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Sunday, October 25, 2020


Central Asian Economies Thirty Years after Dissolution of the Soviet Union

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Keynote speech at the Sixth Annual *Life in Kyrgyzstan* conference, online 27-30
October 2020.

Life Impact The University of Adelaide



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Introduction

1991 will mark the 30th. anniversary of dissolution of the Soviet union

- and a good occasion to reflect on long-term economic development of the Central Asian countries
- My presentation aims to evaluate where the five Central Asian countries stand today & how they got there after three decades of independence.
- I will mostly talk about “problems” and “challenges” but it is important to keep some big-picture good news in mind.

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The Good News

The end of the USSR was unanticipated and not universally welcomed in Central Asia, but

- The CA countries have remained independent for longer than the post-1919 new states
 - the Eastern European countries came under German control after 1939 and Soviet satellites for four decades after 1945.
- The CA states have been the most stable part of the former Soviet Union
 - no interstate wars & only one major domestic conflict (Tajikistan 1991-7)
- Material living standards have improved on average
 - accompanied by visible increases in inequality and corruption
 - we do not know what would have happened in a counterfactual world.

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Outline

The presentation is in two parts.

1. The first part reviews economic developments in Central Asia since December 1991
 - which I will structure around my own experiences and research
2. The second part discusses the prospects for the 2020s
 - with the theme of a “window of opportunity” which some countries may seize and others not.
 - 2a a generational shift in leadership

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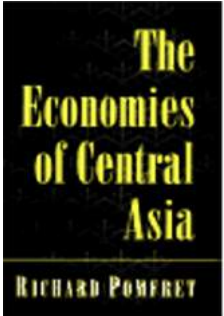
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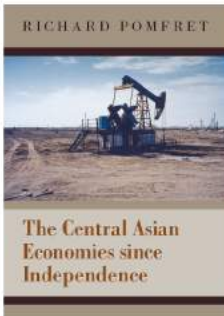



Personal Background

I first came to Central Asia working with UN-ESCAP from December 1992 to February 1994

Since then, I have returned many times in various roles & published three books – in 1995, 2006, 2019:








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An Unpromising Start

The CA republics had no previous history as modern nation states

- borders had little relevance in the USSR and were artificial
 - titular nationality was a minority in Kazakhstan
 - enclaves in Ferghana Valley = obvious source of tension
- economies were integrated into Soviet supply chains → dissolution of USSR = major shock
 - principle role of CA republics = supplier of raw materials – cotton, minerals, gas
- disagreement over whether CA republics were subsidized or taxed (low relative prices on raw materials)
 - impossible to answer, e.g. due to All-Union enterprises

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Immediate Problems

Nation-building = priority for new governments, while economic transition faced three major crises:

- end of central planning
- Breakdown of demand and supply chains
- Hyperinflation

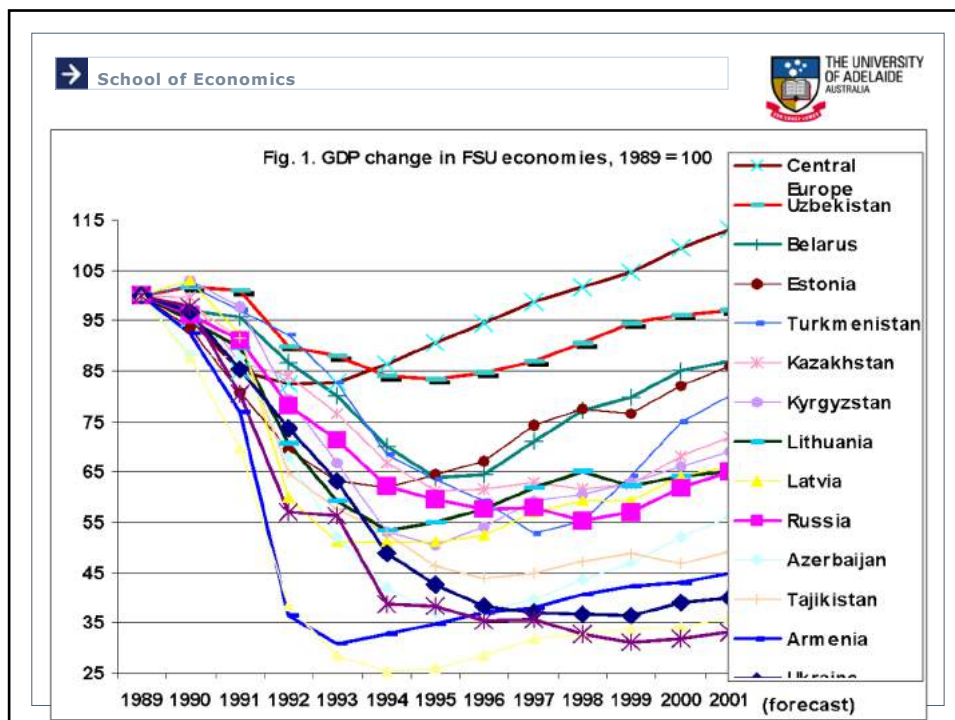
- exacerbated by
 - the speed of Russian reform (price liberalization 1/1/92)
 - currency disunion 1992-3 - retain the rouble or issue national currency?

Huge measurement problems, but WB data suggests steep transitional recession with 1989 living standards only achieved by turn of century

↓ GDP per capita + ↑ inequality → ↑ poverty

This despite different varieties of market economies

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The Decade of Transition

The big economic issue in the 1990s was the choice of transition strategy:


shock therapy or gradualism, sequencing of reforms, and so forth.


Many econometric studies of the 30+ economies in transition, from central planning to market-based economies. Few clear results:

- hyperinflation & war were bad,
- Eastern European countries performed better than former Soviet Union in the 1990s but was that due to geography, history, human capital ..?

The Central Asian countries were sometimes seen as a natural experiment with five countries starting from similar initial conditions and adopting very different transition strategies.

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A Natural Experiment

- Similar history, geography, cultures
 - primary product producers within the Soviet division of labor (cotton in South, wheat in North, minerals, energy)
- Similar shocks:
 - dissolution of the USSR,
 - end of central planning,
 - hyperinflation
- Similar political evolution (except Tajik civil war)
 - super-presidential political systems
- but different economic policies

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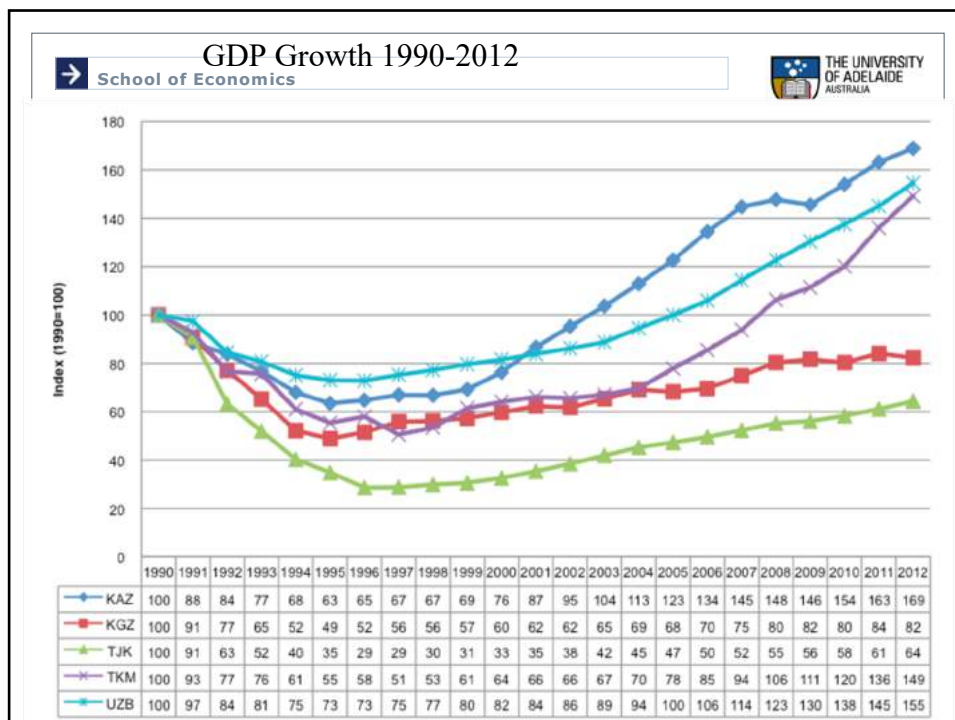
Varieties of Market-based Economies

most reformist to least reformist

- Kyrgyzstan
- Kazakhstan
- Tajikistan – de facto rapid reform due to civil war
- Uzbekistan
- Turkmenistan – least reformed of all Soviet successor states

- Outcome relatively best in Uzbekistan during the 1990s
- Outcomes in 2000s were dominated by the resource boom

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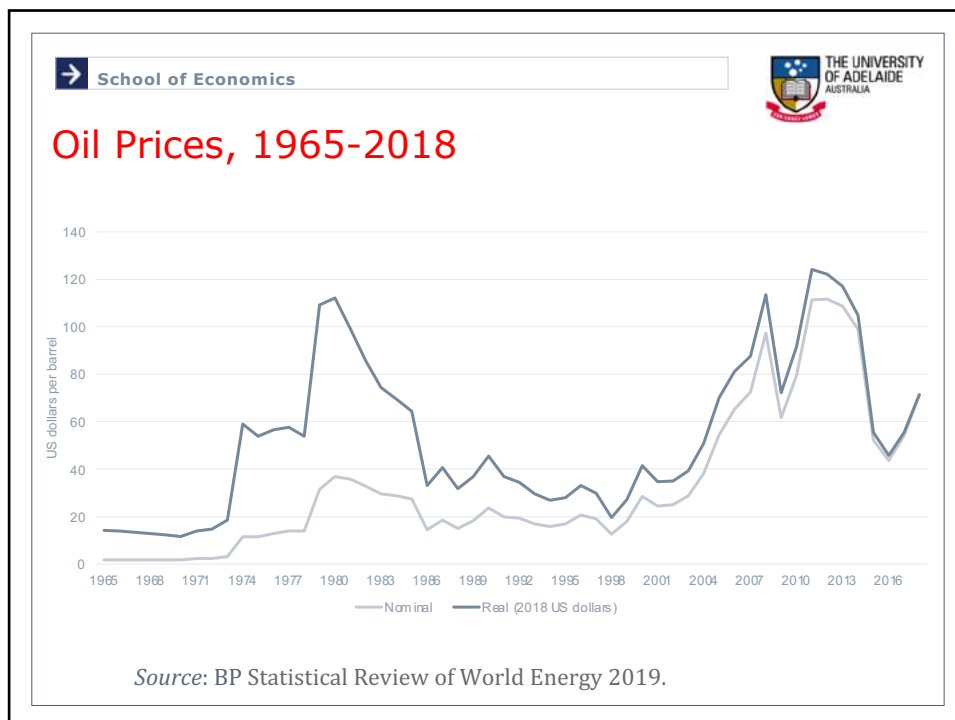
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What did we learn from the Transition Decade?


- successful transition was not simply about replacing discredited central planning with an ideal set of policies –
 - market-based prices to guide resource allocation,
 - privatizing and restructuring state enterprises,
 - having good trade and macroeconomic policies and so on
- successful transition also depended on institutional features, broadly defined, e.g.
 - Uzbekistan benefited from Tashkent’s history as administrative centre of Tsarist and Soviet Central Asia.
 - Kyrgyzstan introduced good reforms but suffered from lack of institutions needed for markets to flourish (e.g. property rights and rule of law, and trust of third parties) & a paucity of efficient non-corrupt administrators.
- transition was over by 1999 when reforms slowed or stopped
 - but not because an agreed destination had been reached

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The Impact of Oil Prices

Boom in Kazakhstan driven by Tengiz plus:

- Oil price hike
- New discovery (Kashagan – 2000)
- New pipelines (CPC-2001, BTC-2005, China-2009)


☒ energy prices also helps Turkmenistan, but less well-placed, and to a lesser extent Uzbekistan.


☒ Russian political influence

The poorer countries become labor exporters, heavily dependent on Russia:

- remittances/GDP peaked at c1/3 in Tajikistan (highest in the world) and Kyrgyzstan (3rd highest)

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GDP per capita, 2000-19, current US dollars

	2000	2014	2016	2019
Kazakhstan	1,229	12,807	7,715	9,731
Kyrgyz Republic	280	1,280	1,121	1,309
Tajikistan	138	1,104	802	871
Turkmenistan	643	7,962	6,390	n.a.
Uzbekistan	558	2,492	2,568	1,725

Source World Bank World Development Indicators
at <https://databank.worldbank.org/source/world-development-indicators>

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The Impact of the Resource Boom


The resource boom reduced the need for ongoing economic reform, either

- because increased oil and gas revenues removed any pressure on public spending or
- because emigration and remittances provided a safety valve.

- Only after world energy prices fell definitively in 2014, followed by uncoordinated exchange rate volatility, did governments begin to acknowledge the need to diversify the national economies and that this would require renewed economic reforms.

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An Aside: Interpretation Matters

1. Many accounts focus on financial crises and the shock to world trade in 2008-9.
 - for Central Asia, and its major trading partners Russia and China, the shock was brief and recovery rapid,
 - implying that the national economies in Central Asia were resilient and reform was unnecessary and, for some observers, that capitalism and globalization were flawed.
2. Emphasis on the resource boom → global financial markets and aggregate world trade were less important for Central Asia than world prices of oil and gas, and some minerals
 - the region benefitted from unsustainable world prices for these resource products & would face serious challenges when prices ↓
 - the economies were not resilient, and reforms would become necessary

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Post-2014 Issue: can CA countries diversify their economies from resource dependence?

Energy exports are likely to become less important

- exacerbated by shift to gas, and to ocean-shipped LNG



Diversifying from raw material dependence

implies developing non-traditional exports that are currently impeded by high costs of doing business and of international trade


Can Central Asia benefit from a dynamic Eurasian neighborhood?

Or will the region remain a global backwater?

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Are CAs punished by landlockedness or blessed by dynamic neighbourhood?



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The Political Context

What are the prospects for economic reform in Central Asia?

- After the initial transition from central planning to market-based economies during the 1990s, the pace of reform slowed considerably.
- The resource boom reduced the pressure for reform as the hard times of the 1990s were followed by generally more congenial economic conditions between 2000 and 2014.
- Even after the economic warning signs appeared (↓ export revenues or remittances), there was reluctance to make dramatic policy changes
 - economic reforms always involve winners and losers and presidential families were among the potential losers.

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Leadership

A potentially favorable condition for reform = presidential change in the two largest Central Asian countries, Uzbekistan in 2016 and Kazakhstan in 2019, in circumstances where there was no presidential son to maintain family control.

Evidence on the importance of the individual leader for economic growth is weak

William Easterly and Steven Pennings (2020): Leader Value Added: Assessing the growth contribution of individual national leaders, *NBER Working Paper 27,153*.

In Central Asia, perhaps more significant is the generational shift

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		December 1991		October 2020	
	Name	Date of birth	Name	Date of birth	
Kazakhstan	Nazarbayev	1940	Tokayev	1953	
Kyrgyzstan	Akayev	1944	Jeenbekov	1958	
Tajikistan	Nabiyev	1930	Rahmon	1953	
Turkmenistan	Niyazov	1940	Berdimuhamedov	1957	
Uzbekistan	Karimov	1938	Mirziyoyev	1957	

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The Generational Shift


In 1991 the initial presidents had spent their entire lives in the planned economy,
the presidents in 2020 have spent the majority of their adult lives in post-independence market-based economies

- This mirrors similar changes in the wider population and in human capital
 - reflected in, for example, the background of Central Asian participants in the *Life in Kyrgyzstan* conferences).

current leadership is more comfortable with market-based domestic economies and participation in the global economy and their populations will be more comfortable with market-based reforms than in the past.

- reflected in WTO accession of Tajikistan (2012) and Kazakhstan (2015), revival of Uzbekistan's accession negotiations with expectations of early conclusion, and initiation in 2020 of Turkmenistan's accession process.

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The Economic Context

A window of opportunity for diversifying exports

My research in recent years has been focused on overland connections across Eurasia.

- Rail freight between China and Europe has ↑ from virtually zero before 2011 to over 300,000 containers in 2019, and more in 2020 despite the COVID epidemic.
- These services transit Central Asia without carrying freight to or from the region. However:
 - improved hard and soft infrastructure could provide a window of opportunity for Central Asian countries seeking to diversify their export bundles.
 - which countries take advantage of the window will depend on their success in implementing economic reforms to reduce the costs of international trade, and of doing business in general.

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Overland Trade between Asia and Europe disappeared between 1500 & 2000

In 2000, track for at least four mainlines existed, but none was used as a significant China-EU link

- TransSiberian Railway – 1891-1905 – NE China – Mongolia
 - limited use by China after Sino-Soviet split in 1960
- Kazakhstan-PRC rail link opened in 1990
 - mainly bilateral trade (coal, iron & steel from Kazakhstan to PRC)
- TRACECA – route via Turkmenbashi-Baku Caspian Sea crossing
 - promoted by EU in 1990s, but little used
 - multimodal + costs of crossing Uzbekistan & Turkmenistan
- TransAsian mainline – China-Tehran-Istanbul
 - a line on UN maps after Turkmenistan-Iran link completed in 1997
 - Tehran-Istanbul is slow & poorly maintained (including a Lake Van ferry crossing)

Overland routes could not compete with ships

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Container Ship 2015

– Capacity >20,000 TEUs



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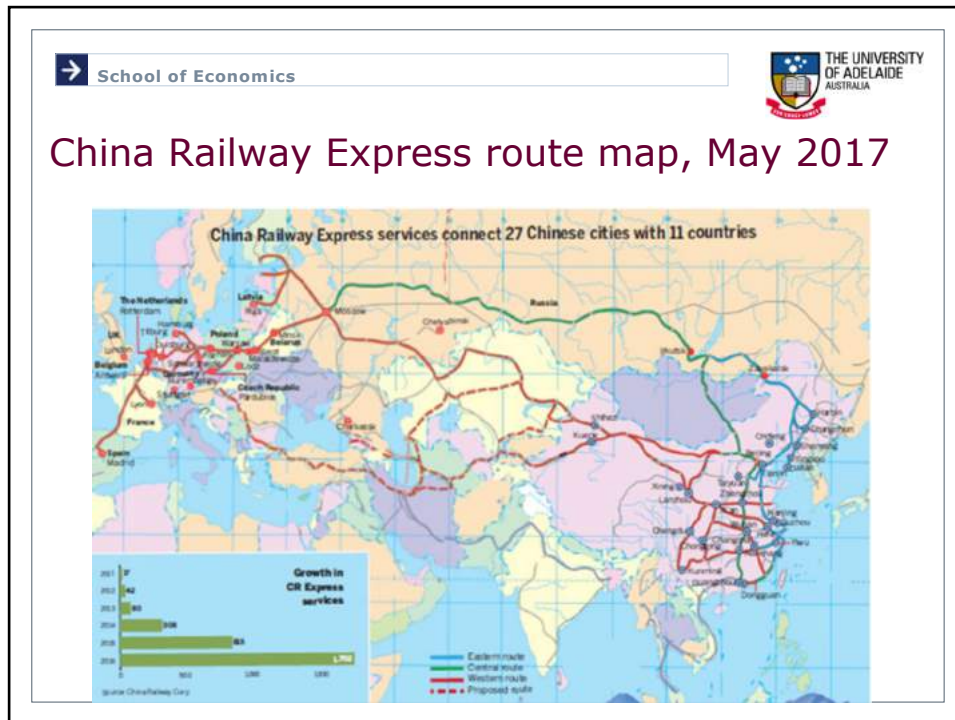
The Rail Landbridge

The situation started to change in 2011 when regular rail services were established between western China and Europe

- as rail services became more frequent and regular, freight forwarders responded by providing new services (e.g. part-container loads, refrigerated containers, multimodal connections) between a greater variety of China-EU city pairs.
 - > 50 cities in Europe and China are Landbridge termini.
- the most reliable volume data, from the Eurasian Rail Alliance, show growth from 46,000 containers (TEUs) in 2015 to 333,000 in 2019.

- The significance of these new routes is apparent from their resilience in the face of strained EU-**Russia** relations since 2014 and in the magnitude of transit revenues for **Kazakhstan**
- They are also supported by China as the Belt component of the BRI (announced in 2013 & launched in 2017)

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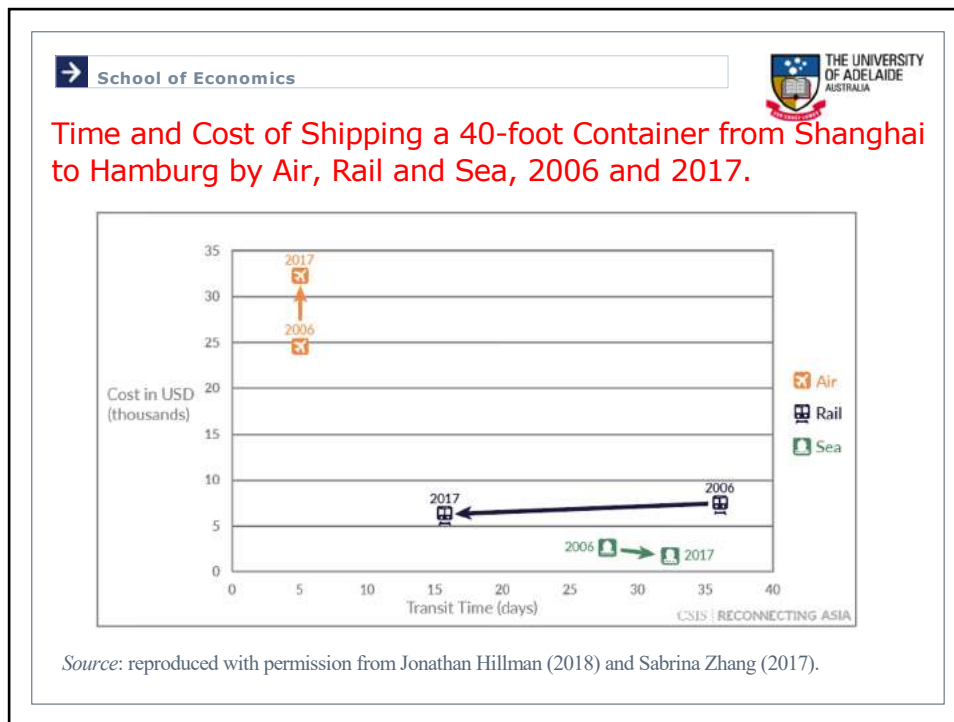
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Volume of Traffic on China-EU-China Container Trains, 2015-20

Year	Number of twenty-foot equivalent containers (TEUs)
2015	46,000
2016	104,500
2017	175,800
2018	280,500
2019	333,000
2020	331,000 (to August)

Source: Eurasian Rail Alliance at www.utlc.com

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China: more options → fewer hold-up risks

China is clearly interested in these links but is not committed to a single route & supports:

1. the rail line via Kazakhstan, Russia and Belarus that includes Łódź as a hub for eastern Europe.
2. the Trans-Siberian as the most convenient route from Northeast China to Europe
3. the Middle Corridor across the Caspian or Southern route though Istanbul

Multiple routes serve differing parts of China and destinations for Chinese exports; competition also reduces potential hold-ups

- routes 1&2 transit Kazakhstan/Russia/Belarus/Poland
- route 3 transits Kazakhstan/Turkmenistan and Iran/Turkey or Azerbaijan/Georgia
 - a more direct route via Kyrgyz Republic would avoid Kazakhstan and ↑ attractiveness of route 3 (Kashi-Andijan is the missing link)

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Rail Routes between China and Europe

Operational lines (to be transited)
 Existing lines not yet part of the Belt and Road initiative (to be transited)
 Proposed lines (to be transited)

Source: Der Festlandshandel zwischen China und der EU. Welche Möglichkeiten ergeben sich für Zentralasien? Zentralasien-Analysen 137, September

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The Kyrgyz Gap

Kashi-Uzbekistan rail link → shorter travel times between China & Caspian Sea or China-Iran-Turkey


However:

- limited benefit for KR
- a loan to cover construction costs = Kyrgyz GDP → risk of debt dependence


KAZAKHSTAN
 CHINA
 KYRGYZSTAN
 UZBEKISTAN

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How important is improved infrastructure for economic development?


difficult to answer because the relationship is two-way.

- Initial analysis emphasized the market-widening impact of improved transport → ↓ costs of trade + ↑ realization of the gains from trade.
- More recent studies have included geographical effects of infrastructure change
 - agglomeration effects → economies of scale; benefiting people who move to the urban areas, while other areas are passed by.
- These analytical approaches have been combined in studies of the impact of China's BRI by economists at the World Bank.*
 - the locations most consistently benefiting from BRI projects are in the Kyrgyz Republic (Osh, Naryn, Talas, Batken);
 - the model does not consider the cost or likelihood of completion of BRI projects.


* Julia Bird, Mathilde Lebrand and Anthony Venables : The Belt and Road Initiative: Reshaping economic geography in Central Asia? *Journal of Development Economics*, 2020.

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Hard and Soft Infrastructure

A recurring theme in the literature on transport infrastructure and development is the complementarity of hard and soft infrastructure.*

- Uzbekistan was the main air and rail hub in Central Asia in 1991, but restrictions on transit, and high costs of crossing the country's borders → high costs of international trade
 - first China-Iran trains in 2016 went via Kazakhstan and Turkmenistan in order to bypass Uzbekistan
- frequent examples of unofficial levies killing trade in Central Asia (tragedy of the anti-commons **)
- In 1990s & early 2000s high trade costs were ascribed to landlockedness, but since c.2005 greater emphasis has been placed on bureaucratic & other obstacles (highlighted by very low rankings in *Doing Business* Trading across Borders).

* Alberto, Portugal-Perez and John Wilson (2012): Export Performance and Trade Facilitation Reform: Hard and soft infrastructure, *World Development* 40(7), 1295-1307.

** James Buchanan and Yong Yoon (2000): Symmetric Tragedies: Commons and Anticommons, *Journal of Law and Economics*, 43, 1-13.

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Conclusions I: Central Asia has changed dramatically over the last thirty years


Some changes would have happened absent dissolution of the USSR but independence surely accelerated and exacerbated change.

- In the market-based economies created in the 1990s, new goods spread more quickly and new opportunities opened up for many people. At the same time, economic uncertainty and inequality increased.
- The positive economic outcomes since completion of the transition around the turn of the century were in large part driven by the resource boom, i.e. high world prices for oil and gas, gold and other minerals until 2014. Are they sustainable?

Whether that can be built upon in the 2020s will depend upon national economic reform to make economies more efficient and responsive to market incentives.

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Conclusions II The mixed legacy


- national economic systems vary substantially with some more flexible than others, but all are characterized by imperfect institutions, corruption and inequality.
- political systems have more similarities, with super-presidential regimes in all except the Kyrgyz Republic.

The economic and political systems are inter-connected:

- the political elite around the president is also an economic elite that has benefited from the collapse of central planning and is happy with the partially reformed economies of the early twenty-first century.
- Can that status quo bias be overcome in the 2020s?

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What are the region's prospects?


There is widespread recognition of the need for economic diversification if the national economies are to prosper:


- improved infrastructure has allayed the costs of landlockedness for some parts of Central Asia.
- whether a country takes advantage of the window of opportunity will depend on economic reforms to reduce the costs of doing business and of international trade.

The current generation of leaders whose adult lives have been mostly spent in post-centrally-planned economies is a positive factor, but the leaders may also be driven by the interests of an elite which is content with the status quo.

The resolution of these dilemmas will be decisive.

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Contact

Thank you for your attention!

Any comments, questions, suggestions, please e-mail.

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