INTERNATIONAL TAX AND INVESTMENT CENTER

Issues Paper

Post COVID-19: Building Resilience in Central Asia

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June 2020

Asia-Pacific • Africa • Eurasia • Latin America • MENA

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Acknowledgements

The authors would like to thank the following ITIC EGS Interns for their contributions to this report, without whom this would not have been possible:

Lead Research Intern: Raushan Zhandayeva

Regan Abner

Károly Barabási

Bogdan Puchkov

David Pasmanik

Zhana Sirbiladze

Forward

This is ITIC's third report[1] in as many years on Central Asia that we have published as part of our Energy, Growth and Security Program, headed by Dr. Ariel Cohen. Central Asia is an important region of the world, lodged between Russia, China and Iran, and abutting India and Pakistan. It touches on all three pillars of ITIC's newest department.

The following study, which details COVID-19's impact on the region while outlining policy solutions for recovery, is as timely as it is edifying. The main topic of this report is resilience – the ability of each nation to adapt to current crises and mitigate against future shocks. This requires a combination of smart short-term and long-term policy action.

Fortunately, the health impact of the novel coronavirus in Central Asia has been relatively moderate compared to many parts of the world. However, the economic impact has been significant largely due to a precipitous fall in commodity prices and reductions in foreign trade.

Based on start of the year growth projections, the countries of Central Asia may see a COVID-related net decline of GDP in 2020 of up to 5%. This, combined with increased levels of debt, will severely limit the fiscal space as governments continue to invest in critical public health and other social safety net programs. Yet they cannot abandon pro-growth measures to attract investment and spur economic recovery.

Following the 2008/2009 global economic crisis, developing countries took an average of 8 years to recover their budget revenues. However, the countries of Central Asia are resilient. They have experienced many economic crises since their 1991 independence.

The combination of the fall in commodity prices and decline in trade flows will force the region to accelerate the diversification of their economies mostly based on extractive industries. This can be good news for the alternative energy sector, agribusiness, Information technology, services, manufacturing, and digital connectivity.

The resilience of each country will be tested by their ability to develop pro-growth economic recovery programs amidst economic lockdowns and rising unemployment. Responses must include immediate-term emergency relief actions to protect the health of their people and provide a social safety network. Measures such as short-term unemployment insurance are needed but have to be applied cautiously in order to not destroy work incentives. Any such programs must have a clear sunset date. Programs are needed to support small and medium size enterprises and entrepreneurship—that backbone to future growth in the region. The Kazakhstan National Recovery Plan (19 May 2020), which commits 9% of GDP to stimulating the economy and supporting social safety nets, is a good example of a comprehensive program.

While the health crisis has seen an unprecedented closing of borders around the world, open borders are essential for trade to resume and fuel the economic recovery. The diversification of supply chains that has been a stated priority of many advanced economies poses a comparative advantage to the countries of Central Asia. This, combined with concerns around the world about food security, can open new markets—both westward and eastward—and spur growth in the agricultural and food processing industries of Central Asia. The recent concerns in the media about beef processing— which multilateral institutions like the World Bank are heavily vested in—is a clear example of a diversification opportunity for the economies of Central Asia, especially Kazakhstan.

Looking back at the amazing progress each of the countries of Central Asia have made in their 29 years since independence, we are confident that COVID-19 will be yet another challenge that their resilience, strength and good planning can overcome. Our report outlines the economic challenges they face and makes a number of recommendations to guide their post-COVID economic recovery. EGS Director Dr. Ariel Cohen and EGS Research Fellow Mr. James Grant, the report authors, know Central Asia well and base their recommendations on best international practices, many of which have helped these countries overcome economic crisis in years past.

While COVID represents an enormous economic set-back, we are confident that economic diversification, growth, stronger reginal trade flows, and new global market opportunities will emerge over the next three to five year, while at the same time, fiscal policies that support more inclusive growth and strong social safety nets. This “perfect storm” caused by COVID presents unique opportunities for the countries of Central Asia to re-build and “reboot.” If addressed properly, the unprecedented challenges posed by COVID could result in a more market-oriented, competitive, prosperous, and open Central Asia.

Daniel A. Witt
President

Executive Summary

The social and economic impacts of the novel coronavirus are amplified in Central Asia, where healthcare resources are limited, supply chains are vulnerable, and government revenues are dependent on a narrow range of commodities produced by extractives industries. With cross-border trade volumes and commodity prices at historic lows due to COVID lockdown measures, the region's national governments are straining to implement policy measures that address both disease containment and economic stimulus – a difficult balancing act that if executed poorly could significantly exacerbate the consequences of coronavirus. If managed deftly, however, policy responses to the COVID-19 threat could ultimately make the region more competitive, productive, and resilient to future crises.

The spread of the disease in Central Asia is moderate. As of June 2020, Kazakhstan's infections reached 18,765 confirmed cases with 134 deaths, while neighboring Uzbekistan reported 6,901 cases and just 19 deaths. Kyrgyzstan and Tajikistan share similar figures of 3,762 and 5,630 cases, respectively, with death tolls reaching 42 and 52, if officially numbers are to be believed. Turkmenistan has yet to admit any cases of COVID in the country, although it is taking measures as if the virus is already there.

While these numbers are muted compared to many OECD countries such as Italy, with more than 34,000 dead, and the United States' casualties above 123,000 at the time of this writing (late June 2020), the economic picture is more serious relative Central Asia's more developed OECD peers.

Debt levels in the region are at record highs and commodity prices have seen historic lows. According to the International Monetary Fund (IMF), GDP growth in the region is forecast to shrink by 5.4% in 2020, despite 4-6% growth projected for the region in as late as October 2019.

GDP Forecasts for Central Asia 2019 vs. 2020

	GDP growth 2019	GDP growth forecast 2020 (estimates as of October 2019)	GDP growth forecast 2020 (estimates as of May 2020)	GDP growth forecast 2021 (estimates as of April 2020)
Afghanistan	+3%	+3.5%	-3%	+4.5%
Kazakhstan	+4.5%	+3.9%	-2.5%	+4.1%
Kyrgyzstan	+4.5%	+3.4%	-4%	+8.0%
Mongolia	+5.1%	+5.4%	-1%	+8%
Tajikistan	+7.5%	+4.5%	-2%	+5.5%
Turkmenistan	+6.4%	+6%	+1.8%	+6.5%
Uzbekistan	+5.4%	+6%	+1.8%	+7.0%

Source: (OECD 2020) (IMF 2020)

Central Asia's economies can be characterized as undiversified, with a heavy reliance on commodity exports and remittances. Economic concentration in extractive industries with an emphasis on crude oil and natural gas means that the region is highly vulnerable to the sort of market shocks we have seen throughout Q1 of 2020. From mid-January to end-March, multiple commodities Central Asian economies export suffered substantial price decreases: base metal prices dropped by about 15%, natural gas prices declined by 38%, and crude oil prices decreased by about 65%.

According to the IMF, crude oil prices will continue to reflect a frail demand into 2021. It is predicted that the price of a barrel of oil will remain below $45 through 2023, 25% lower than the average price in 2019 ($61.4). This decline of commodity prices will especially affect energy exporters in the region, as oil and gas exports constituted 20-35% of GDP for Kazakhstan and Turkmenistan.[2]

China's imports from Central Asia fell dramatically in the first quarter: just China's trade turnover with Kyrgyzstan fell almost 12%.[3] Furthermore, the economies of Kyrgyzstan, Tajikistan, and to a lesser extent, Uzbekistan rely on remittances sent by migrant workers from Russia: they accounted for 33% (2018), 34% (2019), and 15% (2018) of the countries' GDP, respectively. As Russia's economy declined, and Moscow barred entry for all foreigners, the seasonal workers will have to stay home, further contributing to unemployment in the region.

The governments of Central Asia are responding with a host of policy initiatives – some more effective than others – with Kazakhstan and Uzbekistan better positioned to mitigate economic headwinds relative to the rest of the region thanks to their sizeable currency reserves. Nevertheless, all governments of the region have pursued some form of immediate response action that includes emergency healthcare measures and economic stimulus packages ranging from an estimated 1.5% of GDP in Uzbekistan, to 5.6% in Kyrgyzstan, and 9% in Kazakhstan.

With declining tax revenue, a persistent issue, governments have been financing these costly crisis packages through a reshuffling of national budgets, grants, and borrowing from international financial institutions, including the Asian Development Bank's (ADB) $20 billion aid package. These resources must indeed be tapped in an emergency but should not be relied up as a sustainable means of building resilience.

The ***resilience*** of the region, or the ability of its people, communities, governments and systems to withstand the impacts of negative events and to continue to grow despite them, is being put to the test. Results will depend on the short and long-term policy steps taken by Central Asia's governments to combat the virus and bolster their economies against future shocks. This report discusses four primary areas of resilience-building that, if addressed, will enable Central Asia to not only weather the remainder of the COVID storm, but emerge with stronger and more competitive economies that can continue to improve quality of life for its citizens.

Policy Recommendations

1. Comprehensive Crisis Management Policy Packages	• *Invest in research to quantify, predict, and prepare for domestic and regional risks (pandemics, market volatility, food security, natural disasters, etc.), and identify areas for capacity building;* • *Fund and develop approaches for integrating resilience into all levels of government decision making, including the creation of domestic departments/ ministries responsible for resilience planning;* • *Expand existing social safety net programs to include vulnerable populations most affected by the coronavirus and the economic downturn;* • *Delegate increased authority to local governments in order to quickly and efficiently mitigate the possible outbreaks and their economic consequences; decentralize decision-making;* • *Facilitate regional healthcare cooperation with an emphasis on knowledge sharing and need-based medical aid;* • *Expand and accelerate transition to virtual provisions of services, including local and state administration (e-governance), education (e-learning) and healthcare (telemedicine).*
2. Resilience and Economic Diversification	• *Accelerate economic diversification away from commodity-export model towards services, manufacturing, renewable energy, agriculture, and SMEs;* • *Invest in retraining programs for workers of the hydrocarbon and extractive industries to prepare them for the new energy economy;* • *Develop an Intergovernmental Cooperation Strategy for Central Asia countries in the fields of renewable energy and energy efficiency;* • *Leverage International Financial Institution (IFIs) resources such as the Green Climate Fund (GCF) to accelerate the transition away from the hydrocarbon economy.*

3. Monetary, Fiscal, Tax and Regulatory Policy Adjustments	• *Adjust government budgets as fiscal balances will significantly deteriorate due the public health and economic consequences of COVID-19 in the region;* • *Establish a regulatory and fiscal environment that would facilitate both foreign and domestic investment, discouraging the outflow of human capital and tax base;* • *Modify tax policy so that the emergence of services and sustainable manufacturing is encouraged, diversifying the national economies from their dependence on natural resource mining and extraction;* • *Resist the urge of protectionism and use regional and global forums for information sharing and trade policy coordination;* • *Gear financial support packages and tax relief and incentives towards the support of individuals and small businesses that maintain employment;* • *Reform legal and regulatory frameworks to make it easier for businesses to maintain their operations through the crisis periods, and for new entities to emerge and operate profitably thereafter.*
4. Food Security	• *Guarantee continuity of food supply chains to avoid hunger and social unrest during national disasters. A national emergency supply chain strategy must therefore be established to build resilience against possible future disruptions;* • *Diversify food imports, improve domestic agriculture capacity, and increase government aid to farmers, including expanding financing and education;* • *Coordinate the establishment of a UN Humanitarian Response Depots (UNHRD) in the region.*

1. Comprehensive Crisis Management Policy Packages

Policy Recommendations

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- *Fund and develop approaches for integrating resilience into all levels of government decision making, including the creation of domestic departments/ministries responsible for resilience planning;*
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- *Facilitate regional healthcare cooperation with an emphasis on knowledge sharing and need-based medical aid;*
- *Expand and accelerate transition to virtual provisions of services, including federal, state and local administration (e-governance), education (e-learning) and healthcare (telemedicine).*

1.1. Country-Wide Resilience Planning

The COVID-19 pandemic has become a simultaneous stress test of the policy making abilities of states and economies across the world: a matter of managing skyrocketing demands while enduring shrinking resources.

Central Asia is no stranger to resilience planning and disaster risk mitigation. Due to the prevalence of natural disasters in the region, including earthquakes, droughts, etc., national governments – in cooperation with international bodies such as the UN Intergovernmental Panel on Climate Change (UN IPCC) and the World Bank – are working to develop various forms of resilience planning, albeit with an overriding focus on natural disaster adaptation and mitigation. As a regional leader in resilience planning, Kazakhstan's Committee of Emergency Situations became the regional model for resilience planning and disaster risk mitigation in 2014.[4] Though the creation of this body was a positive step, there is still much to be done, including expanding the scope of disaster planning to address economic, social, migration, and public health crises.

Supporting this body, and others like it in Central Asia, are international organizations that promote resiliency planning and disaster relief. The Global Facility for Disaster Reduction and Recovery (GFDRR), for example, has been a strong supporter of disaster risk mitigation activities in Kazakhstan since 2008.[5] Its support has informed critical adaptation and mitigation projects such as a $27 million hydromet systems (improving monitoring of meteorological and hydrological hazards) update in Central Asia, and a $5 million Global Environment Facility grant intended to develop a natural disaster insurance market infrastructure with help from the World Bank.[6] The GFDRR has also aided in the development of regional forums about disaster risk planning and mitigation in 2014 and 2015, and partnered with the World Bank to develop quantitative country risk profiles for Kazakhstan and other European and Central Asian countries in 2016.[7]

Another project of note is *Making Cities Resilient in Central Asia and South Caucasus* (CASC) supported by the United Nations Office for Disaster Risk Reduction (UNISDR) and the European Commission

Humanitarian Aid and Civil Protection department (ECHO).[8] This partnership has made strides by espousing the use of the Local Government Self-Assessment Tool (LGSAT) methodology and ten point, five phase plans for improving resilience in cities. Cities that have found success in joining this campaign are Ust-Kamenogorsk and Ridder in Kazakhstan, and Bishkek and Karakol in Kyrgyzstan.[9]

The models proposed by the United Nations Framework Convention on Climate Change (UNFCCC), World Bank, and the UN General Assembly are a strong starting point for developing yet more comprehensive resilience planning roadmaps. One such resilience initiative, the Sendai Framework for Disaster Risk Reduction, is a suitable model to adapt for sustained resilience in natural disasters and beyond.[10] The priorities of this framework are four-fold:[11]

- Priority 1. Understanding disaster risk
- Priority 2. Strengthening disaster risk governance to manage disaster risk
- Priority 3. Investing in disaster risk reduction for resilience
- Priority 4. Enhancing disaster preparedness for effective response and to “Build Back Better” in recovery, rehabilitation and reconstruction.

In the future, the governments of Central Asia may consider broadening their natural disaster resilience planning to deal with other national threats, such as epidemics, public unrests, and refugee crises. The pandemic exposed vulnerabilities in crisis response systems of countries across the globe, with Central Asia as no exception. The proposed crisis management reengineering process should begin by tasking existing intergovernmental bodies to prepare for risks beyond natural disasters, and to create or strengthen national programs to coordinate effective preparedness. An example of an intergovernmental body to further develop in the future is the ‘Center for Emergency Situations and Disaster Risk Reduction’ accredited by the Ministry of Foreign Affairs of the Republic of Kazakhstan, founded in 2016. These agencies must be adequately funded, staffed, and empowered to act as the preventative front line against national disasters of all types.[12]

Moving forward with the creation of more comprehensive and interoperable policies, the resilience planning of individual countries in the Central Asian region must emphasize regional cooperation, as a multilateral approach to disaster risk management and financing will allow for a more tailored and effective mitigation of transboundary disasters (few existential crises are limited within just one nation’s borders). A cross-border approach would promote sharing of scarce infrastructure, resources, and best practices. A well-designed multilateral approach to resilience planning should provide common analytics and metrics, foster training, and emphasize knowledge/technology sharing among neighbors. Cooperation will act as a force multiplier in the development of solutions for both national and transboundary issues.

1.2. Strengthening Safety Nets

Social safety nets are those programs that protect vulnerable citizens from the impact of economic shocks, natural disasters, and other crises through the distribution of cash, in-kind transfers, social pensions, public works, and school feeding programs targeted to poor and vulnerable households.[13] These support systems are needed now, more than ever. In July 2019 Kazakhstan adopted one such bold action plan, boosting elements of the country’s social security program, the education system, and the healthcare system for improvement.[14]

The COVID-19 pandemic has caused a significant rise in the rate of unemployment in regions across the world, including Central Asia. While Central Asia currently spends an average of 2.2% of GDP on public safety nets, existing networks have proven inadequate for affected populations during the pandemic.[15] An example of adaptability in the face of inadequate prior safety nets is the stimulus package that the Kazakhstan government distributed in May of 2020. Equaling 9% of Kazakhstan's GDP, this fiscal stimulus package is helping 4.5 million people who lost income due to the pressures of the pandemic with wage support.[16] Additionally, extra payments were given to medics, police, and other staff focused on COVID-19 prevention and treatment. The self-employed of Central Asia – particularly those estimated 25% that make up the region's informal economy – have benefited greatly from these responses, as lower levels of education and economic mobility make them particularly vulnerable to market shocks.[17]

Figure 1. 1: Fiscal Rescue Packages Announced by Governments (% of GDP) as of 13 April 2020

Sources: International Monetary Fund Policy Tracker

Longer term, improvements to the education system, both secondary and higher, are imperative for any future recovery. Beyond improving traditional education metrics including enrollment, attendance, (female) literacy rates, STEM degrees, and graduation levels, governments must also facilitate education and vocational job retraining for adult workers. To address high structural unemployment, countries in the Central Asian region should pursue comprehensive research on where to redirect educational programs for all ages to best serve the needs of their respective national economies.

One project working to solve unemployment through education is the Kazakhstan 'Skills and Jobs Project' founded by the World Bank and the Ministry of Healthcare and Social Development in 2016. This project aims to "provide relevant training to unemployed, unproductively self-employed, and current employees in need of training[...], improve public employment services, and enhance the capacity of training centers and institutions to deliver skills development programs in line with the market demand. Overall, it is expected that the improved labor market services will result in better job matching and shorter periods of unemployment for people".[18]

Investment in similar projects will be an important aspect of recovering from a drop in remittances, which in countries, like Kyrgyzstan, make up more than 25% of GDP.[19] Migrant laborers who return home due to COVID-related lockdowns (or other economic crises which expel them from their host country) will require retraining for employment in their home economies wherever possible. This cannot succeed without parallel policy initiatives to diversify and expand Central Asia's narrowly specialized economies into services, renewable energy, manufacturing, and agribusiness.

1.3. Overhaul of the Public Healthcare System

With the exception of Kazakhstan, the countries of Central Asia have suffered from substantial underinvestment and the obsolescence of its Soviet-era healthcare systems. Tajikistan, Turkmenistan, and Uzbekistan have the lowest healthcare capacities in the region; while Kazakhstan, the Kyrgyz Republic and Mongolia rank slightly above the world average.[20]

Despite the scarce availability of resources at home, national governments in the region have attracted substantial healthcare investment from Western countries and international financial donors over the previous decades. A strong and resilient healthcare system is the backbone of every successful nation, so governments should continue to build up their capacities in terms of short-term crisis management, as well as of long-term sustainable development. Poor performance in the COVID epidemic suggests that much needs to be accomplished in terms of medical training, facilities, epidemiological monitoring and access to care.

1.4. Investment in Virtual Governance

Now more than ever the global commons are witnessing the benefits of the digital economy. Virtual commuting, e-learning, and digital business have become a part of everyday life for those enduring the global economic lockdown. Virtual governance, or E-governance, is an available tool that Central Asian governments can employ for immediate short-term and long-term benefits with appropriate investment.

E-governance programs, which include the application of information technology to the provision of government services and exchange of information between the government and its citizens, must be expanded. Internet access, still insufficient in rural areas and small towns, needs to be improved. Information websites and applications have become increasingly important for enforcing shutdowns and contact tracing. E-governance tools also provide a more efficient way for governments to allocate and disperse financial payments to individual citizens or organizations affected by the coronavirus outbreak and shutdowns. National governments should employ the best available technology to promptly inform their citizens of the measures implemented and seek their cooperation through publication of sanitary guidelines.

COVID-19 will only reinforce the long-term global trend for distance learning and online government services. With much of the region covered by mountains or separated by vast desert and steppe, Central Asia is home to pockets of poorly connected communities. But countries are adapting to the challenges of low population density and limited interconnectivity: Kazakhstan and Kyrgyzstan introduced 'distance learning guidelines' at the beginning of April of 2020, while schools and universities are reportedly open as usual in Tajikistan and Turkmenistan. Mongolia's Ministry of Education has been broadcasting lessons on TV since February.[21]

In Kyrgyzstan, free access is being provided to websites with educational content. Students and teachers will be provided with SIM-cards for to access the education app and education web pages as well as to use WhatsApp for free communication.[22] The Ministry of Education and Science announced a campaign, "Reading Family", through Facebook where parents read and discuss books together with their children, posting information on Facebook with the hashtag. A free mobile application has been launched for students and teachers of grades 9, 10, and 11 for remote training on admission tests. The app includes samples of admission tests to Russian universities.

It is essential that regional policymakers resist the urge to use certain elements of E-governance – such as contact tracing and limited public assembly – to infringe on the privacy and civil liberties of its citizens. In this regard, the human rights situation in Turkmenistan and Tajikistan, which have been downplaying the spread of coronavirus, yet are imposing quarantine measures, should be monitored carefully.

Most of Central Asia exhibits lower than average levels of public trust between the government and the people. COVID-19 presents a great challenge but also a unique opportunity for leaders seeking to regain legitimacy amongst its citizens. Virtual society and E-governance programs are a relatively low-cost yet effective means of improving the operations of government institutions and building trust between the state and its citizens. Increased digitization can offer a more efficient and transparent approach to governance, which in turn facilitates the attraction of capital investment and job creation from both domestic and overseas investors.

2. Resilience and Economic Diversification

Policy Recommendations:

- *Accelerate economic diversification away from dependence on commodities exports and towards services, manufacturing, renewable energy, agriculture, and SMEs;*
- *Invest in retraining programs for workers of the hydrocarbon and extractive industries to prepare them for the new energy economy;*
- *Develop an Intergovernmental Cooperation Strategy for Central Asia countries in the field of renewable energy and energy efficiency;*
- *Leverage International Financial Institution (IFIs) resources such as the Green Climate Fund (GCF) to accelerate the transition away from the hydrocarbon economy.*

2.1. The Perils of the Hydrocarbon Economy

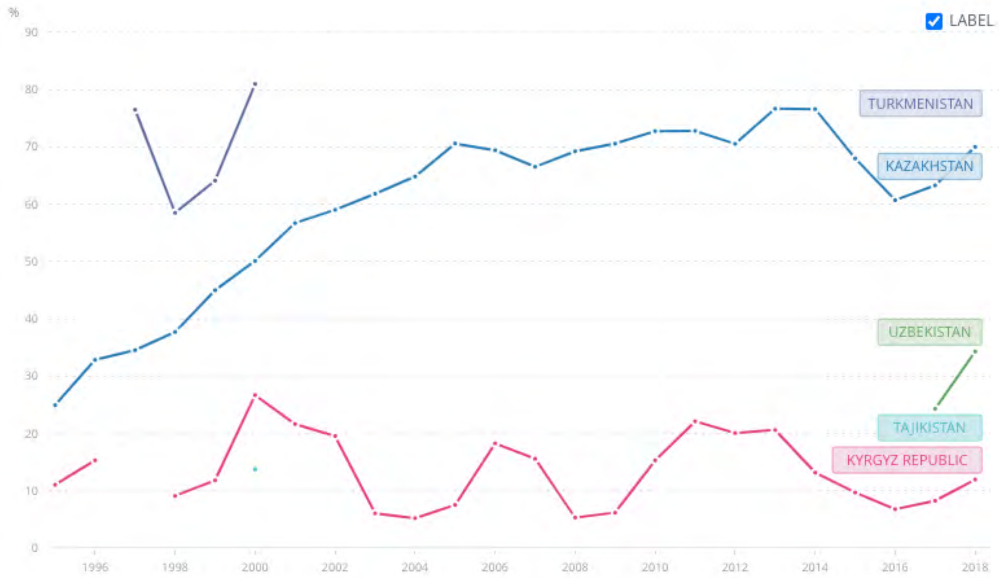
Oil and gas, once the competitive advantage of Central Asia, are now proving to be one of the region's greatest liabilities. Global oil prices fell to historic lows earlier this year as demand for transportation plummeted due to lockdown restrictions. Combined with an already oversupplied market, an ill-timed price war between Russia and Saudi Arabia, and record global inventories, the world's oil producers have experienced a price shock unlike any since the Great Depression. Now more than ever, there is an impetus for hydrocarbon export dependent nations to begin to diversify away from extractive industries and pivot towards other less volatile, more sustainable sectors, such as agriculture, services, and manufacturing.

The three oil and gas producers in the region – Kazakhstan, Turkmenistan and Uzbekistan – rely on hydrocarbons for significant shares of their GDP. In 2018, gold and natural gas accounted for almost 90% of Uzbekistan's export value.[23]

Kazakhstan's economic growth is largely based on gas and oil revenues with those sales accounting for 35% of GDP and 75% of exports.[24] Currently, most of the investment in Kazakhstan goes to extractive industries, including coal, oil, and natural gas (49.5%) and metals (14.6%). Coal-fired power plants generate about two-thirds of Kazakhstan's electricity, while natural gas (21%), hydroelectric power (11%), and oil (2%) approximately constitute the remainder. The nascent green energy sector attracts only 2.2%, of overall FDI flows despite the country's vast solar energy and wind potential. These two non-hydro renewable sources jointly accounted only for 2% of electricity production in 2016.[25] This potential should serve as a new economic driver and an excellent incentive to increase employment in the manufacture, service, and generation of renewable energy products.

In Central Asia Kazakhstan is the first among equals experiencing an average GDP growth of 4.02%[26] over the past decade, with GDP of $168.5 billion in 2019 – the region's largest.[27] However, other important indicators still lag behind. The country now has about the same income per person as Croatia, but life expectancy is 7 years lower.[28] As much as 30% of the economic activity in its service sector takes place in the informal economy and is not visible to tax collectors.[29] The economy remains undiversified, manufacturing has been stunted – exacerbated by currency fluctuations – and the country is still reeling from the crude price crash precipitated by the early 2020 OPEC price war and global economic lockdown.[30]

Figure 2.1: Fuel exports (% of merchandise exports)
Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyz Republic, Tajikistan



Source: World Bank Data

Issues of economic overspecialization are even more extreme in Turkmenistan where hydrocarbons account for 90% of exports, 80% of which head to China. Of the total $9.1 billion of exports in 2018, $7.23 billion came from natural gas and $804 million from refined petroleum.[31] Given the impacts of COVID-induced economic recession, it's no surprise that Turkmenistan's revenue situation is dire, with Chinese imports of Turkmen goods down 23% in Q1 of 2020.[32]

The mega gas exporter was ruled by President Saparmurat Niyazov as his personal fiefdom.[33] Gas was mostly sold to the Russian state behemoth Gazprom, which kept prices low, while Niyazov reportedly amassed a fortune outside the country. Despite a relatively high per capita income, most Turkmens live in poverty. Investment in energy production has faltered and the country lacks key technical skills.[34] Turkmenistan also needs to examine whether or not it can export more gas to greater Eurasia and Europe via Azerbaijan. The Trans-Anatolian Natural Gas Pipeline (TANAP) began exporting gas to Turkey and Europe in 2018 and could certainly be expanded to accommodate exports from Turkmenistan.[35]

Uzbekistan has the least oil and gas of the three big producers. The country is often described as resource rich but is not in the same tier as Turkmenistan with natural gas nor Kazakhstan with oil.[36] Uzbekistan, rather than being energy rich, should perhaps be described as energy and resource diverse. It is a net oil importer, and much of its declining gas output has been sold to Russia at low prices. Tashkent has experienced steady decline in oil production over the past decade and a half. Oil production in 2019 (41,000 barrels per day) is less than half what it was in 2006 (114,000 barrels per day). Before the economic downturn caused by COVID-19, Uzbekistan was producing just 41,000 barrels per day.[37]

Uzbekistan is also heavily reliant on Kazakhstan for importing crude petroleum, approximately 50% of its imports. Domestic gas supplies are at times cut in winter so the gas can be sold abroad. As a result, entire cities sit unheated in freezing weather, occasionally provoking protests. Last winter, in order to avoid this situation, the country needed to buy gas from neighboring Turkmenistan.[38]

This evidence suggests that the Central Asian governments need to diversify their economies away from traditional fuel sources by gradually decreasing subsidies for oil and gas and encouraging energy efficiency.

According to the latest report on fuel subsidies from the Asian Development Bank, Kazakhstan has an average subsidization rate of 30%,[39] or 1.8% of total GDP.[40] Hydrocarbon subsidies, which are not unique to Kazakhstan or to Central Asia, should instead be allocated towards growth sectors of the economy. The process of unwinding economically inefficient subsidies for the hydrocarbon industry should now begin, with those funds allocated towards worker retraining and investment in other sectors of the economy.

Though few successful paradigms exist today, the hydrocarbon-reliant economies of Central Asia should utilize this recovery period to pursue retraining programs in earnest, giving low skilled workers along the fossil-fuel value chain an opportunity to transition into other more sustainable and less volatile sectors – from wind and solar energy to agriculture.

To shift away from oil and gas sales as the main driver of foreign currency reserves, employment and exports, the nations of Central Asia must begin by making their business environments more transparent and attractive to foreign investors – a key driver of regional economic growth and market innovation. Kazakhstan's achievements in this regard are impressive, as the country moved up three positions from 28th to 25th on the World Bank Doing Business 2020 report, owing to the government's efforts to simplify business creation procedure, increased access to credit, and optimization of state oversight procedures.[41]

Expansion of small and medium-sized enterprises (SMEs) in non-extractive sectors of the economy must be part of any effort to promote growth and diversification, and country's like Kazakhstan and Uzbekistan have made SME development an increasing priority.[42] However, there are major obstacles to the growth of this sector across Central Asia: a sub-optimal regulatory and legal framework for conducting business, a lack of basic business knowledge and training for aspiring entrepreneurs, high levels of red tape and corruption, underdeveloped courts and legal system, and finally, a lack of access to start-up financing. Regional SME development is hampered by the difficulty in accessing capital, especially debt financing at sustainable market rates and the banking sub-sector's lack of confidence in SME entrepreneurs.[43]

In the short-term Central Asia's governments and Central Banks should continue their injections of liquidity into existing SMEs suffering from the impacts of COVID. They should also increase access to credit, consider deferral of loan repayments, tax relief, and reach out to international financial institutions for SME grants. In the long term, the governments, assisted by IFIs, need to continue institutional reform to allow both domestic and foreign investment and entrepreneurship to thrive.

2.2. Shifting to Renewables

As the age of the hydrocarbons enters its slow twilight and the era of zero emission energy begins to rise, national governments across Central Asia must incentivize investment in green energy technologies, including wind and solar, to bolster their long-term economic resilience. The energy sources of renewable generation are free, and not subject to the vagaries of the market. These resources can also be decentralized or localized in accordance with the centers of demand, a benefit to the expansive and varied regional geography of Central Asia. Due to the wind and solar intermittency, and due to their high price per kWh, for baseload capacity, there is always gas and nuclear.

Many Central Asian countries are ideally located for solar and wind power generation. According to the European Bank for Reconstruction and Development (EBRD), Kazakhstan's solar power potential is estimated at 3.9 to 5.4 terawatt hours (TWh) – roughly 5% of annual power consumption.[44] As there is high solar irradiance in most regions of the country, the trend is to develop the solar sources in the south, such as in the Burnoye area near Shymkent. In early 2019, Kazakhstan seized on this opportunity when it inaugurated Central Asia's largest facility that produces green power. Located in Kazakhstan's central region of Karaganda, the $137 million solar plant with the capacity of 100 megawatts (MW) covers approximately 164 acres of land and consists of 307,000 solar panels.[45]

As of October 2019, Kazakhstan operated 83 power renewable energy generation facilities, including 27 solar power plants.[46] Within the framework of the concept for Kazakhstan's transition to a green economy, the country aims to increase the share of renewable energy sources in its generation portfolio from 2% in 2020, to 10% in 2030, and to 50% in 2050. While the wind and solar potential is there, tens of billions of dollars will need to be invested in the country's distribution network to connect generation sites to end users, and into battery storage and 'smart grid' technology, which is critical for managing the intermittent load of wind and solar into the grid.

Kazakhstan is not alone in its green energy ambitions. Uzbekistan is planning to develop up to 5 gigawatts (GW) of solar power and 3GW of wind power by 2030.[47] Supported by the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD) and the World Bank's International Finance Corporation (IFC).

Turkmenistan's high solar radiation and dry desert climate offers tremendous potential for PV power generation plants. There are also encouraging messages from the government expressing interest in utilizing solar power to offer electricity to small towns and villages, though the nation's natural gas-dominated economy shows little meaningful signs of energy or export diversification.[48]

A well-calibrated mix of bilateral and regional programing is necessary to lay the foundation for and promote an Intergovernmental Cooperation Strategy of Central Asian countries in the field of renewable energy and energy efficiency. International Financial Institutions (IFIs) should take a leadership role in coordinating a development plan for technology research centers as well as support regional industrial companies to include companies from Kazakhstan, Uzbekistan, and Turkmenistan for joint development of solar power stations. The Scientific and Technological Center of Excellence in Kazakhstan, which was launched in 2008 by Kazakhstan's Ministry of Education and Science with support from the World Bank is one such model of multilateral resilience building in the field of renewable energy. The projects aim to improve the country's science and technology system, increase existing capacity to produce solar panels in Kyrgyzstan, and encourage Turkmenistan's intention to develop its own engineering and manufacturing base related to solar grids.[49]

Unfortunately, COVID driven demand reductions will likely hurt new renewable installations without government intervention. Utilities are tightening their budgets and putting off the construction of new plants. Manufacturing companies that produce wind turbines, solar cells, and other green energy technologies may pause their growth plans and adopt austerity measures. And despite the impacts of reduced trade flows and – which include energy inputs like coal and natural gas – electricity from fossil fuel generation is still far cheaper than renewable competitors. In Kazakhstan in 2017, for instance, the cost of alternative energy was three- or fourfold higher than that of traditional energy sources. The average cost of one kWh generated at a coal-fired facility was 7– 8 tenge ($0.02), while a kWh generated at a wind farm cost 22 tenge ($0.07), and even more at a solar photovoltaic—34 tenge ($0.1).[50]

2.3. The Future of Remittances

Since the fall of the Soviet Union, a significant portion of the Central Asia's GDP has been derived from remittances of the region's migrants working in Russia, Kazakhstan, and Europe. COVID-19 has changed that, and remittances-reliant countries must now adapt to potentially sizeable drops in GDP. Remittances flows are particularly important for the less resource-rich economies of the region – Uzbekistan ($2.3 billion in 2015), Kyrgyzstan ($2.0 billion) and Tajikistan ($1.8 billion). In relative terms, remittances were far less important to Kazakhstan's GDP (0.3%)[51] and Uzbekistan (4.6%), than that of Kyrgyzstan (25.7%) and Tajikistan (28.8%).[52]

A well-educated and skilled workforce is a cornerstone of a country's competitiveness. It fosters high productivity, growth and innovation across all sectors. The countries of Central Asia must develop VET (Vocational and Educational Training) policies that provide the labor force – including returning migrant workers – with a wide range of practical occupational skills that are required on the market. These trade, technical, and professional skills will make participants more employable and productive. The main challenge in implementing VET policies will be costs, as well as the limited financial and time resources of SMEs to identify, hire, and train employees. They have small internal training and human resource management capacities.

Labor migration has indeed yielded some benefits, enabling countries with weak export capacities to maintain the balance of payments. The harsh economic conditions throughout the region make a large low-cost workforce more viable abroad. Labor migration has helped to raise household incomes and reduce unemployment in remittances-dependent countries.[53]

If migrants return with professional skills acquired abroad, they could further benefit their home countries. However, seasonal agricultural laborers, for example, are less likely to return with new skills than those who emigrate for a longer period and in more skill-intensive sectors.

2.4. Enhanced Cooperation with International Financial Institutions

International Financial Institutions (IFIs) will play a critical role in building resilience in Central Asia, especially with regard to economic diversification and sustainability. IFI resources will need to be leveraged for short-term COVID-19 recovery and for long-term economic investment. Multilateral financial institutions have offered a number of fast-track instruments for the governments of Central Asia to respond to immediate health and economic consequences of COVID-19.[54] Uzbekistan, for instance, is preparing to take $3.1 billion in soft and long-term loans from international financial Institutions (IFIs), including the World Bank, the ADB, the Islamic Development Bank, and the Asian Infrastructure Investment Bank.[55]

Among the most impactful work IFIs can do in the context of building resilience in Central Asia is supporting those projects which encourage long-term economic diversification, including green energy projects as discussed above.[56] The region should embrace quick-disbursing development policy operations (DPOs) from the World Bank and other multilateral development banks to support policy reforms that facilitate clean energy investments as a pathway for economic recovery. Countries' National Determined Contributions (NDCs) spell out the actions countries intend to take to address climate change – both in terms of adaptation and mitigation – and can form the justification for IFI green project lending. Based on a comprehensive mapping exercise, the NDC Platform would in many cases provide a "ready-made" policy framework to build from by providing a full picture of the detailed targets, implementation plans, and, where available, self-reported cost estimates from countries that have submitted NDCs.[57]

Utilizing resources from mechanisms such as Climate Investment Funds (CIFs) and the $100 billion Green Climate Fund (GCF) – under the umbrella of The United Nations Framework Convention on Climate Change (UNFCCC) – the nations of Central Asia can accelerate critical projects in the fields of energy efficiency, energy storage, clean energy production, and more. These investments could be an important component of the billions of dollars in fiscal stimulus packages soon to be realized in the region, creating income and employment directly, while also helping provide the cheap energy needed to drive economic recovery.[58]

Aside from energy, agribusiness is another sector that IFI's can support in Central Asia's economic diversification. The World Bank has publicly discussed the details of the proposed Sustainable Livestock Development Project aimed at facilitating the development of an environmentally safe, inclusive and competitive livestock sector in Kazakhstan. The project will have a total budget of approximately $500 million. The proposed Livestock Development Project will run from 2020-2024 and aims to contribute to the diversification of Kazakhstan's exports away from minerals and oil. It also aims to boost private sector growth and support development in rural areas. Finally, it will contribute to increasing agriculture productivity by improving the use of Kazakhstan's vast pasture and grassland resource potential.[59]

IFIs' resources, especially those funds earmarked for green growth, will be critical in Central Asia's efforts to defeat the COVID-19 threat and improve sustainable growth. Central Asia's urgent need to finance a surge in health system capacities, social protection programs, and economic diversification offers an opportunity to generate long-term benefits beyond the current crisis. If designed sustainably, these improvements can build resilience to future shocks, from natural disasters to oil price volatility.

3. Monetary, Fiscal, Tax and Regulatory Policy Adjustments

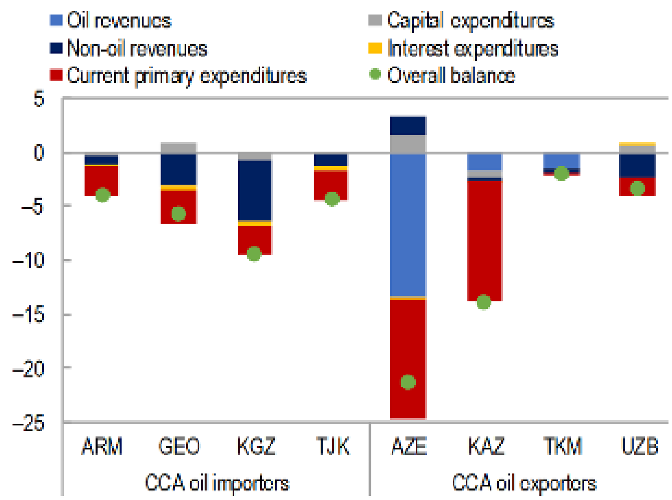
Policy Recommendations:

- *Adjust government budgets prioritizing long-term projects as fiscal balances will significantly deteriorate due the public health and economic consequences of COVID-19 in the region;*
- *Establish a regulatory and fiscal environment that would facilitate both foreign and domestic investment, discouraging the outflow of human capital;*
- *Modify tax policy so that the emergence of services and sustainable manufacturing is encouraged, diversifying the national economies from their dependence on natural resource mining and extraction;*
- *Resist the urge of protectionism and use regional and global forums for information sharing and trade policy coordination;*
- *Gear financial support packages and tax relief and incentives towards the support of individuals and small businesses that maintain employment;*
- *Reform legal and regulatory frameworks to make it easier for businesses to maintain their operations through the crisis periods, and for new entities to emerge and operate profitably thereafter.*

3.1. More With Less – Adjusting To Lower Revenues

As the governments across the region pass measures to stimulate their economies and support the most vulnerable, crises response expenditures will aggravate countries' fiscal standing (see Fig. 3.1). Revising budgets and reprioritizing goals will need to take into account lower revenues as well as tight borrowing conditions both domestically and internationally. As a large volume of external borrowing to support urgent expenditures can increase debt and have a negative impact on its macroeconomic stability in the future, Central Asia's policy makers will have to balance certain long-term goals with prioritizing emergency recovery from the pandemic.

Figure 3.1: Change in Overall Fiscal Balance, 2020 versus 2019 (% of GDP)



Source: IMF, World Economic Outlook database

Some governments in the region were quicker to respond than others. The fall in global demand for energy commodities forced Kazakhstan's government both to revise its 2020 growth projection from 4% expansion to 0.9% contraction and to amend its state budget, predicting a budget deficit of 3%.[60] In the beginning of April, Kazakhstan's Ministry of Finance announced that the government plans to raise KZT 2.4 trillion, or $5.3 billion, in debt to paper over its budget deficit.[61] The step was taken as the initial budget was predicated on oil prices of at least $50-55 per barrel.

The implications of low oil revenues on the government budget is pronounced in Azerbaijan, another energy exporter in the region, where oil accounts for over 90% of its export and sustains government expenditures.[62] Direct transfers from the State Oil Fund of the Azerbaijan (SOFAZ) constitute 40-50% of the budget revenue. In the first quarter of 2020, SOFAZ's expenditures, which mainly consisted of budget transfers, exceeded revenue by $925 million. In comparison, over the same period last year the surplus was $3.3 billion. Azerbaijan's Central Bank also uses SOFAZ to maintain its hard peg to dollar (1.7 manat per dollar) and has already spent $1.1 billion (out of $2.8 billion of total expenditures) to defend the manat in the first quarter of 2020. As oil futures remain low, efforts to maintain a hard peg will dilute financial resources from addressing recession. The government will have to adjust its budgetary expectations and decide if they will want to maintain the hard peg at the expense of other urgent demands.

The combination of unpredicted expenditures and consistently lower revenues amid persistent lower commodities prices, slower activity, and additional health and social measures may require the long-term budget to be adjusted to incorporate the increase of fiscal deficit.

In the long run, governments should increase the speed of their market-oriented reforms. For instance, Uzbekistan has become somewhat of a success story after the national government launched comprehensive market-oriented reforms in 2017. The Uzbek government has liberalized prices, the exchange rate, and trade tariffs, while also reducing tax burden on businesses and households. Such successful reforms have been supported with a $500 million assistance package from the World Bank and moving up in the Doing Business ranking from 76th place in 2018 year to 69th place in 2019. In fact, Uzbekistan joined Turkmenistan, Azerbaijan and Kyrgyz Republic among the world's top 20 most improved economies in the World Bank's 2020 ranking.[63]

The four crucial pillars of Uzbekistan's reforms are increased shareholders' rights, clearer ownership and control structures and more corporate transparency; simplification of tax payments through a merger of infrastructure tax and the income tax; facilitation of cross-border trade through introduction of risk-based inspections; simplification of import documentary compliance; and easing of contract enforcement through introduction of a consolidated law on voluntary mediation. These reforms have been crucial for improving the business climate in Uzbekistan and will pay dividends during the recovery process – attracting foreign direct investment and facilitating the growth of domestic industries.

The geostrategic location of Central Asia between Europe and South/East Asia, coupled with low labor costs, makes the region a prime potential hub for manufacturing and capital investment. But capital investment requires clear, progressive, and enforceable tax policy. While Uzbekistan and Kazakhstan boast a rather developed tax policy with a corresponding efficiency in the collection of tax revenues, the smaller nations of Tajikistan and Kyrgyz Republic are still subject to burdensome taxation that significantly limits their capacities to grow. National governments in the region, especially in those countries that are heavily dependent on the imports of commodities by and remittances from Russia, should undertake a comprehensive tax reform that would facilitate their citizens to engage in commercial activities at home, attract capital investment, and gradually increase the investment in human capital.

As the figure below suggests, Central Asian countries have been gradually reducing the top corporate income tax throughout the decades since their independence.[64] The lack of investment may be attributed to various informal obstacles such as corruption; the opaque legal frameworks; and unpredictable and punitive tax revenue systems. In the short term, national governments should alleviate the tax burden from small businesses, similar to Kazakhstan's decision to exempt a total of 1.2 million micro and small businesses from taxes for a period of three years.[65] Priority should be given to those small businesses that manage to keep their workers on the payroll throughout the pandemic and lockdown.

3.2. International Policy Cooperation

Central Asian nations will need to work with the international and regional markets to assuage the most severe repercussions of the economic downturn. The spread of virus exposed the vulnerabilities not only in the public health sector, but also in the traditional supply chains. As the travel restrictions were implemented and factories were shut down first in China and then across the globe, trade flows of goods and services have been on decline due to the disruption of value chains. The economies of Central Asia are not an exception. In fact, these insufficiently diversified economies rely heavily on foreign trade: the average ratio of trade turnover to GDP is 65%, higher than the 58% OECD average.[66] This exposes the region to international shocks and spillovers.

Since the region's major trade partners, including China, Russia, the European Union, and Iran have been severely affected by the pandemic, both import and export volumes are expected to decrease substantially in the region. The shutdowns and border restrictions not only make trade more costly on its own but also might trigger protectionist policies, as more concerns about the availability of domestic goods arise. In the region where insufficient connectivity and regulatory roadblocks already take their toll on cross-border trade, the urge to isolate through further trade restrictions might be dangerously counterproductive. These measures can result in further negative economic effects, including increase in prices, artificial scarcity, and lower quality of products available.

At the end of April 2020, the World Trade Organization reported that at least 80 countries had introduced export prohibitions or restrictions as a result of the pandemic.[67] Beyond medical supplies, this urge is especially evident in food markets, as countries fear that agricultural production might be disrupted by contagion measures and food supplies might start running low.

Although the closure of state borders and travel restrictions are certainly justified in confronting the pandemic, trade channels must be kept open. The crisis underlines the importance of transparency, information sharing, and regional cooperation. While the countries in theory are able to coordinate their policy activities through the Eurasian Economic Union (EAEU), the organization ultimately proved to be ineffective. The Union not only instituted protectionist policies but also is consistently ignored and acquiesced to Russia's unilateral actions, including dispatching a plane full of medical supplies to the U.S. without consulting the Union members, one of the EAEU's stipulations. With existing regional multilateral bodies like the EAEU so far proving ineffective, Central Asian countries need to participate in global coordination of trade policies through global forums, like the WTO, and regional coordination through other (more ad-hoc) channels, like online meetings of the heads of Central Asian countries, to ensure information sharing and mutual support.

3.3. Deploying Monetary and Fiscal Instruments

To counter the economic slowdown, Central Asia's governments need to take countercyclical measures using both fiscal and monetary policy instruments.

The fiscal policy objective should be two-fold: to alleviate the impact on the most vulnerable households and businesses and to maintain economic growth in the post-crisis era. As the confinement measures paralyzed most of the economy, it is important to create a social protection floor for the affected population. Instead of the blanket bailouts, however, the support should be targeted and temporary. This will ensure that the limited resources are used in an effective way, prioritizing the industries most impacted by the ongoing lockdown. The policy toolkit should include tax reliefs, cash transfers, wage subsidies, and extensions/postponement of debt repayment.

Governments have begun executing these stimulus packages. However, the degrees of fiscal support varied across the region. Endowed with its sovereign national fund, Kazakhstan is allocating about $10 billion to fight the pandemic and $740 million to boost employment. This package includes an extension of the social safety net with wage and unemployment subsidies, and social, financial, and tax measures. As of April 16, a direct payments of $100 (KZT 42500) to vulnerable citizens cost at least $270 million, one of the boldest steps the government has undertaken to combat the social fallout of COVID-19.[68] The government has also extended tax incentives that would benefit more than 700,000 companies and individual entrepreneurs and would allow them to save about KZT 1 trillion (more than $2 billion).[69]

As fiscal space remains limited for most of the region, the countries must also rely on international financial institutions. As was already noted, President Shavkat Mirziyoyev of Uzbekistan signed a decree that will allow the country to take $3.1 billion in soft and long-term loans from international financial Institutions.[70] Uzbekistan created a range of measures to support its entrepreneurs, including the Anti-Crisis Fund of $1 billion, deferred enterprise taxes for 6 months, and reduced the personal income tax for entrepreneurs.

When it comes to the monetary instruments, Central Banks need to provide sufficient liquidity to banks and nonbank finance companies, especially those lending to small and medium-sized enterprises. As with fiscal support, the monetary package should offer temporary and targeted instruments, like credit guarantees or direct loans for the near-term liquidity needs of SMEs.

However, conventional interest rate cuts might not be applicable everywhere, as policymakers have to balance other priorities. For example, Kazakhstan and Kyrgyzstan increased their interest rates this year to counter rising inflation expectations due to the decline in oil prices and currency depreciation. After increasing its policy rate in mid-March as the tenge came under pressure, the National Bank of Kazakhstan (NBK) cut it to 9.5% and expanded the interest rate band to +/- 2%.[71] The room for policy rate cuts could further erode due to renewed financial market pressures and currency depreciation through inflation.[72] Additional unconventional financial mechanisms might include expansion of asset purchasing programs as well as easing of refinancing operations for commercial banks.

In execution of the stimulus packages, policymakers need to pay particular attention to the threat of stagflation - persistent high inflation combined with high unemployment and a sluggish demand in the economy. To successfully avoid stagflation, central banks need to accurately predict the short-term and long-term performance of their economies. This is why national governments need to quickly identify the particular industries and SMEs that need financial injections, thereby facilitating the revival of economic activity and a rise in employment, while curbing money supply once the country emerges from the recession.

3.4. Supporting SMEs

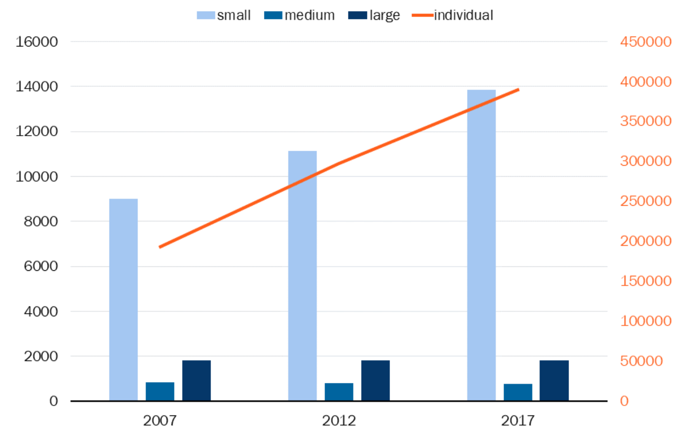
Governments must give specific attention to small and medium enterprises for any economic recovery to be successful. To their credit, certain actions are being taken, but more can be done. The majority of Central Asian countries have extended the deadlines for this year's tax filings by small and medium enterprises, as well as the moratorium on inspections by state regulators.[73] These are temporary emergency measures that will alleviate the tax burden in the months of lockdown, but nations need to plan their tax revenues in a way that would facilitate the private sector to operate freely, providing employment for citizens.

It is also necessary for national governments in the region to introduce simplified procedures for local businesses and entrepreneurs to apply for loans from banks. Where necessary, governments may introduce or hire a consulting agency that would assist companies with their applications for financial loans, making borrowing simple and accessible without compromising their bottom line.

Many countries in the region have adopted significant policies that make it easier to start a business. Kazakhstan's approach to supporting the country's small and medium-sized enterprises has been well calibrated, having provided over $2 billion worth of tax incentive measures to some 700,000 businesses and individual entrepreneurs. This step has caused the number of active small businesses to rise by 1% in April despite lockdown measures. By the end of April, the number has grown year-on-year by 3.1%.[74]

Elsewhere, the Kyrgyz Republic is now in the top 10 percentile in starting a business, according to the World Bank's Doing Business ranking.[75] However, the country is ranked 96th in the World Economic Forum's Global Competitiveness Index. This means that while it is easy to set up a company in the Kyrgyz Republic, a business is difficult to run and expand, with most operations starting small and remaining small.

Figure 3. 2: Entrepreneurs and Small Firms Growing in the Kyrgyz Republic (by Number of Employees)



Source: National Statistical Committee of Kyrgyz Republic

Almost 24% of the country's gross domestic product comes from the shadow economy, with the figure being as high as 37% on the labor supply side.[76] Informality is particularly high in sectors with the "patent regime" of taxation, which is designed to help small businesses avoid the complex tax burden and enable quick entry. The patented small businesses are usually not subject to inspections and are not required to keep books or records, which discourages companies from migrating into the VAT system and general tax regime. For instance, the number of patents grew by 37% between 2014 and 2017, while the number of SMEs that are not ruled by the patent regime added just 18%.[77] The government of the Kyrgyz Republic should establish a tax policy that would make it easy not just to start a small business, but also to run and expand its operations, discouraging it from operating in the shadows.

Where possible, national governments should advocate for the delegation of authority in tax collection and government spending down to the local level, where more information of the necessities exists, and corruption risks are reduced. Local governments should take care of local issues, with reduced centralization of tax administration.

4. Food Security

Policy Recommendations:

- *Guarantee continuity of food supply chains to avoid hunger and social unrest during national disasters. A national emergency supply chain strategy must therefore be established to build resilience against possible future disruptions;*
- *Diversify food imports, improve domestic agriculture capacity, and increase government aid to farmers, including expanding financing and education;*
- *Coordinate the establishment of a UN Humanitarian Response Depots (UNHRD) in the region.*

4.1. Building Food Security

COVID-19 is a threat multiplier for fragile economies and continues to strain all areas of society. The agriculture and its critical supply chains are no different. Central Asia, which is in the midst of rapidly rising food prices, requires strong, proportionate, and efficient measures to address current food security issues and prevent future disruptions.

The COVID-19 pandemic is causing runs on food markets worldwide, as major food-exporting countries take measures to protect domestic producers and keep national food levels stable. Russia, the world's second largest exporter of cereals, was the first major economy to announce its intentions of an export ban on processed grains.[78] Soon after, other large exporters like Kazakhstan followed suit, implementing export restrictions on staple food products beginning on March 27.[79] Net food importers in Central Asia, such as Kyrgyzstan and Tajikistan, also reduced their exports with concerns over the COVID-19 pandemic. The logic behind protectionism in a time of crisis is simple: as consumers hoard products driving demand up, global prices rise in kind. Fearing shortages due to hoarding, food-exporting countries resort to restricting their exports to ensure adequate domestic supplies and shield their consumers from price increases.

The Eurasian Commission, a governing body of the Eurasian Economic Union (EAEU), has decided to restrict exports of sunflower seed, buckwheat, rice and rye until June 30. Furthermore, it banned the export of soybeans and some vegetables outside of the union until June 30.[80] In March, Kazakhstan and Kyrgyzstan imposed export bans and quotas on a range of products, including wheat flour, pasta, sunflower oil, sugar, chicken eggs, feed, salt, vegetables, and cereals.[81] These unilateral decisions can aggravate the economic downturn in the region by encouraging price gouging, which will disproportionately affect the most vulnerable populations. Trade barriers for agricultural products are massive barriers to regional food security, and their removal should be encouraged.

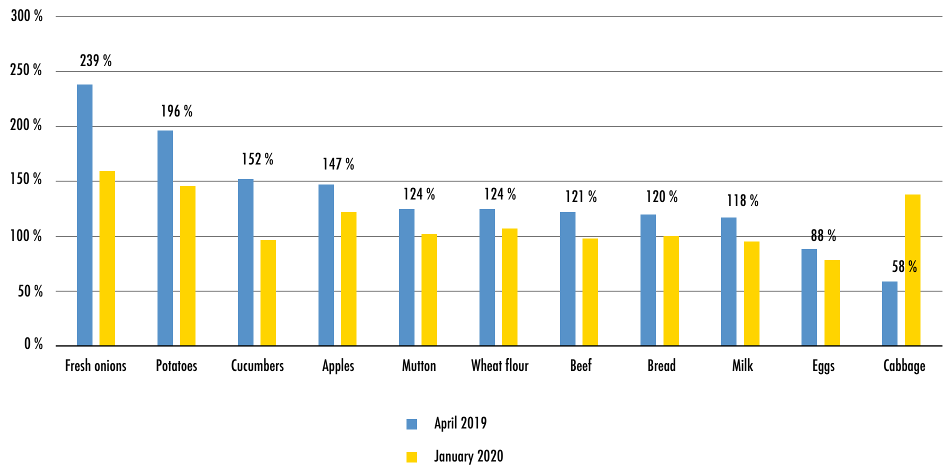
Geographic Challenges

Central Asia suffers from extremely low levels of arable land. The countries of Tajikistan, Kyrgyzstan, and Turkmenistan have just 7%[82], 8%[83], and 4%[84] available for growing crops, respectively. Kyrgyzstan imports about half of the wheat it consumes,[85] Uzbekistan imports around 43% of its need for wheat mainly from Kazakhstan, Turkmenistan has also developed a dependence on wheat from Kazakhstan.[86]

COVID-19 is already causing moderate food security challenges in the region. In Kazakhstan, instances of rotting produce were reported as sellers were unable to reach markets due to government mandated pandemic roadblocks. These cases represent widespread trends of food insecurity across the region, as governments struggle to maintain the integrity of food supply chains.

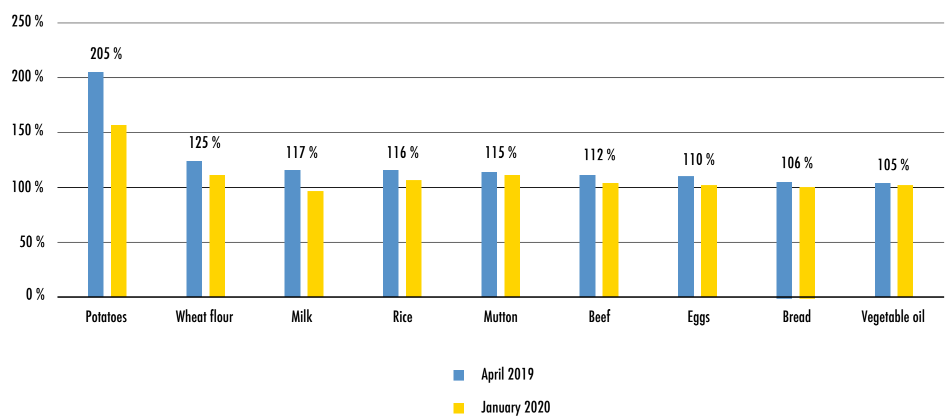
To some extent, these policies are successful in that they do keep domestic supplies stable, at least in the short-term. But the consequences are economic losses, specifically for domestic producers, who neither get accurate demand signals nor benefits from higher prices in global markets. In the short run, such policies depress farmers' incomes and export revenues. Over the longer term, they distort incentives for farmers to invest in expanding productive capacity, which is necessary to increase supply and bring down food prices.[87] As a result, global institutions, such as the World Trade Organization, UN Food and Agriculture Organization, World Bank, and the International Monetary Fund, are calling on countries not to use COVID-19 as an excuse to issue protectionist policies.

Figure 4. 1: Tajikistan: Retail Food Price Changes (Percentage in April 2020 Compared with April 2019 and January 2020)



Source: FAO, Europe and Central Asia: Regional Food Market Situation and Policy Bulletin in Response to the COVID-19 Pandemic

Figure 4. 2: Kyrgyzstan: Retail Food Price Changes (Percentage in April 2020 Compared with April 2019 and January 2020)



Source: FAO, Europe and Central Asia: Regional Food Market Situation and Policy Bulletin in Response to the COVID-19 Pandemic

As countries impose the restrictions on exports and tighten border controls, the COVID-19 pandemic is causing significant disruptions in domestic agribusiness and food value chains. Domestic food prices have subsequently spiked relative to 2019 levels. In Tajikistan, the difference between April 2020 prices and April 2019 prices for fresh onions increased by 138.9%, potatoes - by 95.8%, cucumbers - by 51.6%, and apples - by 47.4%. The prices for cereals, meat, and dairy products have grown by around 20%.[88] Similar inflation in food prices took place in the Kyrgyz Republic throughout the period between April 2019 and April 2020. Between January 2020 and April 2020, prices have increased for a range of products, including potatoes by 57.1%, mutton by 12.7% and wheat flour by 11.9%.[89]

These price spikes are the result of COVID-19-induced protectionist policies, movement restrictions, market speculations, and panic buying. To counteract this trend, governments must first and foremost provide support for domestic food producers and review supply chains to facilitate movement of goods without violating public health measures. National governments should develop financing tools for farmers, who are experiencing a decrease in food purchases. Interest free loans and debt forgiveness for vulnerable farmers will be critical in maintaining Central Asia's crop production and domestic food supply chains. Trade barriers must be lifted where possible.

Multilateral organizations such as the UN are also playing an active role in the region's food security. In an official announcement on April 21, 2020 the food assistance branch of the United Nations, the World Food Program (WFP), warned of widespread hunger due the lockdowns and economic recession in the wake of the COVID crisis.[90] David Beasley, the head of WFP, warned about a hunger pandemic: "Supply chains have to keep moving if we are going to overcome this pandemic and get food from where it is produced to where it is needed. It also means resisting the temptation to introduce export bans or import subsidies, which can lead to price hikes and almost always backfire".[91]

4.2. A UN Food Depot for Central Asia

In addition to improvements in domestic food production capacity and diversification of international buyers and sellers, Central Asia should consider coordinating with the United Nations to secure resources from one of six global UN Humanitarian Response Depots (UNHRD), the closest being in Dubai. This is an ideal time to establish one such warehouse in the region; ideally in Kazakhstan, due to the availability of more developed infrastructure and skilled labor, as well as its geographic location. Such a hub would become a part of the UNHRD network and provide core services in warehousing, inspection, and handling of relief items in preparation for humanitarian disaster assistance. These facilities also offer a wide range of ancillary services, such as procurement, transport, and technical assistance for the host government in times of need. In the interim, the governments of Central Asia should continue to build their strategic food stockpiles and take steps to ensure the continuity of supply chains.

5. Conclusions

The COVID stress test, which simultaneously affected the whole planet, caught Central Asia unprepared, and may be the most difficult event since independence 30 years ago. The short-term challenges are obvious and need to be addressed: healthcare, the sharp economic downturn, the need to save jobs and supplement incomes. Countries must keep the food supply chain intact, and keep the borders open for trade while controlling the spread of infection. Yet, this is a crisis that can be used by the political leadership and elites to address the long term societal and economic deficiencies, be it dependence on hydrocarbon energy and other raw materials exports, or the need to develop "soft infrastructure" of the economy: the rule of law, business-friendly and transparent public service, and improve governance. The current pandemic, as tragic as it is, is an opportunity to address these limiting factors. The authors hope that Central Asia, with its rich ancient history, talented peoples, and cultural diversity, will emerge from this stress test stronger, better, and more prosperous than ever.

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