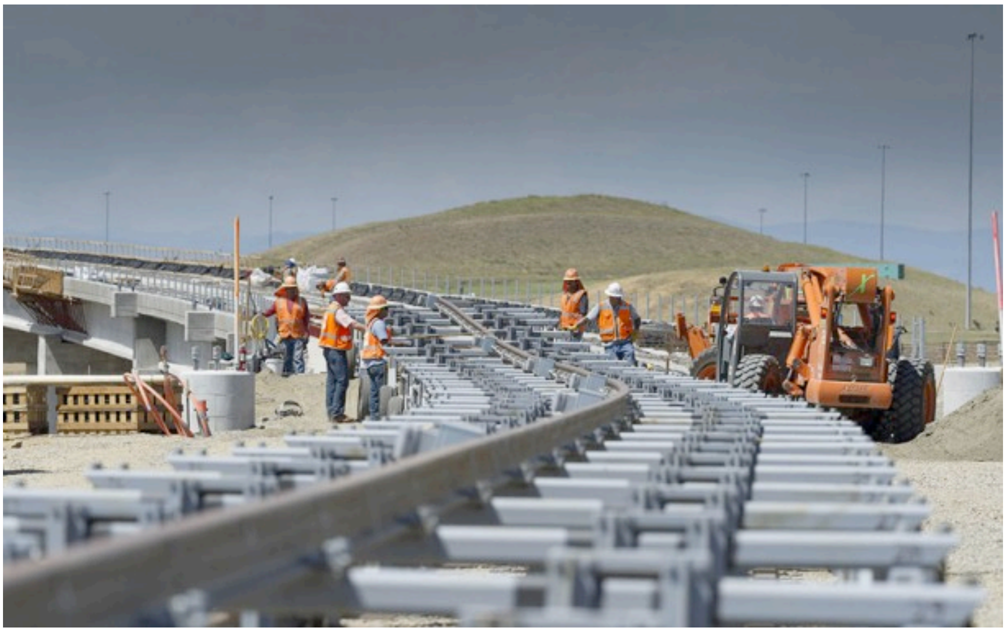
Central Asia's Economy 25 Years after Independence: Outcomes and Perspectives



Eurasian Council on Foreign Affairs

December 2016

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Introduction: Economic Transformation

After gaining independence in 1991, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan pursued different strategies as they transitioned from the centralised command economy of the former USSR to market-based economies. In the immediate aftermath of the Soviet Union's dissolution, each had to contend with major disruptions to their supply chains, falling output, hyperinflation, fractured infrastructure, rising poverty, and the onerous task of nation-building, which in Tajikistan soon led to civil war. How quickly and effectively each addressed the challenges they faced varied.

Kyrgyzstan initially led the way[1]. In the mid-1990s it implemented a series of policies aimed at price and trade liberalisation and privatisation, and in 1998 it became the first USSR successor state to accede to the World Trade Organisation (WTO). Kazakhstan lagged behind Kyrgyzstan in trade liberalisation but by the end of the decade had a well-functioning financial sector and had made good headway in infrastructure reform.

Although generally cautious in implementing economic reforms, soon after independence, Uzbekistan took steps to curb inflation and initiated small-scale privatisation and housing reforms. Granted observer status by the WTO in 1994, it has not yet become a full member of that body.

In contrast to some of its neighbours, Turkmenistan pursued minimal economic reform and by the end of the 1990s had a poorly developed market economy still subject to a relatively high degree of state intervention. It wasn't until 2013 that it finally established a commission to investigate accession to the WTO. By destroying the country's economy, the civil war in Tajikistan created an opening for unorganised privatisation of economic activity but without the necessary institutional supports for a well-functioning market economy, which had knock-on effects for years to come. Tajikistan acceded to the WTO in 2013, with Kazakhstan following two years later.

As seen in Fig. 1, annual growth in GDP across the region remained in negative territory into the mid-1990s and then began a slow ascent, with a measure of stability achieved in the early third of the second decade after independence[2]. Only then did GDP begin to climb rapidly in Kazakhstan and more slowly but nonetheless steadily in Turkmenistan and Uzbekistan, as seen in Fig. 2. During the period of soaring energy prices after the turn of the century, economic growth depended more on energy endowments than on the rigour of any reforms implemented. Although other factors were also at play, GDP grew much less in resource-poor Kyrgyzstan and Tajikistan than in the energy-exporting countries. Kazakhstan, which has large oil

1 R. Pomfret (2010). *Central Asia After Two Decades of Independence*, UNU-WIDER Working Paper No. 2010/53, pp. 2-6. https://www.wider.unu.edu/sites/default/files/2010-53.pdf

2 Data for Figs. 1-3 from World Development Indicators, World DataBank. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators

reserves, experienced particularly rapid growth during this period. Turkmenistan, which has large gas reserves, also benefited, as did Uzbekistan, which has sufficient oil reserves to meet its own needs and gas to export. High prices in the sector also attracted foreign direct investment (FDI) into the gas and oil extraction industries and supporting transport infrastructure, the extent of which can be seen in Fig. 3.

The Asian Development Bank Institute (ADBI) reports that from 2000 to 2012 Central Asia experienced faster growth than the global economy overall[3], but it is worth noting that growth occurred unevenly across the region. It was also not dependent on continued economic reform as measured by the European Bank for Reconstruction and Development (EBRD) Transition Indicators (see Table 1).

In all five countries, the most rapid and significant economic reform occurred during the first five years after independence. Thereafter progress either stalled or slumped, with the least movement seen across the board in the areas of governance and enterprise restructuring and competition policy. When compared with the GDP growth seen in Fig. 1 and Fig 2, the Table 1 data illustrate the disconnect between economic reform and economic growth after the turn of the century. Kyrgyzstan, which currently scores highest on the Transition Indicators, has experienced the slowest economic growth whereas Turkmenistan and Uzbekistan, which score lowest, have experienced much greater growth. This observation complicates policy discussions and may have implications for investment decisions.

Notwithstanding the rapid growth experienced by some Central Asian countries in their second decade of independence, the entire region was impacted by the 2008 – 2009 global financial crisis, as Figs. 1 – 3 clearly show. Because of its economic reliance on oil, Kazakhstan was hardest hit. ADBI analysts believe that the current difficulties faced by these countries – and especially by Kazakhstan – can be reversed. They detect a strong correlation between economic performance and the strength of a country's external links[4], and predict that economic ties between the region and rest of the world will increase, diversify and strengthen in coming years, with resource extraction and non-tradable services being key drivers of growth. These are the same sectors that currently attract FDI, which has contributed to their expansion.

Agriculture has diminished in importance in recent years, but the ADBI believes it can regain its former position as an economic driver if sufficient reforms are made and the transport infrastructure is improved to offer greater access to regional and global markets.

Infrastructure: The Backbone of Economic Growth and Stability

Upon independence, the new Central Asian states assumed responsibility for managing and developing their now-disarticulated national infrastructures and building their own international trade and transport networks, with little technical expertise and few financial resources to draw upon at first. As land-locked countries, establishing and maintaining connectivity to regional and global markets though

3 Asian Development Bank Institute (2014). *Connecting Central Asia with Economic Centers*, p. xv-xvii. https://www.adb.org/sites/default/files/publication/159307/adbi-connecting-central-asia-economic-centers-final-report.pdf

4 Ibid., pp. xvi-xvii.

neighbouring countries was – and still is – essential to their economic growth and well-being. Not only are such links key to maintaining reliable supply chains, they facilitate cross-border movement of domestically-sourced raw materials and finished goods and open potentially lucrative overland transit channels between Europe, eastern Asia and the Middle East. But developing them requires both hard and soft infrastructure improvements, as well as a degree of regional cooperation that has sometimes proven difficult to achieve. It also takes many years and considerable capital investment. While excellent progress has been made thus far, much remains to be done. Each country now has transport and more wide-ranging development plans in place to address these issues, and all five participate in the Central Asia Regional Economic Cooperation (CAREC) Program, which was established in 1997 to facilitate regional cooperation and integration in the priority areas of transport, trade, and energy. The five Central Asian countries are joined in CAREC by neighbouring countries and high-level multilateral partners such as the ADB, EBRD and IMF.

Under the Soviet Union, infrastructure projects were centrally controlled, with the transport and energy lines linked into the Soviet infrastructure. As a result, Central Asia's rail and road networks and oil and gas pipelines were oriented toward Russia on a north-south axis with nearly no links toward China, Iran and other regional neighbours, and nearly all of them passed through Kazakhstan, which is the only Central Asian country to share a land border with Russia. The situation with rail transport was further complicated by a difference in track gauge between the USSR and surrounding countries. That problem was passed on to the successor states and even now results in a break-of-gauge at border-crossings that requires specially designed rolling stock that can be converted to the new gauge or the transloading of freight and passengers, both of which add to transit times and costs. Over the years, funding channelled through CAREC has supported a variety of national initiatives to expand the rail network, rehabilitate existing lines, upgrade the rolling stock, and improve border-crossing. Rail-related projects are ongoing in all five countries and significant outcomes have already been achieved[5]. Kazakhstan, which inherited most of the Soviet-era rail lines, now has over 14,000 km of track. Uzbekistan has 3,500 km, Turkmenistan 2,900 km, Tajikistan 680 km and Kyrgyzstan 470 km[6].

Rail networks – and especially cross-border and east-west links – have been a major consideration in formulating national and regional development strategies, and significant steps have been taken to improve connectivity, especially along the six multi-modal transit corridors identified by CAREC. In 2014, Kazakhstan, Turkmenistan and Iran opened a new line connecting Central Asia to the Middle East. Besides increasing capacity, it shaved 600 km off the existing route and thereby reduced transit times and costs. Economic analysts expect the new route to increase trilateral trade from 3 to 10 million tons in the short term and double it again by 2020[7]. This seems plausible given that the Turkmenistan-Kazakhstan portion, opened in 2013, boosted trade between those two countries by 38% in its first eight months of operation.

5 CAREC (2013). Regional Cooperation at Work in Central Asia. http://www.carecprogram.org/index.php?page=carec-program

6 C. Putz (2016). Can China Fix Central Asia's Soviet Rail Legacy? *The Diplomat*. http://thediplomat.com/2016/01/can-china-fix-central-asias-soviet-rail-legacy/

7 Inside the Cocoon (2014). Kazakhstan, Turkmenistan and Iran Launch Railroad to Get Trade on Track, *Central Asia Today*. http://www.eurasianet.org/node/71166

Kazakhstan has completed several other major projects in recent years[8]. These include: the Zhezkazgan-Beineu line, which reduced east-west transit times by four days and cut costs by as much as 30%; the Arkalyk-Shubarkol line, which reduced transit times between the coal mining area of central Kazakhstan and its northern border by up to two days and cut costs 35% on average; and the Zhetygen-Korgas link, which connects southern Kazakhstan to China. Additional projects are slated for coming years under the Nurly Zhol program, which focuses on road construction, industrial energy and marine infrastructure, completion of construction of SEZ " Khorgos Dry Port, etc. These will further increase capacity and reduce transit times and costs.

Other Central Asian countries are taking concrete steps to improve rail transport, often with financial and technical assistance from major IGOs or countries with vested interests. Under its *One Belt, One Road* initiative, China is helping finance and build regional rail projects that will ultimately serve its own economic interests.

At the beginning of 2016 the China-led Asia Infrastructure and Investment Bank (AIIB) was created to offer finance to infrastructure projects as part of China's Silk Road initiative, with a focus on bolstering links across Asia, the Middle East, Africa and Europe.

A China-Kyrgyzstan-Uzbekistan route is currently under development. Uzbekistan's Angren-Pap portion of that route opened earlier this year but development of the stretch through Kyrgyzstan has stalled due to a lack of progress in negotiations between China and that country.

A rail link connecting Turkmenistan, Afghanistan and Tajikistan, known as TAT, is also being developed. TAT is part of a regional initiative to create a transit corridor from Central Asia to the Indian Ocean, but it too has stalled. The Turkmenistan segment is scheduled for completion in late 2016 but the Asian Development Bank (ADB), citing concerns over the security situation in Afghanistan, has temporarily suspended its funding to Tajikistan for work on its segment[9]. That both China and Kazakhstan have expressed interest in linking to the Angren-Pap line, once TAT is completed, indicates just how important this route is seen to be.

But rail constitutes just one component of the regional transport infrastructure. Also important are road, air, and sea and how smoothly they articulate with one another to create a fully-integrated and efficient transportation network that can support inter- and multi-modal through shipping.

Kazakhstan, China and Azerbaijan have initiated the Trans-Caspian International Transport Route, an ambitious 4,677 km rail-road-sea route that will eventually connect China to Europe via Central Asia over the Caspian Sea. According to current projections, this route will have an annual capacity of 27.5 million tons and initially generate a US$1 billion net profit, a figure expected to increase over time[10]. To

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8 "РГУ" Служба центральных коммуникаций Министерства информации и коммуникаций Республики Казахстан (2015). КИСИ: Казахстан становится транспортным центром Евразии. http://ortcom.kz/ru/news/kisi-kazahstan-stanovitsya-transportnim-tsentrom-evrazii.6045

9 P. Chorshanbiyev (2016). Construction of the TAT Railway Remains Questionable, *Asia Plus*. http://www.asiaplus.tj/en/news/construction-tat-railway-remains-questionable-says-tajik-railway-official

10 E. Grey (2015). Can the Trans-Caspian Route Deliver the next Freight Revolution? http://www.railway-

facilitate transport along this route, Kazakhstan has developed the port of Aktau on the Caspian Sea. Turkmenistan is also seeking to more fully integrate cross-Caspian shipping into its transport network. It is currently upgrading its port at Turkmenbashi, which is the terminus of a rail line from the port to Ashgabat, the country's capital, with links to destinations further east.

In addition to rail, CAREC is facilitating projects aimed at upgrading the region's highway network[11]. With CAREC support and funding from the EBRD, Kazakhstan is building 900 km of highway between the Caspian Sea port of Aktau and Atyrau, which is at the heart of its oil-producing region. With ADB assistance, Kyrgyzstan is upgrading the 52 km road from Bishkek to Kara-Balta to make it more climate-resilient, and Tajikistan has upgraded the road between its capital, Dushanbe, and the Kyrgyzstan border. All three countries have several other large projects at various stages of completion. Similar work is under-way in Uzbekistan and Turkmenistan[12]. In Uzbekistan, 395 km of highway are slated for rehabilitation under the CAREC Corridor 2 Road Investment Program, 101 km of which were completed in 2015. Improvements are also being made to two other major highways and a feasibility study for a third CAREC investment program is in progress. In Turkmenistan, rehabilitation of the Ashgabat-Turkenbashi highway is ongoing.

A great deal of attention has been focused on the region's overland networks, but air transport is increasingly important. Recognising that, CAREC has facilitated rehabilitation of the Astana and Atyrau airports in Kazakhstan and improvements to Tajikistan's Khujand airport and the country's air fleet and air navigation systems. Between 2000 and 2015, the amount of freight shipped by air through Uzbekistan increased from 79.6 million tons/km to 114.3 million tons/km, and the number of passengers carried increased from roughly 1.74 million to about 2.49 million. In Kazakhstan, the amount of freight shipped by air more than tripled and the number of passengers carried increased 11-fold. Over that same period, Kyrgyzstan, Turkmenistan and Tajikistan registered declines in the volume of freight shipped by air but increases in the number of passengers carried[13]. Further developments in air transport are expected with Uzbekistan's restoring links to regional neighbours, beginning with the resumption of Dushanbe-Tashkent flights in January 2017.

Although the initiatives just described are regional in scope, they constitute important steps toward opening intercontinental transit corridors with high revenue generating potential. Ninety percent of the freight shipped between Europe and China currently goes by sea via the Suez Canal and much of the rest is moved by air[14]. Well-developed and efficiently operating land corridors would cut transit times and costs considerably but require quality hard and soft infrastructure to do so.

The somewhat uneven progress made in improving the hard infrastructure in Kazakhstan, Kyrgyzstan and Tajikistan (the countries for which data are available) in

technology.com/features/featurecan-the-trans-caspian-route-deliver-the-next-freight-revolution-4684339/

11 See CAREC projects lists at http://www.carecprogram.org/index.php?page=carec-program.

12 CAREC (2016). Transport Sector Progress Report and Work Plan, 2016–2018. http://www.carecprogram.org/uploads/events/2016/06-15th-TSCC-Meeting/2016-15th-TSCC-Progress-Report.pdf

13 From the World Development indicators, World DataBank.

14 S. Starr, S. Cornell and N. Norling (2015). The EU, Central Asia, and the Development of Continental Transport and Trade, p. 6. https://silkroadstudies.org/resources/2015-starr-cornell-norling-eu-central-asia-continental-transport-and-trade.pdf

recent years can be seen in Table 2. How efficiently and effectively that hard infrastructure functions depends to a large extent on the financial, economic, communication and education systems and other soft infrastructure in place to support it. The degree of soft infrastructure improvement over the past decade can be seen in Table 3. Hard and soft infrastructure work together to determine logistic performance, which is key to a country's economic performance and competitiveness. The World Bank's Logistics Performance Index (LPI) measures the efficiency of the international and domestic supply chains[15]. Since 2007 (2010 for Turkmenistan), the overall LPI scores for Kazakhstan, Uzbekistan and Tajikistan have risen but the scores for Kyrgyzstan and Turkmenistan have fallen, which correlates with the patterns seen in Tables 2 and 3. Further improvement is needed in all five countries.

Significant steps have also been taken to enhance Central Asia's energy infrastructure, and especially energy transport. China, seeking to improve its own energy security, has played a prominent role in the gas and oil sector[16]. Chinese companies now control 20% of Kazakhstan's oil production, making it China's leading energy partner in the region, and the International Energy Agency (IEA) predicts that China will import half the region's gas and oil by 2020. This reorientation of energy flows eastward has necessitated infrastructural enhancements and cross-border cooperation. China has invested heavily in the region's oil-related infrastructure, notably building a 2,300 km pipeline from the Caspian Sea to the Xinjiang province. China has also financed two refineries in Kyrgyzstan, which are supplied by Chinese National Petroleum Company (CNPC) oil fields in Kazakhstan. Turkmenistan, the region's main gas exporter, exports to China through the Central Asia-China Gas Pipeline. In 2013 China signed agreements with Uzbekistan, Tajikistan, and Kyrgyzstan to expand its capacity by adding a fourth line.

There are other noteworthy initiatives in the gas and oil sector, for example the stalled Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, which will deliver gas from Turkmenistan to the partner countries when completed, thereby reducing Turkmenistan's economic dependence on Russia and China. Financial barriers to the project's development have recently been overcome by a loan package from the Islamic Development Bank (IBD) worth US$500 million[17]. Notwithstanding security concerns in Afghanistan, it has reinvigorated the project, which is now slated for completion in 2019. Meanwhile, Turkmenistan is seeking to diversify its gas sector even further by building a trans-Caspian pipeline.

There are also significant developments in the electricity sector, with CAREC supporting development and rehabilitation projects across the region. Uzbekistan and Tajikistan already deliver surplus electricity to neighbouring countries and in 2013 delivered nearly 3000 gigawatts to Afghanistan alone[18]. By the end of 2016 the two countries should have installed or rehabilitated more than 750 km of transmission lines. If it goes ahead, these improvements will support CASA-1000, which aims to provide Afghanistan and Pakistan with hydropower from Kyrgyzstan and Tajikistan.

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15 The World Bank (2016). LPI International Score Card. http://lpi.worldbank.org/international/scorecard/line/128/C/TJK/2016#chartarea

16 M. Hart (2016). Central Asia's Oil and Gas Now Flows to the East, *The Diplomat*. http://thediplomat.com/2016/08/central-asias-oil-and-gas-now-flows-to-the-east/

17 Z. Bhutta (2016). Islamic Development Bank Offers $500m for TAPI Pipeline, *The Express Tribune*. http://tribune.com.pk/story/1226125/loan-islamic-development-bank-offers-500m-tapi-pipeline/

18 M. Hart (2016).

Central Asia: A Land of Opportunity

The infrastructure improvements described above – and there are many more across all sectors of Central Asian economy and society – are noteworthy for at least three reasons. First, they show that Central Asia is open for business, on the move, and outward-looking. Second, they indicate an evolving business climate in which there is a willingness to support new and established domestic and international ventures, and commitment at the highest levels of government to tackling remaining barriers to growth and investment. Finally, they highlight potentially lucrative opportunities for inward investment and demonstrate a desire to forge cross-border partnerships. Although additional reforms and improvements to infrastructure are needed across the region, these three factors have already created an environment in which there are ample opportunities for inward investment and where new and established businesses can flourish.

That the overall business climate in Central Asia is steadily, if unevenly, improving is confirmed by the World Bank's Doing Business report, which examines a number of business-related parameters, including ease of starting a business, getting credit, protecting investors, and trading across borders. Since 2008, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan have implemented a decent number of regulatory reforms pertinent to business (data are not available for Turkmenistan). As seen in Table 4, the World Bank has judged the vast majority of them favourable to business. Among the 190 countries on the 2017 Doing Business ranking[19], Kazakhstan stands at 35th (71st in 2008), Kyrgyzstan at 75th (94th in 2008), Uzbekistan at 87th (138th in 2008) and Tajikistan at 128th (153rd in 2008). As the numbers in parentheses indicate, all four countries have climbed the ranking since 2008, a reflection of the effort exerted by national leaders to improve the business climate in their countries. For the most part, business has responded positively, as seen in the brief country reports below.

Kazakhstan

Due to its abundant hydrocarbon and subsurface mineral resources, since independence Kazakhstan has attracted multinational giants such as Chevron, Exxon, Shell, BG, Agip, Total, and CNPC to the gas and oil sector and ArcelorMittal and Sumitomo to the mining sector. These highly profitable sectors still dominate the economy, but the 2008–2009 global financial crisis underscored the need to diversify in order to ensure sustainable growth and development. This led to the development of the State Program for Accelerated Industrial and Innovative Development for 2010–2014 and its 2015–2019 successor[20]. The first phase of the initiative was a success: between 2008 and 2014, the country registered a 180% increase in industrial output. Seven hundred productions were introduced leading to the creation of 75,000 permanent jobs and the production of 400 new products[21]. Then, in October 2015, the

19 World Bank (2016). Doing Business 2017, Europe and Central Asia. http://www.doingbusiness.org/rankings and World Bank (2007) Doing Business 2008, pp. 103-162. http://www.doingbusiness.org/~/media/WBG/DoingBusiness/Documents/Annual-Reports/English/DB08-FullReport.pdf

20 Republic of Kazakhstan. State Program for Accelerated Industrial and Innovative Development. http://www.mfa.kz/images/docy-eng/GPFIIPPeng.pdf and http://invest.gov.kz/uploads/files/2015/12/03/state-program-of-industrial-innovative-development-of-kazakhstan-for-2015-2019.pdf

21 A. Konkakov and G. Kubayeva (2016). Progress in Diversification of the Economy in Kazakhstan, p.3.

government announced its intention to sell 65 companies in the gas and oil, nuclear and transportation sectors. If successful, this will be the largest privatisation of state-owned companies since independence[22], an ambitious undertaking aimed at attracting FDI and further diversifying the economy.

Meanwhile, foreign companies already operate in other sectors of the economy[23]. Just this year in Almaty Carrefour, the world's second largest retail group, opened its first hypermarket in Kazakhstan. It was preceded by German retailer Metro, which now operates shopping centres in seven cities. Dairy producer Danone opened its first plant in the Almaty region in 2010. Since then, it has enjoyed a five-fold increase in production, its workforce has increased to over 300 employees, and its line has grown to include more than 50 different products.

Kazakhstan's transportation sector has also attracted attention. GE has operations in Astana, where it employs 600 people to make equipment ranging from locomotives to elements of nuclear reactors, gas turbines, and aircraft engines. Spanish company Talgo has a factory in SEZ Astana that employs around 400 people to make railway passenger cars, and Alstom manufactures locomotives and other rail-related equipment out of facilities in Astana and Almaty. FIAT's specialised branch IVECO assembles commercial vehicles and trucks from a plant in Kostanai, and in 2014 alone produced 300 vehicles. Toyota also operates in Kazakhstan. Between May 2014 and September 2015 it assembled 880 vehicles in its Fortuner line and expects to increase annual production to 3,000 units.

Foreign companies also operate in the construction sector. Heidelberg Cement has been in Kazakhstan since 2005 and now has ready-mix plants in Astana, Almaty and Aktau and other facilities that produce inert materials. Knauf entered in 2001 and, with three plants, is now the country's largest producer of construction materials.

Other major international companies include BASF (chemicals), NYK Line (transportation), Italcementi (cement), Polpharma (pharmaceuticals), and Glencore International (commodities).

Kyrgyzstan

Kyrgyzstan is a lower-middle-income country with an economy vulnerable to external turbulence[24]. This is due to its reliance on the Kumtor gold mine, which accounts for about 10% of GDP, and worker remittances, which amounted to about 30% GDP in 2011–2015. The government acknowledges that in order to achieve economic stability and sustainable growth it must improve SME competitiveness, strengthen the banking sector, and diversify the economy[25]. It has identified mining, energy, tourism, agriculture, transport, and finance as priority sectors for development and produced a list of projects presenting opportunities for FDI[26]. Its immediate goals are to become a

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https://www.msm.nl/resources/uploads/2016/09/MSM-WP2016-8.pdf

22 M. Desai and E. Wheeler (2016). Can Kazakhstan's Privatization Plan Succeed? *The Diplomat* *http://thediplomat.com/2016/02/can-kazakhstans-privatization-plan-succeed/*

23 Министерство по инвестициям и развитию Республики Казахстан(2016) http://invest.gov.kz/pages/galery

24 World Bank (2016). Overview. http://www.worldbank.org/en/country/kyrgyzrepublic/overview

25 National Council for Sustainable Development, Kyrgyz Republic. National Sustainable Development Strategy, 2013–2017, pp. 51-69. http://faolex.fao.org/docs/pdf/kyr143374E.pdf

26 Агентство по продвижению инвестиций и экспорта при Министерстве экономики Кыргызской Республики (2014). http://www.invest.gov.kg/ru/o-strane/obshchaia-informatciia/ passim.

transit country through which goods move efficiently and a major exporter of electricity. Some progress has been made toward achieving the first objective.

Kyrgyzstan now has five FEZs strategically positioned for access to key sectors – including mining and tourism – and cross-border trade. It also has two major trading junctions, which primarily benefit SMEs. The Dordoi market near Bishkek moves goods from China to Kazakhstan and Russia. It directly or indirectly involves 800,000 people and has an annual turnover of US$4 billion. The Kara-Suu market near Osh moves goods from China to Uzbekistan and Tajikistan. It employs 16,000 people and has an annual turnover of US$600 million.

Kyrgyzstan is also well-positioned to achieve its second near-term objective, given adequate infrastructure development. At present it realises only 8 - 9.5% of its electricity-generation potential. Development of small- and medium-scale power generating facilities on minor rivers could produce a large surplus of exportable electricity, which would be welcomed by the country's energy-poor neighbours.

Tajikistan

Tajikistan is Central Asia's poorest country and, like Kyrgyzstan, is heavily reliant on remittances from workers in Russia. Until 2015, remittances averaged 50% of GDP but dropped to 34 - 35% that year due to Russia's economic crisis[27]. This led to a 30% drop in real income and a currency devaluation. Despite this, the country registered positive advances under its National Development Strategy 2015: it had reduced poverty from 53% in 2007 to 31% in 2015, maintained economic growth at around 7%, established 1,600 new manufacturing enterprises, and created a million new jobs[28]. Under the first phase of its NDS 2016 – 2030, the country plans to transition to an economic model aimed at further increasing growth, investment and production.

Since 2008, investment in Tajikistan has averaged only 15% of GDP[29]. Most of that has come from China, Russia and Iran, but the United Kingdom and other Western countries are now looking to Tajikistan for investment opportunities. Official priority areas for FDI are hydropower, non-ferrous metals, consumer goods, construction, agriculture, food processing, and tourism[30]. As early as 2012 Mr. Nigel Peters, the Director of British Enterprise saw opportunities for investors in the very challenges some find daunting[31]. For example, with 400 mineral reserves under investigation in the country and 50 being extracted, Mr. Peters identified ample supply-chain and finance opportunities. And, with Tajikistan holding 4% of the world's hydroelectric potential – only a fraction of which is currently being harnessed – he saw investment potential in projects of all scale, despite the country's recurrent power shortages.

Turkmenistan

27 U.S. Bureau of Economic and Business Affairs (2016). Investment Climate Statement for 2016, Tajikistan. http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2016&dlid=254493#wrapper

28 Republic of Tajikistan (2016). Summary of Proceedings, National Development Council, pp. 1, 4. http://untj.org/dcc/index.php/news/152-2016-national-development-council-session-2

29 World Bank (2016). Overview. http://www.worldbank.org/en/country/tajikistan/overview

30 Бизнес-петуводитель Республики Таджикистан Торгово-промышленной Палаты Республики Таджикистан. http://tpp.tj/put2011/investicionnie_proekty.htm

31 N. Peters (2012). Tajikistan: Business Opportunities for UK Companies, pp. 8-20. http://www.britishexpertise.org/bx/upload/Newsletter/Tajikistan_scoping_report.doc

Averaging around 11% growth in GDP since 2007, largely due to its large natural gas reserves and high international commodity prices, Turkmenistan achieved upper-middle-income country status in 2011[32]. Notwithstanding its status as one of the fastest growing economies in the world, structural changes such as privatisation, market liberalisation, and the creation of regulatory institutions have been slow in coming and limited in scope. Moreover, Turkmenistan's economy has come to depend on the export of a single commodity, natural gas, to a single market, China, which has proven problematic. Since gas and oil prices plummeted in 2014, Turkmenistan's annual growth has more than halved. The ADB's economic forecast puts increase in GDP at 5.5% for 2016 and 2017[33], a lower rate than in recent years but still higher than its Central Asian neighbours, with the exception of Uzbekistan. The gas and oil sector is still floundering, but other sectors of the economy registered solid growth in the first half of 2016: trade was up 16%, transport 9.9%, agriculture 6.9%, construction 4.4%, and industry 2.1%. Overall investment increased by 5.7%. These figures suggest capacity for economic diversification and ample opportunity for FDI, given continuing economic reform.

Despite having the world's 4th largest natural gas reserves, with gas and oil extraction accounting for more than 60% of GDP, Turkmenistan ranks only 10th in natural gas production[34]. This is one of the areas in which the government is most receptive to FDI, opening new export channels – the TAPI pipeline, for example – and forging new agreements. Other favoured areas are textiles and communications.

Uzbekistan

Uzbekistan's solid economic growth over the past decade is attributable to high commodity prices and increased gas, copper and gold exports. But declining commodity prices since 2014, the recession in Russia (its second-largest trading partner and main source of remittances), and a slowing economy in China (its largest trading partner) have caused the government to take steps to further diversify the economy. In late 2015, it began implementing new structural reforms, including a privatisation scheme to sell stakes in 1,247 state-owned enterprises (SOEs) by the end of 2016[35]. During the first half of 2016, 305 SOEs were privatised and foreign investors obtained minority shares in 30 joint stock companies. Analysts are generally optimistic and predict GDP growth to hold steady around 7.4% for the next few years, which is down from recent years but higher than in other Central Asian countries.

This follows on from reforms implemented after FDI dropped 35% in 2011. Those reforms helped move the country up the World Bank's Doing Business ranking and increase FDI from US$629 million in 2013 to US$1,068 million two years later[36]. Gas and oil have proven particularly attractive to investors, and foreign companies such as

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32 World Bank (2016). Country Snapshot – Turkmenistan. http://pubdocs.worldbank.org/en/171261475745549053/Turkmenistan-Snapshot-Oct2016FINAL.pdf
33 ADB (2016). Turkmenistan: Economy. https://www.adb.org/countries/turkmenistan/economy
34 U.S. Bureau of Economic and Business Affairs (2016). Investment Climate Statement for 2016, Turkmenistan, pp. 1-3. http://www.state.gov/e/eb/rls/othr/ics/investmentclimatestatements/index.htm?year=2016&dlid=254495
35 World Bank (2016). Country Snapshot – Uzbekistan. http://pubdocs.worldbank.org/en/318321475745550723/Uzbekistan-Snapshot-Oct2016FINAL.pdf
36 Santandar (2016). Uzbekistan: Foreign Investment. https://en.portal.santandertrade.com/establish-overseas/uzbekistan/investing

LUKOIL, Gazprom, and CNPC now operate in that sector. The automobile industry is also well-established and has attracted significant foreign investment. More than 70 companies employing over 25,000 people now operate under the umbrella of the Uzavtosanoat JSC, which was founded just three years after Independence. These companies include GM Uzbekistan, SamAuto, MAN Auto Uzbekistan, and GM Powertrain Uzbekistan, which produce and export such well-known brands as Isuzu, MAN, Daewoo, and Chevrolet[37]. Mineral extraction is also attractive. Uzbekistan values its mineral resources at US$3.3 trillion and is seeking US$3.3 billion in foreign investment over the next three years to modernise the industry. It is also seeking investment in chemicals (US$800 million), electricity (US$300 million), clean development (US$300 million), food (US$200 million), electrical engineering (US$120 million), construction (US$430 million), and other sectors[38].

Conclusion: Official Projections

In the early years of independence, the five Central Asian countries faced economic decline, increased poverty and other challenges but they nonetheless managed to restructure and grow their economies. In the second decade of independence, economic growth in the region exceeded the global average, largely due to high commodity prices in the oil and gas and mining sectors. Even Tajikistan and Kyrgyzstan, which lack significant hydrocarbon deposits, benefited through remittances. Since 2014, the entire region has faced slowing economic growth due to a worldwide drop in commodity prices, the recession in Russia, and China's economic downturn and subsequent restructuring, external conditions most analysts do not expect to improve in the near term. The Central Asian countries have reacted to these pressures with a combination of further reforms (including many aimed at improving the investment climate), economic diversification and continued investment in infrastructure, in many cases with assistance from international financial institutions. Whether the steps each has taken are adequate remains to be seen, but there is reason for optimism.

According to the EBRD, economic growth across Central Asia slowed even further in the first half of 2016 but remittances stabilised, albeit at a lower level than during the same period in 2014[39]. The EBRD expects four of the region's five countries to register lower growth in GDP in 2016 than in 2015. Turkmenistan is the exception. The bank predicts growth there to remain constant at 6.5% this year and then increase to 7.1% in 2017. EBRD projections for 2017 point toward the green shoots of recovery. It expects Kazakhstan's economy to grow 2.4% in 2017, compared to only 0.7% in 2016. This would put the 2017 growth rates for both Kazakhstan and Turkmenistan higher than they were in 2015. The bank is also projecting increased growth for Kyrgyzstan (7.1% in 2017 compared to 6.5% in 2016) but further deceleration in Tajikistan (4.1% in 2017, down from 4.5% in 2016) and Uzbekistan (6.2% in 2017 compared to 6.5% in 2016). The ADB and IMF have also crunched the

37 UZAuto. Структура и стратегия развития компании. http://uzavtosanoat.uz/ru/struktura-i-strategiya-razvitiya-kompanii.html
38 Министерство внешних экономических связей, инвестиций и торговли Республики Узбекистан. http://www.mfer.uz/ru/investments/
39 EBRD (2016). Regional Economic Prospects in EBRD Countries of Operations, pp. 5, 14. http://www.ebrd.com/documents/comms-and-bis/regional-economic-forecasts.pdf

numbers and come up with their own slightly more optimistic projections[40]. They each forecast increased growth in all five countries in 2017, which lends credence to the EBRD's suggestion of the beginnings of economic recovery.

The ADB identifies regional cooperation, facilitated by CAREC and the China-led One Belt, One Road initiative among others, as the linchpin of economic recovery and diversification in Central Asia[41]. It argues that not only will greater cross-border cooperation enable countries to create the economies of scale needed to be competitive in the international marketplace, but it will also open access to new markets and create better supply chain channels. Most Central Asian countries already realise that they need to increase private sector involvement in order to diversify their economies. As they know, that will require a reduction in SOEs and added support for SMEs as well as improvements in the business climate and to the infrastructure. Although perhaps not going as fast or as far as some external observers might wish, countries across the region are already making positive advances in that direction, only some of which have been touched upon in this brief overview.

40 ADB (2016). Asian Development Outlook 2016, pp. 101-121. https://www.adb.org/sites/default/files/publication/182221/ado2016.pdf; IMF (2016). World Economic Outlook 2016, p.45. http://www.imf.org/external/pubs/ft/weo/2016/02/pdf/text.pdf

41 W. Zhang (2016). The New Business Climate for the Private Sector in Central Asia. https://www.adb.org/print/node/184564

About the ECFA

Central Asia is a region larger than Western Europe and contains five countries: Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. Blessed with some of the richest and most diverse resources anywhere in the world, over the last twenty-five years the counties of the region have shown commitment to become a reliable, long-term partner of Europe.

Kazakhstan is Central Asia's engine for economic growth, and the Government of Kazakhstan has taken the lead in developing relations with the countries of Europe. In its commitment to the process of deepening political and economic relations with Europe, Kazakhstan has participated in the establishment of the **Eurasian Council on Foreign Affairs** (ECFA). The first Honorary President of the Eurasian Council on Foreign Affairs is H.E. Erlan Idrissov, Foreign Minister of the Republic of Kazakhstan.

The Eurasian Council on Foreign Affairs aims to establish itself as a valuable and independent source of high-quality research, publications and information that will keep European countries fully abreast of the fast-changing development of the Central Asian region.

The grant for the establishment costs of the ECFA has been provided by the Ministry of Foreign Affairs of the Republic of Kazakhstan. The ECFA and its staff are grateful for this generous donation and thank the Kazakhstan MFA. It is envisaged that, as with similar institutions in other countries, governments in the region as well as corporate sponsors and private individuals will over the longer-term join the funding base of the ECFA.

A list of upcoming publications can be found here. You can subscribe here to receive all news updates as well as the ECFA's regular newsletters and bulletins.

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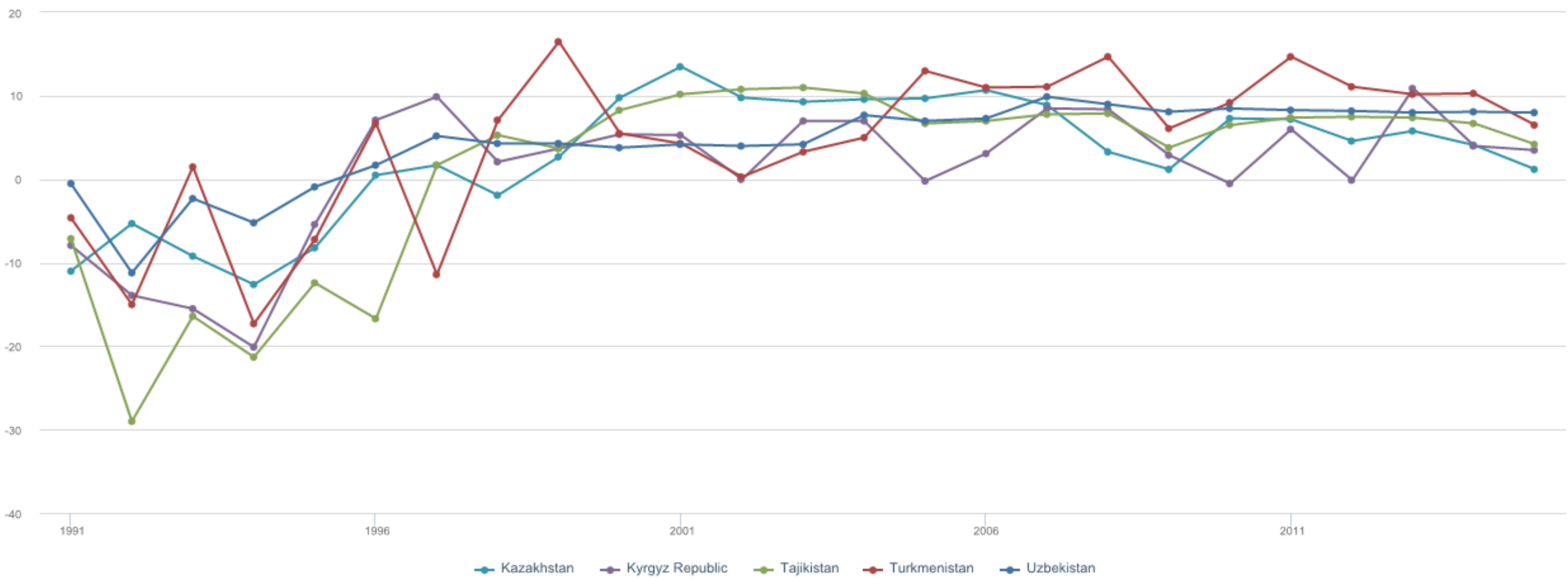
Fig. 1: GDP GROWTH IN CENTRAL ASIA (annual %), 1991-2015

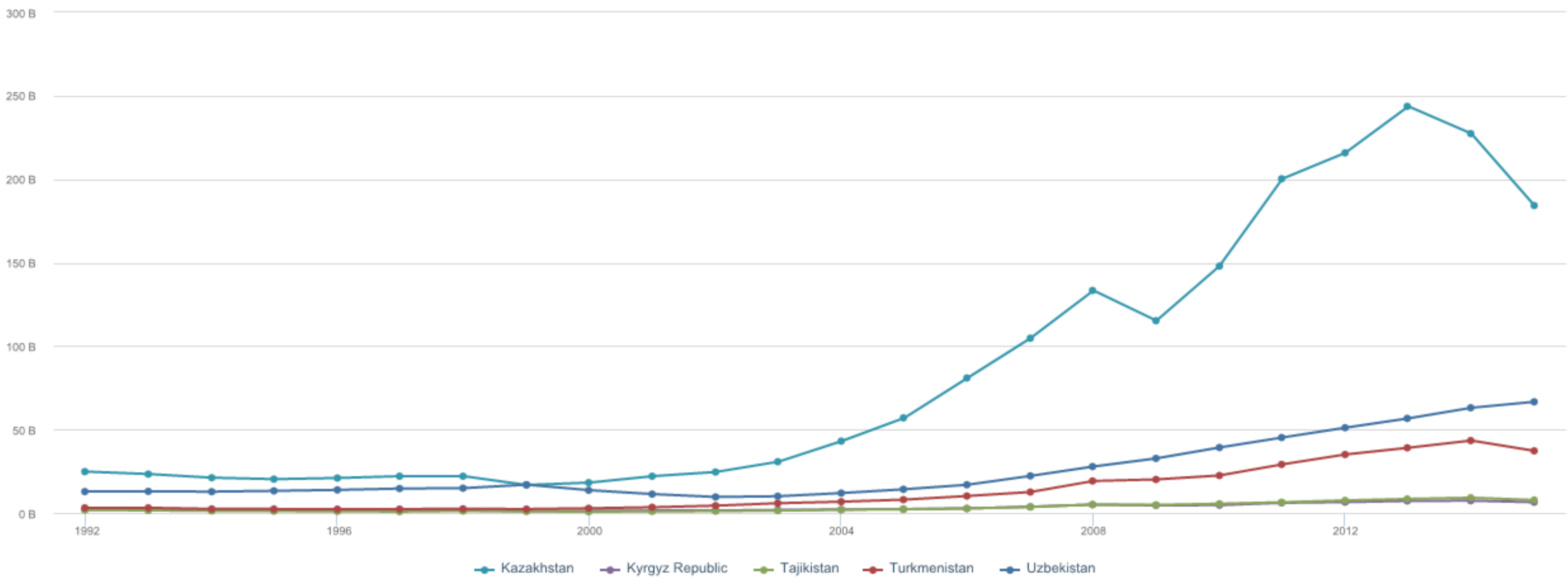


Series : GDP growth (annual %)

Source: World Development Indicators

Created on: 10/21/2016

Fig. 2: GDP IN CENTRAL ASIA (US$ in billions), 1991-2015

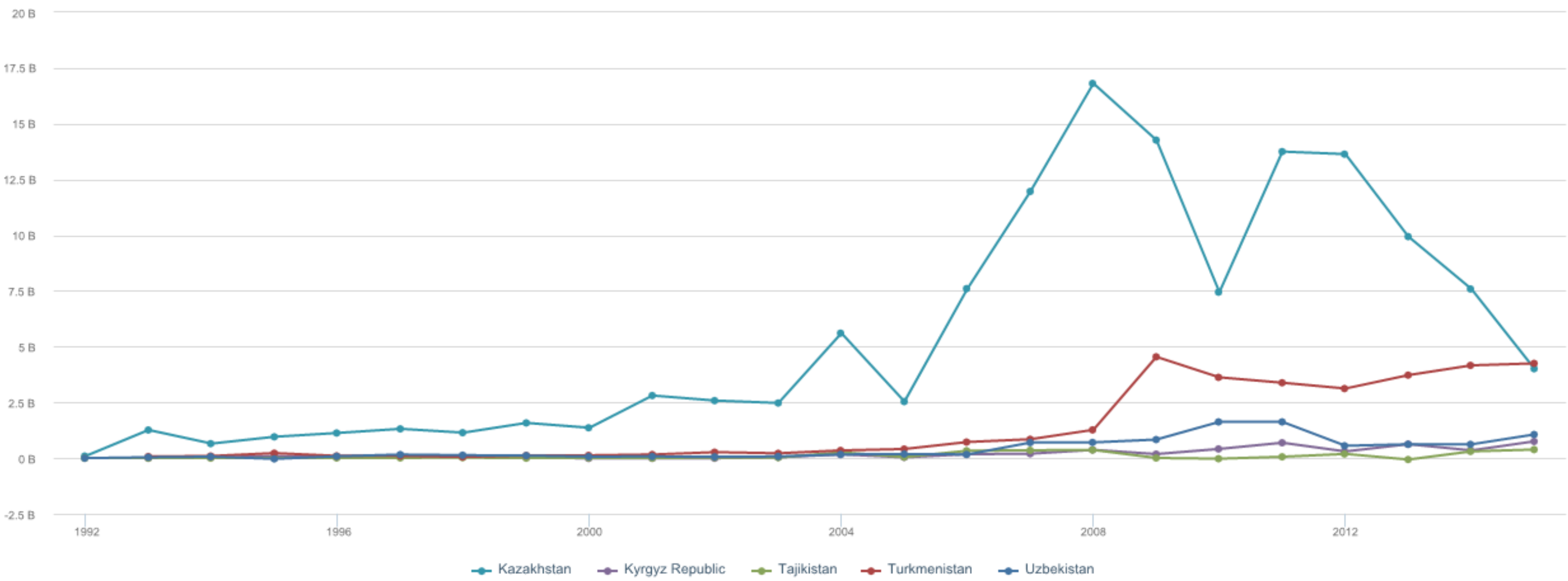


Series : GDP (current US$)

Source: World Development Indicators

Created on: 10/21/2016

Fig. 3: FDI IN CENTRAL ASIA, net inward flows (US$ in billions), 1992-2015



Series : Foreign direct investment, net inflows (BoP, current US$)

Source: World Development Indicators

Created on: 10/21/2016

Table 1: EBRD TRANSITION INDICATORS CENTRAL ASIA, 1991-2014						
COUNTRY	**INDICATOR**	**1991**	**1996**	**2002**	**2008**	**2014**
KAZAKHSTAN	Large scale privatisation	1.0	3.0	3.0	3.0	3.0
	Small scale privatisation	1.0	3.3	4.0	4.0	4.0
	Governance and enterprise restructuring	1.0	2.0	2.0	2.0	2.0
	Price liberalisation	1.0	4.0	4.0	4.0	3.7
	Trade & Forex system	1.0	4.0	3.3	3.7	3.7
	Competition Policy	1.0	2.0	2.0	2.0	2.0
KYRGYZ REPUBLIC	Large scale privatisation	1.0	3.0	3.0	3.7	3.7
	Small scale privatisation	1.0	4.0	4.0	4.0	4.0
	Governance and enterprise restructuring	1.0	2.0	2.0	2.0	2.0
	Price liberalisation	1.0	4.3	4.3	4.3	4.3
	Trade & Forex system	1.0	4.0	4.3	4.3	4.3
	Competition Policy	1.0	2.0	2.0	2.0	2.0
TAJIKISTAN	Large scale privatisation	1.0	2.0	2.3	2.3	2.3
	Small scale privatisation	1.0	2.0	3.7	4.0	4.0
	Governance and enterprise restructuring	1.0	1.0	1.7	1.7	2.0
	Price liberalisation	1.0	3.7	3.7	3.7	4.0
	Trade & Forex system	1.0	2.0	3.3	3.3	3.7
	Competition Policy	1.0	2.0	1.7	1.7	1.7
TURKMENISTAN	Large scale privatisation	1.0	1.0	1.0	1.0	1.0
	Small scale privatisation	1.0	1.7	2.0	2.3	2.3
	Governance and enterprise restructuring	1.0	1.0	1.0	1.0	1.0
	Price liberalisation	1.0	2.7	2.7	2.7	3.0
	Trade & Forex system	1.0	1.0	1.0	2.0	2.3
	Competition Policy	1.0	1.0	1.0	1.0	1.0
UZBEKISTAN	Large scale privatisation	1.0	2.7	2.7	2.7	2.7
	Small scale privatisation	1.0	3.0	3.0	3.3	3.3
	Governance and enterprise restructuring	1.0	2.0	1.7	1.7	1.7
	Price liberalisation	1.0	3.7	2.7	2.7	2.7
	Trade & Forex system	1.0	2.0	1.7	2.0	1.7
	Competition Policy	1.0	2.0	2.0	1.7	1.7

NOTE: Where 1 represents little or no change from a rigid centrally planned economy and 4+ represents the standards of an industrialised market economy.
SOURCE: European Bank for Reconstruction and Development (EBRD), Transition Indicators by Country.
http://www.ebrd.com/what-we-do/economic-research-and-data/data.html

Table 2: CHANGES IN QUALITY OF HARD INFRASTRUCTURE IN CENTRAL ASIA, 2011–2012 to 2016–2017 as measured by the World Economic Forum Global Competitiveness Index						
	KAZAKHSTAN		KYRGYZSTAN		TAJIKISTAN	
QUALITY OF	2016–2017*	CHANGE FROM 2011–2012**	2016–2017*	CHANGE FROM 2011–2012**	2016–2017*	CHANGE FROM 2011–2012**
Overall Infrastructure	4.00	+0.2	3.00	-0.7	4.20	+0.4
Roads	3.00	+0.5	2.50	-1.2	4.10	+0.7
Railroads	4.30	+0.4	2.40	-0.3	3.70	+0.2
Ports	3.10	-0.5	1.50	+0.0	2.00	+0.2
Air Transportation	4.00	+0.1	2.90	-0.1	4.30	+0.3
Electricity Supply	4.50	+0.6	3.20	+0.1	3.70	+1.0

NOTE: Values calculated from 1 to 7, with 1 being the weakest and 7 the strongest.
Data not available for Turkmenistan and Uzbekistan. The report for 2011–2012 is the first to present data by infrastructure type.
*SOURCE: World Economic Forum, http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf
**SOURCE: World Economic Forum, http://www3.weforum.org/docs/WEF_GCR_Report_2011-12.pdf

Table 3: CHANGES IN QUALITY OF SOFT INFRASTRUCTURE IN CENTRAL ASIA, 2006–2007 to 2016–2017
as measured by the World Economic Forum Global Competitiveness Index

QUALITY OF	KAZAKHSTAN		KYRGYZSTAN		TAJIKISTAN	
	2016–2017*	CHANGE FROM 2006–2007**	2016–2017*	CHANGE FROM 2006–2007**	2016–2017*	CHANGE FROM 2006–2007**
Overall Index	4.41	0.22	3.75	0.44	4.12	0.62
Basic Requirements	4.62	-0.02	3.93	0.37	4.41	0.47
Institutions	4.23	0.64	3.38	0.72	4.41	0.88
Infrastructure	4.19	0.86	2.85	0.55	3.20	1.00
Macroeconomic Environment	4.65	-0.92	4.30	1.03	4.31	0.37
Health & Primary Education	5.14	-0.94	5.19	-0.85	5.71	-0.38
Efficiency Enhancers	4.37	0.40	3.54	0.46	3.68	0.61
Higher Education and Training	4.62	0.65	4.10	1.02	4.28	1.19
Market Efficiency	goods 4.39 labor 4.81	(4.39 combined)	goods 4.25 labor 3.87	(3.49 combined)	goods 4.31 labor 4.59	(3.56 combined)
Financial Market Development	3.50	---	3.57	---	3.49	---
Market Size	4.70	---	2.65	---	2.59	---
Technological Readiness	4.43	1.20	2.81	0.65	2.84	0.27
Innovation Factors	3.51	0.00	3.03	-0.22	3.71	0.69
Business Sophistication	3.64	-0.26	3.34	0.03	3.84	0.65
Innovation	3.39	0.26	2.71	0.16	3.58	0.73

NOTE: Values calculated from 1 to 7, with 1 being the weakest and 7 the strongest. Data not available for Turkmenistan and Uzbekistan.
*SOURCE: World Economic Forum, http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf
**SOURCE: World Economic Forum, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2006-07.pdf
Market Efficiency not separated into Goods and Labor in 2006–2007

Table 4: BUSINESS RELATED REFORMS IN CENTRAL ASIA, 2008-2017 Impact on Ease of Doing Business						
	Since 2008			2017 Only		
Country	Make Easier	Make Harder	Neutral	Make Easier	Make Harder	Neutral
Kazakhstan	33	1	2	7	0	1
Kyrgyzstan	14	3	1	1	0	0
Tajikistan	21	5	0	1	1	0
Uzbekistan	26	1	0	3	0	0

Source: Compiled from The World Bank (2016). Doing Business: Business Reform Summaries.
http://www.doingbusiness.org/reforms Data not available for Turkmenistan.