

ECONOMIC CHALLENGES IN CENTRAL ASIA AND INDIA'S EVOLVING RELATIONS IN THE REGION

MS HARSHITA PANDEY



CENJOWS

**ECONOMIC CHALLENGES IN
CENTRAL ASIA AND INDIA'S
EVOLVING RELATIONS
IN THE REGION**



**Ms Harshita Pandey is a
Research Assistant at
CENJOWS**

Abstract

The countries of Central Asia, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, have witnessed a unique economic trajectory. After the dissolution of the Soviet Union, the countries have experienced a transition from a centrally commanded economy in the Soviet era to a market economy. The paper aims to understand the economic challenges faced by Central Asian countries and argues that the economies and politics of the Central Asian Republics are closely intertwined. The central question the paper seeks to address is: What economic challenges do Central Asian countries face? How has the change in political rule impacted the economies of Central Asian countries? Is the approach of political economy applicable to Central Asian countries? The paper also seeks to understand how India's relations in the region have evolved. The paper suggests that a determined approach to addressing economic problems must acknowledge the

country's political economy context, and that India's Connect Central Asia policy will strengthen ties and foster mutual growth between the countries.

Keywords: Economic problem, Political Economy, Central Asia, Modernisation, Connect Central Asia Policy, Transition economy

Introduction and Overview

The Central Asian countries, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, have had a unique experience pursuing economic development and undergoing political and social transformations following the unanticipated dissolution of the Soviet Union, of which these countries were a part. In the 1990s, the countries transitioned from a centralised command economy to a market economy under a capitalist framework. The economic problem, therefore, is the most severe challenge that these countries face. Kazakhstan and Turkmenistan are middle-income developing countries, while Uzbekistan, Kyrgyzstan, and Tajikistan are low-income developing countries and rank among the world's poorest countries. The road to economic modernisation of the Central Asian countries is not easy and is very much intertwined with the political system of the respective regimes.

Yadav highlights the strategy approach Havrylyshyn (2006) adopted, which clubbed the Central Asia countries following the pattern they adopted to transition their respective economies. According to Havrylyshyn, Kazakhstan and Tajikistan adopted a gradual approach to initiating reforms, while Turkmenistan pursued limited reforms. Kyrgyzstan chose the Big Bang approach to the transition of its economy, an approach advocated by Western countries.¹ The economic endeavour of these countries has been closely linked to the politics of these countries, as it is especially evident in the case of Tajikistan, which has suffered through civil war incidents. Kazakhstan and Kyrgyzstan have led the way in transitioning their economies and moving towards modernisation, while the other three countries, Uzbekistan, Turkmenistan, and Tajikistan, have been slow to achieve economic modernisation. This paper discusses the economic problems of Central Asian countries under Soviet rule, in the post-Soviet era, and in contemporary times and how India's relations have evolved in the region. It also suggests that the issue of economic modernisation and economic problems of the CAR (Central Asian Republics) is intertwined with the political dynamics of the countries.

Economic Challenges in Central Asian Countries under the Tsarist Regime and the Soviet Era

In the nineteenth century, Central Asia encompassed the three Khanates: Kokand, Bukhara, and Khiva. The region was characterised by feudal order and economic backwardness. Turkmen, Kazakhs, and Kyrgyz were nomadic peoples, and the tribal system was integral to their social structures. People mainly worked as cattle breeders and practised horticulture. An inferior strain of cotton was cultivated, though in small quantities. In the towns, some sort of trade and handicraft was prevalent. However, cotton and silk from Bukhara, Tashkent, Kokand, and Samarkand were sold to neighbouring regions, including the Russian Empire. Massive taxation was imposed on people, making their lives miserable.

The Russian Empire extended its rule over Central Asia in the eighteenth and nineteenth centuries and dominated the region for two centuries under Tsarist Russia and the Soviet regime. The imperial Russian strategy to extend its rule in the region included the cultivation of cotton in the southern region of Central Asia, and a railway line was also constructed to integrate the region with the Russian empire.

In the 1930s, the region was divided into five republics that were under Soviet rule since 1917. Under the Soviet regime, trade with the outside world was restricted, while trade within the republics of the Soviet Union was unrestricted. All major economic activities were overseen by the Soviet Union, and thus, the trade was inward-oriented. In the Soviet era, the Central Asian Republics supplied raw materials and primary products to the Soviet Union and other Soviet republics, and in exchange imported manufactured goods from the Soviet Union. The region remained devoid of industrialisation. Under Soviet rule, cotton monoculture was evident in Turkmenistan, Uzbekistan, and Tajikistan; however, cotton cultivation was relatively less prevalent in Kazakhstan and Kyrgyzstan. After the Karakum canal was built in 1962, Turkmenistan and Uzbekistan saw a significant increase in cotton production.

The economy of Kazakhstan was relatively more diversified owing to its resource endowments and industrial employment. Uzbekistan was also the second-largest gold producer in the region. Kazakhstan also had gold and silver reserves. The Kumtor gold mine is present in Kyrgyzstan. The Central Asian region is also home to rich energy resources, including oil, coal, natural gas, and hydropower. The countries that lack oil

and natural gas deposits are Kyrgyzstan and Tajikistan; however, they have rich hydro resources owing to the two rivers of the region Amu Darya and the Syr Darya.

Francis Newton writes that tsarist rule created a strict order in the region that influenced economic activity there. This is reflected in the four major economic changes: First, Russian manufacturers developed a monopoly in the Central Asian market, where local handicrafts and local production experienced setbacks, while trade with Russian manufacturers increased. Secondly, Russia now had a cotton base of its own, with American strains of cotton production encouraged and irrigation improved in the region. Thirdly, economic activity received a stimulus from the establishment of basic industries and the introduction of modern communication systems, such as railways and telegraphs, in the region. The fourth change was evident in the colonisation of the land and the settlement of Slavic people in the Kazakh steppes, which led to the creation of towns. Newton writes that the modernisation of the region had already begun in Tsarist Russia.²

Under Soviet rule, the Bolsheviks nationalised the land and industries. Also, collectivisation of agriculture and a planned socialist economy were put in place. As a result, all the economic activities were in the tight grip of Moscow. "It is Moscow which decides what shall be produced where, determines the allocation of resources as well as prices and wages, and disposes of the republics' output as it sees fit. Its decisions may, of course, be in the republics' best interests."³ All the republics under the Soviet regime had a mixed industrial-agricultural economy; however, the manufacturing industries catered only to local needs, and, in the context of the Soviet era, the extractive and primary processing industries were of utmost significance.

In Tajikistan, an industrial complex was developed based on cheap power from the Nurek hydroelectric power station, which also included an aluminium plant at Regar. Uzbekistan is the Soviet Union's major producer of gold, copper, lead, zinc, molybdenum, and tungsten, and it accounts for one seventh of the country's natural gas output. Kazakhstan is the largest and best source for a range of minerals and resources. It is a major producer of coal (Karaganda and Ekibastuz), oil and natural gas (the Mangyshlak peninsula), iron ore (Rudnyy and Lisakovsk), copper (Balkhash and Dzhezkazgan), and phosphates (Karatau), and it contains the Soviet Union's most

important lead and zinc mines (Eastern Kazakhstan and the Chimkent area), and high-grade chromium deposits are also present.

The Soviet regime was of the mindset to put an end to colonial exploitation, and resultantly, the region was not to be seen as merely a supplier of primary products to Russia; instead, industries were to be set up in the region, a working-class was to be established, and the inequality of the people and region was to be done away with. However, Newton highlights that there were impediments to transforming the Soviet idea into reality. Some of the challenges included constraints on local natural resources, limited investment availability, and the metropolis's overriding interest in raw materials for European Russian industries. Kazakhstan benefited from most of its investments, as it had a vast resource base. It was only in the post-war period that the Central Asian region began to see significant capital investment in resource exploitation, agricultural expansion, hydropower stations, and irrigation projects. In the war period, the focus of the Soviet regime shifted to favour European Russia to cope with war challenges.⁴

The economic problem of the Central Asian region under the Soviet regime is reflected in the grievances these republics share against Soviet rule. The people of Central Asia were seen as uncivilised and backward, and were expected to be grateful to the Soviet Union for the material benefits it provided during the Soviet era. It led to an increase in pride and the preservation of the identity of the Central Asian people before they came under Russian rule. The people of the Central Asian region also suffered a lot in times of war, communism and collectivisation efforts. The massive scale of influx of Slavs and other non-Asian settlers in the region was a direct challenge to the indigenous population and their identity. Uzbeks have not appreciated the cotton monoculture. Resentment against the Soviet Union developed as the Central Asian regions had virtually no control over their resources, the revenues accruing from them, and their ability to use and dispose of their natural resources as they wished.⁵

Economic Challenges in Central Asian Countries in the Post-Soviet Era

In post-Soviet Russia, Central Asian countries found themselves helpless, lacking experience in nation-building. The Central Asian Republics faced severe disruptions after the collapse of the Soviet Union, culminating in hyperinflation, disrupted supply chains, and falling output. However, crucial monetary policy changes were adopted to

stabilise economic policy. In 1993, Kyrgyzstan introduced its currency, the SOM and adopted a floating exchange rate system. Similarly, Tenge was introduced by Kazakhstan. Uzbekistan adopted SUM-COUPON. Turkmenistan introduced its currency, the Manat, in 1993, whereas Tajikistan introduced its currency in 1995.⁶

Kyrgyzstan adopted liberal reforms as part of a rapid economic program within the Big Bang approach to transforming its economy. Kyrgyzstan was the first former Soviet republic to accede to the World Trade Organisation in July 1998. The Kyrgyz Republic was most successful in curbing hyperinflation. It brought the annual inflation rate below 50 per cent in 1995.

Turkmenistan, however, is situated at the other extreme, having developed personality-centric policies that act as a hurdle to rapid economic change and instead opting for limited economic modernisation. The state's national resources and revenues were used to build presidential palaces, airports, and other activities that increased the president's prestige rather than boosting the state's economic activity. The European Bank for Reconstruction and Development banned all forms of loans and aid to the country in response to Turkmenistan's president's 1999 policy of declaring himself president for life, and the country has since experienced isolation.

Kazakhstan has experienced trends of price liberalisation and enterprise reforms. However, Pomfret and Anderson suggest that "the privatisation process, or more specifically the policies towards energy and mineral rights, have, however, been associated with widespread corruption and a sense of casino or crony capitalism similar to that which emerged in Russia in 1995-96."⁷

Uzbekistan has had an authoritarian regime; however, the country's economic progress has been relatively successful. In the words of Pomfret and Anderson, "the government has moved, albeit cautiously, to establish a market economy, and has provided good governance in moderating corruption, providing infrastructure and maintaining social expenditure. By the second half of the 1990s, the European Bank for Reconstruction and Development ranked Uzbekistan ahead of Kazakhstan in its annual index of cumulative progress towards establishing a market economy. The government took a major step backwards in October 1996 when, in response to the balance of payments problems following a decline in world cotton prices, draconian exchange controls were reintroduced."⁸

The economic development of Tajikistan has been interrupted by civil wars in 1992-93 and 1996-97, and the country's fragile political situation has slowed growth and discouraged economic reforms. Thus, the country's political situation has led to a slow pace of economic reforms.

The economic problem in contemporary Central Asia includes numerous challenges. The first challenge stems from the fact that unemployment has increased due to a lack of a skilled workforce and inefficient, low-quality human capital. Unemployment in Uzbekistan is 9.3 per cent, and a little over 2 per cent in Tajikistan. More than two million people are unemployed in the region. Many people are unregistered as unemployed due to red-tapism, lack of legal knowledge, and low labour productivity. Thus, the *marker bazaars*, or day-labourer markets, are a universal phenomenon in labour-surplus parts of Central Asia, and more than five million people are pushed to travel abroad to find work.⁹

The second challenge stems from the fact that the rapid economic growth of the Central Asian countries is conditional and volatile, as their economies are based on minerals and resources like oil and natural gas, whose prices are volatile and dynamic. The economies are not diversified. However, only Kazakhstan has a relatively diversified economy. The low level of localisation of high-tech manufacturing, the shortage of skilled workers, and the reliance on imported equipment and technology in vital economic sectors create obstacles to the development of value-added exports. Also, a burdensome tax system, rigid labour markets, low institutional quality, and excessive regulation of financial and product markets are major factors that create a favourable environment for the development of the shadow economy, where a large percentage of money is held outside the banking system. The shadow economy, along with high unemployment, exacerbates the region's economic challenges.¹⁰ Therefore, economic diversification of the Central Asian Republics' economies is a necessary and integral step to address their respective economic problems and achieve growth.

The third challenge concerns the uneven distribution of infrastructure projects in the region. Turkmenistan established its national railway network in 2006. However, in Uzbekistan the railway network was established in 2018, whereas Kyrgyzstan and Tajikistan do not yet have a functioning railway infrastructure.¹¹

These economic challenges have been aggravated by the global COVID-19 pandemic. The already-stressed Central Asian countries now face tough economic times. The pandemic had brought life to a standstill across the world. The Central Asian countries are dependent on oil, natural gas, other resources, and remittances. However, during the pandemic, demand for all these resources plummeted, and the adverse impact on individual countries is evident.

Impact of COVID-19 on the Central Asian Economies

In 2020, according to the World Bank, Kazakhstan's GDP (Gross Domestic Product) fell by 2.6 per cent. In the context of the COVID-19 pandemic, demand and supply have been drastically reduced. Inflation has increased, and exports have reduced. The poverty rate increased to 14 per cent in 2020. Although growth seems unlikely in the near future due to the pandemic, the government seeks to address the country's economic problems through various measures, such as increasing public spending and diversifying the economy. Kazakhstan initiated its own infrastructure modernisation program ("Nurly Zhol") and invited international financial organisations to participate, including the World Bank, the Islamic Development Bank (IsDB), and the Asian Development Bank (ADB).

Kyrgyzstan's real GDP also slumped by 8.6 per cent in 2020 due to COVID-19. The National Development Strategy of the Kyrgyz Republic for 2018 to 2040 highlights that by 2040, "a new image of the individual targeted at the development will become common in the Kyrgyz state's economic policy, allowing him to achieve a decent standard of living for himself and his family. The state's economic policy will focus on providing employment and stable income, and on creating productive jobs, taking into account all future challenges in the labour market. The efforts of the state will be aimed at a significant improvement in the investment climate throughout Kyrgyzstan, to turn the country into a real 'investment oasis' that, in aggregate, will be an attractive investment destination with a competitive advantage compared to other countries in the region. The relationship between the state and the entrepreneur should become a relationship of partnership, while government intervention in business activity should be minimal."¹²

COVID-19 suppressed aggregate supply and demand of the Tajik Republic in 2020, slowing real GDP growth to 4.5 per cent. Due to reduced remittances and increased

unemployment, the overall living standards of the population have suffered. Under the framework of the National Development Strategy-2030, “the three main tasks for entering into a new stage of development is first, to achieve the level of socio-economic development comparable to countries of the middle segment with an average income; secondly, to ensure sustainability through the diversification and increasing competitiveness of the national economy and thirdly, to expand and strengthen the middle class.”¹³

In Uzbekistan, the unemployment rate rose steeply, from 9 per cent in 2019 to 11.1 per cent in September 2020. The poverty rate rose to 9 per cent. The country has gradually advanced toward its objective of modernising the economy. A strong sense of political will is necessary to adopt inclusive reforms that increase employment, incomes, and opportunities. In the policy document, Uzbekistan’s Development Strategy of 2017, adopted under the leadership of President Shavkat Mirziyoyev, the objective of the country is to “improve the competitiveness of the national economy through deepening of structural reforms, modernisation and diversification of its leading industries, strengthening the role of the Oily Majlis, deepening democratic reforms and modernisation of the country.” It also suggests reforming the governance system. Section three of the policy document highlights the priority areas of economic development and liberalisation. It calls for strengthening macroeconomic stability, maintaining high economic growth rates, and increasing the overall competitiveness of industries, encompassing modernisation and diversification, as well as further deepening structural reforms.¹⁴

Turkmenistan plans to allocate more than 240 billion manats to the country’s socio-economic development over 2018-2024. The growth of the gross domestic product of Turkmenistan at the end of 2020 was 5.9 percent, including 3.3 percent in the industrial sector, 15.1 percent in trade. Turkmenistan has acquired the status of an observer in the World Trade Organisation on July 22, 2020. The prospect of a prolonged environment of low hydrocarbon prices, the country’s outstanding debt to China, and competition from other global gas producers makes Turkmenistan’s economy increasingly troubled.

Political Economy of the Central Asian Republics

The Central Asian countries have had a unique historical context that can be traced back to the pre-tsarist society of the Central Asian region, the Tsarist regime of Imperial Russia, and, later, the Soviet Union, which collapsed in 1991, creating five independent Central Asian countries. Therefore, when attempting to understand the economic problems of Central Asian countries, one must acknowledge their unique historical context and political systems. It is therefore evident that the politics and economics of these countries are intertwined. In the post-independence era, countries that enjoy more significant political reforms and greater freedom are more conducive to initiating economic and structural reforms. Whereas countries like Uzbekistan and Turkmenistan lack economic reforms, they are also less free regimes in political terms. However, the context of a centrally planned economy under the Soviet regime is still fresh in the minds of the political leaders of the Central Asian Republics. Most of them were part of the Soviet system during the pre-independence era, and after independence, they became leaders of the new republics. In such a context, varying degrees of authoritarianism are common in Central Asian countries. The fear of predatory economics and crony capitalism is a valid threat to economic stability and further reforms to modernise the economic and political system of the countries in question.

Rustemova highlights Foucault's notion of Governmentality to understand the political economy of Central Asia, where Governmentality is an analytical approach to how the state positions itself towards its society and the rationale of government it adopts. In the case of Uzbekistan, the country has adopted a gradual approach to initiating reforms, which has led the state to exhibit tendencies toward a paternalist state. In the case of Kazakhstan, although it started with a big-bang approach to reforming its economy through radical measures, the pace of reforms slowed in later years. The state of Kazakhstan perceives itself as the manager of its people, and a *rentier* state has emerged that seeks to serve both the interests of the state's bureaucracy and the capitalist elite.¹⁵

India's Evolving Approach in the Central Asian Region

India's relations with Central Asian countries have evolved through historically rich civilizational linkages, cultural ties and strong people-to-people contacts. India

maintains strong diplomatic ties with the five Central Asian Republics. In 2012, the Connect Central Asia Policy was launched, emphasising the strengthening of connectivity, energy, and security in the region. The historical Silk Road linkages also stress the importance and legacy of the close ties between India and Central Asia. The institutional mechanisms in place, such as the India-Central Asia Dialogue and the Shanghai Cooperation Organisation, help India engage with and build effective relations in the region.

India's biggest asset will be strengthening the connectivity with the region. The Eastern Corridor of the International North-South Transit Corridor will boost economic trade by increasing connectivity. Central Asia is an extremely resource-rich region with rare-earth mineral deposits valued at trillions of dollars. New Delhi has also recognised the importance of a US\$1 billion credit line to boost infrastructure in the region. The Chabahar Port will take investments and trade flow to new heights in the region.

However, India's biggest challenge in the region is the growing role of China, as China's influence through its Belt and Road Initiative is making deep inroads and creating an unhealthy dependency among countries through its debt-trap diplomacy.

India's approach to tackling China's influence in the region must come from India playing to its strengths. India's future strategy in Central Asia is to focus on and sharpen its infrastructure diplomacy with each of the five Central Asian countries. India's soft power game is another method that can, in the long term, counter China's economic dependency tactics. India can increase its efforts in education, which will help boost and revive the Central Asian regions. Health aid is also one of the most crucial areas that showcase the scope for strengthening relations in the Central Asian Region. India is also working to expand its Unified Payments Interface to boost the region's digital economy. India's focus on connectivity, health aids, exploring rare earth minerals, educational and economic trade and investments paves the way forward for India's consistently evolving partnerships with the Central Asian countries.

Conclusion

The countries of Central Asia, namely Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan, have witnessed a unique economic trajectory. After the dissolution of the Soviet Union, the countries have experienced a transition from a

centrally commanded economy in the Soviet era to a market economy, which has not been easy. The countries of Central Asia face various economic challenges. However, the root of these economic problems lies in the political challenges these countries face. Therefore, the approach of the political economy is crucial in the context of Central Asia. The economic prospects of the Central Asian Republics have been challenged by the pandemic. However, the countries are determined to reform their economies, and the political will to implement tough structural reforms will go a long way toward achieving their respective economic goals.

DISCLAIMER

The paper is the author's individual scholastic articulation and does not necessarily reflect the views of CENJOWS, the Defence forces or the Government of India. The author certifies that the article is original in content, unpublished, and it has not been submitted for publication/ web upload elsewhere and that the facts and figures quoted are duly referenced, as needed and are believed to be correct.

ENDNOTES

¹ R. Yadav, "Economic Transformation in Central Asia: A Journey of Twenty-five Years," *International Studies* 53, no. 3-4 (2018): 289.

² Francis Newton, "Soviet Central Asia: Economic Progress and Problems," *Middle Eastern Studies* 12, no. 3 (1976): 87-104.

³ *ibid.*

⁴ Francis Newton, "Soviet Central Asia: economic Progress and Problems," *Middle Eastern Studies* 12, no.3 (1976): 87-104. [URL:http://www.jstor.org/stable/4282608](http://www.jstor.org/stable/4282608).

⁵ *ibid*

⁶ R. Yadav, "Economic Transformation in Central Asia: A Journey of Twenty-five Years," *International Studies* 53, no. 3-4 (2018): 289.

⁷ R. Pomfret and Kathryn Anderson, "Economic Development Strategies in Central Asia since 1991," *Asian Studies Review* 25, no. 2 (2001): 185-200.

⁸ *ibid*

⁹ A. Dankov, "The Paradoxes of Social and Economic Development in Central Asia," Russian International Affairs Council, 2020, accessed January 12, 2026, <https://russiancouncil.ru/en/analytics-and-comments/analytics/the-paradoxes-of-social-and-economic-development-in-central-asia/>.

¹⁰ Y. Abdih and Leandro Medina, *Measuring the Informal Economy in the Caucasus and Central Asia* (Washington, D.C.: International Monetary Fund, 2013).

¹¹ A. Dankov, "The Paradoxes of Social and Economic Development in Central Asia," Russian International Affairs Council, 2020, accessed January 12, 2026, <https://russiancouncil.ru/en/analytics-and-comments/analytics/the-paradoxes-of-social-and-economic-development-in-central-asia/>.

¹² Kyrgyz Republic, *National Development Strategy of the Kyrgyz Republic for 2018-2040* (Bishkek: Kyrgyz Republic, 2018).

¹³ Republic of Tajikistan, *National Development Strategy of the Republic of Tajikistan for the Period up to 2030* (Dushanbe: Republic of Tajikistan, 2016).

¹⁴ Tashkent Times, "Uzbekistan's Development Strategy for 2017-2021 Has Been Adopted Following Public Consultation," February 8, 2017, accessed January 12, 2026, <https://tashkenttimes.uz/national/541-uzbekistan-s-development-strategy-for-2017-2021-has-been-adopted-following-discussion>.

¹⁵ A. Rustemova, "Political Economy of Central Asia: Initial Reflections on the Need for a New Approach," *Journal of Eurasian Studies* 2 (2011): 30-39.