

# Central Asia—twenty-five years after the breakup of the USSR<sup>☆</sup>

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## Abstract

Central Asia consists of five culturally and ethnically diverse countries that have followed different paths to political and economic transformation in the past 25 years since achieving independence from the Soviet Union. Kazakhstan and Kyrgyzstan have in relative terms made strides in market reforms, while Turkmenistan and Uzbekistan have not yet completed their transitions to market economies. Tajikistan represents an intermediate case.

After experiencing more than a decade of growth based on hydrocarbon booms, Central Asian countries are faced with increasing challenges resulting from falling commodity prices, declining trade and lower migrant remittances. The main policy challenge is to move away from commodity-based growth strategies to market-oriented diversification and adoption of a broad spectrum of economic, institutional and political reforms.

The major obstacles to political reform and structural diversification in the five Central Asian economies are internal and external geopolitical factors and deeply embedded institutional weaknesses within each country, particularly in areas where economic management interacts with authoritarian political systems and imperfect legal institutions.

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## 1. Introduction

At the end of 2016, the five countries of post-Soviet Central Asia—Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan—celebrated the twenty-fifth anniversary of their independence after the breakup of the Soviet Union. It is a good occasion to examine where they stand now, the results of their transitions from centrally planned to market economies and the challenges the region faces. Central Asia also makes an interesting study because of its landlocked location and its historic legacy, including seven decades of communist rule and central planning. Moreover, Central Asia remains relatively understudied compared to other regions.

Despite their shared history and being referred to as a single region, the countries differ in their levels of political and economic development, cultural and ethnic composition and relations with the outside world.

In the 1990s, Central Asia experienced many of the same hardships of economic transition as Central and Eastern European and other formerly communist countries, such as skyrocketing inflation, partial de-industrialization and the collapse of Soviet-type welfare systems. Turkmenistan and Uzbekistan still have not completed their transitions to a market economy. Kazakhstan and Turkmenistan have joined the upper middle-income group, while Kyrgyzstan, Tajikistan and Uzbekistan remain in the lower-middle income category.<sup>1</sup>

The countries of Central Asia are landlocked, although Kazakhstan and Turkmenistan border the Caspian Sea, which is not an open sea (Fig. 1).<sup>2</sup> Furthermore, the Soviet transportation network was concentrated on Russia and other Soviet republics, while connections with the outside world were almost non-existent. Despite some infrastructure investment in the last quarter-century, the lack of connectivity between Central Asia and the outside world remains a major obstacle to trade and economic development. This is also true of intra-regional trade relations, which are impaired by the incompatibility of individual economic regimes, continuous political tensions, prolonged conflicts in the neighborhood (Afghanistan) and partly closed borders.

In addition, the decline in commodity prices in 2014 has challenged, through trade, migrant remittances and financial market channels, Central Asia's commodity-based growth strategies of 2000s and first half of the 2010s, creating new sources of social and political risks in individual countries.

In this paper, we analyze the socio-economic and political developments in Central Asia and the policy challenges faced by this region. In doing so, we will examine the historical background of the Central Asian transition (Section 2), geography and geopolitics (Section 3), trade and economic integration (Section 4), progress in economic reforms after 1991 and supporting role of external actors (Section 5), and socio-economic performance of the region (Section 6). Then, we will discuss the future policy agenda (Section 7). Section 8 concludes and suggests some policy lessons based on the region's experience.

Our paper is based on available cross-country comparable statistical sources, primarily those offered by the international organizations of the United Nations

<sup>1</sup> See <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519>

<sup>2</sup> The legal status of the Caspian Sea and its territorial delimitation are the subject of international controversy. Russia and Iran consider it a lake rather than a sea (see Janusz-Pawletta, 2015).

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