

Central Asian Countries in 2022: Challenges and Opportunities

Abstract. *Central Asian countries will have a mixed year in 2022 due to the impact of the Russia-Ukraine conflict. Within the countries, they are entering a period of post-independence rule by a new generation of leaders, with various reforms in process. The ruling authorities have a strong control, with anti-corruption and anti-monopoly as their grip, and have won the support of the majority of the population, enough to stabilize the situation without major unrest, but the effect of reforms in various areas needs time to test. The domestic economy has entered a period of resumed growth due to the lifting of restrictions on epidemic sealing, with supply chain security and increased inflation being the biggest challenges.*

Keywords: *Central Asia, Russia-Ukraine conflict, reform, ruling elite, economy.*

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Introduction

Since 2022, influenced by internal and external factors such as the lifting of the control of the new crown epidemic, the prolongation of the Russia-Ukraine conflict, the uncertain situation in Afghanistan, the rise of border conflicts, constitutional amendments, economic slowdown, and the increase of national sentiments, hotspots in Central Asia are frequent and security stability and economic development are threatened. From the perspective of the development trend of the situation, Central Asian countries are in the post-independence period of the new generation of leaders in power, the current instability is short-term and phased, but does not have the basis for long-term turmoil, the ruling authorities of the countries still take the people's livelihood and economic and social development as their responsibility, the ability to maintain stability is still strong, there are sufficient capacity and means to control the situation, the neighboring and world powers do not want to Central Asia unrest.

The Russia-Uzbekistan conflict is the biggest external variable affecting stability and development in Central Asia in 2022, and regional stability and uncertainty have increased. As Uzbekistan's Foreign Minister Norov said, «the struggle for a new world order poses a threat to the security and development of Central Asian countries» [1]. As Russia's influence and investment capacity in Central Asia declines, the internal and external development environment for Central Asian countries has changed. However, improving presidential governance and insisting on anti-corruption are still the main ways to govern; developing non-resource-based economy, accelerating industrial structure transformation and improving people's livelihood are still the biggest economic needs; despite Russia's declining influence, other powers still cannot replace Russia's supporting role for security and development in Central Asia.

Local risks of instability, but the overall political stability is manageable

Except for Tajikistan, all four Central Asian countries have completed the political transition from the old to the new, with a new generation of leaders coming to power after independence. Following the election of Zhaparov as the new president of Kyrgyzstan in January 2021 and

the constitutional changes in November of that year, Kazakhstan's first president Nazarbayev completely handed over power in January 2022, ending the «dual-core politics» since 2019, with incumbent President Tokaev becoming the full president. Turkmenistan's President Berdymukhamedov handed over presidential power to his son Serdar. In June, Uzbekistan's President Mirziyoyev announced a constitutional change that would allow him to clear his current two terms of office and run for a new presidential election.

Looking at the platforms and policy measures of the new generation of Central Asian leaders, one common feature of their 2022 is their emphasis on a new era and a new situation. Kazakhstan's President Tokayev proposed the slogan and goal of building a «New Kazakhstan» in his speech to both houses of parliament in January, Uzbekistan adopted the «New Uzbekistan: Development Program for 2022-2026» in January, and Kyrgyzstan's President Zhaparov made it clear in February at a ceremony to award state awards to outstanding citizens. In February, President Zhaparov of Kyrgyzstan, at a ceremony to award state prizes to outstanding citizens, clearly stated that «our slogan is 'Our goal is to build a new Kyrgyzstan'«. In February, Turkmenistan adopted the «New Era of Revival of a Strong State: National Plan for Economic and Social Development for 2022-2052»[2]. It can be said that the new generation of leaders is well aware of the problems and difficulties faced in the operation of various areas of the country, and the breakthrough points are well identified. Focusing on the various problems accumulated in the course of the country's previous development, the countries' reforms in the political sphere are aimed at justice and fairness, strengthening the fight against corruption, increasing the motivation of civil society representatives, regulating the activities of political parties and NGOs, strengthening the control of the Internet and media, and combating illegal gatherings. Inevitably, events involving vested interests such as cadre restructuring, institutional changes, and increased anti-corruption have occurred in the course of its administration and reforms, and have been easily exploited by internal and external opposition forces. However, as the general direction of the policy is in line with the needs of society and the public has expectations of the objective and external disadvantages facing the country, they are generally receptive to the ruling authorities.

1) The core of the political system reform remains the preservation of the presidential system. As evidenced by the adoption of a new constitution in Kyrgyzstan in 2021, constitutional changes in Kazakhstan and Uzbekistan in 2022, the solemn celebration of the 30th anniversary of the 16th session of the Supreme Soviet in Tajikistan on November 30, and the election of a new president in Turkmenistan in March, the presidential system remains the most prominent feature of the political system in each country. The difficulty of impeaching the president (which requires the consent of 3/4 of all parliamentarians) is comparable to the sky, and the president's power to oversee the executive, judiciary and parliament remains strong through his control of powerful ministries. Although Kazakhstan, Kyrgyzstan and Ukraine emphasize the need to strengthen the tripartite configuration of power among the president, parliament and government, it is in fact equivalent to grasping the big and letting go of the small, which is more conducive to improving the efficiency of the incumbent president's rule, without detracting from the president's core powers in any way. The earlier recognized opposition is either taken into the system or restricted by various measures, and is no longer able to play the role of the so-called checks and balances of political pluralism.

2) (ii) The «People's Kurultai» (People's Assembly) social mechanism is playing an increasing role. The first Kurultai congresses were held in Kazakhstan on June 16, 2022 and in Kyrgyzstan on November 25. The Kurultai, which originates from the traditional decision-making mechanism of the Central Asian peoples, is not a formal state institution, but a social advisory body under the president, with the participation of prestigious elite representatives from various regions and sectors, who discuss and make recommendations on important state and social issues and have the right to monitor the implementation of state bodies. The analysis suggests that since the Kurultai belongs directly to the President and the representatives have certain influence in the society, it will certainly disperse some of the functions and influence of the Parliament, ostensibly

as a mechanism for the President to listen to the opinions of the society, but in fact as another channel of power for the President to strengthen state management and check the Parliament, and if the Parliament opposes the President's decision, the President can mobilize the people through the Kurultai, seek social support, and put pressure on the Parliament. The President can mobilize the public through Kurultai, seek social support and pressure the Parliament [3].

3) Kazakhstan opened the way to build and explore the «New Kazakhstan». After the «January riots» in 2022, President Tokayev addressed the parliament on January 11 and delivered two state of the nation addresses on March 16 and September 1, proposing a new political and economic reform program. On September 16, a joint session of the parliament made partial changes, stipulating that the president may not be re-elected for a seven-year term. The major changes made to the country's political system within a year, in addition to the realities of the country, stemmed from the fact that Tokayev's philosophy of governance was different from Nazarbayev's. Tokayev believes that the path of economy first and then politics is no longer suitable for the country. Now it is necessary to relieve social pressure, release social dynamics, use social resources equitably, and start on a new balance. The model of the road of economy before politics has exhausted its resources, and although it was very useful in the early 1990s, we need a political transformation, because it is necessary to free people from civic activity, which is a very big requirement for society,» Tokayev said in an interview with the press on June 15, 2022. So, I started essentially a political reform.» [4]

4) The rapid quelling of localized riots demonstrates the authorities' strong ability to control the situation. In January 2022 there were larger riots in Kazakhstan over a gas price increase, in May some people in Khorog, the capital of Gorno-Badakhshan Autonomous Oblast in the mountains of southeastern Tajikistan, rioted over discontent with the prosecutor's disposition, and in July in Karakalpakstan in northwestern Uzbekistan over opposition to constitutional changes. In July, riots broke out in Karakalpakstan in northwestern Uzbekistan over objections to constitutional changes that would remove the status of the autonomous republic there. Despite the fact that all three riots were triggered by social problems and instigated by disruptive forces, the ruling authorities were able to quickly quell them within a short period of time (seven days, three days, and one day, respectively), and the measures were even supported by European and American countries. It shows that the current Central Asian countries have a strong ability to control the situation, and relations with Europe and the United States are properly handled, so there is basically no risk of «color revolution».

From the official information released by Kazakhstan, the «January riots» in early 2022, which killed 238 people, were initially considered by the Kazakh government to be the work of violent forces, but later defined as «an attempted coup d'état». Former Kazakhstan President's adviser Yertisbayev believes that the betrayal of some officials and law enforcement officers is one of the causes of the crisis in the country, «What happened in Kazakhstan is the worst crisis in the entire post-Soviet region in 30 years. The scale of this attempted coup d'état, armed rebellion, is shocking, and an organizational capacity so powerful would not have been possible without traitors at the highest levels of power, especially in law enforcement agencies»[5]. In his state of the nation address on March 16, President Tokayev made it clear that «conspirators are trying to seize power. In recent years, Kazakhstan has embarked on the path of thorough modernization and reform, and large-scale changes have begun in all areas. And some people in authority do not like these reforms, they want to continue their years of illegal activities. Moreover, they desire to gain power. The conspirators formed an underground group of professional mercenaries, armed bandits and renegades from among the officials, the internal and external enemies of our country united to seize power. They channeled peaceful protests into destructive activities, using the people to achieve their own criminal ends. The traitors include leaders of the military and special agencies who prevent law enforcement agencies from taking legal action, misrepresent the city to the national leadership, and control government and other channels of communication» [6].

Economic development is mixed

Central Asian countries have been lifting the control measures of the new crown epidemic since March 2022, and economic and social normalcy has been restored, but they have been hit by the Russian-Ukrainian conflict again. On the whole, the economies of the five Central Asian countries will maintain growth in 2022, but inflation and exchange rate pressure will increase. According to the Eurasian Development Bank, the GDP of the five Central Asian countries will grow at an average rate of 6.2% in 2001-2021 and 3.6% in the decade 2011-2021 [7]. The development environment for the next decade is not optimistic due to multiple factors such as the recovery from the new epidemic, the overall weakness of global consumption, the conflict between Russia and Ukraine and changes in the geopolitical environment [8]. The Asian Development Outlook released by ADB in September 2022 concluded that the severe global recession has weakened the demand for exports in Central Asia, and the tightening monetary policies in developed economies may lead to financial risks in the region, with difficulties such as local currency depreciation, reduction in foreign exchange reserves, higher lending rates, increased difficulties in settlement and exchange, and limited fiscal and monetary control instruments. The GDP growth of Central Asian countries in the first three quarters of 2022 was 2.8% in Kazakhstan, 5.8% in Ukraine, 6.2% in Turkey, 7.2% in Kyrgyzstan and 7.8% in Tajikistan. Except for Ta and Ji, the GDP growth rates of Ha, U and Tu are all lower than the growth levels of the same period in 2021. The accelerated development of Ta 2022 is mainly due to the emergence of the effect of early investment pull. The faster development of Kyrgyzstan in 2022 is mainly due to the end of the domestic regime change turmoil and the shift to the right track of development.

(i) The biggest factor affecting Central Asia's economy during the year is the Russia-Ukraine conflict. The day Russia announced special military action against Ukraine on February 24, 2022, coincided with the meeting of the prime ministers of the governments of the Eurasian Economic Union member states in the Kazakh capital Nursultan. The meeting focused on the possible impact of Western sanctions against Russia on the economies and finances of the member states in the context of unprecedented increase in geopolitical tensions. According to the analysis, the impact will be mainly in the form of local currency devaluation (devaluation of the ruble due to Western sanctions, which in turn will lead to currency devaluation in other member states), energy and food security (increase in international commodity prices), financial services (impact on financing, exchange and payment transfers of Russian financial institutions and their branches abroad for local companies), inflation (increase in prices of imported goods that increase inflationary pressure), decrease in investment from Russia, employment and return of migrants. (Western sanctions may cause layoffs in Russian companies and a possible reduction in foreign exchange earnings). In a meeting with the prime ministers of the participating member governments, President Tokaev suggested the creation of a special group to study all the risks and develop a set of measures to mitigate the impact of sanctions [9]. Among these judgments, only the item of overseas remittances does not correspond to the actual situation. A report issued by the European Bank for Reconstruction and Development in September 2022 argued that after the virtual lifting of the New Crown epidemic closure measures and the Western sanctions on Russia, Russia and some of the Western industries in Russia moved to Central Asia and some Russians came to the region, which led to the development of the service sector and remittance income in the region and increased consumer demand, which, together with the increase in global prices of raw materials such as oil and gas and minerals, stimulated the economic growth of Central Asian countries [10]. According to statistics, in January-August 2022, financial transfers from Russia abroad increased fourfold compared to the same period last year, mainly to Tajikistan, Uzbekistan, Armenia, Georgia, Kyrgyzstan and Moldova, with the majority of remittances coming from migrants who work in Russia and send money home, and to a lesser extent from Russian citizens themselves. Among them, \$5.3 billion was sent to Uzbekistan, accounting for 81% of Russia's total remittances to neighboring countries, which is 2.4 times more than the same period last year, equivalent to 18.5% of Ukraine's GDP, up from

11.7% in 2021, \$1.8 billion to Kyrgyzstan, up 8.2% year-on-year, and \$500 million to Kazakhstan, 5.4 times more than the same period last year [11].

(ii) High inflation is a common problem. In the first three quarters of 2022, the inflation rates in Kazakhstan, Ukraine, Kyrgyzstan and Tajikistan were 17.7%, 12.2%, 10.6% and 6.5% respectively compared to the same period last year. Inflation in Central Asian countries is mainly characterized by imported inflation, which remains high mainly because the countries need to import many production and living goods from abroad, such as food, edible oil, sugar and refined oil products, which are heavily dependent on imports. Russia, as the main source of imports, is caught in the Russian-Ukrainian conflict and gives priority to meeting domestic demand, and the decrease in exports and higher prices, together with the increase in logistics costs, have led to a significant increase in the cost of living in Central Asian countries. To a certain extent, the so-called food security and energy security of Central Asian countries refers mainly to price increases rather than supply shortages. High prices not only add to the burden of the population, but also make the central banks raise their benchmark interest rates in order to curb domestic demand and local currency depreciation: from 9.75 at the beginning of the year to 16.75% at the end of the year in Kazakhstan, from 14% to 15% in Ukraine, from 13.25% to 13.5% in Tajikistan, and from 8.5% to 10% in Kyrgyzstan, thus further pushing up the pressure on loans for enterprises and individuals and affecting the financing environment. According to the IMF, the decrease in external concessional loans and the increase in market-based financing in recent years have contributed to the increased debt service burden of the Central Asian countries (especially the two countries), which has also contributed to the increase in poverty [12].

(iii) Significant increase in foreign trade. From January to September 2022, the total value of Kazakhstan's imports and exports was \$98.4 billion, an increase of 35% compared to the same period in 2021, of which exports were \$63.8 billion, up 48%, and imports were \$34.6 billion, up 16%. The total value of U.S. imports and exports was \$36 billion, up 27 percent, including \$14 billion in exports, up 35 percent, and \$22 billion in imports, up 22 percent. The total value of Kyrgyz exports and imports of \$ 8.4 billion, an increase of 36%, including exports of \$ 1.4 billion, down 39%, and imports of \$ 7 billion, up 79%. Total imports and exports of \$5.4 billion, up 19%, including exports of \$1.6 billion, up 5.5%, and imports of \$3.8 billion, up 26%. Export growth is mainly driven by high export prices of oil, natural gas, copper, coal and electricity. Import growth was mainly due to higher prices of imported goods, with little increase in physical volume. At the same time, a large part of the new trade volume of Central Asian countries in 2022 will be generated by Russia's increased procurement from «friendly countries» to avoid Western sanctions and the opening of parallel imports. To ensure the effectiveness of sanctions against Russia and to avoid the entry of U.S.-regulated items into Russia through third countries, the United States imposes secondary sanctions on non-U.S. foreign entities and individuals that trade with or otherwise support parties subject to U.S. sanctions. On June 28, 2022, the U.S. Department of the Treasury's Financial Crimes Enforcement Service and the U.S. Department of Commerce's Bureau of Industry and Security listed four Central Asian countries, in addition to Turkmenistan, as potential the list of countries that are trade corridors/transshipment points for sanctioned shipments to Russia. The Central Asian countries have also all indicated that they will not help Russia evade sanctions, i.e., they are unwilling to endure U.S. secondary sanctions.

(iv) Adjustment of the economic development model. Although all Central Asian countries emphasize the implementation of established strategic plans, especially the green economy, digital economy, processing industry, strengthening export diversification, bridging the technological and digital divide, stabilizing supply chains, and supporting multilateralism and openness, each country chooses a different development model and path according to its national conditions. Kyrgyzstan is expanding nationalization, nationalizing the country's most important mineral resources (especially gold) and putting them under the management of the newly established «Great Nomadic Heritage» state holding company, in order to increase fiscal revenues and meet economic and social investment needs. On April 4, 2022, the government of Kyrgyzstan signed an

agreement with the Canadian gold company Centra to fully transfer its stake in the largest gold mine in the country, Kumtor, to Kyrgyzstan. In a speech to the people that evening, President Zaparov said, «We will make a profit of \$5 billion from the Kumtor mine in the next 10 years, extracting 160-200 tons of gold. This is a direct profit and a big support for the state budget» [13]. Kazakhstan, for its part, has chosen the path of de-monopolization and denationalization, returning to the people the resources that used to be controlled by monopolies, reducing the share of state-owned enterprises, increasing the activity of small and medium-sized enterprises and the private sector, reshaping political and business relations, and reversing the concentration of political power and the accumulation of wealth in the hands of a few. on January 21, 2022 President Tokayev, receiving representatives of the country's big businessmen, said: «Half of the country's wealth is in the hands of 162 people. At the same time, half of the country's population earns less than 50,000 tenge a month, or about \$1,300 a year, making it difficult for them to live. This situation needs to be changed urgently» [14].

Conclusion

Overall optimistic judgments on future prospects. From the national budgets released by Central Asian countries for the next three years (2023-2025), each country envisages two scenarios and implements different response measures. The first is the baseline scenario. That is, there are no major external risks, macroeconomic developments continue, the negative impact of the external environment on the economy persists but at a level similar to that of 2022, and the structural reforms already started are able to continue to be implemented and advanced. In this scenario, the economy will continue to be dynamic, with growth in investment and consumer demand. The government's task is to improve the investment and competitive environment, increase the share of private and foreign investment financing, implement a moderately tight fiscal policy, gradually reduce the fiscal budget deficit, and control inflation. The second is the increased risk scenario. That is, external risks increase with a decline in external demand, a decrease in foreign investment, economic recession and global crisis. In this scenario, the progress of structural reforms in the economy will slow down, inflation rate and deficit size will increase, and the government will implement fiscal stimulus measures to boost demand with investment. In general, Central Asian countries basically agree that they are facing inflation, deficit, debt, exchange rate depreciation and other growth pressures in the context of the global economic downturn and increased geopolitical changes, which increase uncertainty and instability. At the same time, regardless of the scenario, countries' growth dynamics remain unchanged, only that the growth rate will slow down in the risk scenario.

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Страны Центральной Азии в 2022 году: вызовы и возможности

Аннотация. 2022 год для стран Центральной Азии будет неоднозначным из-за влияния российско-украинского конфликта. Внутри стран начинается период правления нового поколения лидеров после обретения независимости, проводятся различные реформы. Правящие власти имеют сильный контроль, в основе которого лежит борьба с коррупцией и монополиями, и заручились поддержкой большинства населения, что достаточно для стабилизации ситуации без серьезных волнений, однако эффект от реформ в различных областях нуждается в проверке временем. Внутренняя экономика вступила в период возобновления роста в связи со снятием ограничений локдауна, при этом самыми большими проблемами являются безопасность цепочки поставок и рост инфляции.

Ключевые слова: Центральная Азия, российско-украинский конфликт, реформа, правящая элита, экономика.

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