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HIGHLIGHTS

- Political Developments
- Economic Developments
- India-Central Asia Relations

Political Developments

Kyrgyz President Sooronbay Jeenbekov made Uzbekistan the first country of his visit after being elected and signed a bilateral strategic partnership agreement. Both countries view development of transportation links between Central Asian nations as a top priority. Trade turnover in first nine months of 2017 grew by more than 60% compared to 2016. This figure could rise to US\$280 million for whole of 2017. They resolved to increase it to US\$500 million. They stressed need to further intensify bilateral cooperation in combating terrorism, religious extremism, illicit trafficking in drugs and weapons, and other challenges and threats to regional and international security. It was agreed to assemble Uzbek agricultural machinery, cars, buses, special trailers, and household appliances in Kyrgyzstan, as also to establish joint ventures in textile sector and production of building materials. Several documents were signed on economic, scientific, technical and humanitarian cooperation for 2018-2021, and Agreement between customs agencies to simplify procedures. China-Kyrgyzstan-Uzbekistan railway emerged as foremost infrastructure project with immense promise for Central Asia. They signed about 60 contracts and agreements worth US\$140 million.

During visit of **Kyrgyz President** Jeenbekov to Kazakhstan, President Nursultan Nazarbayev said that bilateral trade should increase to US\$1 billion by 2020. Possibility of creating a joint Business Council to strengthen direct contacts between economic entities of two countries as also cooperation in water and energy was discussed. Several bilateral agreements including a joint statement by the two Presidents and agreement on demarcation of state border were signed. Both countries agreed to work within the Russian-led Eurasian Economic Union (EEU) to resolve bilateral disputes. Relations between the two countries declined precipitously last October when former Kyrgyz President Atambayev accused Nazarbayev of interfering in Kyrgyz Presidential election, and Kazakhstan closed the border between the two countries, ostensibly to maintain peace.

Russian President Putin said that situation in Afghanistan would probably be worse if the US was not there. He said that Taliban gunmen are stationed practically along the whole border between Afghanistan, Tajikistan and Uzbekistan.

Russian foreign minister Sergei Lavrov expressed concern that Islamic State militants are enhancing their presence on borders with Russia's neighbors and allies. He said that Central Asian countries may become the next goal of Islamic State.

Afghan Ministry of Defense has stated that Daesh militants have been almost completely defeated in the country. An Afghan parliamentarian has stated that situation in country is not as dire as it is presented in mass media. He suggested that Daesh in Afghanistan is mostly comprised of "dissatisfied members of al-Qaeda and Taliban, who have united under the banner of Islamic caliphate."

After 30 years of arguing over legal status of Caspian Sea, the five littoral states (**Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan**) appear to have finally settled their differences and agreed on delineating their maritime borders. If finalized, the deal could pave the way for export of Turkmenistan's natural gas to Europe.

In his year-end address to the nation, **Turkmenistan's** president, Gurbanguly Berdymukhamedov, extolled 2017 as a year of unprecedented success, featuring "massive transformations" and glorious achievements, and predicted that 2018 would be marked by a "bountiful harvest and prosperity." He forecast growing natural gas export volumes, new successes in government's import-substitution agenda, containment of already-small deficit and only moderate inflation. He said that the 10% increase in state salaries and pensions won't just be on paper. All this sounds unreal as Turkmenistan has been experiencing economic difficulties.

Turkmenistan faced its second straight year of food shortages as winter approached. Sudden, drastic increase in prices led to hoarding. Flour was in short supply which increased the price of bread. Cuts were made in oil and gas sector, backbone of the country's economy. It appears that Turkmenistan has more gas and oil than it can sell as China is the only importer at rock bottom prices.

In his year end Address to the people, President of **Uzbekistan** stressed good governance and rule of law among the foremost priorities of his policy. Stating his firm commitment to further deepening democratic reforms in the country, Mirziyoyev highlighted importance of strengthening role of parliament in state governance.

After **President Mirziyoyev's** coming to power, many political prisoners and journalists have been released and many removed from security blacklists. He is overhauling the repressive criminal-justice system, introducing protections against arbitrary detention and prohibiting use of evidence obtained by torture. Media has started airing discussions of petrol shortages, rigging of university-entrance exams and other social and economic woes. Foreign policy is also being overhauled. Karimov had threatened war with Tajikistan and Kyrgyzstan if they went ahead with plans to build hydropower plants on rivers that flow into Uzbekistan. Karimov sealed many crossings on border with Kyrgyzstan after outbreak of fighting there. Mirziyoyev, in contrast, has visited Kyrgyzstan, the first visit by an Uzbek president since 2000, and signed an agreement on demarcating border between the two countries. Several sealed border crossings have been reopened. Currently just around 200 kms of unresolved borders remain. Issue is complicated by existence of exclaves within borders of the two countries. Economy, which had been held back by smothering regulation, protectionism and appropriation, is also changing. Currency has been allowed to float and most restrictions on changing money have been lifted.

US President Donald Trump spoke to **Uzbek President** by telephone and discussed security in Central Asia and prospects for closer ties. They discussed "Uzbekistan's role in Central Asia, including its support for President Trump's South Asia strategy and United States efforts in Afghanistan."

Russia's Rosatom State Atomic Energy Corporation and **Uzbekistan** signed a nuclear cooperation agreement. Collaboration could include creation and development of infrastructure in Uzbekistan, training, construction of nuclear power plants and research reactors, as well as operational and maintenance support during their life cycle.

Russia delivered battle tanks, armored carriers, helicopters, howitzers and several other weapons and vehicles to **Tajikistan** to help protect its borders from terrorists operating in Afghanistan.

Kazakh Ambassador to United Nations stated that their priorities during their two-month Presidency of UN Security Council would include non-proliferation, situation in Afghanistan and Central Asia, and the Middle East.

Between 1991 and 2016, more than 952,000 ethnic Kazakhs living abroad returned to **Kazakhstan**.

Kazakhs from China comprised only 14.2% of that number, compared to 61.6% from Uzbekistan. The significantly low percentage of “returnees” (or “oralmans”) is attributed to draconian foreign travel regulations imposed by China on ethnic Kazakhs and other minorities. Anti-Chinese sentiment amongst Kazakhstan exists under the surface. Widespread mistrust of China is reinforced by cheap, low-quality Chinese goods flooding Kazakh markets as also expanding activities of Chinese oil companies in West Kazakhstan, which increasingly bring in workers from China but do little to train local personnel or create jobs.

European Parliament (EP) members approved by an overwhelming majority the Enhanced Partnership and Cooperation Agreement (EPCA) between **Kazakhstan and European Union** (EU) and its member states, the first of its kind concluded by EU with a Central Asian country. The agreement will boost political and economic cooperation in “trade, energy and sustainable development, as well as security issues, such as combating terrorism and non-proliferation of weapons of mass destruction.”

Black cars have been banned in **Turkmenistan** because President Gurbanguly Berdimuhamedov considers black to be inauspicious. Black cars are being impounded and released only on condition that they will be repainted in white. Cost of repainting is prohibitive amounting to several months’ salary of ordinary people.

Economic Developments

World Bank has stated that **Central Asian countries** have not adjusted to lower oil prices. They will need to carry out large-scale reforms to regain competitiveness. Failure to do so could undermine ruling elites and create serious political risks. Although only Kazakhstan, Turkmenistan and Uzbekistan are energy exporters, Kyrgyzstan and Tajikistan have also benefited from large remittances from hundreds of thousands of their citizens working in Russia and Kazakhstan. Following the plunge in global oil prices, all five Central Asian states have seen their currencies fall sharply against the dollar and their economic growth slow significantly.

Iran launched construction of Mashhad-Zahedan railway to connect Central Asia with Chabahar and provide a seamless route for Indian trade to reach Central Asia.

Chinese imports of natural gas from **Turkmenistan** registered a steady decline for 3 months consecutively from September, 2017. China imports 40% of its gas requirement from Central Asia. After negotiations, supplies increased to about 110 million cubic metres per day (mcmpd) but this was also well below the required amount of 130mcmpd. This caused immense hardship to Chinese people in winter months. About 38.7 billion cubic metres (bcm) of natural gas was piped from Central Asia to China in 2017. As of late 2017, total gas supplies to China, mainly from Turkmenistan and Uzbekistan, amounted 203.2 bcm.

Kazakh foreign minister stated that with US\$ 14 billion investment in Kazakhstan over 10 years, China has become one of the main foreign investors in the country. He noted that the two countries approved 51 joint industrial projects worth US\$26 billion, five of which, totaling US\$ 158 million, have been implemented.

In 2017, **Khorgos, the dry port on China-Kazakhstan border**, handled equivalent of more than 100,000 standard containers, double what it handled in 2016. It aims to handle 500,000 containers by 2020. Even that target is only around 1% of volume of goods that travel westward from Asia by sea. Moreover transporting containers by rail costs 10 times more than by sea. Combined capacities of all China-to-Europe land-bridge rail routes don’t exceed four mega-container ships that presently serve China’s trade with Europe. This will continue to be the economic reality.

Uzbek national Airline has offered to start direct flights with Tajikistan to link Samarkand and Bukhara with Dushanbe. Flights between the two countries were terminated in 1992. Uzbekistan introduced a visa regime for travel to Tajikistan in 2000.

Kazakhstan’s economic growth estimate for 2017 has been revised upwards from 2.4% to 3.7% by World Bank, reflecting a better-than-expected oil sector performance, launch of production at Kashagan oil field and higher oil prices. Real GDP has grown by 4.3% in first nine months of 2017, compared to

0.4% in same period in 2016. World Bank expects Kazakhstan's economic growth to hover around 3% a year during 2018-20, as oil sector's contribution to economic growth declines relative to 2017. Kazakhstan will need to implement structural reforms to diversify the economy and increase its growth potential.

Kazakhstan has slashed its grain export target as it has been squeezed out of its traditional markets in Central Asia by Russia's record grain crop. It however aims to increase sales to China.

Kazakhstan has allocated US\$500,000 for humanitarian aid to Rohingya refugees from Myanmar living in Bangladesh.

Kazakh government and central bank may appeal a judgment by a British court to regain access to US\$22.6 billion in National Fund assets frozen by Bank of New York Mellon.

Remittance of funds by residents of **Central Asian States** working in Russia to their countries of origin has dramatically increased this year. Amount in 2017 was US\$8.7 billion which is much higher than last year, indicating an upward trend in Russian economy after lull of two years.

Iran has stated that, recently a major consignment of fruits was shipped from Pakistan to Kazakhstan through Iran. This could open a new corridor for shipment of food items from Southeast Asia to markets as far as Russia.

India-Central Asia Relations

Jammu and Kashmir Chief Minister Mehbooba Mufti has advocated reopening of ancient trading routes between the state and **Central Asian** countries as this will help the state to open up to the outside world and its opportunities.

During Foreign Office consultations between **India and Kyrgyzstan**, issues of mutual interest, including common concerns over terrorism, extremism and drug-trafficking were discussed.

Ambassador of **Kazakhstan** to India visited Assam and held discussions with the Governor on promoting collaboration in trade, tourism and power. He said that Kazakhstan consumes 75% of tea produced in Assam.

Bollywood cine star Sanjay Dutt who visited **Kyrgyzstan** for shooting of his film "Torbaaz" was invited to an elaborate dinner by Prime Minister Sapar Isakov.

Prabhat Kumar presented credentials of his appointment as Ambassador of India to **Kazakhstan** to President Nazarbayev on 10th January, 2018.

(The views expressed are personal)
