the region is determined not only by its economic superiority over other Central Asian countries. The role as a “middle power” is also determined by the fact that the country has the longest common border with Russia, a state that is currently involved in the largest geopolitical conflict of the 2020s. At the same time, Kazakhstan shares a common border with China, where the situation with Taiwan is also a hypothetical threat on a global scale.

Both Russia and China currently have complex political relations with Western countries (the United States and EU countries), which leaves an imprint on their economic cooperation. In turn, Kazakhstan continues to have close trade relations with Russia and China (these are the two main importers from Kazakhstan), and continues to attract investments from the United States and the EU. Kazakhstan’s policy of diplomacy towards neutrality and being a peaceful platform for negotiations allows it to remain in friendly relations with the conflicting parties. Kazakhstan’s willingness to manage relations with all major powers in the diplomatic sphere, for example, has led to its role in mediating many international conflicts, including the Astana process on Syria, the 21st round of negotiations of which took place in January 2024.

Another sign of Kazakhstan’s growing place on the world stage and interest in projecting power is that in 2024 the country will chair several leading international organizations at once, including the Shanghai Cooperation Organization, the Conference on Interaction and Confidence-Building Measures in Asia, the Organization of Turkic States, the Islamic Food Security Organization, and the International Fund for Saving the Aral Sea.

Today, due to the growing global fragmentation against the background of Russia’s war in Ukraine, Kazakhstan has deployed its forces to strengthen integration to the south, with Kyrgyzstan and Uzbekistan. But large-scale integration with these countries is complicated by different levels of economic development of countries: economies have different levels of unemployment,

inflation, GDP per capita, migration, and stability of the foreign exchange market. For example, Uzbekistan de jure switched to a floating exchange rate only in 2019. Therefore, Kazakhstan is interested in “tightening” the levels of economic development of its southern neighbours in order to equalize the economic situation in the region with the possibility of subsequent integration. Without integration, it will be more difficult for both Kazakhstan and other Central Asian countries, given the national security challenges facing the countries, as well as their energy and climate vulnerability.

In particular, the rapid economic growth of the Central Asian countries has led to an increase in demand for electricity. In all Central Asian countries in the last 5 years, cases of “blackouts” of entire cities (when the power supply was abruptly cut off) have become frequent. In addition, the region has a difficult climatic situation, starting with the shallowing of the Syr Darya and the Aral Sea and ending with carbon dioxide emissions. Here it is important to note that some problems of the Central Asian countries can be “mutually eliminated” with cooperation, since the countries can be conditionally divided into two groups: while Kyrgyzstan and Tajikistan are “energy-poor but water-rich” upstream states (which account for 75% of the region’s water resources, but at the same time, there is an almost complete absence of hydrocarbon reserves), Kazakhstan, Turkmenistan, and Uzbekistan – the downstream countries – on the contrary, are “rich in energy, but poor in water.”

The Central Asian countries, which gained independence after the collapse of the Soviet Union, have gained 30 years of experience in the fragile geopolitics of Eurasia, and now take a firm position in their quest to become strong states. In this context, steps to liberalize the economy and domestic and foreign policy, as well as establish strong global ties, are crucial.

The strategic role of the Central Asian countries for such major economic players as China, Russia, and Turkey is growing, including in the field of realizing trade and investment potential, maintaining overall stability, and developing West-East and North-South transport corridors. The Central Asian region can become financially stable and dynamically developing in the vast expanses of Eurasia. Effective regional cooperation mechanisms are expected to be applied, as well as the active participation of national businesses in regional value chains producing competitive goods and services for domestic and external consumers. Ensuring the trade openness of the Central Asian region can occur by increasing transport connectivity, activating mutual trade, industrial cooperation, and the growth of business activity along transport corridors.

The development of domestic trade and mutual investments, which was given an impetus by the liberalization of the Uzbek economy, will continue. Increasing the openness of economies to each other will contribute to the deepening of industrial cooperation in the Central Asian region. Regional cooperation based on the similarity in the culture of the peoples of Central Asia will make it possible to create products and services that are unique in their properties for consumers from all over the world.

The globalization of the economy and global technologies, including digital and “green” ones, contribute to the development of the Central Asian region. Modern trends such as the digitalization of the economy and the development of sustainable “smart” cities open up new prospects and opportunities for Central Asia countries, and the attractiveness of the region increases. The Central Asian region is developing dynamically and has significant growth potential.

As imperial states with global ambitions seek to play a New Big Game in a new version, the reform processes taking place in Central Asia (for example, in Kazakhstan) promise a prosperous future for the peoples of these countries. Sustainable development projects and regional cooperation in the face of water scarcity, as evidenced in the modest progress toward remediating the desiccation of the Aral Sea region and recovery of fisheries and aquaculture investment in the Ili River basin of Kazakhstan, are promising steps.

The reform processes in Central Asia, in Kazakhstan, really play an important role in shaping the future of the region, which has historically been influenced by the geopolitical ambitions of world powers. While the Central Asian countries strive to strengthen their sovereignty and independence, their economic and social development is directly linked to foreign and domestic policy. Of the key reforms, the following can be distinguished:

Economic diversification: the countries of the region, particularly Kazakhstan, are working to reduce dependence on commodity exports. Strengthening industry, developing agriculture, and increasing the role of small and medium-sized businesses will be important steps for sustainable development.

Regional integration: Strengthening cooperation between Central Asian countries is important to address common issues such as water resources management, transport and logistics, and security.

Attracting investment: the reforms are aimed at improving the business climate and attracting foreign investment. This contributes to the modernization of the economy and the creation of new jobs.

Education and innovation: An important part of the reforms is the development of education and science, which will help regions adapt to global changes and the introduction of new technologies.

Social reforms: For sustainable development, reforms in healthcare, education and social protection are needed, which will improve the quality of life and create favourable conditions for the population.

Although the countries of the region face serious challenges due to external and internal factors, reforms can ensure a more prosperous future for their peoples if accompanied by transparency and effective governance.

The further Central Asia moves away from geopolitics, the more likely it is to become a region of the world where efforts are concentrated on sustainable economic development.

Central Asia is a region that has historically been influenced by major political and economic powers due to its strategic location and natural resources. While geopolitics remains an important component, the countries of the region are trying to focus more on economic development, which has its advantages for the stable and sustainable development of economies and society:

Many countries in the region are seeking to diversify their economies, which have traditionally depended on the export of raw materials. This implies the development of industrial production, agriculture, tourism, and other sectors. The desire to strengthen regional cooperation, for example through trade agreements and transport projects, helps Central Asian countries to create stronger economic ties and open new markets. The Governments of the region are taking measures to improve the business climate and attract foreign direct investment to develop infrastructure and create jobs. It is worth noting that progress in this direction varies greatly across countries due to different political structures and views of the ruling elite.

The countries of the region are increasingly investing in education, research, and innovation, which allows them to develop a skilled workforce and adapt to modern economic challenges. Social protection programs, improved health care and education are also priorities that can improve the quality of life of the population. In general, the transition from excessive geopolitical dependence to a more balanced approach focused on economic development can make the region more stable and prosperous. However, the countries of the region continue to face challenges related to domestic politics, geopolitical pressure, and the need to reform the economy.