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The Central Asian Countries' Economies in the Twenty-First Century

Richard Pomfret

Introduction

The Central Asian republics were among the poorest and most culturally distinct in the Union of Soviet Socialist Republics (USSR), although for their income levels they had high social indicators (Table 3.1).[1] Nevertheless, there was little pressure to leave the USSR in the 1980s and early 1990s, in contrast to the Baltic, Caucasus and Ukrainian republics. The disintegration of the USSR in the second half of 1991 was unanticipated and not particularly welcome in Central Asia, although the First Secretaries appointed by Mikhail Gorbachev quickly transformed themselves into national presidents.

[1]In this paper Central Asia refers to Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan. In the final Soviet census in 1989, the last four and Azerbaijan were the poorest republics with the highest proportion of under-provisioned households (Pomfret, 1995).

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Table 3.1 Initial conditions: republics of the USSR 1989/1990

	Population (million) mid-1990	Per capita GNP[a] (1990)	Gini coef-ficient (1989)	Poverty (% of pop-ulation)[b] (1989)	Terms of trade[c]	Life expec-tancy (years)	Adult literacy (per-centage)
USSR	289.3	2870	0.289	11.1			
Kazakh	16.8	2600	0.289	15.5	+19	69	98
Kyrgyz	4.4	1570	0.287	32.9	+1	66	97
Tajik	5.3	1130	0.308	51.2	−7	69	97
Turkmen	3.7	1690	0.307	35.0	+50	66	98
Uzbek	20.5	1340	0.304	43.6	−3	69	99
Armenia	3.3	2380	0.259	14.3	−24	72	99
Azerbaijan	7.2	1640	0.328	33.6	−7	71	96
Georgia	5.5	2120	0.292	14.3	−21	73	95
Belarus	10.3	3110	0.238	3.3	−20	71	98
Moldova	4.4	2390	0.258	11.8	−38	69	99
Russia	148.3	3430	0.278	5.0	+79	69	99
Ukraine	51.9	2500	0.235	6.0	−18	70	99
Estonia	1.6	4170	0.299	1.9	−32	70	99
Latvia	2.7	3590	0.274	2.4	−24	69	99
Lithuania	3.7	3110	0.278	2.3	−31	71	98

Source Pomfret (2006, p. 4)

[a]GNP per capita in US dollars computed by the World Bank's synthetic *Atlas* method; [b]poverty = individuals in households with gross per capita monthly income less than 75 rubles; [c]impact on terms of trade of moving to world prices, calculated at 105-sector level of aggregation using 1990 weights

When the Russian Federation adopted rapid price liberalization in January 1992, the Central Asian republics had no option other than to follow, at least with respect to traded goods. Through 1992 and much of 1993, while the ruble remained the common currency, the new independent states had little room for macroeconomic policy manoeuvre. The early 1990s were characterized by hyperinflation and the whole decade by a difficult transition from central planning to market-based economies.

None of the Central Asian countries had previous history as independent states. A common perception in the 1990s was that their prospects for long-term survival were poor. Nevertheless, they have survived for over a quarter of a century, which is a better record than that of the new states created from the break-up of the Habsburg, Hohenzollern and Romanoff empires in 1919, all of which had lost their independence two decades later.[2] Moreover, Central Asia has seen no interstate wars and has no frozen conflicts comparable to those in Azerbaijan, Moldova, Georgia and Ukraine.[3]

This paper focusses on the economic record of the independent Central Asian states, although politics and the external environment cannot be ignored. Three periods are identified. The 1990s were dominated by nation-building and the transition from central planning to market-based economies. From the turn of the century until 2014 the global resource boom brought large windfall gains to oil and gas exporters, as well as some mineral producers, and the poorer countries received substantial remittances from migrant workers in energy-rich countries, notably Russia. Finally, the years since 2014 have seen improved intra-regional relations and cooperation as the five countries seek to diversify their economies away from resource or remittance dependence.

Creating New Nations and Market-Based Economies

The Communist first secretaries of the five Soviet republics quickly transformed themselves into national presidents and, apart from in Tajikistan, created political systems in which power was concentrated in the president. The five countries joined the United Nations in June 1992. In Tajikistan the president was quickly displaced and a bitter civil war involving religious parties and regional warlords lasted until 1997, after which President Rakhmon created a super-presidential regime.

[2]The post-1919 new independent states mostly came under German control after 1939 and became Soviet satellites for four decades after 1945. Estonia, Latvia and Lithuania were absorbed by the USSR. Yugoslavia was conquered by Axis forces in 1941.

[3]There have been tensions and some border violence, particularly associated with enclaves in the patchwork borders of the densely populated Ferghana Valley, but the only full-scale war has been the 1992–1997 Tajik civil war.

There were occasional expressions of discontent, but the five presidents consolidated their power and domestic political stability was established by the end of the 1990s. The external environment was stable, largely because no other countries showed much interest in the region.[4]

The newly independent countries faced three major economic shocks. Central planning had been weakening in the late Soviet era, but there had been no experiments with market mechanisms in Central Asia. When the Union collapsed suddenly and Russia liberalized prices, the countries were forced into transition into market-based economies with very few officials experienced in foreign trade, macroeconomic policy or even understanding of how markets worked. The second shock was the descent into hyperinflation as countries had neither adequate domestic tax systems nor access to capital markets in order to fund public expenditures.[5] Thirdly, Central Asian republics had been highly integrated into Soviet supply chains, often for processing their raw materials, and these chains quickly broke down amidst monetary confusion and the introduction of transport costs.[6]

The five countries adopted diverse transition strategies. Kyrgyzstan was first to adopt a national currency and first to bring annual inflation below 50%, as a prerequisite for an effective market economy. Kazakhstan also started along the path of rapid reform but became mired in rent-seeking as valuable enterprises were privatized and foreign

[4]Russian influence was greatest, but President Yeltsin had little political interest beyond Russia's border—matters would have been different if Almaty-born Zhirinovsky had won the 1996 Russian election with his programme of extending Russia's reach to the Indian Ocean. China was mainly concerned with delimiting its western border and limiting support for Uighur separatism. The USA established embassies; US companies invested, notably Chevron and ExxonMobil in the Tengiz oilfield, but they did not need government support. The EU provided technical assistance, but amounts were small and the flagship TRACECA project was ineffective.

[5]The problem was exacerbated in 1992 and 1993 by the use of common currency. Each republic could issue ruble credits to pay for public spending, but no institution had control over the money supply, which created a free-rider problem as the credit-issuer gained all the benefits from money creation but only contributed marginally to national inflation (Pomfret, 2016).

[6]The issue of whether Central Asian republics as primary product suppliers to the rest of the Soviet Union had been subsidized or taxed is impossible to answer, e.g. due to many transactions taking place within All-Union enterprises. A striking example of disruption was a sugar refinery, the largest industrial enterprise in the Kyrgyz republic accounting for 3% of GDP, that processed Cuban cane sugar and was immediately unprofitable once transport costs had to be paid.

investors sought oil contracts. At the other extreme, Turkmenistan's President introduced minimal economic reform. Uzbekistan was also a gradual reformer but more proactive in introducing market mechanisms in the mid-1990s. Tajikistan was a special case insofar as the collapse of the central government led to rapid transition to a market economy but without the public institutions required to support an efficient economy.

Given their shared historical, geographical and cultural background and diverse approaches to establishing market economies, the Central Asian economies were often viewed as a natural experiment in resolving debates over the speed of transition and sequencing of reform.[7] By the EBRD Transition Indicators there was by 1999 a clear ranking from most reformed to least reformed: Kyrgyz Republic, Kazakhstan, Tajikistan, Uzbekistan, Turkmenistan. The types of market-based economies had been established; for all five countries the Indicators changed little after the turn of the century (Table 3.2).

An issue in evaluating the natural experiment is the huge measurement problems, especially in the early 1990s, when the output and consumption mix changed dramatically and creation of effective statistics agencies was not high on the nation-building agenda. The widespread informal economy was poorly captured in the data, and some practices were non-transparent (e.g. Uzbekistan did not report output of gold, its second-largest export) or misleading (e.g. when Turkmenistan was not paid for its gas exports it still recorded the sales as exports and the IOUs were treated as foreign assets, although they would eventually only be paid at deep discounts).

Nevertheless, all data and casual observation point to a steep transitional recession with 1989 living standards only achieved after the turn of the century (Table 3.3). Falling GDP per capita plus increasing inequality led to massive increases in poverty in the two poorest countries,

[7]The region is geographically well defined to the east, west and south and the five countries share cultural characteristics. They are all Muslim-majority societies and four of the national languages are Turkic (Tajik is Farsi-related). In the USSR a distinction was made between Kazakhstan and Central Asia; the former had a more mixed population, more Europeanized culture and higher human capital and living standards. On debates over transition strategies, see Pomfret (2002).

Table 3.2 EBRD transition indicators, 1999 and 2009

		Large scale privatization	Small scale privatization	Enterprise restructuring	Price liberalization	Trade and forex system	Competition policy	Banking and interest rates	Securities markets and NBFIs	Overall infrastructure reform
Kazakhstan	1999	3.00	4.00	2.00	4.00	3.33	2.00	2.33	2.00	2.00
	2009	3.00	4.00	2.00	4.00	3.67	2.00	2.67	2.67	2.67
Kyrgyz Republic	1999	3.00	4.00	2.00	4.33	4.33	2.00	2.00	2.00	1.33
	2009	3.67	4.00	2.00	4.33	4.33	2.00	2.33	2.00	1.67
Tajikistan	1999	2.33	3.00	1.67	3.67	2.67	2.00	1.00	1.00	1.00
	2008	2.33	4.00	1.67	3.67	3.33	1.67	2.33	1.00	1.33
Turkmenistan	1999	1.67	2.00	1.67	2.67	1.00	1.00	1.00	1.00	1.00
	2009	1.00	2.33	1.00	2.67	2.00	1.00	1.00	1.00	1.00
Uzbekistan	1999	2.67	3.00	2.00	2.67	1.00	2.00	1.67	2.00	1.33
	2009	2.67	3.33	1.67	2.67	2.00	1.67	1.67	2.00	1.67

Source European Bank for Reconstruction and Development *Transition Report* 2000 and 2010

Table 3.3 Growth in real GDP, 1989–1999 (%)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	1999; 1989 = 100
Kazakhstan	0	0	−13	−3	−9	−13	−8	1	2	−2	2	**63**
Kyrgyz Republic	8	3	−5	−19	−16	−20	−5	7	10	2	4	**63**
Tajikistan	−3	−2	−7	−29	−11	−19	−13	−4	2	5	4	**44**
Turkmenistan	−7	2	−5	−5	−10	−17	−7	−7	−11	5	16	**64**
Uzbekistan	4	2	−1	−11	−2	−4	−1	2	3	4	4	**94**

Source European Bank for Reconstruction and Development *Transition Report Update*, April 2001, 15
Note Pomfret (2006, pp. 107–122) discusses the conceptual problems associated with measuring GDP during the transition from central planning to a market-based economy

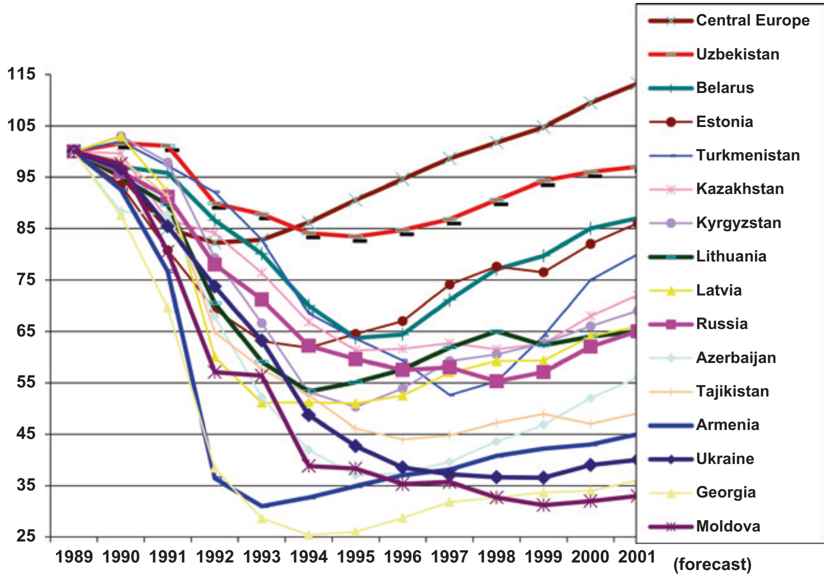

Fig. 3.1 GDP change in FSU economies, 1989 = 100 (*Source* This figure is reproduced here with full permission of the copyright holder UNU-WIDER. The figure originally featured in Popov, Vladimir [2001] 'Where do we stand a decade after the collapse of the USSR?' *WIDER Angle*, 2 (2001). Launching Cornia, G.A., and V. Popov [Eds.], *Transition and Institutions: The Experience of Gradual and Late Reformers*, UNU-WIDER Studies in Development Economics, Oxford University Press)

the Kyrgyz Republic and Tajikistan (Anderson & Pomfret, 2003). Higher initial incomes and valuable oil and gas exports helped to alleviate the situation in Kazakhstan and Turkmenistan, although evidence for the latter is opaque. Uzbekistan, by contrast, had the shallowest transitional recession of any former Soviet republic (Fig. 3.1).

Before we can judge the relative merits of the transition strategies, however, we must consider the extent to which they laid the foundations for sustainable long-term growth. The Kyrgyz Republic's experience showed that rapid reform alone was insufficient without the institutional structure to support an efficient market economy (e.g. rule of law and lack of impunity for corrupt practices); to maintain public expenditures, the government ran up external debts that exceeded 100% of GDP by the turn of the century, leading to a debt crisis. Uzbekistan, the regional success story of the 1990s, introduced draconian foreign exchange controls in 1996 and the negative consequences were becoming apparent by the end of the decade. The twenty-first century might have shed light on relative long-term success, but before we could judge the outcomes the resource boom dominated. Oil and gas exporters Kazakhstan and Turkmenistan had huge windfall gains, while resource-poor Kyrgyz Republic and Tajikistan became labour exporters dependent on remittances from Russia. Uzbekistan, more or less self-sufficient in gas and with valuable minerals such as gold and copper, lay somewhere in between. These outcomes had little to do with transition strategies.

The Resource Boom

In the twenty-first century, the Central Asian countries have had fairly well-performing economies. In part, this is because the impacts of transition were asynchronous with uncompetitive former state enterprises going out of business fairly rapidly and new activities slow to start. Recovery from a deep transitional trough inevitably involved faster economic growth, and the deepest trough, in Tajikistan gave greatest scope for higher-percentage-change recovery. Differences in economic performance after 2000 were surely influenced by the type of market economy that each country had created in the 1990s, but that effect was outweighed by other determinants of growth, especially the resource boom.

The resource boom favoured several important Central Asian resource exports, including gold, copper and other minerals, but oil and gas saw the most dramatic boom. Oil prices soared from under \$20 a barrel in 1999 to over \$130 in 2008; after a sharp but brief dip in 2008, oil prices recovered to over \$100 until 2014, when a more sustained decline to lower prices signalled the end of the boom (Fig. 3.2). Already by the early 2000s, despite sluggish growth in real output during the 1990s, the energy exporters had substantially higher per capita incomes (Table 3.4).

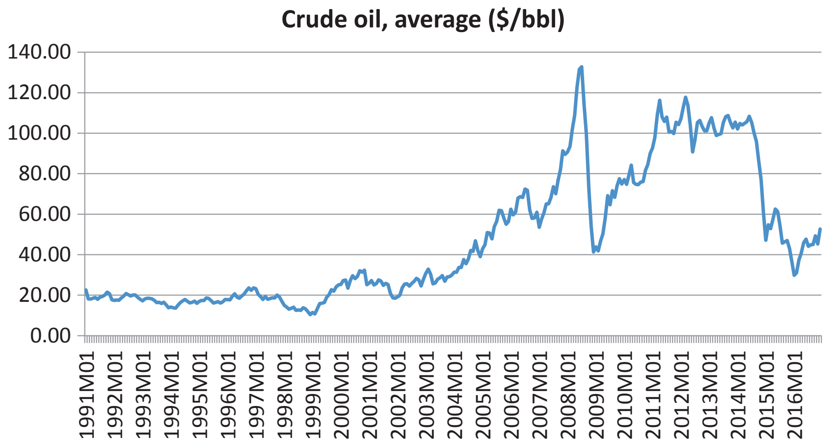

Fig. 3.2 World price of oil, US dollars per barrel, 1991–2016 (*Source* Author's creation based on http://pubdocs.worldbank.org/en/561011486076393416/CMO-Historical-Data-Monthly.xlsx)

For Kazakhstan the boom created a perfect storm. The Tengiz oilfield was just coming into full production, so that oil exports soared in quantity just as their price was increasing. Discovery in 2000 of the Kashagan offshore oilfield, the largest new discovery in the world for several decades, was followed by an investment boom. Construction of new pipelines reduced previous dependence on the Russian oil pipeline monopoly and as world prices rose it became feasible to build longer more expensive pipelines to the Mediterranean in 2003 and to China, increasing choice of routes and reducing transport costs. Kazakhstan clearly pulled ahead of its southern neighbours.

As a natural gas exporter Turkmenistan also benefited from the resource boom, but the impact was delayed by dependence on Russian pipelines. Turkmenistan no longer had problems receiving payment from customers, but the opaque arrangements often involved barter and prices far below what Russia was receiving for its gas exports to Europe. Eventually, in 2006 President Niyazov, who rarely travelled, went to Beijing to negotiate an agreement with China and a gas pipeline built between 2006 and 2009 ended dependence on Russia.

Table 3.4 Economic and social indicators, 2002

	Population	Population aged under 15	Urban population	Life expectancy at birth	GDP	GDP per capita	GDP per cap @ PPP	ODA	ODA per capita	Armed forces
	Millions	Percentage of total	Percentage of total	Years	$ billion	$	International dollars	$ million	$	Thousands
Kazakhstan	15.5	26	56	66	24.6	1656	5870	188.3	12.2	60
Kyrgyz Republic	5.1	33	34	68	1.6	320	1620	186.0	36.7	11
Tajikistan	6.2	37	25	69	1.2	193	980	168.4	27.2	6
Turkmenistan	4.8	35	45	67	7.7	1601	4300	40.5	8.5	18
Uzbekistan	25.7	35	37	70	7.9	314	1670	189.4	7.4	52

Source Pomfret (2006, p. 19), based on UNDP *Human Development Report 2004*

Table 3.5 Economic performance 2000–2014

	Real GDP growth	Consumer price inflation	Overall fiscal balance	Current account balance
	Annual change (%)	Year average (%)	Percent of GDP	Percent of GDP
Kazakhstan	7.7	8.4	3.1	−0.6
Kyrgyz Republic	4.5	8.6	−3.9	−2.3
Tajikistan	7.8	13.4	−2.5	−4.3
Turkmenistan	11.1	5.6	3.8	−7.4
Uzbekistan	7.0	14.5	−1.1	5.2

Source International Monetary Fund *Regional Economic Outlook: Middle East and Central Asia*, October 2018, 37
Note "Real" GDP is difficult to define when prices change rapidly. Turkmenistan data must be treated with caution as misreporting was widely suspected

The main energy resource of the Kyrgyz Republic and Tajikistan, hydroelectricity, was difficult to develop due to conflicts with downstream countries dependent on water for irrigation.[8] For these countries, the main impact of the resource boom was through demand for manual labour in Russia; by 2013 the remittances to GDP ratio in Tajikistan was the highest in the world and in the Kyrgyz Republic third-highest. Even more migrant workers went from Uzbekistan, although as a proportion of the population, and remittances as a share of GDP, the percentages were lower than for the smaller Kyrgyz and Tajik economies. Uzbekistan also became self-sufficient in gas and benefited from increased mineral prices (Table 3.5).

The positive economic performance was not matched by political change. Turkmenistan's President Niyazov died in 2006 and, after brief hopes of a new order, his successor maintained the same political and economic model. The presidents of Kazakhstan, Tajikistan and Uzbekistan tightened their grip. The Kyrgyz president tried to do the same, but President Akayev was overthrown by a popular uprising in

[8]Even when hydroelectricity is generated there is need for investment in transmission lines before the electricity can be traded, unlike oil which can be shipped by rail or barge before pipelines are built.

2005 and his successor shared the same fate in 2010. Central Asia's first, and so far only, female president then guided the Kyrgyz Republic to a more balanced relationship between parliament and president before stepping down.

Foreign interest in Central Asia became more pronounced with the energy boom and following the US invasion of Afghanistan in 2001. The USA used Central Asia as a transit route for supplies shipped through Baltic ports, especially after the Pakistan route became less reliable, and used airbases first in Uzbekistan and then in the Kyrgyz Republic to transport troops to and from Afghanistan.[9] President Putin was more interested in Russia's Near Abroad than Yeltsin had been, and he gradually started to differentiate between friends and enemies, culminating in creation of the Eurasian Economic Union (EAEU) between Russia, Belarus and Kazakhstan, which the Kyrgyz Republic joined in 2015 and Tajikistan considered joining. China's economic presence became stronger with the bazaars full of Chinese manufactures, with major infrastructure projects like the pipeline from Turkmenistan and many smaller projects such as road-building in Tajikistan and the Kyrgyz Republic, and with increasing investments in natural resource projects. Despite popular worries about being swamped by China, the Central Asian governments were generally successful in maintaining balance between external powers, often claiming to be successfully pursuing multi-vector diplomacy.

The governments were less successful in promoting intra-regional cooperation. Attempts at regional cooperation and integration floundered and by 2005 the main regional bodies were all based outside Central Asia.[10] The 2006–2009 Turkmenistan–Uzbekistan–Kazakhstan–China gas

[9]The Manas Transit Center in Bishkek airport faced domestic opposition and Russian pressure to close it, but it remained open and a source of revenue for the Kyrgyz Republic until US demand dropped in 2014. Fuel contracts to the Center were a major source of corruption, as sons of presidents monopolized the contracts from the early 2000s until 2010, stoking the popular discontent that led to the overturn of presidents in 2005 and 2010.

[10]The secretariat of the Commonwealth of Independent States and that of the Union of Five (predecessor of the EAEU) were in Moscow, the Shanghai Cooperation Organization in Beijing, the Economic Cooperation Organization in Tehran, the Special Program for the Economies of Central Asia (SPECA) in the UN regional offices in Geneva and Bangkok, and Central Asian Regional Economic Cooperation (CAREC) at the Asian Development Bank in Manila.

pipeline was a rare example of regional cooperation and was a win-win outcome as Turkmenistan exported gas and the other two countries received transit fees (and the option to export gas through the pipeline in future). The fact that the five countries had competing rather than complementary economies partially explained the non-cooperation, but the prevalence of autocratic rulers also mattered as personal relations, especially between the presidents of Uzbekistan and Tajikistan and of Uzbekistan and Turkmenistan, were often dire.

Overall, the resource boom underpinned a period of rising incomes. Apart from in the Kyrgyz Republic, the autocratic leaders were able to stay in power while making little change to their economic or political strategies. Increased external interest in the region turned out to be non-threatening, largely because Central Asia was far from central to the major powers' foreign policies and Central Asian leaders were not desperate for any power's favours.

Seeking Diversification

The end of the oil boom in 2014 was the signal for change in economic policy thinking in Central Asia. The break was highlighted by the sudden and large depreciation of the Russian ruble which overnight reduced the value of remittances to the Kyrgyz Republic, Tajikistan and Uzbekistan. Kazakhstan saw its oil revenues fall and Turkmenistan saw orders for its natural gas cut by Russia and by Iran. All five governments appeared to recognize the need for economic diversification away from a handful of primary products or from dependence on remittances. Given the small size of domestic markets, diversification implied a fresh look at opening up to the global economy (Table 3.6).

A striking feature of the transition in Central Asia was the creation of different varieties of market-based economies by 2000. Fifteen years later there was an added layer of differentiation resulting from the resource boom. Nevertheless, the shift to more outward-oriented polices was clear in what had been the more closed economies. Turkmenistan agreed to the construction of a new rail line from Kazakhstan to Iran, and the Turkmen, Kazakh and Iranian presidents celebrated completion

Table 3.6 Economic performance 2015–2017

	Real GDP growth			Consumer price inflation			Overall fiscal balance			Current account balance		
	Annual change (%)			Year average (%)			Percent of GDP			Percent of GDP		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
Kazakhstan	1.2	1.1	4.0	6.7	14.6	7.4	−6.3	−5.4	−6.5	−2.8	−6.5	−3.4
Kyrgyz Republic	3.9	4.3	4.6	6.5	0.4	3.2	−2.3	−5.9	−4.4	−16.0	−11.6	−4.0
Tajikistan	6.0	6.9	7.1	5.8	5.9	7.3	−1.9	−9.8	−6.8	−6.0	−5.2	−0.5
Turkmenistan	6.5	6.2	6.5	7.4	3.6	8.0	−0.7	−2.4	−2.8	−15.6	−19.9	−11.5
Uzbekistan	7.9	7.8	5.3	8.5	8.0	12.5	−1.6	−0.5	−3.7	0.7	0.6	3.5

Source International Monetary Fund *Regional Economic Outlook: Middle East and Central Asia*, October 2018, 37
Note Turkmenistan data must be treated with caution

with a highly publicized ceremony to hammer in the final spike in December 2014. After the September 2016 death of Uzbekistan's President Karimov, his successor removed the exchange controls that hampered international transactions and quickly began bridge-building with neighbours. This paved the way for Uzbekistan, which is the most populous Central Asian country and has common borders with all four other Central Asian countries and Afghanistan, to resume its position as the cross-roads of Asia. In 2019, Uzbekistan followed the Kyrgyz Republic and Kazakhstan in removing visa requirements for many countries' citizens visiting the country.

The challenges of diversification are internal and external. Domestic economies must become sufficiently efficient that producers can increase output or develop new goods and services that are competitive in export markets. At the same time, the hard and soft infrastructure of international trade must also be improved. For traditional exports (e.g. cotton, gold, minerals, oil and gas) comparative advantage was sufficiently strong that high trade costs did not prevent trade, but export competitiveness of other goods depends on reducing the costs of international trade.

Since 2016 Central Asia has faced a window of opportunity for non-traditional exports. A rail "Landbridge" of regular freight train services now links Europe and China via Central Asia, and in recent years freight volumes have been doubling annually.[11] The Eurasian Landbridge began by connecting regional value chains in East Asia and Europe, primarily transporting car components from Germany to factories in China and electronics goods from China to Europe, but more services have gradually been offered and the composition of freight diversified (Pomfret, 2019b). The Landbridge passes through Central Asia, bringing abundant transit revenues to Kazakhstan, but the trains do not stop.

[11]In 2015 traffic on the China–Kazakhstan–Russia–EU route amounted to 46,000 TEUs. In 2016 it grew to 104,500 TEUs and in 2017 to 175,000 TEUs, which is on target for the goal of a million TEUs in 2020 announced by United Transport and Logistics Company—Eurasian Rail Alliance (UTLC ERA). See "Eurasian rail traffic in 2018 heading to a million TEUs," *Railfreight.com*, 24 December 2018—at https://www.railfreight.com/specials/2018/12/24/eurasian-rail-traffic-in-2018-heading-to-a-million-teus/.

China has embraced the Landbridge as part of the One Belt One Road project announced in Kazakhstan in September 2013, and formally launched in Beijing in May 2017 as the Belt and Road Initiative (BRI). Interestingly, official Chinese maps show the Belt passing south of the Caspian Sea through Iran and Turkey to Europe rather than the main current Landbridge route through Kazakhstan and Russia, north of the Caspian.[12] China may be seeking to avoid dependence on a single route on which there could be hold-up possibilities for transit countries to raise rates, or China may be seeking access to markets in Iran, the Middle East and North Africa. Irrespective of Chinese motives a second Central Asian route clearly offers potential benefits to the southern Central Asian countries.

Improved infrastructure of a modern rail network offers a window of opportunity, especially if China follows up on proposals to upgrade to high-speed lines. Whether Central Asian producers can take advantage of the window will depend on their governments improving domestic conditions for doing business and on facilitating trade through better soft infrastructure, e.g. removing bureaucratic and border regulations that inhibit firms and delay transport.

Challenges and Conclusions

Trade facilitation should be a win-win. The experience of the Turkmenistan–Uzbekistan–Kazakhstan–China pipeline built between 2006 and 2009 illustrated the benefits of cooperation. The prospects for regional cooperation to reduce regional trade costs are more positive than in earlier decades when leaders were focussed on nation-building or accumulating revenues from resource exports. Moreover, within the government and the wider population, Central

[12]A fortnight after UN sanctions on Iran were eased in January 2016, President Xi visited Tehran and the first train to Tehran left China before the end of the month. By the end of 2017, regular freight service between Ningxia, a Muslim-majority Autonomous Region of China, had been established.

Asian countries (with the possible exception of Turkmenistan) have far greater global-awareness than in 1991 (Box).[13]

Low-hanging fruit include, literally, fruit and vegetable exports from Central Asia to Russia, China and Iran and the Middle East. Centuries ago melons from Bukhara were prized in Damascus, and more recently until the 1990s Uzbekistan and Kyrgyzstan had flourishing fruit and vegetable sales in Russia; the trade collapsed because of the high trade costs of transiting Kazakhstan and entering Russia, but in 2019 trucks are much less likely to face ad hoc stops and fees. The Kyrgyz Republic has already shown that new exports can be developed in agriculture (beans), manufacturing (garments) and services (entrepôt bazaars).[14] With more cordial upstream–downstream relations the Kyrgyz Republic and Tajikistan should be able to develop their hydroelectric resources without risking armed conflict with Uzbekistan, and Afghanistan and South Asia offer huge potential markets. Of course, the infrastructure of transmission lines needs to be built, and that in turn depends on security in Afghanistan and Pakistan.

An important constraint on benefitting from Chinese rail links and potential infrastructure financing under the BRI is widespread suspicion of China in Central Asia which has a counterpart in China's concerns about Central Asian (especially Kazakh and Kyrgyz) support for Uighurs. Hurley, Morris, and Portelance (2018) have highlighted the non-transparency of Chinese aid and possibility of debt dependence, with Sri Lanka as the principal evidence and the Kyrgyz Republic included in their list of eight countries most at risk. The risk arises from China's eagerness to build a rail connection between Kashi and Andijan that would offer a shorter route from China to Iran and reduce dependence on transiting through Kazakhstan. Uzbekistan is also keen on the

[13]At the presidential level there has been a generational shift. In December 1991 the presidents were Nabiyev (Tajikistan, b.1930), Karimov (Uzbekistan, b.1938), Niyazov (Turkmenistan, b.1940), Nazarbayev (Kazakhstan, b.1940) and Akayev (Kyrgyzstan, b.1944). In 2019, the presidents—Rakhmon (Tajikistan, b.1952), Tokayev (Kazakhstan, b.1953), Berdimukhamedov (Turkmenistan, b.1957), Mirziyoyev (Uzbekistan, b.1957) and Jeenbekov (Kyrgyz Republic, b.1958)—were in their thirties when the USSR and central planning ended.

[14]On beans, see Tilekeyev (2013) and Tilekeyev, Mogilevsky, Abdrazakova, and Dzhumaeva (2018); on garments, see Birkman, Kaloshnika, Khan, Shavurov, and Smallhouse (2012), Jenish (2014) and Spector (2018); and on bazaars, see Kaminski and Mitra (2012).

project. However, if the Kyrgyz Republic were to finance construction of the line it would incur a debt roughly equal to GDP and with limited prospects of benefits beyond transit fees, which may be insufficient to service loans (see Appendix for more discussion).[15]

A Snapshot of Central Asia Today

Central Asia has changed greatly since 1992. In Almaty, a wannabe hamburger joint called *Shaggies* was the hot eating place; the young waitresses were heavily made up with short skirts, sending an image in contrast to Soviet drabness for those who could afford it and also the impression that they were working in top new jobs. By 2017, *Shaggies* was long-gone. Hamburgers were on offer at *McDonalds* or *Burger King* at prices affordable for the majority and of consistent quality (and clean toilets), but self-service. Further along Kunaev Street *Starbucks* and *KFC* are also doing good business. The advent of multinational fast food chains reflects not just higher disposable incomes, but also greater ease of doing business and reduced concern among franchisees that any profits would be a magnet for legal or illegal bandits.

All of this is in huge contrast to the winter of 1996–1997. In the depth of the transitional recession, poverty was highly visible even in the city centre, and few locals had cash to spend in cafes. Now the cafe culture is ubiquitous in Almaty city centre, and people worry about middle-income problems such as the traffic jams due to rapid increase in car ownership. Inequality appears to have increased, and is certainly visible in the number of Mercedes, Bentleys and other luxury cars. Yet even in rural areas of Kazakhstan or the Kyrgyz Republic signs of improved living standards are common.

In May 2017, I drove from Almaty to Bishkek, the Kyrgyz capital, and then from Bishkek to Naryn. Bishkek-Naryn is a four-hour drive through sparsely populated areas where cattle- and sheep-herders still ride on horseback (although the scattered houses mostly had parked cars). Naryn, a market town of 30,000 people, is less prosperous than Bishkek, but the bazaar was full of food, including citrus from Turkey and bananas from Ecuador, and of clothing and household goods from China. People looked healthy, and younger people wore styles that would not be out of place in

[15]The debt dependence hypothesis has several links for which data are imprecise. Chinese assistance is invariably as loans rather than grants and, although interest rates are claimed to be low, there is little evidence of their size. The costs of the rail link are uncertain, depending in part on the route; the shortest route passes through very sparsely populated countryside and the Kyrgyz government would prefer a longer more northerly route that would cost more.

western Europe, North America or East Asia. Mobile phones were ubiquitous; my car driver had two, one for messaging and the other for phone calls, because rates varied among the major service suppliers.

It is not the same across all of Central Asia. Tashkent is bustling but less affluent than Almaty or Astana, and Kyrgyz friends said that the cost of living was higher than in Bishkek. Turkmenistan, the least reformed and most closed of the five countries, has many remnants of the authoritarian Soviet regime, with a grandiose capital and, by the sparse evidence, ongoing lack of access to many modern goods and services, especially in rural areas. However, even in Turkmenistan, mobile phone penetration (subscriptions per inhabitant) is over 100%.

Conclusion

The five Central Asian countries faced unanticipated challenges and major shocks after December 1991. During the difficult transition decade of the 1990s, the governments established nations with different market-based economies and similar super-presidential regimes. During the 1999–2014 resource boom, the five countries' experiences diverged in a different dimension, with Kazakhstan and Turkmenistan benefiting from large oil and gas windfall gains, Uzbekistan benefitting to a lesser extent from mineral exports, and the Kyrgyz Republic, Tajikistan and, to a lesser extent, Uzbekistan becoming sources of migrant labour to the booming Russian economy (Table 3.7). During these two periods, the five countries made little attempt to integrate into the global economy beyond exporting raw materials and unskilled labour.

Since 2014 there has been a general recognition in the region that the resource boom is over and economic diversification is necessary. Fortuitously, this new perspective coincides with changes that create a potential window of opportunity as overland transport links across Eurasia are becoming more important and efficient. Whether individual countries can seize the opportunity to trade to the east and the west will depend on domestic conditions and on regional cooperation, given the importance of transit arrangements for most Central Asian trade. There are positive harbingers in the late 2010s, especially in Uzbekistan which

Table 3.7 Economic and social indicators, 2015/2016

	Population	Life expectancy at birth	GDP	GDP per capita	GNI per cap @ PPP	GNI per cap @ PPP	External debt	Internet users	Armed forces
	2015	2015	2016[a]	2016[a]	2015[a]	2016	2015	2016	2015
	HDR	HDR	WDI	WDI	HDR	WDI	WDI	WDI	WDI
	Millions	Years	$ billion	$	International 2011 dollars		$ million	Per 100 people	Thousands
Kazakhstan	17.6	69.6	133.7 (217.9)	8710 (12,602)	22,093 (20,867)	22,910	13,624	54.9	71
Kyrgyz Republic	5.9	70.8	6.6 (7.4)	1100 (1269)	3097 (3044)	5920	2368	28.3	20
Tajikistan	8.5	69.6	7.0 (9.2)	1110 (1114)	2601 (2517)	3500	1700	17.5	16
Turkmenistan	5.4	65.7	36.2 (47.9)	6670 (9032)	14,026 (13,066)	16,060	247	12.2	37
Uzbekistan	29.9	69.4	67.2 (62.6)	2220 (2037)	5748 (5567)	6240	3795	43.6	68

Source Pomfret (2019a), based on UNDP *Human Development Report 2016*; World Bank *World Development Indicators*
[a]2014 in parentheses

is the largest and most centrally located country in Central Asia, but whether they will be followed by positive economic developments will only be seen in the 2020s.

Appendix: The Kashgar–Osh–Uzbekistan Railway

The Urumqi-Kashi (Kashgar) railway was completed in 2000. In the early 2000s, China proposed extending the railway with a Kashi-Andijon line, linking to Uzbekistan's rail network, and was supported by Uzbekistan.[16] The China–Kyrgyzstan–Uzbekistan railway would traverse and tunnel from China's far western rail terminus at Kashi to the Kyrgyz–Uzbek border at Kara-Su, 20 kilometres north of Osh. The new line would then connect with Fergana Valley's existing rail network, which links the region's major cities and the GM Uzbekistan plant in Andijon.[17] However, the project was dormant between 2005 and 2010 due to political instability in the Kyrgyz Republic and poor relations between presidents Bakiyev and Karimov.

After visiting China in April 2011, Kyrgyz Deputy Prime Minister (and later Prime Minister) Babanov suggested that the deal would be signed in a matter of months, with only the site of the transfer station and the source of funding left to be resolved. Kyrgyz railways are set at Russian wide gauge (1520 millimetres), while China's are standard gauge (1435 millimetres).[18] In late 2011, Babanov floated the idea that mineral concessions would be offered in exchange for Chinese

[16]For example, at the UNECE-ESCAP Third Expert Group Meeting on Developing Euro-Asian Transport Linkages held in Istanbul on 27–29 June 2005. https://www.unece.org/fileadmin/DAM/trans/main/eatl/docs/3rd_EGM_Doc3_e.pdf.

[17]Uzbekistan often refers to the project as an upgraded rail link Tashkent–Angren–Pap-Andijon–Osh–Irkeshtam–Kashi–Lianyungang. Lianyungang–Andijon is the route for Korean car components going to the GM Uzbekistan assembly plant.

[18]China may prefer to lay standard gauge track all the way to Andijon. However, if there is to be a south–north link to Bishkek creating a domestic rail network, then Kyrgyzstan would prefer the transfer to be at the China–Kyrgyz border (Smith, 2012). In February 2015, Kyrgyz President Atambayev was reported to have decided to build a change of gauge station at Tuz-Bel, 47 kilometres east of Kara-Su. https://24.kg/archive/en/bigtiraj/174417-news24.html/.

funding of the railway. Similar suggestions had been made by presidents Akayev and Bakiyev, both of whose regimes were discredited by public perceptions that the authorities were selling off the country to foreign interests, and Babanov's proposal was denounced by rival politicians, nationalists, and activists. By early 2012, President Atambayev was claiming the government had no intention of dealing minerals for infrastructure, and in any case China, not Kyrgyzstan would profit from operating the railway to recoup its investment (Smith, 2012).[19] Nevertheless, on his first official visit to Tashkent in June 2012, President Atambayev discussed the project in detail, and President Karimov confirmed Uzbekistan's interest. In June 2013, the new Chinese Ambassador in Bishkek in his first press conference underlined Beijing's desire to see the rail link completed.

In June 2016, Xi Jinping and Islam Karimov opened the Angren-Pap railway. The 19.2-kilometre Qamchiq Tunnel eliminates the need for Uzbek trains to transit Tajikistan to reach the Ferghana Valley from Tashkent and provides an all-weather alternative to the road over the 2267-metre Angren Pass.[20] By improving the onward connection to Tashkent and the main trunk lines of Central Asia, the Angren-Pap link increases the attractiveness of a railway from Kashgar to the Ferghana Valley. The China–Kyrgyzstan–Uzbekistan railway network could be integrated into China's Belt and Road Initiative via connections to ports in Pakistan, Iran and Turkey.

During the visit of Kyrgyz President Sooronbai Jeenbekov to Uzbekistan on 13 December 2017, the China–Kyrgyzstan–Uzbekistan railway came to the forefront as the most important infrastructure project. "In terms of the railway construction project, the working groups of the two countries will meet on December 25 this year. Already today we see the beginning of the practical implementation of the agreements

[19]Smith also speculated that "Russia and Kazakhstan may be quietly stifling the entire project, as it would weaken their control over Central Asia's trade with China. Kazakhstan is already improving its own rail connections with China to absorb excess demand, and Russia does not want Kyrgyzstan to become a transit country for Chinese goods yet again."

[20]The inaugural train from Angren to Pap passed through the tunnel in 16 minutes. The rail line, built by China Railway Tunnel Group, also includes 25 bridges and 6 viaducts (Maitra, 2017).

Fig. 3.3 Projected Kashgar–Osh–Uzbekistan railway (*Source* Author's creation based on https://www.un.org/Depts/Cartographic/map/profile/kyrgysta.pdf)

on the establishment of joint ventures and production lines," Jeenbekov said. Also, there were plans for the development of road transport and regular passenger routes.[21]

Although the Kyrgyz Republic is projected to earn up to $200 million per year in transit fees, as well as improving transport links

[21]A truck convoy pioneered the Andijon–Osh–Irkeshtam–Kashi road route in November 2017 with the intention of setting up regular freight services in 2018; "Andijan-Osh-Irkeshtam-Kashgar transport corridor to start operating as of Feb 25", *Tashkent Times* 19 February 2018.

within and beyond the country, there is domestic opposition to the Kashi to Kara-Su rail project. Some opposition is anti-Chinese, including concerns that the construction workers will be Chinese not Kyrgyz. The main critique is that an east-west line across southern Kyrgyzstan will further accentuate the country's north–south divisions, linking Osh more closely to Uzbekistan, and even China, than to Bishkek (Pale, 2015; Smith, 2012) (Fig. 3.3).[22]

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[22]Chinese governments favour the more direct and cheaper Irkeshtam route via Sary-Tash but this is a lightly populated part of the Kyrgyz Republic. Kyrgyz governments have favoured a route via Torugart, but rather than the direct route west to Kara-Su and Andijon would prefer a longer route but going north through At-Bashy and Kazarman.

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