



# RUSSIA'S WAR AGAINST UKRAINE AND ITS IMPACT FOR CENTRAL ASIA

## Implications for international investors as the war continues

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<b>Issues &amp; Sectors</b>	<b>Russian-Ukrainian War</b>
<b>Stakeholders</b>	<b>Ukraine, Russia, EU, EAEU, US, China, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan</b>

Russia's ongoing war against Ukraine has begun to trigger far-reaching, adverse effects on the countries of Central Asia. All countries in the region have been facing both socio-economic and geopolitical threats, including sharp increases in the volatility of their national currencies, the disruption of supply chains and external trade, price hikes and risk of shortages of essential goods, as well as potentially increasing political pressure from Russia, the US and the EU.

Central Asian countries are also facing their own specific challenges, given the differences in their relationships pursued with Russia: Kazakhstan and Kyrgyzstan are members of the Russian-led Eurasian Economic Union (EAEU), with deeply integrated ties to Moscow; Uzbekistan holds observer status in the EAEU and has improved its bilateral ties with Moscow; Tajikistan has close military and economic relations with Russia, while Turkmenistan cooperates with Moscow heavily in the extractive sectors. Combined, the common and individual challenges lead to different positions in each country that should be looked at individually when considering the issues at stake.

Below, Aretera provides regional, as well as country-specific, insight into how Russia's war against Ukraine is impacting the political, economic and geopolitical dynamics of the Central Asian region.

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## REGIONAL OVERVIEW & ISSUES TO CONSIDER

- The countries of Central Asia are heavily dependent on Russia economically, with foreign trade, transport corridors, qualified personnel, joint projects and infrastructure maintenance (imports) being among the main elements of dependence.
- Russia's activities in the region have been financed at least in part by funds and products (in the broad sense of the word) generated by multinational companies operating in Russia. All regional (CIS, EAEU) offices of multinational companies were located in Moscow. Supplies of consumer goods produced by transnational companies for the Central Asian region took place exclusively through Russia, while the entire extractive sector functioned through the Russian offices of transnational companies, with the transport infrastructure of the region having been built with Russian interests (routes, workload, types) in mind. The profits generated by Russia in the form of taxes and dividends were invested in support of the regional infrastructure. The sanctions imposed on Russia have cut off these established channels and the governments of the region are now working on how to ensure commodity, energy, production and other flows, reshaping supply chains and economic models where Russia can no longer play a role.
- Apart from the economic difficulties, all five countries are simultaneously facing geopolitical problems as the war in Ukraine makes it necessary for them to take sides. This comes as the region is the centre of interest for not only the West and Russia but also China, while continuing to face a number of unresolved social issues, including territorial, internal political and ethnic challenges.
- As of early 2022, various tensions and conflicts were already looming over the region, in which Moscow has taken an active military role as the guarantor of regional security, ranging from instability on the Uzbek-Afghan and the Turkmen-Afghan borders through the strengthening of military groups along the Iranian border after the US withdrawal from Afghanistan to the intra-elite conflicts in Kazakhstan (with still unclear motives and participants).
- Elites in the region have actively kept their assets (including the spoils of corruption) in Russia. The mass migration of assets to Russia started after the European and US authorities began to actively check the legal origins of wealth in recent years. It is difficult to determine the scale of funds and assets concerned, but they include stakes in companies, bank accounts in Russia and property. It can be assumed that this argument also comes up in the negotiations on the degree of loyalty between the governments of the region and Russia.
- In a broader sense, the EAEU is losing its relevance for the countries of the region when Russia, its main trendsetter, is under such extensive sanctions that it is unable to ensure its functioning. After all, the viability of the Eurasian bloc now depends on the extent to which the five countries will be willing and able to transfer commodity, logistical and other flows to their territory and support Russia.
- Central Asian governments also appear intent on not "angering" Russia given the fear of a potential nuclear threat. While perhaps an illogical fear to many, the fact that Russia is actively talking about it in the Ukrainian context, while conducting demonstrative exercises, demands that this risk is taken into account.
- Furthermore, the risk of border closures in Russia is becoming more and more real and no one in the region understands how to respond to this challenge. Countries in the region do not want an unpredictable Russia as a partner, yet they also want to maintain relations with the West.

# KAZAKHSTAN

In the context of a deteriorating global, geopolitical and geo-economic environment, three key aspects need to be analyzed when it comes to Kazakhstan, the largest country of the region, often regarded as Moscow's closest regional partner: economic implications, the risk of indirect sanctions and geopolitical implications.

## ECONOMIC IMPLICATIONS

Western sanctions and the withdrawal of foreign companies from the Russian market have caused a significant crisis in the Kazakh economy. Besides its sharply weakened national currency, the pressing deficit of foreign currencies in cash in exchange offices and the moves of banks to restrict currency procedures, inflation jumped by 8.7% in February, with a further expected upward revision. Loans have become more expensive due to a sharp increase in the country's base rate from 10.25% to 13.5%. Supply chains from Russia and transit channels through Russia have been heavily disrupted, while there is a risk of shortages in socially important food products, as well as of a trade decline within the EAEU due to Russia's move to impose restrictions on certain exports. Russia's share in Kazakh export transit is up to 60%, while Moscow is also the main transport corridor for the transit of Kazakh oil, the country's main export commodity. In 2021 alone, fuel and energy products (mainly oil) accounted for close to 58% of Kazakhstan's exports. Most of Kazakhstan's imports also transit through Russia, making the country critically dependent on import transit.

The authorities are actively taking steps to mitigate the consequences and prevent the crisis from deepening. For example, a [program](#) of support for deposits in the national currency has been launched, [restrictions](#) have been introduced on the export of foreign currency, the [base rate](#) of the National Bank has been sharply increased, while [measures](#) are being taken to stabilize prices and prevent shortages of goods.

## RISK OF INDIRECT SANCTIONS

Kazakhstan is closely linked to Russia, primarily through the EAEU, which is not only an economic association, but also a tool for advancing the Russian political agenda. The EAEU accounts for 44.8% of Kazakhstan's foreign trade turnover (including Russia). By comparison, in the structure of Kazakhstan's foreign trade, the EU, according to [data](#) for 2021, accounted for 14.5%, America 4.5%, and Asia 30%.

The EAEU is also important as a political factor: at the moment, it is the main platform for Kazakhstan's foreign economic relations and has a significant impact on political decision-making in the country. Many aspects of the regulatory policy and practices of the Kazakhstani authorities are based on the decisions of the Eurasian Economic Commission, where Russia plays a major role. The bloc has also been seen by Moscow as an alternative market for Russian goods instead of unfriendly Western countries, as well as the main channel for their transit to third countries. At the same time, transit to Western countries via EAEU members (except Belarus) is also possible, as their national businesses can still work with supplies from EAEU countries.

The Eurasian bloc is effectively a buffer in Russia's trade with Western countries in the face of increasing sanctions. At the same time, it can become both an export channel for Russian goods and a channel for transit imports of goods by Western businesses into Russia. As a consequence, in the case of further escalation of the war in Ukraine, Western countries may consider restricting trade

with the EAEU countries, which would create critical risks for the national economies of the Union member states, including Kazakhstan.

Under this scenario, Kazakhstan could face a stark choice between Russia and the Western world. Meanwhile, according to [official statistics](#) for 2021, Russia accounts for about 24% of Kazakhstan's foreign trade turnover and 42.1% of imports. This makes it extremely undesirable for Kazakhstan to impose restrictions/sanctions on Russia's trading partners as it will lead to disastrous consequences in foreign trade for these countries.

In order to manage the risks of indirect sanctions, Kazakhstan tries to maintain a permanent dialogue with all its partners. During a visit to Brussels in March, Timur Suleimenov<sup>1</sup>, the first deputy head of the Kazakh Presidential Administration, shared some positions on Kazakhstan's attitude towards the conflict between Russia and Ukraine. The purpose of the visit was to negotiate with the European authorities to obtain guarantees against the introduction of indirect sanctions against Kazakhstan because of its interaction with Russia.

Suleimenov said Kazakhstan can assist companies intending to continue selling goods in Russia without suffering negative consequences because of the sanctions imposed, adding that the country will not offer European companies a way to circumvent sanctions but to help them legally sell goods in Russia. Kazakhstan received a positive response from EU authorities that Kazakhstan is required to comply with all agreements (WTO, double taxation agreements, etc.) in order not to impose sanctions. Kazakhstan also expressed interest in supplying oil to Europe through the Caspian Pipeline (which runs through Russian territory). At the same time, Kazakhstan will not stop either trade with Russia nor investments from and to Russia. The country continues to maintain a neutral position on Ukraine, whilst respecting Kyiv's territorial integrity and sovereignty and following corresponding UN decisions.

**Based on Aretera's assessment**, the statements made by Suleimenov are most likely statements previously agreed with the Russian leadership and do not contradict bilateral ties. Kazakhstan's intentions to continue cooperation with Russia have also been agreed since the early days of the military cooperation the EU and the US.

- Kazakhstan will localize European and US businesses on its territory to allow them to operate in Russia as well in the future. There is no question of bypassing the sanctions imposed on Russia; all activities of foreign companies will be built in accordance with Kazakh law (opening of legal entities, tax residency, etc.) and taking into account all obligations and agreements between Kazakhstan, Europe and the US.
- For the time being, Kazakhstan has no intention of leaving the EAEU. It is possible to suspend some processes, but everything will be done in full coordination of all actions with Russia. At the same time, this decision may change depending on the development of the situation both on the frontlines and with regards to further sanctions against Russia and its leadership.
- The purpose of these statements is to publicly signify Kazakhstan's neutral status, primarily to the Western public (citizens and experts), which played an important role in the so-called corporate sanctions against Russia, when businesses withdrew en masse from the Russian

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<sup>1</sup> Suleimenov is a key person in the country's Presidential Administration in charge of development and economic reform. Following the crisis in January, the Presidential Administration became an even more important decision-making centre, while the government itself is not an independent actor.

market under the pressure of reputational risks. The Kazakh government considers such sanctions to be the most potentially painful for the country.

- The agreements reached in the early days of the war and confirmed in late March, at the level of Western governments, are still in force, and Kazakhstan does not expect any special sanctions at the state level. At the same time, the country's leadership notes that the volatile situation does not provide long-term guarantees for such agreements, so the Presidential Administration will continue daily consultations with Western governments.
- Cooperation (both economic and political) with Russia will continue. Taking into account all the nuances of the emerging situation; decisions will be of an even more tactical nature. Kazakhstan will continue to localize Russian businesses and allow Russian citizens to take advantage of the banking system.
- In general, Kazakhstan will try to implement the so-called multi-vector policy, trying not to publicly express support for one side or another of the conflict. The country has achieved the status of a transit territory in its ties to Russia and the West, at least for the short term.

## GEOPOLITICAL IMPLICATIONS

Kazakhstan officially maintains a neutral position on the Russian-Ukrainian War. The country provides humanitarian aid to Ukraine, calls for a peaceful resolution of the conflict but has not yet taken an official position on the issue of recognizing Russian-occupied eastern Ukrainian territories. Kazakhstan has also not recognized Crimea's annexation of Russia. At the same time, Kazakhstan has not issued any condemnation of the hostilities and it continues active economic cooperation with Russia. As a consequence, Kazakhstan has so far remained uninvolved in any way in the conflict, while still remaining within the sphere of influence of all the key players.

**In its desperate need of allies, the Kremlin** will try to keep Kazakhstan in its sphere of influence and may demand more pro-Russian steps, for instance the recognition of certain occupied territories or diplomatic support for the Russian invasion. For the time being, Moscow has a number of political and economic tools to do so. However, given that such actions on the part of Kazakhstan will inevitably cause discontent among Western partners and may lead to the imposition of sanctions, we do not believe that the authorities will take such a decision. Furthermore, the authorities will take into account the mood of the public, the overwhelming majority of which is strongly opposed to the Russian invasion of Ukraine.

**So far, Kazakhstan's Western partners** have adopted a "wait-and-see" approach, understanding that there will be a relocation of businesses (both foreign and Russian) and labour resources to Kazakhstan, as well as significant flows of re-exports, re-imports and transit. Specific decisions to limit these flows will be made depending on the degree of aggravation of the situation in Ukraine. Should the West decide to push Kazakhstan to divert from Russia in wake of the still ongoing aggression, the country could face asset lock-in for businesses and political elites (already debated in the UK Parliament), a ban on domestic companies from working with and buying products from Kazakhstan, as well as promises of economic support as compensation. However, this remains an unlikely scenario.

**Kazakhstan also sits firmly in China's sphere of special economic interests.** China supplies natural resources and food, while the country is one of the key transit corridors for Chinese products to the Middle East and Eastern European markets. At the same time, China also seeks to reduce Russia's influence in Kazakhstan, but it is not in its interest to draw the country into the orbit of Western influence. As a consequence, China will be a third player, seeking to draw Kazakhstan closer through

the current geopolitical crisis. Here it is important to understand that China will not act aggressively, as it has no interest in worsening relations with either Russia or the West in Central Asia.

These geopolitical factors condition Kazakhstan's neutral position as the authorities seek to maintain relatively friendly relations with all key partners. The government will attempt to balance the interests of Russia, the U.S., Europe and China, trying not only to maintain its outwardly shaky neutrality, but also to retain its economic and political status as a multi-vector foreign policy advocate.

Overall, since the outbreak of the war, the Kazakhstani authorities have taken active steps to mitigate economic losses and potential political pressure from various external actors in order to prevent the country from being drawn into the conflict. In our estimation, a further aggravation of the economic crisis in Russia, along with sanctions and the outflow of foreign companies, could lead to a revision of the vectors and scope of economic integration between Kazakhstan and Russia.

## UZBEKISTAN

Since President Shavkat Mirziyoyev came to power in 2016, economic and political cooperation between Uzbekistan and Russia has intensified. In addition to cooperation within the EAEU, bilateral ties have also been developing. Uzbekistan has a moderate-neutral stance, but has in fact opposed Russia's invasion of Ukraine. However, any further steps by the country in terms of rapprochement with any party to the conflict are unlikely.

### ECONOMIC IMPLICATIONS

- Besides the devaluation of its national currency and in view of high inflationary expectations, (up to 14% according to the country's central bank), the regulator raised the base rate from 14% to 17%, increasing the cost of loans.
- Cash inflows from migrant workers from Russia, one of the key sources of income of the country's population, have reduced due to the sanctions against Moscow.
- The country has seen a slowdown in foreign trade compared to the expected decline in trade with Russia, the country's main trading partner.

While the impact of the war has so far been moderate, Uzbekistan's economy remains relatively stable despite external shocks. However, the potential expansion of trade sanctions against Moscow could have a negative impact on the country in terms of a likely increase in trade restrictions.

### RISKS OF INDIRECT SANCTIONS

For Uzbekistan, as an observer country in the EAEU and also a fairly important trading partner of Russia, the risks of indirect sanctions by Western countries remains. Russia has been Uzbekistan's main trading partner since 2021<sup>2</sup>. According to [official statistics](#) for last year, Russia accounted for 17.8% of the country's foreign trade turnover, 12.4% of exports and 21.3% of imports<sup>3</sup>. Furthermore, Uzbekistan is a large recipient of Russian loans, including from banks on the sanctions lists.

As a consequence, the potential expansion of the sanctions regime poses critical risks to Uzbekistan's economy, both in terms of access to credit and potential trade restrictions.

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<sup>2</sup> Before this period, China dominated the country's foreign trade.

<sup>3</sup> Meanwhile, Germany is the country's largest western trading partner, accounting for only 1.8% of the country's trade.

It should be noted that Uzbekistan is pursuing a multi-vector foreign economic policy: its rapprochement with the EAEU currently remains balanced, while at the same time the authorities are actively increasing interaction with the European Union and certain Western countries<sup>4</sup>.

## GEOPOLITICAL IMPLICATIONS

Uzbekistan is the first country (*the second is Kazakhstan*) in Central Asia that has officially declared non-recognition of the two Russian-occupied regions in Ukraine's east and called for an immediate cessation of hostilities. On 17 March, Uzbek Foreign Minister Abdulaziz Kamilov said that the conflict should be resolved by political and diplomatic means and all violence stopped immediately.

At the same time, he said the country "will continue mutually beneficial cooperation with Russia and Ukraine based on national interests."<sup>5</sup> Nevertheless, Uzbekistan has so far remained neutral and is likely to continue to try to do so, despite potential pressure from key players.

**Russia has a number of economic and political levers on Uzbekistan**, ranging from restrictions on the supply of certain goods to protectionist measures in the labour market to drive out foreign migrant workers, including those from Uzbekistan. The country's active foreign economic policy and its increasing political contacts in the West create certain reserves, based on which the authorities will be able to counter potential Russian pressure. However, Uzbekistan will try by all means to maintain friendly ties with Russia by distancing itself as much as possible from the conflict.

The lower volume of trade (just over USD 7.5 billion in 2021) and its lack of high-tech products will not allow Western countries to exert significant economic influence on Uzbekistan's position. To a greater extent, both **the US and Europe can exert political pressure**, however mainly by using tools to influence the country's political elites (personal sanctions). Overall, however, we consider this scenario unlikely, as Uzbekistan is not officially linked to Russia by any deep political contacts or commitments in the military-strategic sphere, as, for example, Kazakhstan, Kyrgyzstan and Tajikistan are within the Collective Security Treaty Organization (CSTO).

**China is Uzbekistan's second largest trading partner.** Its share in the country's foreign trade in 2021 was 17.5%. China is interested in Uzbekistan's raw materials supply and transit potential. The country's relative political distance from Russia and the West suits official Beijing policy interests well. As a consequence, we do not foresee that China will try to influence Uzbekistan's foreign policy stance in any significant way.

Combined with the overall favourable geopolitical backdrop, this will allow Uzbekistan to remain neutral and friendly with all key geopolitical players, provided there is no expansion in the area of sanctions pressure.

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<sup>4</sup> For example, on 25 February, Deputy Prime Minister and Minister of Investment and Foreign Trade S. Umurzakov [met](#) with Ngozi Okonjo-Iweala, Director-General of the World Trade Organization (WTO), to discuss the country's accession to the WTO. An [Uzbekistan-EU conference](#) was held on 10 March to launch an indicative program for enhanced cooperation for 2021-2027.

<sup>5</sup> It should be noted that a week before this speech, on 10 March, the Uzbek foreign minister had a [meeting](#) in the US with Secretary of State Blinken, where, among other things, the Russian-Ukrainian conflict was discussed. It is likely that Uzbekistan's relatively tough stance was influenced by this meeting.

# KYRGYZSTAN

Kyrgyzstan is directly dependent on Russia both politically and economically. In this regard, the impact of the Russian-Ukrainian War and its global implications on the country's economy and foreign policy stance are worth considering from identical perspectives for the region.

## ECONOMIC IMPLICATIONS

The dependence of Kyrgyzstan's economy on trade with Russia and Russian loans, as well as on cash flows from migrant workers, have contributed to the negative impact of the war on the economic situation of the country:

- In addition to a sharply weakened national currency, Inflation has accelerated and the National Bank of Kyrgyzstan raised its benchmark rate twice during March - to 10% on 1 March and 14% on 10 March.
- The shortage of foreign currency cash reserves has led to the need for a ban on its export from the country.
- A sharp decline in receipts from migrant workers from Russia is expected amid sanctions in the payment sector as well as a general unfavourable situation in the Russian economy and labour market.
- Exports are expected to fall due to a possible rise in the price of Kyrgyz goods on the Russian market amid the collapse of the Russian ruble.

The authorities are taking active crisis management [measures](#) to ensure food security and financial sustainability, stabilize prices and the state budget, support employment and entrepreneurship, as well as to increase trade turnover and attract investment. Nevertheless, the further strengthening of sanctions on Russia and its economic and political isolation will continue to have a negative impact on Kyrgyzstan.

## RISKS OF INDIRECT SANCTIONS

Kyrgyzstan, like Kazakhstan, is a member of the EAEU, which poses identical indirect and direct sanctions risks as a trading partner of Russia. At the same time, Kyrgyzstan's economy is characterized by a greater degree of import dependence: imports [accounted](#) for 76.5% of foreign trade turnover in 2021. The EAEU, in turn, accounts for 47% of total trade turnover, most of which is accounted for by Russia. As a consequence, Kyrgyzstan is directly dependent on supplies from Russia and the potential geographical expansion of sanctions on Russian foreign trade would have serious consequences for its economy.

Another important factor is the country's dependence on Russian loans from the [Russian-Kyrgyz Development Fund](#) and various Russian banks. Dependence on energy supplies and migration issues are also important. Thus, should any indirect sanctions be imposed on the EAEU, such as restrictions on trade with Russia's allies, Kyrgyzstan would not be able to quickly rebuild its economic architecture and would remain a de facto satellite recipient of Russia, facing a worsening prolonged socio-economic crisis as a result.

## GEOPOLITICAL IMPLICATIONS

Kyrgyzstan's weak economy and unstable socio-political situation make it dependent on key players. At the same time, factors contributing to the country's drift towards Russia prevail in this section. In

general, Kyrgyzstan's position on the Russian-Ukrainian War is restrained and neutral. On 22 February, President Sadyr Zhaparov [reacted](#) to Russia's recognition of the independence of the so-called Donetsk and Luhansk People's Republics by calling for the situation to be resolved peacefully through diplomatic means. At the same time, he noted that Russia's recognition of the independence of the two occupied regions may have been a forced measure to protect the population of these regions. Subsequently, after the war escalated, the Presidential Administration explained that Kyrgyzstan welcomed negotiations, in order to prevent further hostilities.

**Russia has a broader toolkit of potential leverage than Kazakhstan and Uzbekistan.** In addition to economic leverage, it includes political means to exert pressure on local elites, who have opposed each other throughout the country's independence. Kyrgyzstan has experienced a series of revolutions, in which Russia, de facto, has been the main stabilizing actor. As a consequence, the Kremlin has many personal levers of pressure on the country's elites and also has the status of the only counterbalancing actor to the strengthening of Chinese influence in the country.

**The Kyrgyz authorities are trying to establish relations with the West,** but the overall negative socio-economic situation, which puts the country in a de facto subordinate position to Russia, makes these efforts ineffective. The policy of the local authorities to nationalize key industries previously owned by Western companies has also played a contributing role<sup>6</sup>. As a consequence, in the event of an escalation of the Russian-Ukrainian War, Western countries could choose Kyrgyzstan as the main target to expand indirect trade restrictions against Russia. Such actions would inevitably provoke critical reactions from both the population and the elites of Kyrgyzstan, which would increase the country's gravitational pull towards Russia.

**Over the past decade, China has increased its influence in Kyrgyzstan dramatically,** primarily through the issuance of concessional loans. However, the deep economic crisis has reduced the country's capacity to secure these loans, which has raised fears among the population about the likely avenues of increased Chinese pressure, including the possibility of repayment through the transfer of some of the country's assets (power plants, industrial facilities, territories). As a result, widespread anti-Chinese sentiment has been recorded in the country, which reduces the probability of Kyrgyzstan becoming directly involved in the sphere of Chinese foreign policy influence against Russia. Our analysis suggests that Beijing will not clash with Moscow over Kyrgyzstan. Furthermore, Chinese interests in the country could be a bargaining chip between Moscow and Beijing in case of negotiations on deepening trade and economic cooperation between the two countries.

At the same time, the Kremlin claims the Bishkek's official policy is supportive of Russia. For example, the Kremlin's [press service](#), covering telephone talks between the two leaders, reported in February that President Zhaparov expressed support for Russia's actions. However, the press service of the Kyrgyz President did not provide similar information.

We do not expect Kyrgyzstan to condemn Russia's actions in any way. Similarly, we do not expect Bishkek to recognize the independence of the Russian-occupied regions. The rhetoric and position of the country's authorities may change depending on developments in the situation, as well as possible pressure from the Kremlin.

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<sup>6</sup> An example is the nationalization of the Kumtor mine, a large gold mining operation that is one of the country's key industrial sites. It was formerly owned by the Canadian company Centerra Gold.

# TAJIKISTAN

The Russian-Ukrainian War has not yet had a significant impact on Tajikistan's socio-economic situation. The authoritarian regime of government, which has led to strict state regulation of all sectors of the economy, makes official economic indicators directly dependent on state regulation. This makes it impossible to assess objectively the possible economic losses of the country due to the situation in the Russian economy.

Tajikistan's authorities do not take active steps to prevent any negative consequences of the war. There is no information on possible anti-crisis measures, which may be due to the relative isolation of the country and the high level of state control. Nevertheless, there is some weakening of the national currency in the country, but against the background of strict regulation this process does not have a significant impact on the dynamics of economic development.

Russia [dominates](#) the country's foreign trade, accounting for 21.3% of foreign trade in 2021<sup>7</sup>. Overall, Tajikistan's trade is fairly diversified, and the country receives primarily minerals and oil from Russia, which can be replaced by supplies from other countries. This makes Tajikistan relatively independent from Russia economically. Nevertheless, potential economic risks associated with a recession in Russia need to be assessed.

## ECONOMIC IMPLICATIONS

- The labour migration of Tajik nationals and the inflow of money from Russia are adversely affected. Local media have reported on the problems encountered with flights from Tajikistan to Russia, as well as the risks of a mass release of migrant labour.
- There is a problem with remittances as Western Union, the key payment system in Tajikistan<sup>8</sup>, withdrew from Russia.
- The increase in the exchange rate of foreign currencies (US dollar, Euro) affects the price of imported products.
- Foreign trade declines due to rising prices, logistical risks and transit reductions.

The majority of the population is below the poverty line and the current situation will lead to even more negative consequences and exacerbate social tensions. At the same time, the occasional technogenic crises – electricity shortages and periodic blackouts during the heating season – must be taken into account. During the spring-summer period, this factor will not have a significant impact, but the situation will likely deteriorate by the autumn, before the onset of winter.

A positive side to the current situation is the rise in prices for precious metals, which [according](#) to the Ministry of Economic Development of Tajikistan, have accounted for more than half of the country's exports over the last two years. It is also likely to compensate for potential losses in trade with Russia with increases towards China, Turkey and Kazakhstan.

Overall, compared to Kazakhstan, Kyrgyzstan and Uzbekistan, the political aspect, namely Moscow's strong political influence and regional geopolitical risks, plays a key role in Tajikistan's response to the Russia-Ukraine conflict.

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<sup>7</sup> Kazakhstan (18.5%), China (13.1%), Switzerland (14.4%), Uzbekistan (7.1%) and Turkey (6.1%) have significant shares in the structure of the country's foreign trade. The main export commodities are gold, silver, precious and semi-precious stones (58% of exports).

<sup>8</sup> In 2021, remittances to Tajikistan from Russia [amounted](#) to USD 1.8 billion. This represents 20% of the country's GDP.

## GEOPOLITICAL IMPLICATIONS

Tajikistan is not currently involved in any conflicts. However, the country's authorities have repeatedly stated the threat of the Taliban. Against this backdrop and given Tajikistan's territorial location, it is important to consider meeting between Chinese and Taliban-Afghan government officials, which may be seen as evidence of China's intention to increase its influence in the region, taking advantage of the US withdrawal.

**China's support for Afghanistan could have a negative impact on Tajikistan**, given that Tajikistan is currently one of the countries with a [tough stance](#) on Afghanistan. Accordingly, the war in Ukraine will have less geopolitical impact on the country, and the main focus of the government will be on stabilizing the economic and security situation in the region.

The authoritarian leader of Tajikistan, **President Emomali Rahmon, has close ties to Russian President Vladimir Putin** and relies on his support in dealing with foreign policy issues, including a potential armed conflict with the Taliban along the shared border with Afghanistan. Rakhmon counts on Russian support, primarily armed, in the event of intensified military action against the Taliban. The country hosts a Russian military base, the troops of which have conducted [exercises](#) during the Ukrainian invasion, from 11 to 18 March.

With direct contact between the Taliban and China, **Russian support for Tajikistan is becoming increasingly necessary**. As a consequence, Tajikistan may eventually face demands from Moscow for a clear pro-Russian stance on Ukraine. Nevertheless, the Tajik authorities have not yet made any significant statements regarding the war. Even should pressure from the Kremlin increase, we do not expect Tajikistan to actively support Russia's actions. In all likelihood, it will limit itself to more restrained, neutral comments.

## TURKMENISTAN

The impact of the war on Turkmenistan's economy is largely insignificant, due to its isolation, total state control and greater focus on trade with China and the South Asian region. The exchange rate of the national currency remains relatively stable, as it is fully regulated by the state, and rising energy prices, which are the main export item, support the economy.

In foreign policy, **Turkmenistan officially takes a neutral stance on all issues**. Neutrality has been elevated to the rank of state policy, thus Ashgabat has not made any statements on the Russian invasion. We expect this position to be maintained regardless of the geopolitical situation.

In the case of Turkmenistan, the political factors prevail to a greater extent. On 15 March, the official results of the [early presidential election](#) were announced. Serdar Berdymukhamedov, the son of incumbent President Gurbanguly Berdymukhamedov, won by an overwhelming 72.97% of the vote. It should be noted that under Turkmenistan's authoritarian regime and isolation, the election was not competitive and was a de facto organized transfer of power<sup>9</sup>.

Serdar Berdymukhamedov had already assumed office as President and thus the transfer of power from Berdymukhamedov Sr. to his son was complete. However, we believe that the former President will retain a key role in Turkmenistan's politics as Chairman of the country's parliament.

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<sup>9</sup> Please see [here](#) for overview of the recent transition of power in Turkmenistan

At the same time, the country is expected to gradually begin an economic transformation and to gradually open up its economy.

We do not foresee any significant transformation in the government structure and distribution of spheres of influence. The main figure in the government will remain Deputy Prime Minister Rashid Meredov, who is considered the grey cardinal of Turkmenistan and determines the vectors of interaction of the country on the external circuit as Minister of Foreign Affairs.

Importantly, however, **Turkmenistan's elite, primarily former President Berdymukhamedov, may need the Kremlin's support** to consolidate the transfer of power in order to preserve domestic political stability. In this regard, it is likely that Russia, in exchange for such support, will require official and public backing from Turkmenistan. However, given the state policy of neutrality, we do not believe that Turkmenistan will take any explicit position in favour of either side.

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