

CENTRAL ASIA



POLITICAL RISK REPORT / DECEMBER 2022

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Universidad
de Navarra

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Central Asia. Political Risk Report. December 2022.

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Region Briefing: Central Asia



This is a regional briefing aimed to provide a general and non-specific overview of the common characteristics of Central Asia republics (Uzbekistan, Kazakhstan, Tajikistan, Kyrgyzstan and Turkmenistan) in terms of history, politics economy and society. The Political Risk Report shall be further explained being divided into three main outlooks: economy, natural resources and infrastructures, and political and social stability.

History: Genghis Khan to Soviet Union

In Prehistory, the territory of Central Asia was initially dominated by multiple tribes, family clans and powerful dynasties such as the Persian Hephthalites, the Iranian Samanids, the Seljuqs and the Turkish Khorezmites. Nonetheless, the region of Central Asia witnessed great economic, political and social development under the Mongol Empire of Genghis Khan.

Since 1206, the *Pax Mongolica* was established and the Silk Road found in Central Asia a safe transit core, especially with Uzbek cities such as

Bukhara, Khiva, Samarkand, Shakhrysyabz or Tashkent.

From the 1400s onwards, the gradual disintegration of the Mongol Empire's *khanates* administrative units due to corruption, religious intolerance, the Bubonic Plague and the emergence of maritime trade via India and the Persian Gulf to Europe made the Silk Road increasingly dangerous and led to collapse.

Subsequently, after several failed and successful expeditions, the Russian Empire annexed the landlocked region as the Governorate-General of Russian Turkestan in 1867 which lately became part of the Soviet Union in 1918, after the Russian Civil War, as the Turkestan Autonomous Soviet Socialist Republic, but it was dissolved in 1924 giving birth to five Soviet Socialist Republics according to the ethnic-national division that was determined by the then People's Commissar for Nationalities, Joseph Stalin.

Politics: presidential republics

In 1991, after the USSR's collapse, the five republics declared their independence. However, the disengagement of the Soviet sphere from these territories did not result in a democratic transition, but rather in the continuation of five dictatorial, centralist and independent systems led by high-ranking Soviet officials in each republic.

Currently, although the common official political system according to the five Constitutions is a

Presidential Republic (whose nature implies the division of powers and a direct democracy by means of which population elects the Head of State), elections have been continuously manipulated resulting in Central Asian presidents being several years in power.

The figure of President in Central Asia is personified even idolatry, with statues, large banners or controlled education of the youngest towards respect for government and the state, similar to North Korea, Iran or the Libyan and Egyptian regimes previous to the Arab Spring.

Economy: a mineable region

Investing in Central Asia means direct access to a local market of 76,148,000 people, whose 2021 nominal Gross Domestic Product (GDP) reached \$348.8 bn, which aims to become the logistical hub between Eurasia's transit.

The old Turkestan territory lies over a cushion of gas, oil and uranium, irrigated by large rivers and cotton fields, poised to be the basis of the potential region's economic boost hand-in-hand to the international economic organizations to which it has recently affiliated and massive Foreign Direct Investment (FDI).

Central Asian economies have always been highly integrated with the Russian economic behavior and controlled by their governments hampering market freedom, especially for Kyrgyzstan and Tajikistan which are the weaker states in trade and commercial terms. However, the economic

paradigm is now shifting towards other major geopolitical powers in the region.

Society: “-stan” means “land of”

The ethnic diversity of Central Asia has determined the artificial demarcation of the borders and, jointly with nationalism, frustrated ideas of political integration.

On the other hand, Sunni Islam is the main religion, but none of the five republics have declared it official. Central Asian governments continually strive to combat radicalism.

Executive summary

Even though the 2020 Coronavirus Crisis and Russia's invasion of Ukraine in 2022 have wreaked havoc on the global economy and financial markets, Central Asia is expected to improve and to recover. From the economic outlook, on average, Central Asian GDP is expected to increase by 3.71% in 2023 and 3.89% in 2024, when the five republics will be aligned in terms of economic growth. Current high interest rates will decrease as inflation falls in the region as in the world. Furthermore, public debt and its management will be a major challenge, especially for Tajikistan and Kyrgyzstan, which will own 60.70% and 39.36% of their GDP in 2024, respectively. Russia is no longer the gatekeeper of the region as China is passing to a more important plane; Central Asia is witnessing a turn to the East, mainly due to Chinese Belt and Road Initiative (BRI). Nonetheless, the region is becoming a target for international project finance and M&A deals coming from major companies from Europe, Saudi Arabia, United Arab Emirates and Turkey with which billionaire agreements have already been signed and closed. Unfortunately, economic integration is still far to be real, but timid attempts are currently taking place in the year 2022.

From the energy and infrastructure outlook, a possible conflict in a short-term timeframe may take place due to cooperation of Uzbekistan and the hydraulic powers, as the water crisis remain being a major red flag in Central Asia. Moreover, in the medium-term, there is a more probability to witness a conflict if the relations worsen. On the other hand, in relation to the BRI initiative the Central Asian republics will focus on improving the railways and roads of the system in the short-term. Furthermore, even it may seem peculiar, the oil and gas infrastructural projects that have the more probabilities of being developed are the Russian-related projects. Nevertheless, Chinese projects will make way in the region as huge investments are being made by Asian Infrastructure Investment Bank and Export-Import Bank of China.

From the social outlook, social unrest and confrontations will continue in south Kyrgyzstan during the next year. In fact, the Kyrgyz-Uzbek border dispute is suffering an escalation into a greater crisis. Whilst, in the Karakalpakstan region, the area is protecting its autonomy, but secession is unlikely. Moreover, Islamic radicalization will have an important role in security. However, a shift to becoming Islamic republics is far from likely as CARs' presidents make heavy efforts to combat religious fundamentalism. Indeed, most countries have aligned into this anti-radicalism commitment.

Finally, from the political outlook, Kazakh president Tokayev will reinforce its position and his victory is almost certain and political reforms will not see any change for 2-3 years. In this regards, strong presidentialism is expected to continue being dominant in Central Asia, but European Union's democrat ideals may cause some impact, but not enough to change the existing authoritarian system.

Overall SWOT Analysis

The present SWOT has been drafted from a general view of this Report, involving the strengths, weaknesses, opportunities and threats which emerge from the economic, energy and infrastructures, political and social outlooks. It aims to provide a quick analysis of Central Asia notwithstanding the detailed research exposed herein.

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • Attractive geographical hub aspiring to connected Eurasia bypassing Russia • Region capable of being highly self-sufficient pursuant to extractive and energy sectors (gas, oil, water, wind, and uranium) • Closed investment agreements and economic partnerships with countries other than China and Russia: EU, Turkey, UAE, Saudi Arabia, and US • Really resourceful area: gas, oil, hydraulic power • Russia aids the region economically and backs it up • Privatization and development of private enterprises related to energy and infrastructure. • Common history and values (pre- and post-Soviet domination) • Regional institutions for cooperation and forum debates (CSTO, SCO) • Swift decision making 	<ul style="list-style-type: none"> • Inter-regional trade almost non-existent and still highly dependent on China and Russia • Weak and underdeveloped banking system, highly on central banks and public finance • Limited access to credit facilities and underdeveloped regional capital markets, making leveraged local finance almost non-accessible • Lack of updated infrastructure • Not enough funds to fund their own infrastructure. • Dependence on Russian remittances and infrastructure • Conflictive borders and territorial disputes. • Social instability and ethnic tensions. • High level of corruption and lack of transparency
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Increasing FDI, international project finance and M&A market of European, Arab, Turkish and Chinese companies • Economies progressively liberalizing and attractive for FDI • Economies opening to global markets and new partners as Russia’s influence wanes • Untapped potential in energy production field • Investment of China in the region because of the BRI initiative • Development of new pipelines and more interconnectivity with new railway and road projects • Political progress could lead to western powers support • Coexistence of secularism and religion • Regional integration to face current crisis 	<ul style="list-style-type: none"> • Risk of falling into China’s debt trap leading to loss of sovereignty • Regional exposure to economic sanctions against Russia and the ruble currency • Politics tends to intervene in the economy and promote opaque contracts and reduced transparency that undermine the confidence of foreign investors. • Water conflict and rising tensions in borders of the hydraulic nations • Climate change threatens to affect drastically the water reserves in the region • Environmental degradation because of old infrastructure may affect crops and agriculture • Radicalization of Islamic groups and Taliban threat • Isolation of authoritarian regimes • Escalation of inter-state conflicts

1. ECONOMIC OUTLOOK

- *Central Asian GDP is expected to increase by 3.71% in 2023 and 3.89% in 2024. Current high interest rates will decrease as inflation falls. Public debt management will be a major challenge, especially for Tajikistan and Kyrgyzstan which will own 60.70 % and 39.36 % of their GDP in 2024, respectively.*
- *Russia is no longer the main commercial partner of Central Asia – trade volume value with China exceeds to 44 bn USD whereas with Russia's amounts 28.5 bn USD. World is witnessing Central Asia's shift to the East within BRI.*
- *Central Asia is becoming an interesting target for international project finance and M&A deals with already closed billionaire agreements with major companies.*

1.1. Macroeconomic forecast: growth on the verge of global recession

In 2020-2022 period, as the global financial system, the economies of the five Central Asian Republics (CARs) have been affected by the general uncertainty caused by the COVID-19 pandemic and Russian invasion of Ukraine. Indeed, the global economic growth is forecast to slow from 6% in 2021 to 3.2% in 2022 and 2.7% in 2023, being the weakest scale of growth since 2001 (excluding the 2008 financial crisis and 2020 COVID-19 outbreak).¹ Nonetheless, on the verge of a global recession, a general growth of Central Asia region in terms of nominal Gross Domestic Product (GDP) is expected. The following charts show the economic indicators projections as per GDP, Inflation, Public Deficit, Public Debt and Current Account (Trade) Balance for 2023 and 2024, to be further explained in detail below.

Figure 1.1. 2023-24 Economic Forecast

	Indicator	GDP	Inflation	Public Deficit (over GDP)	Public Debt (over GDP)	Trade Balance
2023	Kazakhstan	+ 4.38 %	+ 11.2 %	- 1.86 %	24.40 %	4.430 bn
	Uzbekistan	+ 4.67 %	+ 10.7 %	- 2.93 %	33.10 %	- 3.876 bn
	Turkmenistan	+ 2.30 %	+ 10.5 %	+ 0.22 %	6.81 %	2.042 bn
	Kyrgyzstan	+ 3.21 %	+ 12.4 %	- 5.88 %	60.47 %	- 1.046 bn
	Tajikistan	+ 4.00 %	+ 8.05 %	- 2.48 %	40.50 %	- 0.004 bn
	Central Asia Average	+ 3.71 %	+ 10.5 %	- 2.58 %	33.05 %	1.546 bn

¹ International Monetary Fund (IMF). October 2022. *World Economic Outlook: Countering the Cost-of-Living Crisis*. Washington, DC.

	Indicator	GDP	Inflation	Public Deficit (over GDP)	Public Debt (over GDP)	Trade Balance
2024	Kazakhstan	+ 4.51 %	+ 7.52 %	- 0.94 %	25.66 %	1.518 bn
	Uzbekistan	+ 4.92 %	+ 9.50 %	- 2.90 %	30.82 %	- 5.204 bn
	Turkmenistan	+ 2.44 %	+ 7.50 %	+ 0.43 %	5.93 %	1.433 bn
	Kyrgyzstan	+ 3.60 %	+ 7.82 %	- 5.92 %	60.70 %	- 0.922 bn
	Tajikistan	+ 4.00 %	+ 7.05 %	- 2.48 %	39.36 %	- 0.180 bn
	Central Asia Average	+ 3.89 %	+ 7.87 %	- 2.36 %	32.49 %	- 0.671 bn

Source: International Monetary Fund (World Economic Outlook Database), October 2022

GDP

The COVID-19 health crisis in Central Asia provoked an enormous social and economic disruption in a region which were still recovering from the effects of 2008 Global Financial Crisis and 2014-2015 commodity price shock. In 2020, Central Asia's aggregate GDP contracted by 1.7 % pushing an estimated 1.4 million people into poverty.² The 2020 Coronavirus Crisis caused major economic distortions:

In Kazakhstan, where the crude petroleum represented 49.6% of its total exports value (50.9 bn USD), the collapse of oil price, caused by the world decline in demand, which decreased to 20 USD per barrel whereas the financial break-even required prices of 77.8 to 112.8 USD, contracted the Kazakh economy by 2.5% and the impact on its public finances was severe.³ In Uzbekistan, natural gas exports fell by 73% following a sharp reduction in Chinese demand, but the impact on public revenues was partly offset by a 16.7% increase in gold exports, which accounted for 46.8% of total export value (13.9 bn USD); GDP contracted from 5.7% to 1.8%.⁴ In Turkmenistan, where 90% of total exports value (6.94 bn USD) were hydrocarbons (petroleum gas, crude petroleum and refined petroleum), the exports rate decreased to 30% as China,⁵ which imports 80% of Turkmen resources, sharply interrupted imports. In Kyrgyzstan and Tajikistan, the poorest CARs, where the labor migration to Russia acquires a high importance as the remittances represented 31.1% (2.42 bn) and 26.6% (2.19 bn) of GDP, respectively, the borders closure and lockdowns impeded migrants to work, triggered non-payments of salaries and reduced the local demand, provoking 8.6% contraction of Kyrgyz economy and a contraction from 7.4% to 4.39% of Tajik's GDP.⁶

However, the CARs experienced an economic *rebound effect* in 2021, as observed in Figure 1.2.

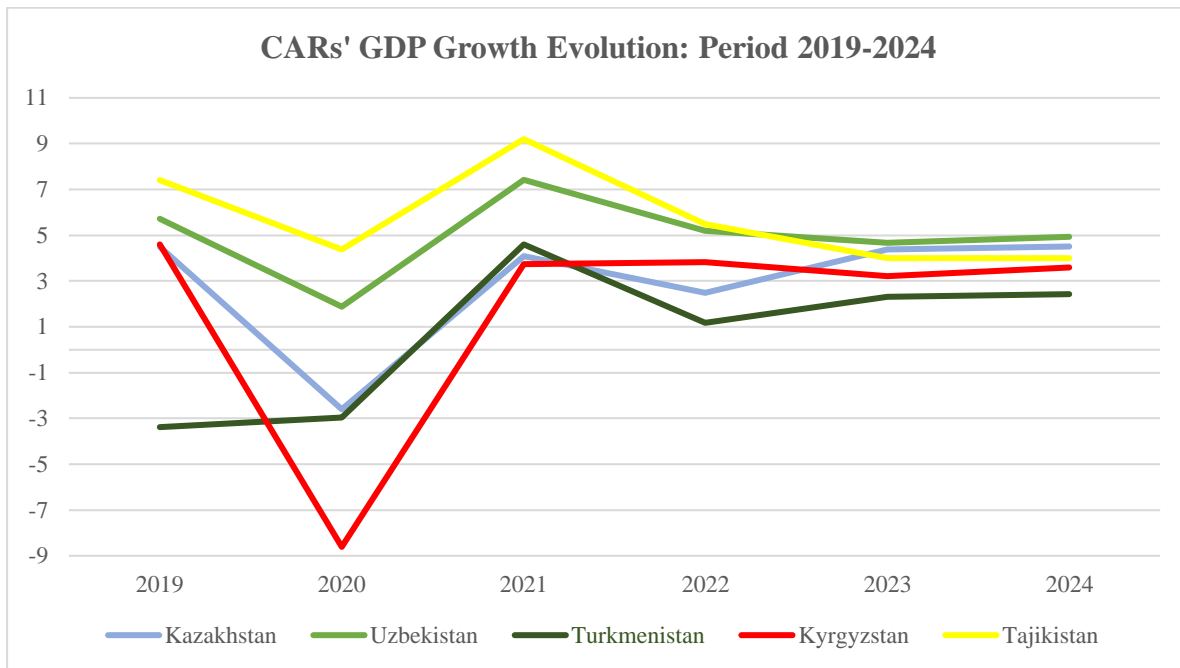
² World Bank. January 2021. *Global Economic Prospects*. Washington, DC. hdl.handle.net/10986/34710

³ IMF. July 2020. *Regional Economic Outlook: Countering the Cost-of-Living Middle East and Central Asia*. Washington DC.

⁴ National Statistical Committee of Uzbekistan. 2021. *Foreign Economic Activity*. Tashkent.

⁵ Customs Agency of China. 2020. *Preliminary Release: China's Total Export and Import values by Country/Region*: english.customs.gov.cn/Statistics/Statistics?ColumnId=1

⁶ Gurevich, V. and A. Kolesnikov. 2020. *Monitoring of the Economic Situation in Russia: Tendencies and Challenges of Socio-Economic Development N.º 22*. Institute of Political Economy. Moscow.

Figure 1.2. Central Asian republics' GDP Growth Evolution: 2019-24

Data in % of GDP. Source: International Monetary Fund (World Economic Outlook), October 2022

CAR's economies heavily rebounded by 5.6% as average once the lockdowns and mobility restrictions ceased to be effective, but it was even higher than pre-pandemic levels in the case of Tajikistan (from 7.4% in 2019 to 9.2% GDP growth in 2021), Turkmenistan (from -3.38% in 2019 to 4.62% GDP growth in 2021) and Uzbekistan (from 5.71% in 2019 to 7.42% GDP growth in 2021).⁷ Also, although it may surprise, the war in Ukraine has not had a serious effect on CAR's GDP, unlike inflation which will be explained later.

For the economic future of Central Asia Region related to GDP, the scenario which lies ahead is that reflected in the Figure 1.2. on period 2023-2024: moderate, common and aggregate growth of the CARs pursuant to long-term economic regional stability. After a turbulent global economic slowdown and many years of differences in terms of economic growth between the CARs, the five republics are doomed to understand each other as a region and to find their *key-own-resource* that will allow them to achieve linear economic growth and to gain independence from major neighbor powers as Russia, China or India.

Inflation

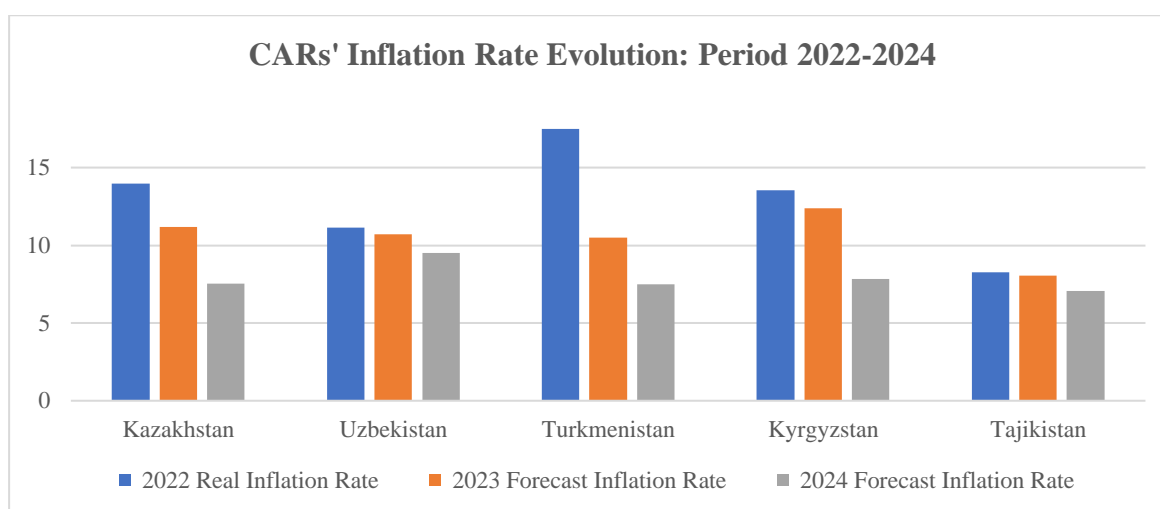
The 2020 Coronavirus Crisis has been the trigger event of the current high inflation due to the extraordinary demand for goods and commodities in 2021, when lockdowns ceased, businesses

⁷ See footnote 3.

reactivated, people and foreign investors had capital liquidity not spent during the weeks of economic inactivity. Normally, the increase of demand provokes deflation provided that the offer follows the demand rise but, in this situation, the demand was extremely higher than the offer leading to shortages of goods, supplies and services and thus higher prices.

Moreover, the 2022 war in Ukraine and financial sanctions imposed to Russia has disrupted supply chains from Central Asia to Europe, increased financial stress amid economic uncertainty, declined consumer and business confidence on financial services activities, increased the price of commodities due to scarcity and, especially, caused an energy price shock and reductions in Russian energy exports.⁸

Figure 1.3. CARs' Inflation Rate Forecast: 2022-24



Source: International Monetary Fund (World Economic Outlook Database), October 2022

Inflation is the most pressing issue the CARs economies are facing today. Rapidly rising prices of commodities, food and energy and currency depreciation have far exceeded the inflation targeting rates set by CARs' central banks, specially affecting to households.⁹ As illustrated in Figure 1.3.,¹⁰ the inflation increase is generalized, but an aggregate deflation is projected to take place in Central Asia for 2023-24. Indeed, the GDP growth linear stability observed in Figure 1.2. seems to be proportionate to inflation rate stabilization in 2024. In response to such uncontrolled inflation, CARs' Central Banks have simultaneously raised benchmark interest rates in a region where local capital markets and banking system are relatively weak caused by high domestic dollarization and much external debt is denominated in dollars.¹¹

⁸ World Bank. 2022. *Social Protection for Recovery: Europe and Central Asia Economic Update*. Washington D.C.

⁹ Artuc, E., G. Falcone, G. Porto, and B. Rijkers. 2022. *War-induced food price inflation imperils the poor*. VOXEU.org CEPR Policy.

¹⁰ See footnote 3.

¹¹ Please note that this fact implies high dependence to US Federal Reserve System's decisions, which raised interest rate in a 75 points basis to 3.75%-4% range on 2 November 2022, as the local currency value decreases vis-à-vis the US dollar.

A non-attractive scenario lies ahead in Central Asia: if the current interest base rates of Central Asia represented in Figure 1.4. do not decrease, a potential sharp re-pricing or re-evaluation of risks due to private investors and lenders' low risk-averse attitude towards venture capital and risky transactions in financial markets could materialise. It would result in lagging economic undertakings, shrinking regional liquidity, tightening credit environment provoking higher borrowing costs, reducing business profitability and investment incentives or triggering the economic recession in 2023.¹² However, inflation remains elevated despite monetary policy tightening, likely reflecting the strong influence of external factors such as Ukraine war, financial sanctions imposed to Russia, local currency depreciation and the rapprochement with China. It might be expected that these interest rates will be reduced in the following years as inflation decreases in accordance with Figure 1.3.

Figure 1.4. Interest Rates of CARs' Central Banks

Central Bank of	Interest Base Rate 2022	Date of Last Update
Kazakhstan	16.75 %	6 December 2022
Uzbekistan	15.00 %	22 July 2022
Turkmenistan	<i>no info</i>	<i>no info available</i>
Kyrgyzstan	13.00 %	29 November 2022
Tajikistan	13.00 %	1 November 2022

Source: Central Banks' websites

Public Deficit and Public Debt

Public Debt management and public finances will be a major challenge for CARs' governments in the years ahead. As many other countries considered advanced or medium-advanced economies, except for Turkmenistan, Central Asian policymakers carried out

Figure 1.5. CARs Public Debt 2019-20

CAR of	Public Debt 2019 (over GDP)	Public Debt 2020 (over GDP)
Kazakhstan	19.94 %	26.35 %
Uzbekistan	28.36 %	37.62 %
Turkmenistan	15.29 %	13.12 %
Kyrgyzstan	51.60 %	67.64 %
Tajikistan	43.05 %	50.43 %

Source: IMF (WEO Database), October 2022

fiscal policy interventions aimed to alleviate the impact of the 2020 Coronavirus Crisis on private sector and households via tax deferrals and breaks, rate reductions, fiscal stimulus packages, subsidized lending and liquidity injections into the regional bank system.¹³ Subsequently, public tax revenues decreased, and public debt sharply raised across Central Asia from 2019 to 2020, as observed from Figure 1.5. Nonetheless, sustainability of the CARs' public debt must be assessed, in large part, by the public collection tax systems and management of public revenues, as corruption in the region constitutes a major *red-flag* in Central Asia political systems.¹⁴ As observed from Figure 1.1., Public Debt is expected to stabilize in 2023 and 2024. The IMF considers that Kazakhstan and

¹² Guénette, J.D., A. Kose, and N. Sugawara. 2022. *Is a Global Recession Imminent?* EFI Policy Note 4, World Bank. Washington D.C.

¹³ OECD. 2021. Report: *Beyond COVID-19: Prospects for Economic Recovery in Central Asia*. Paris.

¹⁴ See footnote 13.

Uzbekistan,¹⁵ which are the most active CARs in sovereign debt markets, do have a low debt distress risk, whereas Turkmenistan has and is expected to have the lowest public debt of the Central Asia region.

On the contrary, debt situation of Kyrgyzstan and Tajikistan is critical as public debt is expected to represent 60.7 % and 39.36 % of GDP by 2024, respectively. Indeed, both countries were beneficiaries of the G20 Debt Service Suspension Initiative (DSSI).¹⁶ To reduce their debt dependence from external lenders, Kyrgyz and Tajik policymakers shall enforce a gradual shift towards domestic financing even though the distress risk will remain moderate for the short-medium term, considering that will not occur another export shock as their revenues from raw materials are essential to face public borrowing obligations.¹⁷

In fact, it should be noted that CARs governments' over-reliance on public banks could lead to crowding out of private sector, creating an unattractive scenario for foreign investors seeking local financing to develop projects in the region. In general, Central Asian banks have lower liquidity and higher government lending rates than banks in most OECD countries.¹⁸ In a situation of financial stress, from a lenders' position, lending to the private sector can be drastically reduced while lending to governments increases, as the state is perceived as the least risky borrower. Thus, the scenario that could arise in the region is a contraction of liquidity and credit to the private sector, which would have to turn to external financing or deciding not to invest via debt or leveraged finance.

Current Account Balance

The Current Account Balance (CAB) includes an inflow and outflow record of a country to be measured in a determined currency (e.g., USD dollars). Pursuant to its analysis, it allows investors to examine the country economic activity vis-à-vis other states of the world and whether such country has deficit or surplus in terms of commercial transactions.

In Central Asia, even before the Coronavirus Crisis, the general current account balance has been negative or very low, that is to say, CARs have deficit being overall 'debtor' of the world, or minimum surplus in terms of transactions in comparison with other countries.^{19/20} Nonetheless, the

¹⁵ In 2019, Uzbekistan jumped for the first time into global financial markets issuing a USD 1 bn sovereign Eurobond whereas Kazakhstan has a broad experience on issuance of 10-year term bonds since 2000.

¹⁶ DSSI was an initiative of World Bank and FMI to be carried out by G20, which suspended the repayment of 12.9 bn USD owed by poorest countries to public entities in order to concentrate their resources on facing the pandemic impact.

¹⁷ See footnote 13.

¹⁸ See footnote 13.

¹⁹ CAB Kyrgyzstan: 2020, 0.377 bn USD | 2021, - 0.741 bn USD | 2022, - 1.216 bn USD

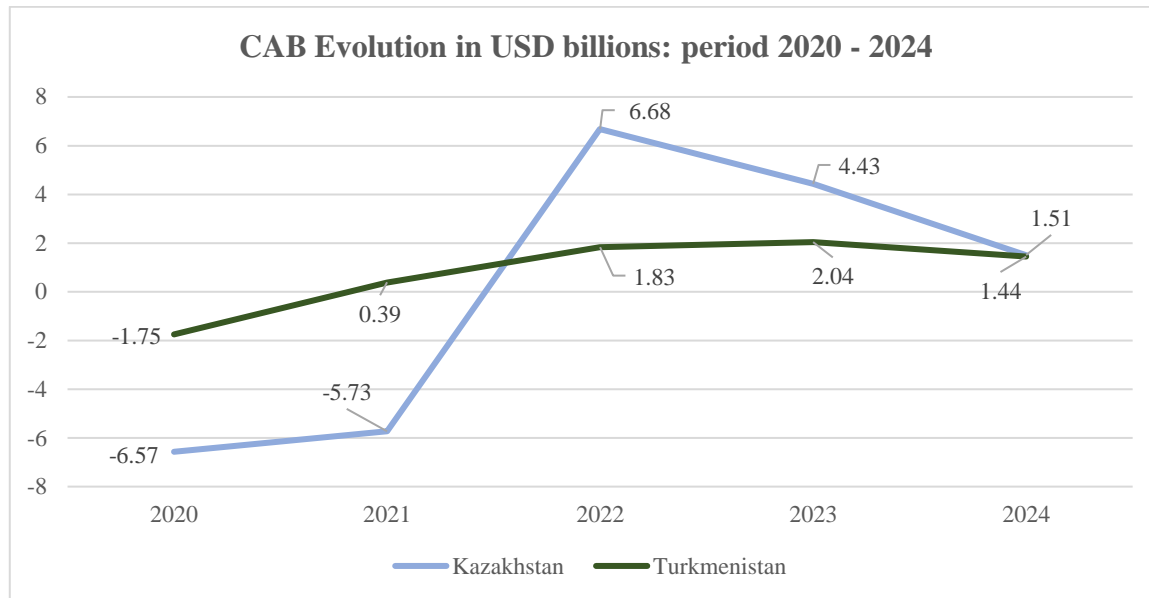
CAB Tajikistan: 2020, 0.336 bn USD | 2021, - 0.735 bn USD | 2022, - 0.004 bn USD

CAB Uzbekistan: 2020, - 3.007 bn USD | 2021, - 4.825 bn USD | 2022, - 2.628 bn USD

²⁰ See footnote 3.

cases of Kazakhstan and Turkmenistan, whose CABs were also negative, have sharply rebounded in 2022, which is an unprecedented fact.

Figure 1.6. CAB Forecast in Kazakhstan and Turkmenistan: 2020-24



Source: International Monetary Fund (World Economic Outlook Database), October 2022

To understand this economic event, which the Kazakh government recognized as unsustainable,²¹ it is necessary to know that Kazakhstan, which ranks 12th in world oil reserves, produced 73.7 million tons of crude oil in 2021, which was sold being benefited from global inflation in 2022, when the price of Brent barrel crude rose to 104.85 USD.²² In other words, Kazakhstan has benefited from inflation to sell and export its oil at a much higher price than in the past. This explains the sharp rise from a CAB deficit of -5.73 bn USD to a CAB surplus of 6.68 bn USD in a year as observed in Figure 1.6. However, as inflation declines in the period 2023-24 according to Figure 1.3., Kazakh CAB will decline proportionally, as the IMF expects oil prices to normalize to pre-2022 levels.²³ On the other hand, the same phenomenon has occurred with Turkmenistan but with respect to natural gas, which is the main gas supplier to China through Lines A, B and C of the TAG Pipeline. In 2021, Turkmenistan, which produced 83.77 bn cubic meters (bcm), set the price per thousand cubic meters,

²¹ Azer News. October 2022. *Kazakhstan expects current account surplus to be unsustainable*. Baku: www.azernews.az/region/201301.html

²² Satubaldina, A. March 2022. *Kazakhstan's Oil Production Grows 14 Percent Over Year*. Astana Times. Astana: astanatimes.com/2022/03/kazakhstans-oil-production-grows-14-percent-over-year/

²³ See footnote 3.

according to Wood Mackenzie consulting firm, at 192 USD January and at 238 USD in July 2021.^{24/25}

Although the Turkmenistan’s CAB is expected to decrease from 2.04 bn USD to 1.44 bn USD in period 2023-24 as observed in Figure 1.6., the drop will not be as marked as in Kazakhstan’s case. The natural gas price will stabilize as inflation rate decreases, but business opportunities which are being recently open to Turkmen natural gas industry towards new pipelines gas projects to Europe (Trans-Caspian Gas Pipeline Project) and to China (Line D of Central Asia-China Gas Pipeline is currently under construction),²⁶ and the joint exploitation with Azerbaijan of Dostluk Gas Field located in the Caspian Sea after the execution of Aktau Treaty in 2018,²⁷ entail an attractive scenario for foreign investors specializing in gas and energy matters for the incoming years as these project need FDI in order to become operative.

1.2. The current crisis of Russian economic hegemony in Central Asia

Russia as a key cross-border trade partner (for the time being)

As mentioned earlier in the Regional Briefing, since their independence in 1991, the CARs have proven to be in political terms a mere continuation of the dictatorial Soviet regime under the guise of a presidentialist system headed by former high-ranking members of the Soviet Directorate-Generals. Therefore, the Russian influence over the region is a matter of history and even ethnicity and, as Central Asia were the Soviet private *back-yard* of natural resources, regional commercial trade between CARs and Russia remains highly active.

Figure 1.7. Central Asia – Russia Trade (2020)

2020 (Most Recent Accurate Data)				
Trade with Russia of	Rank Partner (Export / Import)	Exports Value to Russia	Imports Value from Russia	Top Exported Commodity
Kazakhstan	2 nd / 1 st	5.18 bn USD	13.8 bn USD	Iron Ore
Uzbekistan	2 nd / 2 nd	1.74 bn USD	4.29 bn USD	Gold
Turkmenistan	3 rd / 2 nd	315 million	649 million USD	Transportation
Kyrgyzstan	2 nd / 2 nd	254 million	1.5 bn USD	Textiles
Tajikistan	6 th / 2 nd	41.6 million	738 million USD	Textiles

Source: Observatory of Economic Complexity

²⁴ Nuri, F. October 2022. *Price of Turkmen gas supplied to China grows - Wood Mackenzie*. Trend News Agency. Baku: en.trend.az/casia/turkmenistan/3500180.html

²⁵ Please note that the president of Turkmenistan, Serdar Berdimuhamedow, has never disclosed the real price of Turkmen natural gas. The data available is obtained from mere estimations and customs documents.

²⁶ Yihe, X. 2022. *PipeChina begins building pipeline to import gas from central Asia*. UpStream. London: upstreamonline.com/Ing/pipechina-begins-building-pipeline-to-import-gas-from-central-asia/2-1-1322604

²⁷ Liakopolou, M., Indeo, F. January 2022. *The Agreement on the Dostluk Field and the Outlook for Caspian Energy Security*. N.º 2 Energy Security Program Research Study. Toronto.

As observed in Figure 2.1.,²⁸ the most active CARs in commercial trade with Russia are Kazakhstan and Uzbekistan, which are the most proximate countries. Indeed, Kazakhstan is Russia's most important ally in Central Asia with a shared border of 6,846 km. Such bilateral relation is consolidated over the 2014 ratified Treaty on Good Neighbourly and Allied Relations that includes obligations in terms of economic, security and defense, investment and trade cooperation.²⁹

From the economic perspective, Russia exercises its economic influence in Central Asia through the Eurasian Economic Union (EAEU), which includes Kazakhstan and Kyrgyzstan as members and Uzbekistan as observer. The EAEU entails the Eurasian Economic Space that provides a single market of free movement of goods, capital, services, and workers within territories as well as common development of agriculture, industry, and energy sectors. Nonetheless, Russian economy represents the 87% of EAEU's GDP (471.8 bn USD – Q1 2022),³⁰ thus the regional integration attempt is heavily inclined to Russia. Concretely, internal disputes within the organization are usually resolved in a bilateral manner as its institutions are not consistent. Therefore, Russia have established a 'hub and spoke' model which allows it to act unilaterally within the EAEU by bending its members whose economic powers is infinitely weaker. Then, the EAEU seems to be a Russian politized supranational tool of economic diplomacy aimed to regain power in the region after the fall of the Soviet Union instead of pursuing deep economic integration with smaller states which are insignificant for Russian economic development.³¹ It allows Russia to conform a 'hard-but-soft' hegemony which does not give the essential vehicles to control local institutions of CARs, but ensure that their trade policies are aligned with Russian interests.

The invasion of Ukraine has changed the regional vision towards Russia

Russia's territorial ambitions over Ukraine have revived the imperialist *phantoms* of the Soviet Union in Central Asia. The first general non-express rejection by the CARs of the Russian invasion took place on 24 March 2022, when the five countries did not vote against UN General Assembly Resolution ES-11/1, condemning the invasion.³² Thereinafter, two relevant CARs' political figures remarked their distance towards Russia: on March 2022, former Uzbek Foreign Affairs Minister Abdulaziz Kamilov stated in the Uzbek Senate that Tashkent recognizes the independence, sovereignty and territorial integrity of Ukraine;³³ and Kazakh president, Kassym-Jomart Tokayev, closest to Putin, declared at the 2022 St. Petersburg International Economic Forum that Kazakhstan

²⁸ Observatory of Economic Complexity (OEC). 2020. *Country profile: Russia*. oec.world.

²⁹ Sharifulin, V. *Russia-Kazakhstan treaty on good neighborly relations to take effect soon*. TASS. Moscow: tass.com/world/726382

³⁰ EAEU. July 2022. *EAEU GDP grew by 3.6% in Q1 of 2022*. Moscow. eec.eaeunion.org/en/news/vvp-eaes-vyros-na-3-6-v-i-kvartale-2022-goda/

³¹ Wolczuk, K. Chatham House. May 2021. Part of Report: *The EEU is a genuine and meaningful counterpart to the EU*. London: www.chathamhouse.org/2022/07/what-eurasian-economic-union

³² Stronski, P. Carnegie Endowment for International Peace. March 2022. *The Common Theme in Central Asia's Response to Russia's Invasion of Ukraine*. Washington D.C.

³³ Putz, C. 2022. *Uzbek Foreign Minister Calls for Halting of Hostilities in Ukraine*. The Diplomat. Washington D.C.: thediplomat.com/2022/03/uzbek-foreign-minister-calls-for-halting-of-hostilities-in-ukraine/

would not recognize the independence of the Lugansk and Donetsk.³⁴ Whilst, Kyrgyzstan, Turkmenistan and Tajikistan remain silent, but Russia perceives silence as a hurtful response of its regional economic partners.

On the military aspect, following the prolongation of the war in Ukraine, Russia's reputation as the great power which is impossible to defeat is being progressively demystified on the international scene and within the 1992 Collective Security Treaty Organization (CSTO),³⁵ a military organization parallel to Western NATO that includes Kazakhstan, Kyrgyzstan, Tajikistan, Armenia, Belarus and Russia. Pursuant to the article 4 of the Collective Security Treaty, if a member state undergoes aggression, it will be considered an attack to all the members states which will be obliged to immediately provide the former with help, even military, under the right to collective defense of article 51 of the UN Charter. However, although being legally obliged to do so, none of the CARs has expressed its will to send troops to Russia for the Ukrainian conflict. Indeed, Russia has neither requested such help, probably not to be publicly rejected by its apparently closest allies.³⁶

On the economic aspect, financial sanctions imposed by the United States (US) and the European Union (EU) have distanced CARs from Russia, as they do not want to be affected and do not wish Russia to use the EAEU to circumvent them.³⁷ An example of the possible extension of international sanctions to entities in Central Asia was that of a Tashkent-based company, Promcompleklogistic P.C., which logistically supported Radioavtomatika, a Russian corporation specializing in the procurement of foreign supplies for the Russian defense industry, to evade sanctions³⁸, and was included by the US Department of Commerce into the Entity List of corporations whose activity is contrary to US interests under 744.11 (b) of the Export Administration Regulations (EAR). Furthermore, the US State Department stated, in a Fact Sheet dated 28 June 2022, that the “designation of Promcompleklogistic should serve as a warning to commercial stakeholders worldwide: If you do business with sanctioned entities or individuals, you risk exposure to sanctions”.³⁹ The economic scenario seems to show that Western would not be compassionate with those Central Asian enterprises which try to do business with any Russian-registered entity.

³⁴ Abbasova, Vusala. June 2022. *President Tokayev Says Kazakhstan Will Not Recognize Donetsk, Lugansk as Independent States*. Caspian News. Baku: caspiannews.com/news-detail/president-tokayev-says-kazakhstan-will-not-recognize-donetsk-lugansk-as-independent-states-2022-6-20-0/

³⁵ Grammer, R. and Detsch, R. 2022. *Russia Is Losing Its Clout in Central Asia as Ukraine War Spirals*. *Foreign Policy*. Washington D.C.: foreignpolicy.com/2022/10/06/russia-ukraine-war-central-asia-dipomacy/

³⁶ Please note that Russia helped militarily Kazakhstan in January 2022 within CSTO sphere to alleviate social upheavals caused by Tokayev's decision to remove price caps on liquefied natural gas. However, the Russian strategy to gain influence in return for military aid has not been really successful.

³⁷ Hess, M. 2022. *What about the EAEU? Why Russia's trade bloc is not a sanctions backdoor*. Eurasianet. London: eurasianet.org/explainer-what-about-the-eaeu-why-russias-trade-bloc-is-not-a-sanctions-backdoor

³⁸ Putz, C. 2022. *Uzbek Company Falls Afoul of Russia Sanctions*. *The Diplomat*. Washington D.C.: thediplomat.com/2022/06/uzbek-company-falls-afoul-of-russia-sanctions/

³⁹ U.S. Department of State. June 2022. Fact Sheet: *Targeting Russia's War Machine, Sanctions Evaders, Military Units Credibly Implicated in Human Rights Abuses, and Russian Federation Officials Involved in Suppression of Dissent*. Washington D.C.

Moreover, the economic impact of financial sanctions has been notorious in remittances. The depreciation of Russia's ruble wreaked havoc on the most remittance-dependent CARs, which accounted for 34% of Tajikistan's GDP, 33% of Kyrgyzstan's GDP and 13% of Uzbekistan's GDP in 2021. Unfortunately, as the Ukraine conflict continues and Russian economy is expected to contract by 4.5% in 2022 and 3.6% in 2023 due to financial sanctions,⁴⁰ remittances value may decline by 22% in Tajikistan, 32% in Kyrgyzstan and 21% in Uzbekistan,⁴¹ causing a severe blow to these economies. On this situation, which may be worsened by widespread unemployment and social tensions due to the closure of Russian companies unable to withstand the pressure of sanctions, workers from such three CARs may look for jobs in other neighbor or within their countries in order to prevent falling into poverty. Fortunately, the demographic pyramid of Tajikistan, Kyrgyzstan and Uzbekistan currently maintains a non-inverted positive position, so foreign companies planning to invest in infrastructures will not have many problems to get local workforce.

Turn to East

For CARs, Russia has gone from being a key to a toxic partner since the war in Ukraine. Nonetheless, even before of such event, Central Asia has been witnessing a major rebalancing of power, with Russia's decline and China's emergence as an increasingly influential actor. China's foreign policy is different from Russia's: while Moscow aims to maintain its historical influence through post-Soviet propaganda, political pressure, ethnic customs and heritage, and as a guarantor of military security, Beijing opts for regional connectivity, exploitation of CARs' natural and energy resources through trade investments, loans and credits with the Asian Infrastructure Investment Bank (AIIB), focusing solely on the financial side in order to profit from the region's economic development.⁴²

Figure 1.8. Central Asia – China Trade (2020)

2020 (Most Recent Accurate Data)				
Trade with China of	Rank Partner (Export / Import)	Exports Value to China	Imports Value from China	Top Exported Commodity
Kazakhstan	1 st / 2 nd	9.42 bn USD	10.3 bn USD	Uranium
Uzbekistan	3 rd / 1 st	1.29 bn USD	4.88 bn USD	Petroleum Gas
Turkmenistan	1 st / 3 rd	5.32 bn USD	445 million USD	Petroleum Gas
Kyrgyzstan	7 th / 1 st	47 million USD	2.6 bn USD	Metal Ore
Tajikistan	9 th / 1 st	37.4 million	998 million USD	Ores

Source: *Observatory of Economic Complexity*

⁴⁰ Lawder, D. 2022. *World Bank sees weak growth in 2023 for eastern Europe, central Asia*. Reuters. Washington D.C.: reuters.com/markets/asia/world-bank-sees-weak-growth-2023-eastern-europe-central-asian-countries-2022-10-04.

⁴¹ Lillis, J. March 2022. *Central Asia to suffer as remittances from Russia nosedive*. Eurasianet. Almaty: eurasianet.org/central-asia-to-suffer-as-remittances-from-russia-nosedive

⁴² Stronki, P., Ng, N. 2018. Policy paper: *Russia and China in Central Asia, the Russian Far East, and the Arctic*. Carnegie Endowment for International Peace. Washington D.C.

In 1992, trade volume between CARs and China totaled 460 million USD. In 2016, CARs-China trade volume reached 30 bn USD, whereas CARs-Russia trade volume amounted to 18.6 bn USD. In 2020, according to Figure 2.2.,⁴³ CARs-China volume trade was 35.33 bn USD whereas, according to Figure 2.1., CARs-Russia trade volume is 28.50 bn USD. According to Chinese State Council, in 2021, CARs-China figure exceeded 44 bn USD, which means an increase by over 100 times in thirty years.⁴⁴ Nonetheless, this difference between Russia and China is not caused by a decrease of Russian commercial trade, but by such exponential growth of trade agreements⁴⁵ and Chinese FDI with CARs. Following the Ukraine conflict, this tendency is forecast to continue for 2023-24 period as Russian economy is expected to contract by 4.5 in 2022 and 3.6 in 2023, but the World Bank recognized that such contraction for 2024 is “exceptionally uncertain”.⁴⁶ Furthermore, China continues its ambitious Belt and Road Initiative (BRI) through China Go-Out Strategy.⁴⁷ According to China Global Investment Tracker, Chinese companies have directly invested, within period 2005-20, 35.58 bn USD in Kazakhstan, 4.73 bn USD in Kyrgyzstan, 2.15 bn USD bn Tajikistan, and 5.79 bn USD Uzbekistan.⁴⁸ Total volume of Chinese investments and contracts within the BRI in 2013-20 period was 755.17 bn USD of which 297 bn USD was in the energy sector, 185.34 bn USD in transport, and 73.22 bn USD in real estate.⁴⁹ Nonetheless, it is probable that Tajikistan and Kyrgyzstan have already fallen into the BRI’s debt trap diplomacy as they are not able to repay such investments. In a future, China could request repayment *in kind*, taking control over ports, mineral mines or arable land ‘for free’.

On the geopolitical field, the 2001 Chinese initiative Shanghai Cooperation Organization (SCO), which includes China, Pakistan, India, Kazakhstan, Kyrgyzstan, Tajikistan Uzbekistan and Russia, is gaining power in prejudice to the EAEU and CSTO. In SCO 22nd Annual Summit held in Samarkand on 15-16 September 2022, Putin did not find support from Xi Jinping regarding the invasion of Ukraine.⁵⁰ In fact, Putin admitted that the Chinese president had concerns about the war and Russian role as security guarantor over Central Asia.⁵¹ According to international analysts, Samarkand Summit ended with a perception that the current dominant member of the SCO is China, making it an almost exclusively Asian-oriented organization. Moreover, Uzbek president Shavkat Mirziyoyev stated that China shall play a key role for economy and trade within the SCO, as in 2021

⁴³ Observatory of Economic Complexity (OEC). 2020. *Country profile: China*. oec.world.

⁴⁴ State Council of PRC. 2022. *China-Central Asia trade grew by 100 times over 30 years*. Beijing: english.www.gov.cn/statecouncil/ministries/202201/18/content_WS61e60de2c6d09c94e48a3cf9.html

⁴⁵ In 2021, Turkmenistan turned itself exporting 31 gas bcm to China and only 10 gas bcm to Russia.

⁴⁶ See footnote 42.

⁴⁷ China’s government policy which encourages Chinese companies to increase overseas investments.

⁴⁸ Taliga, H. 2021. Report: *Belt and Road Initiative in Central Asia*. ITUC. Brussels: www.aei.org/china-global-investment-tracker/

⁴⁹ See footnote 48.

⁵⁰ Pomfret, R. 2022. *Russia’s setback in Samarkand*. East Asia Forum. University of Adelaide: www.eastasiaforum.org/2022/10/17/russias-setback-in-samarkand/

⁵¹ Davidson H. and Roth, A. 2022. *Putin tells Xi he understands China’s ‘questions and concerns’ over Ukraine*. The Guardian. Moscow: www.theguardian.com/world/2022/sep/15/putin-thanks-xi-china-balanced-stance-on-ukraine-invasion-russia

China's trade with SCO members reached 343.1 bn USD, up 40% year-on-year.⁵² In conclusion, the economic synergy of CARs with Russia is not expected to increase, but rather a progressive distancing as well as a rapprochement towards China which is seen as peace and balance *gatekeeper* in Asia against a territorially ambitious Russia towards ex-Soviet republics as Ukraine.

1.3. A trade and investment opportunity for the region

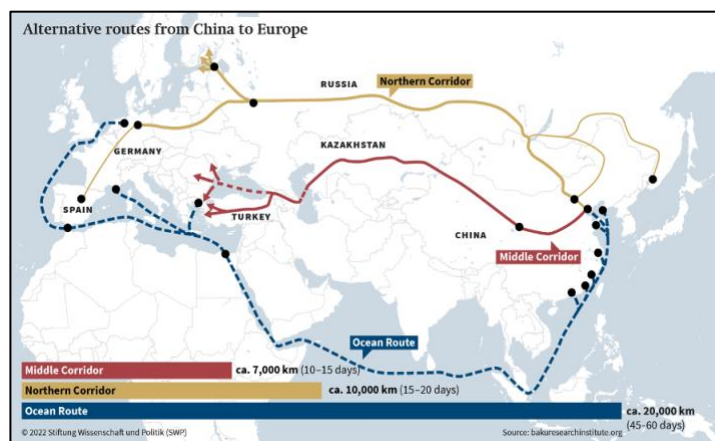
Even though Central Asia has always been economically dominated by Russia and China, the progressive weakening of Russian influence has brought a great opportunity for CARs: the entry of new-major players interested in its natural resources and geographic location such as Turkey and the EU. The region aspires to be the East-to-West bridge as a transport logistics hub in Eurasia and a major oil and gas exporter.⁵³ CARs are willing to welcome new FDI to exploit and develop their economies.

Logistics

Neighbor countries have already shown their interest in Central Asia logistic potential through the Caspian Sea as a manner to avoid transit through Russia. On 31 March 2022, Azerbaijan, Georgia and Kazakhstan signed a declaration to improve transportation with an economic joint venture with Turkey for Trans-Caspian International Transport Route (TITR),⁵⁴ Middle Corridor on Figure 3.1.,

which is expected to transport 75-100.000 containers per year with a Turkish commitment to a 45 bn USD investment in 2023. Turkey has become more involved in the Organization of Turkic States (OTC), including Kazakhstan, Kyrgyzstan, Uzbekistan as members and Turkmenistan as observer, through which aims to adopt a predominant role over TITR pursuant to Turkic World Vision 2040 project. Considering that bypassing Russia is becoming a need to avoid economic sanctions, TTIR transport is forecast to increase for 2023-24, as 2021 Europe-Asia trade volume reached 3.1 trillion EUR.⁵⁵

Figure 1.9. Corridors through Asia



Source: bakuresearching.org

⁵² GT Staff. September 2022. *SCO economic cooperation in spotlight amid global challenges*. Global Times. Beijing: www.globaltimes.cn/page/202209/1275244.shtml

⁵³ Carafano, J. 2022. *Central Asia's Middle Corridor gains traction at Russia's expense*. GIS: gisreportsonline.com/r/middle-corridor/

⁵⁴ Papatolios, N. 2022. *Middle Corridor joint venture to be established in 2023*. RailFreight.com. Rotterdam: www.railfreight.com/beltandroad/2022/04/07/middle-corridor-utlc-to-be-established-in-2023/?gdpr=accept

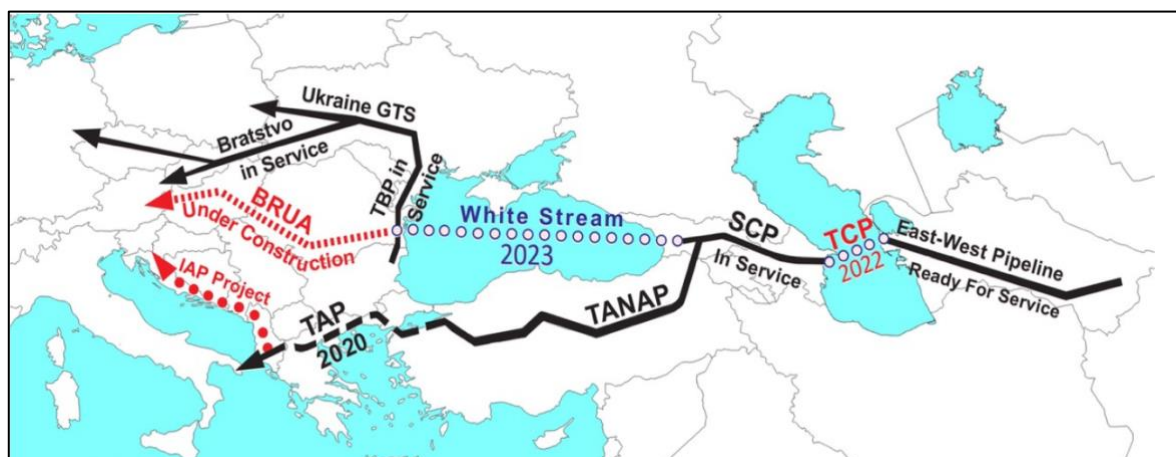
⁵⁵ UN ECOSOC. 2022. *operational capacity of the Trans-Caspian and Almaty-Istanbul Corridors*. Geneva.

On the other hand, the EU, pursuant to 2022 EU Global Gateway Strategy, has committed to invest 300 bn EUR within 2021-27 to boost digital energy and transport as a manner to extend China’s BRI to Europe, but not as a competitive response to it.⁵⁶ However, EU’s interest in Central Asia is not new: between 2014 and 2020, it allocated 1.1 bn EUR to the Central Asian Development Cooperation Instrument, whereas the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) have also invested €11.3 bn in the region.⁵⁷ Therefore, the EU is forecast to be another key role player which is looking for an alternative gas supplier to Russia within Central Asia while CARs are trying to search a way to bypass Russian territory to export their resources.

Gas and oil pipelines

Until the shutdown of the Nord Stream 1 pipeline in September 2022, the EU imported 41% of its gas (150 bcm) and 25% of its oil from Russia. Therefore, the EU is looking for new alternative gas and petroleum suppliers urgently. In this regard, the EU has to main targets in Central Asia: the Turkmen gas and the Kazakh petroleum.

Figure 1.10. Pipelines from Central Asia to Europe



Source: Beyond the Horizon – International Strategy Studies Group

The EU is ambitious with the construction of the 300 km Trans-Caspian Gas Pipeline (TCP, estimated construction cost: 5 bn USD) with a capacity of 32 bcm/year, which aims to deliver Turkmen gas through SCP connected to TANAP and finally delivered to TAP for Europe. In September 2022, EU approved a budget of 19.1 million USD.⁵⁸ Although the idea dates to 1990, it was never more real than since August 2018, when Azerbaijan, Iran, Kazakhstan, Russia and

⁵⁶ Strupczewski, J. 2022. EU unveils 300 bn euro answer to China's Belt and Road. Reuters. Brussels: www.reuters.com/markets/rates-bonds/eu-unveils-300-bln-euro-global-investment-scheme-2021-12-01/

⁵⁷ Kenderdine, T. and P. Bucsky. 2021. Middle Corridor - Policy Development and Trade Potential of the Trans-Caspian International Transport Route. ADBI Working Paper 1268. Tokyo.

⁵⁸ EU Commission. 2022. PCI Fiche. *Gas pipeline to the EU from Turkmenistan and Azerbaijan, via Georgia and Turkey, [combination of "Trans-Caspian Gas Pipeline"]*. Brussels: ec.europa.eu/energy/maps/pci_fiches/PciFiche_7.1.1.pdf

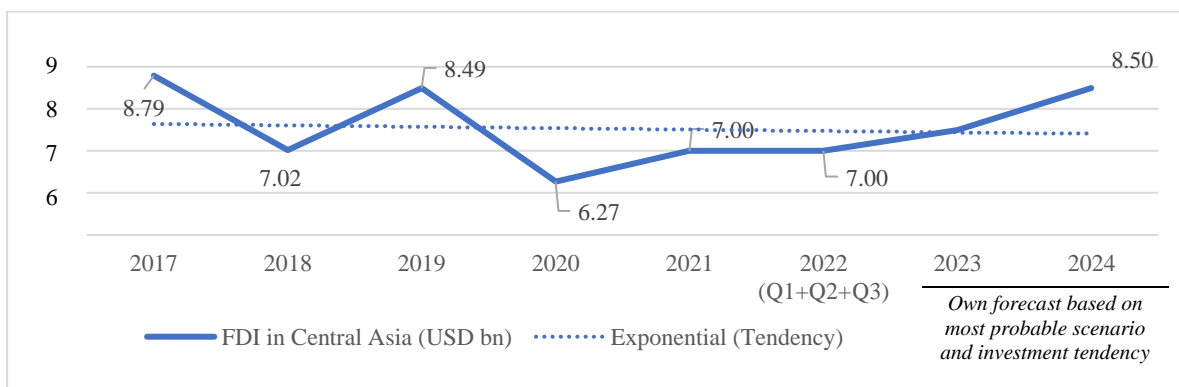
Turkmenistan signed the Convention on the Legal Status of the Caspian Sea,⁵⁹ whose article 14.3 states that a submarine construction “shall be determined by agreement with the Party the seabed sector of which is to be crossed by the cable or pipeline”. Then, a bilateral agreement between Azerbaijan and Turkmenistan would make reality the EU’s gas dream. Turkey is also really interested in this project, as the only manner to deliver Turkmen gas to EU is through Turkish-participated TANAP through BOTAS, which means more public revenues and getting a *weapon-to-bend* over Europe.

Pursuant to 2019 EU New Central Asia Strategy, the EU-Kazakhstan Enhanced Partnership and Cooperation Agreement (EPCA) finally entered into force on March 2020.⁶⁰ Today, the EU is Kazakhstan's main trading partner, accounting for 30% of Kazakhstan's exports, valued at 20.51 bn USD.⁶¹ Nonetheless, this quantity may decrease because the Kazakh petroleum exported to EU is sent through Caspian Pipeline Consortium in Novorossiysk port, which is usually closed since a Russian court, a few days later to Kazakhstan offered the EU to increase the petroleum export, ordered its shutdown.⁶² It is probable that the EU will help Kazakhstan to find new oil routes via Azerbaijan (Baku-Tbilisi-Ceyhan BTC Pipeline) or Georgia (Azerbaijan-Georgia-Romania Interconnector Project) investing money amounts to bypass Russia and accelerate the diversification of EU’s energy supplies.

International project finance and M&A market in Central Asia

In recent years, Central Asia’s FDI kept almost-linear tendency as international project finance and cross-border mergers and acquisitions (M&A) slowed down and venture capital do not take risks.

Figure 1.11. FDI Forecast in Central Asia in USD billions: 2017-24



Source: UN Conference on Trade and Development – World Investment Report 2022

⁵⁹ Kadir, R. 2019. *Convention on the Legal Status of the Caspian Sea. International Legal Materials* 58, no. 2 : 399–413.

⁶⁰ EU. 2020. *Council Decision 2016/123*. Brussels: eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32016D0123

⁶¹ COMTRADE UN Database. 2022. *Kazakhstan – EU Trade*. United Nations: comtrade.un.org/

⁶² Putz, C. *More Difficulties for the Caspian Pipeline Consortium*. The Diplomat. Washington D.C: thediplomat.com/2022/08/more-difficulties-for-the-caspian-pipeline-consortium/

In 2021, private FDI flows rose by 12% to 7 bn USD, of which 3.2 bn USD went to Kazakhstan, 2 bn USD to Uzbekistan and 1.5 bn USD to Turkmenistan.⁶³ Apart from China and Arab countries, international project finance deals entered by European and Turkish companies mainly targeted renewables, mining, power generation and infrastructures such as construction of world's 5th largest green hydrogen facility for 50 bn USD with Swedish Svevind AB⁶⁴ and a gas-fired power plant of 1.2 bn USD with German Siemens Energy in Kazakhstan; or Turkish Cengiz Energy 150 million USD deal in a thermal power plant⁶⁵ and a gas power plant by Dutch Stone City Energy 1.2 bn USD in Uzbekistan.⁶⁶

Arab countries' state-owned companies recently closed huge deals in Central Asia, exposing its economic interest in the region. Dubai's Dragon Oil renewed its gas production partnership with Turkmen Oil for 1 bn USD,⁶⁷ Abu Dhabi's ADQ and TAQA closed 6 bn USD deal to develop clean solar PV and wind technologies in Kazakhstan,⁶⁸ and Saudi Acwa Power signed three energy agreements valued at 12 bn USD to power gas, wind, hydroelectric and green hydrogen fields by 2023-26.⁶⁹

1.4. Living apart together

Although the CARs are referred to in the international arena as Central Asia because of their strong cultural, historical, religious, and linguistic ties, the economic and political integration of the five appears to be a long way off. As this first part of the Report has shown, each country seeks its own benefit by concluding its own economic agreements and deals with major third parties, as well as individually bailing itself out of crises, so it is currently far to be a unified bloc as the European Union or the ASEAN. Nonetheless, although regional integration is a dream to be fulfilled in a long future, stronger regional cooperation could be closer. Even though there are regional economic free trade treaties involving the five republics, such as the Commonwealth of Independent States Free Trade Area (CISFTA), Economic Cooperation Organization (ECO) or the EAEU itself, the CARs ratified them under Russia's mandate. In fact, Russia has always been the power most interested in the five republics not forming a joint bloc in order to keep them under its economic and military yoke through the EAEU and the CSTO pursuant to *dividing and ruling* diplomacy.

⁶³ UNCTAD. 2022. *World Investment Report 2022. International Tax Reforms and Sustainable Investment*.

⁶⁴ Lillis, J. 2022. *Kazakhstan: Oil-rich west to become green hydrogen hub*. Eurasianet. Almaty: eurasianet.org/kazakhstan-oil-rich-west-to-become-green-hydrogen-hub

⁶⁵ Large, P. 2022. *Turkey's Cengiz Enerji launches two new power plants in Uzbekistan*. Maarssen: www.powerengineeringint.com/

⁶⁶ Potter, M. 2022. *Uzbekistan, Dutch firm sign \$1.2 bln power plant deal*. Reuters: Tashkent: www.reuters.com/business/energy/uzbekistan-dutch-firm-sign-12-bln-power-plant-deal-2021-04-20/

⁶⁷ Arabian Business. 2022. *Dubai's Dragon Oil renews contract in Turkmenistan in \$1 bn deal*. Dubai: arabianbusiness.com/industries/energy/dubais-dragon-oil-renews-contract-in-turkmenistan-in-1-bn-deal

⁶⁸ Arab News Staff. 2021. *ADQ and TAQA sign \$6bn agreement with Kazakhstan's sovereign fund*. arab.news/ned95

⁶⁹ Energy Digital. 2022. *ACWA Power signs US\$12bn energy agreements with Uzbekistan*. Norwich: energydigital.com/renewable-energy/acwa-power-signs-us-12bn-energy-agreements-with-uzbekistan

On the other hand, the serious problems of the distribution of the region's water and energy resources remain unresolved: while Kazakhstan, Uzbekistan and Turkmenistan are rich in uranium, oil and gas, Kyrgyzstan and Tajikistan have enough water to irrigate the entire region and their neighbours' large cotton fields and power plants. Nonetheless, the former bloc usually cuts its supply whereas the latter discharges excess water through its dams drowning crop fields. At the same time, Kyrgyzstan and Tajikistan remain fighting for their borders.⁷⁰ Thus, in a region which could be highly self-sustainable, the need for cooperation, which so far has been lacking, seems vital.

On 21 July 2022, the CARs' five presidents met in Issyk-Kul for the 4th Central Asian Consultative Meeting in a joint attempt to build regional connections and bridges of peace, friendship and trust. At the meeting, Kazakhstan, Uzbekistan and Kyrgyzstan signed the Treaty on Friendship, Good-Neighborliness and Cooperation for the Development of Central Asia, but Tajikistan and Turkmenistan declined up to completing "internal proceedings".⁷¹ Again, the regional integration kept as a dream, as Turkmenistan, which is not a member of CIS, CSTO, EAU nor SCO, decided to go their own way trusting its economic self-sustainability with gas exportation, and Tajikistan is not prepared to agree with its border's issues.

Although the current weakening of the Russian yoke could mean an opening for regional integration, Russia's *divide and rule* diplomacy will be replaced by China's BRI *debt trap* diplomacy, specially over Tajik and Kyrgyz economies. In 2022, Export-Import Bank of China (Eximbank) was the creditor of 60% Tajikistan's external debt (3.3 bn USD of which 2 bn USD are owed to it)⁷² and creditor of 40% Kyrgyzstan's external debt (5 bn USD of which 1.8 bn USD are owed to it).⁷³ Moreover, according to most recent data available in 2021, Eximbank was creditor of 20% of Uzbekistan's external debt (3 bn USD).⁷⁴ Thus, if credit defaults occur, China shall be able to confiscate assets as a payment method, so that the two poorest CARs could lose sovereignty.

In conclusion, *overcap* power role is changing from Russia to China, but the aims are equal. China would not be interested in finding a regional bloc that could make matters more difficult, but weak countries as eternal debtors with attractive natural resources to commandeer. Central Asia is passing from being the Russian *backyard* to Chinese *front-yard*, but it is far from being an independent and integrated *center-garden* of the world.

⁷⁰ Lee, J., Asiryanyan, A. and Butler, M., 2020. *Integration of the Central Asian Republics: the ASEAN example*. www.e-ir.info/2020/09/17/integration-of-the-central-asian-republics-the-asean-example/

⁷¹ Nuriddinova, A. 2022. *What Happened at the Latest Central Asian Leaders' Meeting?* The Diplomat. Almaty: thediplomat.com/2022/07/what-happened-at-the-latest-central-asian-leaders-meeting/

⁷² Dzamukashvili. 2022. *Tajikistan's Costly Chinese Loans: When Sovereignty Becomes a Currency*. Georgian Foundation for Strategic and International Studies. tsibilisi.org.ge/

⁷³ Eales, J. 2021. *China's Debt Trap Diplomacy in Kyrgyzstan*. Australian Institute of International Affairs: www.internationalaffairs.org.au/australianoutlook/chinas-debt-trap-diplomacy-in-kyrgyzstan/

⁷⁴ Khitakhunov, A. 2022. *Economic Cooperation between Uzbekistan and China*. Eurasian Research Institute: www.eurasian-research.org/publication/economic-cooperation-between-uzbekistan-and-china/

2. ENERGY AND INFRASTRUCTURE OUTLOOK

- *In the short-term there are dim possibilities of conflict regarding the water crisis. The possibilities are dim since the improvement of relations between Uzbekistan and the hydraulic powers. On the other hand, in the medium-term there is a more concrete possibility of conflict if relations worsen.*
- *In the short-term, the Central Asian republics and China will focus on improving the railways and roads of the BRI. The projects involved are related to the New Eurasian Land-bridge corridor and the China-Central Asia-West Asia BRI Corridor.*
- *There are several projects of both gas and oil infrastructure to be developed in the region. However, the Russian-related projects present themselves as the more likely ones to be done. Their development will put the region in a central position for hydrocarbon exchange in the Eurasian region.*

2.1. History / Map of the regional situation

The Central Asian republics were part of the Union of Soviet Socialist Republics (USSR).⁷⁵ Therefore, they were interconnected in terms of production and infrastructure. On one hand, Kyrgyzstan and Tajikistan were the “upstream countries”, controlling the flow of the main rivers and using them for producing hydraulic energy.⁷⁶ On the other hand, the “downstream countries” were Kazakhstan, Uzbekistan, and Turkmenistan, which provided the other two republics with hydrocarbons and agricultural products.⁷⁷ Kazakhstan and Turkmenistan have most of the control of gas and oil in the region. Meanwhile, Uzbekistan has more access to agriculture and mining. This worked as a symbiotic relationship when the countries were part of the USSR.

Nevertheless, after the fall of the USSR in 1991 the structure changed. The five new republics arose as new states and the structure previously mentioned changed. The new countries maintained the control on their respective resources and were not keen to share them so generously as before;⁷⁸ special problems arose around water sharing.

⁷⁵ F. Izquierdo-Brichs, F. Serra Massansalvador. 2021. *Political Regimes and Neopatrimonialism in Central Asia: A Sociology of Power Perspective*, Palgrave MacMillan. Singapore.

⁷⁶ Khasan S. Karimov, Khakim M. Akhmedov, Muhammad Abid and Georgiy N. Petrov. 2013. *Effective management of combined renewable energy resources in Tajikistan*, Elsevier. Amsterdam:
www.sciencedirect.com/science/article/pii/S0048969713006487?ref=pdf_download&fr=RR-2&tr=763858da3e9c6a06

⁷⁷ Pier Paolo Raimondi. 2019. *Central Asia Oil and Gas Industry – The External Powers’ Energy Interests in Kazakhstan, Turkmenistan and Uzbekistan*, Working Paper, No. 006.2019, Fondazione Eni Enrico Mattei (FEEM), Milano:
www.econstor.eu/bitstream/10419/211165/1/ndl2019-006.pdf

⁷⁸ Gulzhan Buldybayeva. 2014. *Both Sides of CSR Practice: A Case from Oil and Gas Industry in Kazakhstan*, Acta Polytechnica Hungarica. Budapest: epa.niif.hu/02400/02461/00048/pdf/EPA02461_acta_polytechnica_hungarica_2014_02_14.pdf

The following chapter will explain the natural resources of each country and the infrastructure (mainly pipelines and hydraulic plants) at their disposal, as well as the interest that key partners such as China may have in them.

2.2. Resources and energy: new cursed region?

Central Asia is an energy rich region. Before diving into the specifics of each country here is a figure explaining the main resources of each country. It asserts the main resources based on the percentage that they amass in their exports and the position each holds in the economy of the country.

Figure 2.1. Map of CARs' resources.

Country	Main resource
Kazakhstan	Oil: crude petroleum, petroleum gas; 1,965 million bpd in 2019
Uzbekistan	Gold and cotton; 1 million hectares in 2019
Turkmenistan	Natural gas
Kyrgyzstan	Aluminum, gold, and high potential for hydraulic energy
Tajikistan	Gold and high potential for hydraulic energy

Source: Observatory of Economic Complexity

Kazakhstan: hydrocarbons

Kazakhstan is the biggest economy of the region. The principal resources it holds are hydrocarbons. On one hand, crude petroleum accounted for 49.6% of the country's exports in 2020, with a value of 25.2 bn USD.⁷⁹ Besides, the country also exports petroleum gas (5.18% of its exports) and other commodities such as refined copper and refined petroleum. There is a clear reliance and dependance on oil for the economy of Kazakhstan.⁸⁰ In 2018, Kazakhstan was the world's twelfth largest oil producer and the second in the Eurasian region. Furthermore, it is one of the main "untapped" oil producers.⁸¹ It also holds important uranium reserves.

Uzbekistan: gold and cotton

The main resources found in Uzbekistan are gold and cotton. On one hand, gold is the main exporting commodity, reaching 46.8% of the exports in 2020, with a value of 6.52 bn USD. On the other hand, cotton yarn accounts for 6.73% of the exports of 2020, with a total value of 936 million USD.⁸²

⁷⁹ OEC. 2020. *Kazakhstan*, Observatory of Economic Complexity. Massachusetts: oec.world/en/profile/country/kaz

⁸⁰ Gulzhan Buldybayeva. 2014. *Both Sides of CSR Practice: A Case from Oil and Gas Industry in Kazakhstan*, Acta Polytechnica Hungarica. Budapest: epa.niif.hu/02400/02461/00048/pdf/EPA02461_acta_polytechnica_hungarica_2014_02_14.pdf

⁸¹ Marat Karatayev, Stephen Hall, Yelena Kalyuzhnova and Michèle L. Clarke. 2016. *Renewable energy technology uptake in Kazakhstan: Policy drivers and barriers in a transitional economy*, Elsevier. Amsterdam:

www.sciencedirect.com/science/article/pii/S1364032116303847?casa_token=Uk8ics7NC8IAAAAA:cPvtbLE6uXY0WJIKjXiY9_ciBlrsvanTIE9OIgNyGa5VvAHvfCGCkWUt5xawqLyOv0jskm

⁸² OEC. 2020. *Uzbekistan*, Observatory of Economic Complexity (OEC). Massachusetts: oec.world/en/profile/country/uzb

Nevertheless, agricultural production is key for the Uzbek economy. Furthermore, this presents a challenge since the country needs hydroelectric power and water access for the development of agriculture.⁸³

Turkmenistan: natural gas

Turkmenistan is the country with the sixth largest natural gas reserve in the world, with an estimated 265,000,000 trillion cubic feet in 2015.⁸⁴ It has an important production, but it still needs to tap its full potential since the infrastructure and regional problems are leaving its development behind, with 6,923 trillion cubic feet extracted in 2015. Most of the production of natural gas goes to internal consumption because of the lack of infrastructure. In any case, it's important to mention that the Turkmen government usually publishes tampered information. According to the OEC the country had a value of 5.31 bn USD of exports in petroleum gas in 2020.⁸⁵

Tajikistan and Kyrgyzstan: aluminum, gold, and hydraulic power

The three main resources found in Tajikistan are aluminum, gold, and hydraulic power. In 2020, aluminum represented 13% of the exports, and gold reached 48% and a value of 780 million USD.⁸⁶ The revenue is normally placed on bettering hydraulic power.⁸⁷ Tajikistan's hydraulic energy potential is explained by its mountainous terrain and its access to the Amu Daria and Syr Daria rivers. The country needs to further its hydroelectric power to become energy independent.⁸⁸

The same can be said about Kyrgyzstan. On one side, gold represented 65.4% of their exports in 2020 with a value of 1.86 bn USD.⁸⁹ As some of its neighbors being an extractive economy is not sustaining. In addition to this the country is also located in similar conditions as Tajikistan. By having access to the main two rivers and mountainous terrain it has hydraulic power potential. However, the development of this resource also depends on the construction of new projects such as dams to have control of it.⁹⁰

⁸³ Antonio Gómez, César Dopazo and Norberto Fueyo. 2015. *The future of energy in Uzbekistan*, Elsevier. Amsterdam.

⁸⁴ IHS Markit. 2022. Country/Territory Report – Turkmenistan, IHS Markit. London.

⁸⁵ Observatory of Economic Complexity (OEC). 2020. *Turkmenistan*, Observatory of Economic Complexity (OEC). Massachusetts: oec.world/en/profile/country/tkm?depthSelector1=HS6Depth

⁸⁶ OEC. 2020. *Tajikistan*, Observatory of Economic Complexity (OEC). Massachusetts: oec.world/en/profile/country/tjk

⁸⁷ Khasan S. Karimov, Khakim M. Akhmedov, Muhammad Abid and Georgiy N. Petrov. 2013. *Effective management of combined renewable energy resources in Tajikistan*, Elsevier. Amsterdam: www.sciencedirect.com/science/article/pii/S0048969713006487?ref=pdf_download&fr=RR-2&rr=763858da3e9c6a06

⁸⁸ World Bank. 2020. *South Caucasus and Central Asia – The Belt and Road Initiative: Tajikistan Country Case Study*, World Bank. Washington D.C.: openknowledge.worldbank.org/handle/10986/34119

⁸⁹ OEC. 2020. *Kyrgyzstan*, Observatory of Economic Complexity (OEC). Massachusetts: oec.world/en/profile/country/kgz

⁹⁰ Amanaliev, M. 2008. Water Resources Management System of Kyrgyzstan. In: Gönenç, İ.E., Vadineanu, A., Wolflin, J.P., Russo, R.C. (eds) *Sustainable Use and Development of Watersheds*. NATO Science for Peace and Security Serie., Springer. Dordrecht: doi.org/10.1007/978-1-4020-8558-1_5

2.3. Water crisis in Central Asia: an unusual geopolitical friction

As mentioned before, the two main rivers which could further a water crisis in the region are the Amu Darya and the Syr Darya rivers. The two rivers start in both Kyrgyzstan and Tajikistan and then flow, as their affluents do, into the other three countries. The two downstream countries most affected by any changes in these water bodies are Turkmenistan and Uzbekistan.⁹¹ Kazakhstan is less affected since the use of these rivers accounted only 19% of the country's total water consumption in the last decade. Thus, the Amu Darya and the Syr Darya rivers are essential for agriculture in the case of Uzbekistan and Turkmenistan (singularly for cotton production, which is a water demanding crop) and for hydroelectric power generation in the case of Kyrgyzstan and Tajikistan.

To explain the water crisis this segment will consist in three parts: i) the interests of Uzbekistan and Turkmenistan; ii) the interests of Kyrgyzstan and Tajikistan; and iii) the possible outcomes and scenario of conflict in a short and middle term timeframe.

Interests of Uzbekistan and Turkmenistan

The interests of these countries are interlinked. Agricultural production will be hampered if both rivers are blocked, or their flow is restricted. For Uzbekistan this will prove to be a challenge since 90% of the irrigation for crop production, which represents 25% of its GDP, comes from these rivers.⁹² Turkmenistan's agricultural sector only accounts for less than 10% of its GDP, but almost one third of its workforce is involved in the sector. Moreover, given the fact that 80% of Turkmenistan is covered by the Kara-Kum desert, the country relies heavily on the Kara-Kum Canal, which was built in the Soviet era as the world longest canal and takes the water from the Amu Darya River.⁹³ The main goal of Uzbek and Turkmen governments is to prevent the obstruction of the two rivers.

Interests of Kyrgyzstan and Tajikistan

Kyrgyzstan and Tajikistan don't have a special need for irrigation because they are mountainous countries with less space for extensive agriculture. But they value their water resources for electricity generation, due to the lack of hydrocarbons that their Central Asian neighbors have in abundance. Moreover, the developing of hydropower plants is a way to diversify an economy too dependent of gold production and other extractive activities.

⁹¹ Ondrej Palicka. 2021. Central Asia: Conflict Potential in the Amu Darya & Syr Darya River Basins, Atlas Institute for International Affairs. London: www.internationalaffairshouse.org/central-asia-conflict-potential-in-the-amu-darya-syr-darya-river-basins/

⁹² See footnote 90.

⁹³ See footnote 82.

In 2015, 85.2% of the electricity produced in Kyrgyzstan came from hydroelectrical sources and 95.5% in the case of Tajikistan.⁹⁴ The two countries are trying to develop new projects. On one side, the Kambarata-1 dam in the Syr Darya River is a prospective project by Kyrgyzstan. On the other side, Tajikistan is developing the Rogun dam in the Amu Darya River. These dams are key for energy production.⁹⁵

Possible outcomes and scenarios

Developing new projects Kyrgyzstan and Tajikistan face problems with internal groups for access to water and with the downstream countries, especially with Uzbekistan, which had border disputes with the two upstream countries until 2017. Bad relations between Uzbekistan's president Karimov and Tajikistan's Rahmon until the demise of the former endangered more the situation.⁹⁶ In addition to this, both Uzbekistan and Turkmenistan have greater military power than the other two actors. This could rise the tension of the possible conflict since there has been precedent of Uzbekistan mobilizing troops to the borders of Kyrgyzstan and Tajikistan.

Short-term scenario: There are dim possibilities of a conflict. This can be affirmed because since the rise to power of Uzbek President Mirziyoyev at the end of 2016 the relations between Uzbekistan and its two eastern neighbors have improved; Mirziyoyev has agreed national borders with Kyrgyzstan and Tajikistan and has expressed the need of cooperation with both countries. Turkmenistan is less willing to cooperate for fear of a negative impact on the flow of the Kara-Kum if the upstream countries build dams; it has two possibilities: to explore a progressive cooperation or try to blockade any new water dam development. For a short-term perspective the most possible situation is the first one. Nevertheless, there is a chance that assertive actions by Turkmenistan may happen if water access is obstructed.

Medium-term scenario: There is a higher possibility of conflict. On one hand, if the projects dampen the situation of the Kara-Kum Canal then Turkmenistan would be more inclined to act. The Turkmen government has said that its counterparts are eager and capable to deploy troops to defend the dams. This could have an impact on Uzbekistan's attitude as well.⁹⁷ The diplomatic relations could falter if Tajikistan and Kyrgyzstan continue doing hydroelectric projects without considering downstream countries' interests. This scenario could lead to two possible situations: i) cooperation and frictions, alternatively, with intense diplomatic activity and even preventive military deployment; and ii) direct Turkmen military action to halt the reduction of the water flow. Here the most possible situation would be a succession of cooperation and high-tension cycles, maybe with some military skirmishes

⁹⁴ See footnote 89.

⁹⁵ Sergei Vinogradov. 1996. "Transboundary Water Resources in the Former Soviet Union: Between Conflict and Cooperation." *Natural Resources Journal* 36, no. 2 : 393–415. New York: www.jstor.org/stable/24885806

⁹⁶ See footnote 90.

⁹⁷ See footnote 89.

but not a formal war. In the case of Uzbekistan, the country would continue to look for cooperation, but it could resort to military deployment if the conflict escalates.⁹⁸

2.4. The Soviet greenhouse effects

The CARs inherited the pollution and other environmental problems caused by several decades of Soviet rule, which was only interested on fulfill higher production objectives, without paying attention to personal security or nature protection. This made infrastructures in Central Asia faulty and not environmentally friendly.⁹⁹ The region suffered of several environmental hazards, which came from the misuse of machinery. The new countries originated from the USSR's dissolution are weighed down by these problems. Most of the infrastructure is still outdated: some factories are over 40 years old with no recent technological improvement; they don't go through an upgrade because of the cost and the slowing down of production during the process.¹⁰⁰

Problems

There is a desertification process of the last arable land in the CARs. Two thirds of the land in Central Asia are arid; this means that agriculture is a hard activity in most of the region.¹⁰¹ There is deforestation, erosion, and pollution in the mountainous republics, partly due to dam projects that are not environmentally friendly. The process happens in the other republics as well, with large extensions of dessert or steppe (the drying up of the Aral Sea is a clear example). This can lead to other negative consequences in the region such as malnourishment because of the lack of access to clean water. Furthermore, this degradation can lead to a magnitude of natural disasters in both mountainous and low-lying areas since it will disrupt the natural order of the ecosystem.¹⁰²

It is expected that the temperature in the region will increase by 2 degrees Celsius in the following years. Which will affect the reserves of water in the mountains stored in the colder areas of the mountain ranges. The melting of these glaciers will affect the flow of the main rivers and the access to water to all the countries of the region.¹⁰³

⁹⁸ Xuanxuan Wang, Yaning Chen, Zhi Li, Gonghuan Fang and Yi Wang. 2020. *Development and utilization of water resources and assessment of water security in Central Asia*, Elsevier. Amsterdam.

⁹⁹ Stephen R. Bowers. 1993. *Soviet and Post-Soviet Environmental Problems*, Liberty University. Lynchburg: digitalcommons.liberty.edu/cgi/viewcontent.cgi?article=1084&context=gov_fac_pubs&httpsredir=1&referer

¹⁰⁰ J. Marc Foggini, Alex M. Lechner, Matthew Emslie-Smith, Alice C. Hughes, Troy Sternberg and Rafiq Dossani. 2020. *Belt and Road Initiative in Central Asia: Anticipating socioecological challenges from large-scale infrastructure in a global biodiversity hotspot*, Wiley. New York: conbio.onlinelibrary.wiley.com/doi/pdf/10.1111/conl.12819

¹⁰¹ Paola Agostini and Tatiana Proskuryakova. 2022. *Rethinking landscape restoration in Central Asia to improve lives and livelihoods*, *World Bank Blogs*. Washington D.C.:blogs.worldbank.org/europeandcentralasia/rethinking-landscape-restoration-central-asia-improve-lives-and-livelihoods

¹⁰² See footnote 100.

¹⁰³ Bermet Talant. 2022. *How is Climate Change Affecting Central Asia?*, RadioFreeEurope/RadioLiberty. Prague: www.rferl.org/a/central-asia-climate-change-water-talant/31924317.html.

Responses: two-step approach

There are several regional initiatives that could help to solve the problem.¹⁰⁴ The Central Asian Regional Environmental Centre (CAREC) is a non-governmental strategic group; its role is to inform and involve the population of the region in environmental issues. CAREC also conducts research on these matters. Some of the projects are the following: a research project in Uzbekistan related to its infrastructure; a 2020-2025 strategic plan focused on what the countries as a whole need in a strategic level; and mega-projects to solve environmental hazards with a timeframe of 17 years.¹⁰⁵ Another initiative is “Nexus: the relationship of water, energy, and food”, a project funded by the EU for investment to research hydraulic and water security concerns.¹⁰⁶ Finally, Central Asian Leadership Program (LAP) is a CAREC flagship initiative. It focuses on finding the next leaders on the region and inform them about environmental concerns in Central Asia.¹⁰⁷

After the due research of the hazards that loom over the region financial investment for technologic improvements is key. The five countries should invest themselves as well in the updating of their infrastructures. Some attempts have been made in the case of Uzbekistan with more than 2,500 kilometers of railroads and the systemic renewal of trains, modernization of locomotive fleet and other railway sector improvements.¹⁰⁸

2.5. Infrastructure concerns: energy and trade infrastructures

The current Central Asian republics inherited their main infrastructure from the Soviet era. Some of the railways or factories date to more than 40 years, which presents problems for economic development. Nevertheless, there are new projects being developed in the region.

Trade infrastructures: the BRI

As far as international trade is concerned the key for this region to prosper relies on the development of its infrastructure. Its centric position connects the Eurasian continent. Furthermore, it is key for one of the biggest initiatives of trade in the region: the Belt and Road Initiative (BRI).¹⁰⁹

¹⁰⁴ Abdurakhmanov Kalandar Khojaevich, Dodoboev Yusubjon Tajibaevich and Khamidov Bakhodirjon Sadikjanovich. 2020. *Ecological problems of Central Asian countries*, MedCrave. Budapest: medcraveonline.com/MOJES/ecological-problems-of-central-asian-countries.html

¹⁰⁵ CAREC. 2022. About CAREC: CAREC Program, Almaty: www.carecprogram.org/?page_id=31

¹⁰⁶ Delegation of the European Union to the Republic of Kazakhstan. 2021. *Integrating the Water-Energy-Food-Ecosystems Nexus into national planning systems* Delegation of the European Union to the Republic of Kazakhstan. Brussels: www.eeas.europa.eu/delegations/kazakhstan/integrating-water-energy-food-ecosystems-nexus-national-planning-systems_en?s=222

¹⁰⁷ See footnote 100.

¹⁰⁸ IHS Markit. 2022. *Country/Territory Report – Uzbekistan*, IHS Markit. London.

¹⁰⁹ Farkhod Aminjonov, Alina Abylkasymova, Anna Aimée, Bahtiyor Eshchanov, Daniyar Moldokanov, Indra Overland and Roman Vakulchuk. 2019. *BRI in Central Asia: Overview of Chinese Projects*, Norwegian Institute of Foreign Affairs. Oslo.

The ambitious project was first announced in 2013 by Chinese President Xi Jinping in Astana, the capital of Kazakhstan, which reinstates the commitment of China in the region. The BRI consists in two belts: the overland Silk Road Economic Belt and the Maritime Silk Road. The first one passes through the five Central Asian republics, making the whole region a key part of the project and an important destination of China's investments.¹¹⁰

The main trading partner for China in Central Asia is Kazakhstan, due to the geographic position of the country and the fact that it is the most developed economy of the region. Their relation started before the BRI project was launched and even if it has been kept under the radar it has been remarkable due to the amount of Chinese investment in the country.¹¹¹

Present projects: the PRC has invested heavily in the last few years. There are several ongoing projects as well as already completed investments.

Figure 2.2. Number of China's BRI and bilateral projects in Central Asia

Sectors	Total by sector	KAZAKH	KYRGYZ	TAJIK	UZBEK	TURKMEN
Total by country	261	102	46	44	43	26
Trade and industry	131	61	17	17	24	12
Rail and road	51	14	11	16	5	5
Energy	48	20	5	7	12	4
People-to-people	31	7	13	4	2	5

Source: Norwegian Institute of International Affairs (NUP) – 2021¹¹²

As we can see there are several projects in the region (the chart includes total projects started before the Covid pandemic). The Kazakh projects are the predominant ones due to the strategic position of the country and its dominance on the economic and oil field. Nevertheless, there is investment in the other countries to further the infrastructure of the BRI.

As we can see in the chart China is mainly investing in infrastructure and energy.¹¹³ According to the Norwegian Institute of International Affairs (NUP), by 2019 China had invested 90,8 billion USD in Kazakhstan; 4,6 billion USD in Uzbekistan; 5,3 billion USD in Kyrgyzstan; and 10,5 billion USD in

¹¹⁰ Shobhit Seth and Amy Drury. 2020. *How China's One Belt One Road (OBOR) Initiative Works & Its Goals*, Investopedia. New York: www.investopedia.com/terms/o/one-belt-one-road-obor.asp

¹¹¹ Andrew Chatzky and James McBride. 2020. *China's Massive Belt and Road Initiative*, Council on Foreign Relations. Washington D.C.: www.cfr.org/backgrounders/chinas-massive-belt-and-road-initiative

¹¹² See footnote 108.

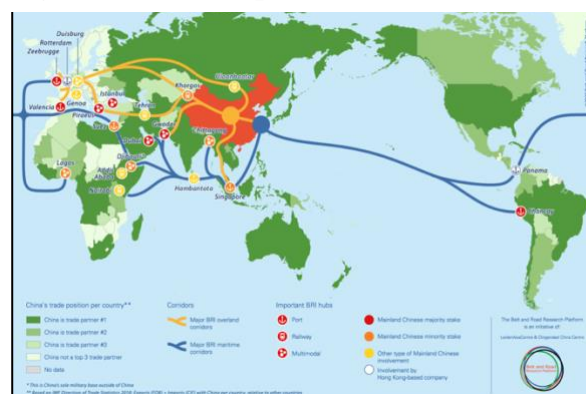
¹¹³ World Bank. 2020. *South Caucasus and Central Asia – The Belt and Road Initiative: Kazakhstan Country Case Study*, World Bank. Washington D.C.: openknowledge.worldbank.org/bitstream/handle/10986/34117/South-Caucasus-and-Central-Asia-The-Belt-and-Road-Initiative-Kazakhstan-Country-Case-Study.pdf?sequence=4&isAllowed=y

Tajikistan. China is also investing in Turkmenistan with an estimate of 24,8 billion USD, although Turkmenistan's figures remain contested since there are transparency concerns with its official information.¹¹⁴

There are two BRI corridors that pass through Central Asia. The New Eurasian Land-Bridge Corridor, which connects China to Europe and passes through several cities of Kazakhstan, and the China-Central Asia-West Asia BRI Corridor, which passes through the five CARs and connects several cities. Both corridors are part of the overland Silk Road Economic Belt.¹¹⁵

As part of these frame projects, some works have already been carried out:¹¹⁶ i) *Kazakhstan*: the country has invested vigorously in its own transport network to upgrade the railway lines involved in the BRI corridors; ii) *Uzbekistan*: an example is the improvement of the Andijan-Pap-Angren-Tashkent segment; the Uzbek government built a tunnel and electrified the rail tracks in 2016; iii) *Kyrgyzstan*: improvement of the Bishkek-Almaty and the Osh-Andijan Road and rail connection; iv) *Tajikistan*:

Figure 2.3. BRI Map



Source: Belt and Road Research Platform

union of the central Dushanbe rail corridor to the southern Khatlon rail corridor, and new roads to connect the missing segments in the north-south road route that connects Dushanbe to Khujand and then to Isfara, and v) *Turkmenistan*: although there is not clear data about this country due to its lack of transparency,¹¹⁷ it can be said that since 2016 the Turkmen government has been more involved in re-entering the global economy and it has started the updating of its railway system to connect the corridors. Other projects involve pipelines as we will see in a moment.¹¹⁸

Project development in the short-term: the key projects in the short-term are the finishing of main routes in the corridors mentioned. These projects consist in connecting different ports and railways in the Caspian Sea and addressing the lack of infrastructure for railway systems in the region. Some of the projects are the following: i) the International North-South Transportation Corridor, which connects Iran to Russia connection of railways; ii) the Lapis Lazuli Transit Corridor, focused in

¹¹⁴ See footnote 108.

¹¹⁵ Marlene Laruelle. 2018. China's Belt and Road Initiative and its Impact in Central Asia, The George Washington University. Washington D.C.: centralasiaprogram.org/wp-content/uploads/2017/12/OBOR_Book_.pdf

¹¹⁶ Roza Nurgozhayeva. 2020. *How is China's Belt and Road Initiative Changing Central Asia?*. The Diplomat. Tokyo: thediplomat.com/2020/07/how-is-chinas-belt-and-road-changing-central-asia/

¹¹⁷ Mercator Institute for China Studies (MERICS). 2018. *Mapping the Belt and Road initiative: this is where we stand*, Mercator Institute for China Studies (MERICS). Shanghai: www.merics.org/en/tracker/mapping-belt-and-road-initiative-where-we-stand

¹¹⁸ Harri Taliga. 2021. *Belt and Road Initiative in Central Asia*, ITUC. Brussels: www.ituc-csi.org/IMG/pdf/belt_and_road_initiative_in_central_asia.pdf

connecting Turkey to Afghanistan; iii) development of the main two corridors: creation and connection of new railways and road.¹¹⁹

Energy infrastructures

Due to the Soviet heritage infrastructures are outdated and in the case of pipelines the old ones go through Russian territory, which limit the energy sovereignty of the producer. Nevertheless, this has not stopped the production of the resources the countries have. The hydraulic powers have a lot of potential, but they have not been producing energy at the rate of the hydrocarbon actors of the region.

There are several oil pipelines which pass through the region but mainly through Kazakhstan. There are four working export lines: three of them –Atyrau-Samara Pipeline, Caspian Pipeline Consortium Pipeline (CPC), and Kenkyak-Orsk Pipeline– go from Kazakhstan to Russia; the fourth is the Russia-Kazakhstan-China Pipeline.

Furthermore, there are other projects such as the CPC extension, the Kazakhstan-Turkmenistan-Iran Pipeline, and the Trans-Caspian pipeline. Nevertheless, in the short-term the only one that will be able to be developed is the CPC extension.¹²⁰ The project aims to extend the capacity of holding 500,000 barrels of crude oil per day to 1 million. The other proposed pipelines have more complicated perspectives because the need of tacit approval from other countries (singularly Russia) to go under the Caspian Sea or because they should pass through zones of conflict or high instability (mainly Pakistan, Iran, and Afghanistan).¹²¹

Gas pipelines are also outdated.¹²² Most of the new projects are joint ventures between foreign companies and the national states. In Turkmenistan, which holds the 6th largest gas reserve in the world, the extraction is done by both local and foreign companies like Chinese CNPC; in the case of Kazakhstan and Uzbekistan there is an even bigger presence of foreign companies.¹²³

¹¹⁹ OBOReuropa. 2019. Turkmenistan's strategic corridors, OBOReuropa. Paris: www.oboreuropa.com/en/turkmenistan-strategic-corridors/

¹²⁰ Mark J. Kaiser and Allan G. Pulsipher. 2007. *A review of the oil and gas sector in Kazakhstan*, Elsevier. Amsterdam: www.sciencedirect.com/science/article/pii/S0301421506001443?casa_token=UwpkDAXwoUAAAAA:vh8HxRjqrVrX1t96851Gnoq8OQmbxYt_4OyK-JR9WefILum-K2Hk2CYcgFGHuXr7cyVZobnT

¹²¹ Gulzhan Buldybayeva. 2014. *Both Sides of CSR Practice: A Case from Oil and Gas Industry in Kazakhstan*, Acta Polytechnica Hungarica. Budapest: epa.niif.hu/02400/02461/00048/pdf/EPA02461_acta_polytechnica_hungarica_2014_02_14.pdf

¹²² Kamalbek Karymshakov and Burulcha Sulaimanova. 2021. *The impact of infrastructure on trade in Central Asia*, Springer Nature. Berlin: link.springer.com/content/pdf/10.1007/s10308-021-00613-7.pdf

¹²³ Samad, Ghulam; Abbas, Qaisar. 2020. *Infrastructure in Central Asia and Caucasia*, ADBI Working Paper Series, No. 1202, Asian Development Bank Institute (ADBI). Tokyo: www.econstor.eu/bitstream/10419/238559/1/adbi-wp1202.pdf

Figure 2.4. Projects under development

Pipeline	Route	Length	Capacity bcm/year	Cost (million USD)	Comments
Turkmenistan – China Gas Pipeline	Turkmenistan - Xinjiang (could be extended to Japan)	6,696 km	30	10,000 to China	Under construction (August 2007)
Central Asia Gas (CentGas)	Daulatabad via Herat to Multan (could be extended to India)	1,400 km to Multan	27	2,000 (to Pakistan) and another 500 km (to India)	MoU signed by Turkmenistan, Pakistan, Afghanistan and Uzbekistan. The Pakistan, Afghanistan, and Turkemistan met in May 2022 to discuss resuming this pipeline project
Central Asia Center Pipeline	Turkmenistan and Uzbekistan via Kazakhstan to Saratov (Russia), connecting the Russian natural gas pipeline network	Existing route Extension	60	N/A	N/A
Trans-Caspian Gas Pipeline	Turkmenbahi via Baku and Tsbilisi to Erzurum, linking up with Turkish natural gas pipeline network	1,641 km	30	5 bn	Talks are underway

Source: Elcano Royal Institute, 2022

Currently there are two main gas pipelines in full usage: the Central Asian gas pipeline networks, which starts in Turkmenistan and goes through Russia and has a capacity of 60 bcm/year, and the smaller Korpezhe-Kurt-Kui Pipeline, which goes from Turkmenistan to Iran and has a capacity of 8 bcm/year.¹²⁴

However, there are several new projects to be taken into consideration: i) the Turkmenistan-China Gas Pipeline, which has been under construction since the summer of 2007 (in addition to lines A, B and C, with a combine capacity of 55 bcm/year, line D has become the new focus of attention for China, with an extra capacity of 30 bcm/year); ii) the Central Asia Gas Pipeline (Centgas), with a capacity of 27 bcm/year; iii) the Central Asia-Center Pipeline, which would be connected to the Russian natural gas pipeline system, with the capacity to transport 60 bmc/yearm; iv) the Trans-Caspian Gas Pipeline (TCGP), connecting to the Turkish natural gas pipeline system, and with a transport capacity of 30 bmc/year, and v) the Nabucco Project, which would transport between 25

¹²⁴ Miguel Á. Pérez Martín. 2010. *Geo-Economics in Central Asia and the “Great Game” of Natural Resources: Water, Oil, Gas, Uranium and Transportation Corridors (WP)*, Elcano Royal Institute. Madrid: 129.35.96.157:10040/wps/wcm/connect/06360c00422d844591e3f38b6be8b54b/WP59-2009_PerezMartin_Geo-economics_Central_Asia_Natural_Resources.pdf?MOD=AJPERES&CACHEID=06360c00422d844591e3f38b6be8b54b

and 30 bmc/year and would converge in Turkey and from there would be transported to Central Europe.

The Central Asia Center Pipeline and the completion of the Turkmenistan-China Gas Pipeline network have the most probability to be carried out. On the other hand, the Central Asian Gas (CentGas) should pass through Afghanistan, which is very volatile conflict zone, and the TCGP faces the inconformity of Russia as a major Caspian Sea neighbor (this project is feasible due to the growing European interest on avoiding Russia to get gas supplies, and the international treaties on the Caspian Sea would allow it, but Moscow has used until now its gravitas as the old ruler of the CARs.¹²⁵

In conclusion, it can be affirmed that in both oil and gas infrastructures the Russian related projects have a greater probability of being done. The reasons as mentioned before are based on pre-existing projects and the dependent economic relations of the Central Asian republics and Russia. However, Chinese projects could also be done when considering the significant investment of the country for the BRI initiative. The plans are being developed in the upcoming years are focused on interconnecting Central Asia as the center of energy for oil and gas distribution in the Eurasian region. The oil and gas projects mentioned before are important and some of them are expected to be developed in the short-term timeframe.¹²⁶

¹²⁵ See footnote 123.

¹²⁶ See footnote 122.

3. SOCIAL OUTLOOK

- *Social unrest and ethnic confrontations will probably continue in south Kyrgyzstan during the next year. The Kyrgyz-Uzbek border disputes are suffering an escalation into greater crisis. There will not be a peaceful solution between parties (governments and individuals) in the short term.*
- *In Uzbekistan, the ethnic minority living in Karakalpakstan is committed to protecting its autonomy but secession of the province by referendum is unlikely.*
- *Islamic radicalization will have an important role in the security's agenda of Central Asia. However, the shift from secularism to Islamist republics is far from becoming a likely scenario.*
- *Most of the governments have chosen cooperation towards the Afghan Taliban. The security of Afghanistan neighbors highly depends on the effective control of their borders and fighting other Islamic groups like IKS.*

3.1. The -stans and ethnic conflicts

The CARs owe their name to the peoples who historically inhabited their territory (-stan means *land of*). Demographics of ethnicity has been one of the central problems of the population of the former Soviet republics after independence.

Under the domination of the USSR these

territories changed their borders several times at the mercy of Moscow's economic and governmental interests. It is a fact that the identity of these peoples is more linked to a sense of ethnicity than to a national identity. The result has been a non-homogeneous region whose border division even today presents conflicts due to the situation of ethnic minorities.¹²⁷ The above Figure 5.1. presents the division of ethnic majority groups in each of the CARs.

Figure 3.1. Central Asian Demography

Country	Ethnic group	% Population
Kazakhstan	Kazakh	63.1%
Kyrgyzstan	Kyrgyz	70.9%
Tajikistan	Tajik	84.3%
Turkmenistan	Turkmen	85%
Uzbekistan	Uzbek	80%

Source: CIA World Factbook, October 2022

Kyrgyz-Uzbek territorial disputes

Tensions and disputes within Kyrgyzstan and with neighboring republics are mainly due to the existence of enclaves and exclaves in the southern territory of the country. On the one hand, four kilometers from the border with Uzbekistan in the Fergana valley there is a Kyrgyz exclave, Barak,

¹²⁷ World Bank. 1995. *The demographics of ethnicity: implications for project support in Central Asia (English)*. Washington, D.C: documents.worldbank.org/curated/en/281211468779133791/The-demographics-of-ethnicity-implications-for-project-support-in-Central-Asia

which depends on the Osh administration but is surrounded by Uzbek territory. Conversely, there are four Uzbek enclaves surrounded by Kyrgyz territory (in the provinces of Jalalabad and Batken).¹²⁸

The 2010 crisis occurred in April in the cities with the largest ethnic Uzbek population following the removal of the former president of Kyrgyzstan, Kurmanbek Bakiyev. A very serious clash broke out between Uzbeks dissatisfied with the discrimination they had previously received under Askar Akayev and southern Kyrgyz who continued to support the ousted president. The conflict escalated into tensions between the governments themselves, who accused each other of not respecting borders and not effectively controlling population within their territory.

Since its independence Kyrgyzstan has shown a high volatility in politics, marked by a clear north-south divide. Social unrest again ousted the president in October 2020, replaced by a populist leader, Sadyr Japrov, which has meant a return to strong presidentialism. In 2021, Uzbek and Kyrgyz officials began negotiations raising the possibility of an agreement to end decades of instability. The countries share a 1,400 km border, 15% of which is yet to be agreed and ratified by their parliaments.¹²⁹ In April, public opinion polls showed 85% support for the president's negotiations with Mirziyoyev; two months later it had fallen to 75%. Currently the risk of social protests is growing because Japarov is negotiating control over the Kempir-Abad water reservoir in Andijan. On 23 October 2022, several dozens of people were arrested for showing their opposition to the project of agreement. The latter means Kyrgyzstan would exchange the reservoir for a total of 19,000 hectares in other territories.¹³⁰ In the coming months the Kyrgyz-Uzbek frictions will possibly translate into sporadic revolts in the south of the country, caused by the proximity of the settlements of these different communities and the questionable division of their territories and water facilities. In addition, political opposition, and discrepancies within Japarov's government will increase, causing greater instability in the republic.

Escalation of Kyrgyz-Tajik tensions

The ethnic situation between Kirgizstan and Tajikistan is more serious and unstable. There are two enclaves belonging to Tajikistan: Voruth (26,000 inhabitants of which 95% are Tajiks and 5% Kyrgyz) and one small settlement also in the Ferghana valley.¹³¹ Both countries host Russian military bases and are members of the Shanghai Cooperation Organization and the Collective Security treaty Organization.

¹²⁸ Oficina de Informacion Diplomática. March 2021. *Ficha país: Kirguistán*. Madrid. www.exteriores.gob.es/documents/fichaspais/kirguistan_ficha%20pais.pdf

¹²⁹ The World Factbook. *Uzbekistan*. October 20, 2022. www.cia.gov/the-world-factbook/countries/uzbekistan/

¹³⁰ Radio Free Europe. Radio Liberty. October 24, 2022. *Kyrgyz Protesters Demand Release Of Border Deal Critics*. www.rferl.org/a/32098285.html

¹³¹ See footnote 127.

On the other hand, the border delimitation is still almost 50% unresolved (only 580 km of 980 km are demarcated). This problem has led to decades of clashes in the Tajik enclave, with violent disputes or small individual conflicts occurring every month if not every week. This is a densely populated valley, with an abundance of farmland and livestock that need water supplies for their livelihoods. In addition, there exists conflict between ethnic communities due to the different cultures and languages. In April 2021, a more serious confrontation broke out over the control of water resources in K k Tash.

The ceasefire lasted until January of this year. Last September there has been an escalation of the conflict in which armed forces of both countries have intervened, provoked by the death of several officers and civilians on the border. UN Secretary Antonio Guterres asked for an urgent de-escalation of the clashes. On 20 September, Japarov and his Tajik analogue signed a ceasefire and promised a peaceful solution.¹³²

The best-case scenario would be splitting the unresolved area into half, with both parties strictly respecting the delimitation. Also, Tajik and Kyrgyz laws would be modified to allow foreign nationals to acquire, manage or use the land outside borders. The most likely scenario in the medium term is that Tajikistan will continue to violate the agreements and use military force. There will not be a declared war between them thanks to the CSTO and Russian deterrence. Moreover, Tajik and Kyrgyz economies cannot afford the cost of a war. The worst-case scenario is an explosion of tensions by declaring violations an act of aggression and the need for peacekeepers to intervene to demilitarize the area.

Autonomous Republic of Karakalpakstan (Uzbekistan)

In contrast to the rest of the republics in Uzbekistan there is an ethnic minority which enjoys an autonomous territory and a privileged status. It is the republic of Karakalpakstan, one of the twelve provinces located in the west of the country, bordering Kazakhstan, the Aral Sea to the north and two deserts to the east and south (Kyzylkum and Karakum). Karakalpakstan represents 1/3 of the total territory of Uzbekistan, but less than 6% of the total population. The ethnic division is estimated to be as follows: 400,000 Uzbeks, 300,000 Kazakhs and 400,000 Karakalpaks.¹³³

Last July President Mirziyoyev announced several amendments to the Constitution to remove the word ‘sovereign’ from the political definition of Karakalpakstan, as well as to remove the right to secession by referendum. Social protests broke out throughout the territory against the government. They lasted only 3 days and Uzbek authorities responded with brutal repression, resulting in abuses and 18 deaths.

¹³² Aijan Sharshenova. September 19, 2022. *More than a ‘Border Skirmish’ Between Kyrgyzstan and Tajikistan*. The Diplomat. Washington D.C. thediplomat.com/2022/09/more-than-a-border-skirmish-between-kyrgyzstan-and-tajikistan/

¹³³ Francisco Olmos. May 2020. *The curious case of the Republic of Karakalpakstan*. The Foreign Policy Centre: fpc.org.uk/the-curious-case-of-the-republic-of-karakalpakstan/

Faced with the reaction of the Karakalpak minority, on July 4 Mirziyoyev withdrew the proposal to reform the articles of the Constitution that limited the autonomous and sovereign status of the region.¹³⁴

A referendum scenario that would achieve Karakalpakstan's independence is highly unlikely. Mainly because demographically the Karakalpak population is lower than the Uzbeks and Kazakhs, who would not vote in favor of seceding from Uzbekistan. Furthermore, Karakalpakstan's economy is heavily dependent on the central government. Although there are no plans for independence in the short term, it is likely that protests will be repeated if Tashkent tries to limit the historical sovereignty of this ethnic group.¹³⁵

3.2. Role of Islamism in secular republics: medium – term forecast

Islamism in Central Asia

The origins of the spread of Islam doctrines are closely linked to the indigenous peoples who historically inhabited the territory of Central Asia. The pre-Soviet era was marked by the coexistence of the Hanafi school and the evolution of secular knowledge.¹³⁶ However, the implantation of Islam did not occur homogeneously throughout the region. In the areas inhabited by nomadic tribes (Kirgizstan, Turkmenistan, and Kazakhstan), religion had to adapt to their way of life, blending with social structures and traditions. This has resulted, to this day, in a more moderate practice of Islam. On the other hand, in present-day Uzbekistan and Tajikistan, a settled and sedentary population was easier to indoctrinate in Islamic schools.¹³⁷

During the era of Soviet domination, religion was removed from the public sphere, and was relegated to the strictly personal sphere. Even the individual practice of Islam was persecuted, with the closure of mosques and schools. After the fall of the USSR, the leaders of the Republics' independence made use of Islam to appeal to national culture and identity. Hanafism was considered as “their tradition”. National identity and values were ideologically monopolized by the state. The constitutions established the form of a secular state, although open to religious practice and preserving the roots of Islam. According to analysts, the underlying motive was a widespread fear of a radical role for Islam in politics.

¹³⁴ Aziz Berdiqulov. May 2022. *Is Uzbekistan Not Ready to Let It Go? Unrest in Karakalpakstan*. ECMI Minorities Blog (ECMI): www.ecmi.de/infochannel/detail/ecmi-minorities-blog-is-uzbekistan-not-ready-to-let-it-go-unrest-in-karakalpakstan.

¹³⁵ Steve Swerdlow. September 2022. *Uzbekistan's Ethnic Minorities: Out of Sight, But Not Out of Mind*. The Diplomat. Washington DC: thediplomat.com/2022/08/uzbekistans-ethnic-minorities-out-of-sight-but-not-out-of-mind/

¹³⁶ Svante E. Cornell & Jacob Zen. June 2018. *Religion and the Secular State in Uzbekistan (Silk Road Paper)*. Central Asia- Caucasus Institute Silk Road Studies Program. Washington DC.

¹³⁷ Goñi, H. 2020. *Terrorismo en Asia Central: una explicación histórico-cultural a los diferentes niveles de radicalización en la región*, Revista Internacional de Estudios sobre Terrorismo, no1, pp 28-36

Today, states exercise control over the doctrine and practices of Islam, and even some governments are based on Islamic principles.¹³⁸ However, the political configuration does not accept parties whose agendas have religious content.¹³⁹

Since independence, the Central Asian republics have focused on preventing and fighting extremism in the region. Last March, several global leaders (including Taliban and US representatives) met in Tashkent for an International Conference on regional cooperation of Central Asian States on counterterrorism. The main concern was the threat of transnational groups spreading extremism among the regions most affected by unemployment and inequality.¹⁴⁰ Social poverty may provoke the support of Islamic radicalism as an alternative to the failures of secular regimes.

Uzbekistan near-future forecast

From 1980 to 1992 there were strong riots in the Ferghana Valley. At that time the so-called Islamic Movement of Uzbekistan was born with the aim of removing Karimov from power and installing the Sharia law. After 9/11 attacks, US government named the IMU as a terrorist group and accused the organization of being related to Bin Laden criminal activity.

After the withdrawal of American troops from Afghanistan, the situation has become more unstable. Taliban government has assured Mirziyoyev there is no risk for the stability of its borders and has pledged to avoid any intrusion into the integrity of Uzbekistan. However, Uzbekistan's troops have been deployed on the borders and have strengthened control of the radicalization of the population.

Islam is the predominant religion in the country as 93% of Uzbeks citizens are Sunni Muslims. There are great differences in terms of radicalism of ideology between the most civilized and rural areas. Muslims are more religiously flexible in the big cities but much more radical in rural areas such as the Ferghana Valley. Also, Uzbek migrants are very likely to be radicalized.

In terms of security, Uzbekistan has the largest and most highly trained army in Central Asia. It spends 2.8% of its GDP in defense, doubling what the rest of the republics spend. National security services have been years collaborating with Taliban security leaders. Uzbekistan's foreign policy approach opts for building regional peace and avoiding the destabilization of the region supposedly driven by the United States, which intends to isolate Afghanistan.¹⁴¹

¹³⁸ The current Uzbek president sworn his oath of office on the Quran.

¹³⁹ Sania Makna, 2020. *Islam and politics in Central Asia*. Centre for Russian and Central Asian Studies Jawaharlal Nehru University, New Delhi: www.researchgate.net/publication/340377299_Islam_and_politics_in_Central_Asia.

¹⁴⁰ Press Release. March 2022. *Regional Cooperation among Central Asian States within the Framework of the Joint Plan of Action (JPOA) for the Implementation of the United Nations Global CounterTerrorism Strategy*. Tashkent/New York/Vienna: www.un.org/counterterrorism/sites/www.un.org.counterterrorism/files/20220304_press_release_closing_tashkent_conference_eng_final.pdf

¹⁴¹ IHS Markit. February 2022. *Country/Territory Report - Uzbekistan*

At political level, the plausibility of a radical Islamist party coming to power is unlikely. At present there are no political parties within the system that form an opposition to Mirziyoyev. Fictitious political pluralism that hides a regime of strong loyalty to the interests of the president. Mirziyoyev's current term ends in 2026, although he is expected to remain in power for several decades like his predecessor Karimov.

Although is not a principal threat, fighting radical movements and terrorist organizations will be in the security agenda a of the country for the next years. In April 2022 the afghan-uzbek border was attacked. It was claimed by IS Khorasan, who is recruiting and training militants in the Ferghana Valley, using ethnic specific propaganda.¹⁴² Political analysts believe Karimov's repressions towards extremist religious practices and dissidents are a backfiring, contributing to further radicalization of some segments of the population.

Islamism in Turkmenistan and Tajikistan

During the post-Soviet era, Turkmenistan took an Uzbekistan-like position towards Islam: monopoly of state over religion which decides what is the doctrine and tradition, repressing other Islamic groups. A terrorist group also emerged (Eastern Turkistan Islamic Movement). In the last decades the public practice of Islam has strongly increased on the country, partly caused by government's pro-Muslims actions.¹⁴³

At political level, the 1992 constitution prohibits political parties based on religion or ethnicity. All parties represented in the Turkmen parliament strongly support President Gurbanguly Berdimukhamedov and his government. Although Turkmenistan considers the Taliban regime as one of its security priorities, its approach is to maintain regional cooperation. This has been reflected in the commitment of both countries to continue with the TAPI project. On the other hand, in Tajikistan, events after the disintegration of the USSR were different from the rest of CARs. This country has the highest risk of radicalization and with the greatest incursion of religion in the political and social sphere. The population still suffers the consequences of the civil war (1992-1997) between communists and Islamists and democrats. The secular form of state is the least effective in the region and Rahmon's government is by far the most repressive towards Wahhabist Muslims.

The border with Afghanistan is today one of the main challenges for the country. The 18th October the president Emomali Rahmon called for the creation of a security belt around Afghanistan. Tajikistan is the only Central Asian country that has been reluctant to recognize the Taliban government from the beginning.

¹⁴² Dante Schulz. October, 2022. *ISKP's Propaganda Threatens Asia's Security Apparatus*. Stimson Center. Washington D.C. www.stimson.org/2022/iskps-propaganda-threatens-asias-security-apparatus/

¹⁴³ Merdan Amanov. June 2022. *The revival of Islam in Turkmenistan*. The Diplomat. Washington D.C: thediplomat.com/2022/06/the-revival-of-islam-in-turkmenistan/

It is estimated that between 600-1,400 Tajiks have fought with the Islamic State and that after the Taliban victory many are returning to the country.¹⁴⁴ This poses a high risk of terrorism which has increased the persecution of extremist practices by the security forces. But hard measures can result counterproductive considering the current general discontent of the population. Poverty, unemployment, and lack of freedoms have increased insecurity in the country and thus, the creation of radical groups.¹⁴⁵

¹⁴⁴ Lucas Webber. July 2022. *Taliban target Tajik Islamic State fighters*. Eurasianet. eurasianet.org/taliban-target-tajik-islamic-state-fighters

¹⁴⁵ Central Asian Bureau for Analytical Reporting. January 2022. *Central Asia 2022: Forecasts, Trends and Risks*: cabar.asia/en/central-asia-2022-forecasts-trends-and-risks

4. POLITICAL OUTLOOK

- *Tokayev will strengthen his position within Kazakhstan political elite gaining more decision-making power. It is almost certain that he will be re-elected as President of Kazakhstan.*
- *Political and social reforms (if implemented) in Kazakhstan will not see their effects until two-three years.*
- *There is a global trend towards authoritarianism. European Unions' influence may not be significantly in the democratization of Central Asia's regimes.*
- *Strong presidentialism is expected to continue to be dominant in the political system (although not in all countries)*

4.1. Kazakhstan short-term forecast: Russia, elections, and country's stability

The citizens of Kazakhstan are the only people in Central Asia who will be going to the polls this year 2022 to vote for the president of the republic. Kasim-Yomart Tokaev, the current incumbent, decreed last September to bring forward the elections - scheduled for 2023 - to November 20. At the beginning of this year the country suffered one of the most serious social uprisings in its recent history. In addition, the ongoing war involving its now dubious ally Russia, the economic consequences of the resource crisis, and internal political tensions will determine the near future of the largest country in Central Asia.

Relations with Russia

Putin expected support, which is not receiving, as has been the case of Kazakhstan, that refrained from backing the invasion despite the relations and historical dependence with this nation. The agricultural plans imposed by the Kremlin turned Kazakhstan into the larder of the USSR. Consequently, the Kazakh market and human capital is still strongly integrated with the Russian economy. Since its independence, the society has been promised a de-Russification. However, Nazarbayev was reluctant to make many changes that would destabilize his Russian-backed power. He did bring in foreign investment to exploit the country's natural resources. Still, Kazakhstan's GDP depends on trade relations with Russia, as commerce is fostered since 2015 within the Eurasian Economic Union, and a ¼ of its population are ethnic Russians. Ethnicity factor has been the main pretext used by Putin for the annexation of Crimea and subsequently Ukraine. In this context, in the face of the January riots, Tokayev had no choice but to ask for the help of Russian troops through the CSTO. However, once the crisis was resolved, Tokayev took some steps towards de-Russification. Among other changes, he appointed an anti-Russian minister of Information, dismissed several

members of the Nazarbayev family (pro-Russian) and turned to the West for economic support and reinforcement of his sovereignty. In response, Putin shut down the Novorossiysk oil terminal following Kazakhstan's offer to the Europe.

On the other hand, after the unprecedented intervention by the CSTO, it is probable that the security mechanism will be used again in future riots, which would strengthen Putin's position in the region and regain his influence. This scenario will depend on the outcome of the Ukrainian crisis and on the greater or lesser regional cooperation between the Central Asian republics. Finally, it is possible that Western powers such as Europe will be unwilling to give political support to authoritarian presidential regimes. The Biden administration's position has been limited to continuing with the C5+1 framework, without otherwise engaging with Kazakhstan security.¹⁴⁶

Social protests and internal political tensions

The protests that took place in January in Kazakhstan reflect the delicate political and social situation in which the country, like other neighboring republics, currently finds itself. On January 1, the government removed price controls on liquefied petroleum gas, which resulted in a 140% price increase of automotive fuels. This was just the tip of the iceberg. Kazakh society has been burdened with the sentiment that the country has been growing economically for thirty years thanks to high revenues from its natural resources, but this growth has not improved living standards (the average salary is less than 600 USD). The working class has grown tired of being ruled by a plutocracy, made up of Nazarbayev's relatives, friends, and allies.¹⁴⁷

On January 2, peaceful protests began in Zhanozen, a city in the west near the Caspian Sea, where country's oil wealth is concentrated. The generalized criticism against the government spread throughout the country, and violent groups joined in Almaty with mixed interests. There is not an exact reliable information about the events as part of the government's harsh response has been the lack of transparency.¹⁴⁸

The social alarm has also triggered a political crisis, characterized by a further strengthening of Tokayev's power among the power elites. The intervention of Putin's forces was partly motivated by the president's distrust of his own intelligence services. This theory could be justified on the grounds that a civilian mobilization of such dimensions is very difficult to take place without being intercepted

¹⁴⁶ Svante E. Cornell. April 2022. *Learning from Kazakhstan's January Crisis*. Central Asia-Caucasus Institute & Silk Road Studies Program.

¹⁴⁷ Following a KMPG report 162 people owns 50% country's wealth (0.001% of total population). KMPG. 2019. *Private equity market in Kazakhstan*. assets.kpmg/content/dam/kpmg/kz/pdf/2019/09/KPMG-Private-Equity-Market-in-Kazakhstan-ENG-2019.pdf

¹⁴⁸ See footnote 145.

by the strong Kazakh security services. Kassimov, who was in front of the KNB was accused of treason and ended being arrested.

Snap November 2023 elections

All Central Asian republics are governed by strongly presidential systems. Some leave more room for parliamentary debate, although there is generally no division between the executive and legislative branches, and the judiciary is highly politicized.

According to the Kazakh Constitution, the President of the country is directly elected. He has the power to appoint and dismiss the government, as well as governors of provinces, dissolve the parliament, call referendums, etc. The legislative power is formed by the upper house and the lower house formed by proportional representation of the most voted parties. In the last legislative elections of January 2021, the Nur-Otan party (Amanat) got supermajority (71% of the seats). The party's change of name meaning "The Behest of Ancestor" was one of the measures taken by Tokayev for the *de-nazarbayevization* of Kazakh politics.¹⁴⁹

In the snap presidential elections of November 20 President Tokayev was reelected with the 81,3% of the votes. None of the six other candidates represented real opposition to Tokayev, which got support from the three parties represented the lower house. The marginal opposition to the President operates outside the official system, as those parties have been denied registration.¹⁵⁰

In the next years Tokayev faces high social demands for progress. Some analysts are optimistic about the reforms he has previously. Tokayev has strengthen his power and lower the influence of Nazarbayev's circle. However, political actions will not see their effects for another two or three years. The question is whether the social and economic demands will move faster than the implementation of these measures. On the other hand, it is very likely that living conditions will not be better in the short-term due to high inflation and resource crisis.

4.2. Next five years: evolution of Central Asia political systems

As it has been exposed during the different outlooks in this Report, CARs political systems are very far from been considered democratic. The republics appear to comply with the list of elements of parliamentary democracies such as a national constitution, elections, and a system of separations of powers, but international opinion and experts' data confirm that these are authoritarian regimes.

¹⁴⁹ Catherine Putz. March 2022. *Nur Otan No More? Kazakhstan's Ruling Party Rebrands as 'Amanat*. The Diplomat. Almaty: thediplomat.com/2022/03/nur-otan-no-more-kazakhstans-ruling-party-rebrands-as-amanat/

¹⁵⁰ Catherine Putz. October 2022. *Kazakhstan Headed for Election Lacking Competition*. The Diplomat. Almaty: thediplomat.com/2022/10/kazakhstan-headed-for-election-lacking-competition/

Measuring authoritarianism and rule of law

Presidentialism is the main feature of Central Asian political systems. Decades of concentration of power in the figure of the president has led into a strong political personalism. In order to be eligible, the electoral laws impose a minimum number of voters’ signatures (in Tajikistan that minimum rises to 5%).

Regarding presidential elections and mandates, some republics like Turkmenistan do not have a limit of terms in the office, others like Kazakhstan have changed the term-limit several times. This favors the perpetuation in power of the political elites. In Turkmenistan the last elected president, Serdar Berdymukhamedov, was before the prime minister and son of the incumbent president. In Kazakhstan Nazarbayev’s family and friends have been controlling the country for over three decades.

Neo-patrimonialism has led to the widespread of corruption and extortion of bribes by government officials. The imposition of excessive restrictions and repressive regulations in the private sector poses a risk to foreign investment. The President of Kyrgyzstan Sadyr Japarov has de-privatized the gold mining activity of the Canadian company Centerra Gold. Last Kyrgyzstan presidential elections in 2020 were considered *flawed* by international community.

In contrast, parliaments have a very weak power in key areas of decision making, as their majority respond to the president’s interests. For example, the president’s share (in elections) in the upper house is 30% in Kazakhstan, 24% in Tajikistan, 15% in Turkmenistan, and 16% of upper house deputies are appointed by the president in Uzbekistan.¹⁵¹

The judicial branch is not independent either, especially when referring to freedom of expression, freedom of speech of journalists, politicians, civil activists, etc. In any case, Kazakhstan has introduced reforms on the Criminal Code in order to commit with Human Rights Law.

Figure 4.1. Democracy and rights

Country	Regime	Democracy Score (2022)	Political rights and civil liberties
Kazakhstan	Consolidated Authoritharian	1.36/7 (increased)	23/100
Uzbekistan	Consolidated Authoritharian	4.17/7	11/100
Turkmenistan	Consolidated Authoritharian	0/7	2/100
Kyrgyzstan	Consolidated Authoritharian	1.75/7 (declined)	27/100
Tajikistan	Consolidated Authoritharian	1.11/7	8/100

Source: author’s elaboration based on data of Freedom House.

¹⁵¹ Central Asian Bureau for Analytical Reporting. March 2022. *How are Presidents and Deputies Elected in Central Asia?* London: cabar.asia/en/how-are-presidents-and-deputies-elected-in-central-asia

The Freedom House Organization¹⁵² political index considers all the five Central Asia's republics as "consolidated authoritarian regimes" (Score 0-39 = Not Free) Kazakhstan has slightly improved its democracy score due to some Tokaev reforms that introduced direct election system at local level. For the next five years it is expected that democracy and freedom indexes will not significantly improve so as to achieve the scores of Partly Free (40-69) or Free (70-100). Kyrgyzstan is the best candidate for progressing towards greater levels of political freedom.¹⁵³

Social inequality within and between countries.

Average level of inequality in Central Asia is 33.9 (Gini Index Data).¹⁵⁴ However, it is the lower number in Asia and Pacific Region. Regarding GDP per capita, Tajikistan is the poorest country in the region with an income of 870 USD, which is forty times lower than the EU's. This country has been particularly vulnerable to the COVID crisis. In contrast, Kazakhstan has a GDP per capita of 9,731 USD.

External political influence: Authoritarianism as a global trend

The 2022 Global Rule of Law Index¹⁵⁵ reflects the fifth consecutive year of recession, most heavily on freedom of expression. The world is living a period of democratic decline. Russia and China are the two major powers that jeopardize democracy. On the other hand, Europe has improved on rule of law, 14 of 25 top improvers in rule of law are European countries.

As it has been explained in 1.2., Central Asia is experimenting an economic turn to the east. Moreover, research conducted by Friedrich Ebert Foundation, the OSCE Academy in Bishkek, and the SPCE Hub forecast that China would become the preferred partner in the region.¹⁵⁶ Regarding public opinion towards Xi Jinping's regime, these institutions reached the following results after surveying Uzbekistan's and Kyrgyzstan population: 23% think that Central Asian governments would follow Chinese authoritarian practices.

Governments have chosen a cautious cooperation with Afghanistan as long as economic prospects remain. Tajikistan's state-owned energy company Barki Tojik signed an agreement to continue supplying electricity to Afghanistan on a long-term basis on condition that Kabul settles its outstanding dues.

¹⁵² Freedom House Organization website: freedomhouse.org

¹⁵³ Anna Gussarova and Māris Andžāns. May 2019. *Central Asia in 2030: SEEnECA forecasts for the region and the role of the European Union. Policy Paper N° 13.* DuEPublico: duepublico.uni-duisburg-essen.de/443/servlets/DocumentServlet?id=48711

¹⁵⁴ UNU-WIDER, World Income Inequality Database (WIID). Version 30 June 2022: doi.org/10.35188/UNU-WIDER/WIID-300622

¹⁵⁵ World Justice Project website: worldjusticeproject.org/rule-of-law-index/

¹⁵⁶ See footnote 152.

For its part, the western powers are trying to implement democratization policies in the region as far as possible. The World Bank committees met last May with experts from the CARs republics to share information on progress on strengthening government policies.¹⁵⁷ Finally, the EU contributed of 8,000,000 EUR. for the Central Asia Rule of Law Program (2020-2024).

¹⁵⁷ World Bank. 2022. *Central Asian Experts Share Progress on Strengthening Government Policies with Evidence and Data*. Washington D.C.: www.worldbank.org/en/news/press-release/2022/05/25/central-asian-experts-share-progress-on-strengthening-government-policies-with-evidence-and-data

Scenarios: the future of presidential regimes in Central Asia

Pursuant to this Political Risk Report in which different external variables, predictions, tendencies and drivers have been analysed, three different scenarios are foreseen to take place in Central Asia:

<p>Scenario 1: authoritarianism under Russia</p> <p><i>Not Likely</i></p>	<p>Russian-politized EAEU subjugates CARs' economic interests and slow down their development. Russia keeps the region as linked forced allies, impeding regional integration. Tajikistan's and Kyrgyzstan's dependence on Russian remittances remains. Political elites seek Putin's alliance whereas CSTO strengthens its role as intervener in regional conflicts. Ukraine invasion success means a deterrence for CARs. US – C+5 is very far from bigger security cooperation. Political systems are still based on Soviet inherited patrimonialism and neo-patronage. Infrastructural developments are the same as before due to lack of foreign investments.</p>
<p>Scenario 2: still on the road to liberalization</p> <p><i>Very likely</i></p>	<p>CARs are aware of their potential as emerging economies, aiming to be the bridge which connects Europe with Asia and self-sufficient with own resources. The region, which begins to liberalize and modernize its economy, welcomes diversified FDI to develop energy and infrastructures projects. Russia is not able to subjugate the region as must recover from the disaster in Ukraine. China neither, as real estate crisis reduces Chinese investments and debt trap pressure. The EU a new actor may export democracy and freedom ideals. CARs' governments adopt political transparency and economic liberalization leads to generalized social development. Cooperation fulfilled, timid steps to integration.</p>
<p>Scenario 3: authoritarianism under China</p> <p><i>Likely</i></p>	<p>China is the uncontested gatekeeper and trade partner, its influence in the region entails economic and infrastructural advantage. Russia out of the game after humiliation in Ukraine. The BRI and SCO are strengthened and the control on the countries is ensured through debt trap diplomacy. Kyrgyzstan, Tajikistan and Uzbekistan fall in credit defaults and China is able to confiscate relevant resources assets, thereby losing sovereignty and preventing regional integration. Strengthening of relations between the political elites of China and the CARs because of similarities in authoritarian rule to the detriment of the people.</p>

In our view, Scenario 2 is the most likely to occur as the Ukrainian crisis could mean an opportunity for Central Asian republics. With the current weakening of Russian influence, the CARs may be aware of their potential as emerging economies and as a region which cause interest in major players such as the European Union, China, India, Turkey, Saudi Arabia or the United Arab Emirates. Furthermore, development in energy power plants and extractive sector leads to the path of self-sufficiency: uranium, gas, petroleum, wind and water are waiting to be fully exploited and enrich Central Asia. Moreover, the region which used to be considered as a mere land of passage, aspires to become into a logistic hub in the middle of Europe-Asia connection. China will have big economy problems as per the property sector crisis it is going through, whereas Russia will be still affected by international financial sanctions. Therefore, Central Asia will have a free hand to develop its economy without external interference from any neighbor powers and to say the world that a major five-headed actor just arrived at the international arena. Central Asia will no longer the forgotten region.

Conclusions

After the economic setbacks of the last three years caused by the 2020 Coronavirus Crisis and the war in Ukraine, Central Asia aspires to be the logistical hub connecting Asia to Europe by avoiding transit through Russian territories to avoid the heavy international sanctions that will shrink the Russian economy by 4.5 per cent in 2022 and 3.6 per cent in 2023. Central Asia is also beginning to see that, in economic and energy terms, it can start on the road to self-sufficiency, as it possesses gas, oil, uranium and water, a set of raw materials with great energy potential that private companies from Europe, Turkey, the United Arab Emirates and Saudi Arabia are beginning to invest in to take advantage of the green investment trend. Nonetheless, inter-regional trade is almost non-existent, so Central Asia has no capacity to act as a united bloc before the international field.

Furthermore, a shift from Central Asia to the Chinese East is observable, as Russia's territorial ambitions have revived the imperialist ghosts of the Soviet Union. Moreover, China's heavy investment under the BRI Initiative framework, interested in its natural resources, promotes dependence on a country that has dethroned Russia as the main trading partner for Central Asia. Progressively, CARs economies are being liberalized and a privatization process of companies is being carried out, which shall cause an attractive incentive for FDI attraction within Central Asia. However, limited access to credit facilities and underdeveloped capital markets make leveraged local finance almost non-accessible, thus economic infrastructure and other kind of project developments related to new pipelines, railways and roads are lengthened or postponed.

The political environment does not lack of authoritarianism nature and the region is not the most peaceful on Earth. Presidentialism regimes are highly corrupt, politics are not transparent, and elections are usually manipulated. Furthermore, the ethnic and border conflicts and disputes are on the daily agenda, especially between the Kyrgyz and Tajiks regarding rich territories such as Ferghana Valley. In terms of religion, authoritarian governments of the region strive to prevent radicalization within their territories, even though the majority religion is Sunni Islam. Nonetheless, these adversities against CARs' interests are fought by their own, as no region integration can be seen on the political horizon of Central Asia.

In conclusion, Central Asia is a region with inconceivable potential which is expected to take advantage of the decline of Russia and the possible downgrading of China's debt trap due to the real estate crisis it is going through to gain strength from its new partners as the EU, UAE, Saudi Arabia or Turkey really interested in such emerging economies filled with sought-after natural resources.

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