

## INTERNAL AND EXTERNAL FACTORS IN THE DEVELOPMENT OF CENTRAL ASIAN ECONOMIES<sup>1</sup>

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**Abstract:** Central Asia (CA) is a region uniting five countries of the former Soviet Union, Kazakhstan, Tajikistan, Uzbekistan, Kyrgyzstan, and Turkmenistan, which share a common historical past and strategic importance for the Eurasian continent, as well as a rich cultural heritage, diverse natural resources and have some potential for deeper economic and political integration. The study aims to conduct a comprehensive SWOT analysis of the Central Asian economies to identify common points of contact for the development of cooperation. The SWOT analysis is based on the results of scientific research published in the journals of SCOPUS, Web of Science, as well as in publications recommended by the Committee for Control of Education and Science of the Ministry of Education and Science of the Republic of Kazakhstan, statistical data from international organizations and national databases.

**Keywords:** Central Asia, SWOT-analysis, GDP, Corruption Perception Index, trade, interdependence, resource curse, human capital, Gini Index

### Introduction

Central Asia is a region uniting five countries whose mutual trade in foreign trade turnover increased from 6.4% to 9.9% between 2013 and 2021.<sup>2</sup> The transition of the Central Asian countries from a planned to a market economy in the early 1990s was complicated<sup>3</sup>. While real market reforms characterized Kazakhstan and Kyrgyzstan, the other three republics were characterized by

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<sup>2</sup> Eurasian Development Bank. (2022). Economy of Central Asia: a new look. Eurasian Development Bank. Retrieved 2023, from [https://eabr.org/upload/iblock/d0b/EDB\\_2022\\_Report-3\\_The-Economy-of-CA\\_rus.pdf](https://eabr.org/upload/iblock/d0b/EDB_2022_Report-3_The-Economy-of-CA_rus.pdf)

<sup>3</sup> Tashmatov, A., Aknazarov, F., Juraev, A., Khusanov, R., Kadyrkulov, K. D., Kalchayev, K., & Amirov, B. (2000). Food policy reforms for sustainable agricultural development in Uzbekistan, the Kyrgyz Republic, and Tajikistan. *Food Policy*, 25(6), 719–732. [https://doi.org/10.1016/S0306-9192\(00\)00034-8](https://doi.org/10.1016/S0306-9192(00)00034-8)

partial reforms.<sup>4</sup> The lack of institutional capacity and entrepreneurial culture hindered private sector development. Nevertheless, by 2008, the CA countries had “completely restructured their systems” during the transition from a planned to a market economy.<sup>5</sup>

From 1999 to 2014, the state of the Central Asian economies was determined mainly by the resource boom.<sup>6</sup> For this period, Schneider, F., Buehn, A., & Montenegro, C. E. estimated that the weighted average size of the shadow economy (as a percentage of “official” GDP) in Central Asian countries was 36.4% compared to 13.4% in high-income OECD countries.<sup>7</sup> Central Asia's liberation from dependence on commodity exports and remittances, and its transition to a diversified economy oriented towards the outside world, is possible only with institutional changes.<sup>8</sup> Today, Central Asia is the object of a “fierce game” between key countries and regions such as Russia, the United States, China, the European Union, Japan, India, Iran, and Turkey over “energy geopolitics.”<sup>9</sup>

According to Vanderhill, Joireman, & Tulepbayeva, despite their dependence on natural resources, they nevertheless “helped Kazakhstan succeed in its foreign policy because it was able to use access to natural resources to exert influence in its relations with Russia, China, and the EU.”<sup>10</sup> Rich hydrocarbon resources have played an important role in the political and economic development of Central Asian states, although “the failed transition to a capitalist economy and a democratic political system has included them in the category of states that have suffered from the resource curse.”<sup>11</sup> Moreover, Siraj & Javaid argue that in the Central Asian republics, “politics and economics are completely

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<sup>4</sup> Spoor, M. (1993). Transition to market economies in former soviet central Asia: Dependency, cotton and water. *European Journal of Development Research*, 5(2), 142–158. <https://doi.org/10.1080/09578819308426591>

<sup>5</sup> Friz, K., & Günther, J. (2021). Innovation and economic crisis in transition economies. *Eurasian Business Review*, 11(4), 537–563. <https://doi.org/10.1007/s40821-021-00192-y>

<sup>6</sup> Pomfret, R. (2021). Central Asian Economies: Thirty Years After Dissolution of the Soviet Union. *Comparative Economic Studies*, 63(4), 537–556. <https://doi.org/10.1057/s41294-021-00166-z>

<sup>7</sup> Schneider, F., Buehn, A., & Montenegro, C. E. (2010). New estimates for the shadow economies all over the world. *International Economic Journal*, 24(4), 443–461. <https://doi.org/10.1080/10168737.2010.525974>

<sup>8</sup> Pomfret, R. (2021). Central Asian Economies: Thirty Years After Dissolution of the Soviet Union. *Comparative Economic Studies*, 63(4), 537–556. <https://doi.org/10.1057/s41294-021-00166-z>

<sup>9</sup> Zhou, Q., He, Z., & Yang, Y. (2020). Energy geopolitics in Central Asia: China's involvement and responses. *Journal of Geographical Sciences*, 30(11), 1871–1895. <https://doi.org/10.1007/s11442-020-1816-6>

<sup>10</sup> Vanderhill, R., Joireman, S., & Tulepbayeva, R. (2020). Between the bear and the dragon: Multivectorism in Kazakhstan as a model strategy for secondary powers. *International Affairs*, 96(4), 975–993. <https://doi.org/10.1093/ia/iiaa061>

<sup>11</sup> Siraj U. & Javaid F. (2021). Resource Curse and Political & Economic Transition in Central Asia. *Pakistan Journal of International Affairs*, 4(2). <https://doi.org/10.52337/pjia.v4i2.141>

different fields<sup>12</sup> despite the GDP growth of the Central Asian countries. Kazakhstan shipped 65.7 million tons of crude oil worth \$31,1 billion in 2021<sup>13</sup> and, according to British Petroleum, is the thirteenth largest oil producer in the world (86 million tons of oil in 2021); Uzbekistan is 48th (2.7 million tons for 2021); Turkmenistan is 33rd with 12 million tons of oil in 2021<sup>14</sup>. Turkmenistan is the fourth largest country in the world in terms of natural gas reserves, and the commissioning of the fourth branch of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline will “increase Turkmen gas exports to the PRC to 65 billion cubic meters per year.”<sup>15</sup> In 2022 Turkmenistan “exported \$10 billion 250 million worth of natural gas to China.”<sup>16</sup> According to Zhou Q., He Z., & Yang Y., Central Asia plays “an important role in China’s strategy to reduce its dependence on energy supplies from the Middle East.”<sup>17</sup>

Kyrgyzstan and Tajikistan do not have significant hydrocarbon reserves, and migrant remittances are a significant factor for these economies. According to the World Bank, the volume of remittances is equivalent to 35% of the GDP of Tajikistan, and 33% of the GDP of Kyrgyzstan,<sup>18</sup> although, in 2022, the latter figure dropped to 25% of the GDP.<sup>19</sup>

The same World Bank list also includes Uzbekistan, with 13% of remittances in the GDP structure, and Kazakhstan, with an insignificant 0.2% of GDP.<sup>20</sup> Among CA countries, Kyrgyzstan is considered the smallest economy,

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<sup>12</sup> Ibid

<sup>13</sup> Business Information Center (2022, March 11). Kazakhstan produces 1.7 billion barrels of oil per day. Business portal Kapital.kz. Retrieved March 25, 2023, from <https://kapital.kz/economic/103683/kazakhstan-dobyvayet-1-7-mlrd-barreley-nefti-v-sutki.html>

<sup>14</sup> British Petroleum. (2022). (rep.). *bp Statistical Review of World Energy 2022 | 71st edition*. Retrieved from <https://www.bp.com/content/dam/bp/business-sites/en/global/corporate/pdfs/energy-economics/statistical-review/bp-stats-review-2022-full-report.pdf>.

<sup>15</sup> *Turkmenistan plans to almost double gas exports to China*. TACC. (2022). Retrieved March 25, 2023, from <https://tass.ru/ekonomika/16052337>

<sup>16</sup> Business Turkmenistan. (2023, January 21). *Export of Turkmen natural gas to China amounted to \$10.25 billion: economics. Information Center*. Retrieved March 25, 2023, from <https://business.com.tm/ru/post/9738/eksport-turkmenskogo-prirodnogo-gaza-v-kitai-sostavil-1025>

<sup>17</sup> Zhou, Q., He, Z., & Yang, Y. (2020). Energy geopolitics in Central Asia: China’s involvement and responses. *Journal of Geographical Sciences*, 30(11), 1871–1895. <https://doi.org/10.1007/s11442-020-1816-6>

<sup>18</sup> Brownbridge, M., & Canagarajah, S. (2020). (Working paper). *Migration and Remittances in the Former Soviet Union Countries of Central Asia and the South Caucasus*. World Bank. Retrieved from <https://documents1.worldbank.org/curated/en/243691579100987298/pdf/Migration-and-Remittances-in-the-Former-Soviet-Union-Countries-of-Central-Asia-and-the-South-Caucasus-What-Are-the-Long-Term-Macroeconomic-Consequences.pdf>.

<sup>19</sup> World Bank. (2022). *Social Protection for Recovery*. Fall 2022 Europe and Central Asia Economic Update. Retrieved April 2, 2023, from <https://www.worldbank.org/en/country>

<sup>20</sup> Brownbridge, M., & Canagarajah, S. (2020). (Working paper). *Migration and Remittances in the Former Soviet Union Countries of Central Asia and the South Caucasus*. World Bank. Retrieved from

with a GDP of \$8.543 billion in 2021, and Tajikistan is the poorest country, with a GDP of \$8.746 billion in 2021.<sup>21</sup>

At the same time, it must be recognized that Central Asian economies are poorly diversified, which makes Central Asian countries vulnerable to external shocks and fluctuations in commodity prices: therefore, they need varying degrees of modernization of industrial and social infrastructure.

According to the Corruption Perceptions Index (CPI), Kazakhstan leads in Central Asia, scoring 36 points for the first time in 2022, ranking 101st in the world out of 180 countries. Despite the public health emergency (during COVID-19) and challenges to democratic institutions, the growth of Kazakhstan's CPI demonstrates its success in the fight against corruption.<sup>22</sup> The adoption of strategic decisions by the government of Kazakhstan on timely assistance to the population and businesses during the COVID-19 pandemic, the digitalization of public services, and the introduction of changes to increase accountability for corruption were essential milestones in the fight against corruption. Leading the list are Denmark (90) and Finland (87). South Sudan, Syria, and Somalia are in last place with 13, 13, and 12 points, respectively. Kyrgyzstan scores 27, Azerbaijan - 23, Russia- 28, Uzbekistan -31, Tajikistan - 24, and Turkmenistan -19. As can be seen, Turkmenistan is the least transparent country in the CA region.<sup>23</sup>

High levels of corruption lead to increased information asymmetry, higher transaction costs, lower productivity, and ultimately many market failures in CA. All this hinders the inflow of foreign investment and the development of entrepreneurship. In light of the worsening geopolitical situation and the projected prolonged recession of the economies, the CA countries must improve the business climate, attract foreign investment, and reduce dependence on natural resources.

### **Methodology**

The purpose of the study was to analyze the strengths and weaknesses of the Central Asian economies and to find a basis for cooperation among these

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<https://documents1.worldbank.org/curated/en/243691579100987298/pdf/Migration-and-Remittances-in-the-Former-Soviet-Union-Countries-of-Central-Asia-and-the-South-Caucasus-What-Are-the-Long-Term-Macroeconomic-Consequences.pdf>.

<sup>21</sup> World Bank. (2022). *Social Protection for Recovery*. Fall 2022 Europe and Central Asia Economic Update. Retrieved April 2, 2023, from <https://www.worldbank.org/en/country>

<sup>22</sup> Transparency.org. (2022). *2022 corruption perceptions index: Explore the results*. Retrieved March 27, 2023, from <https://www.transparency.org/en/cpi/2022>

<sup>23</sup> Ibid

countries. The systematic approach allowed data analysis, which gave an idea of the different levels of development of the economies despite the shared history and culture.

The literature review included scholarly articles, books, government publications, and reports of international organizations. Qualitative and quantitative information was collected. The qualitative analysis helped identify critical themes and define the theoretical framework based on the resource curse theory, according to which “resource wealth tends to harm economic growth.”<sup>24</sup>

The study relied on secondary data sources, which must be updated and supplemented in the future. The strengths and weaknesses of the Central Asian economies are considered in terms of quantitative and qualitative indicators.

### Overview of Central Asian Economies

Kazakhstani's economy is the first in Central Asia and the second among the Eurasian Economic Union (EAEU) countries after Russia.<sup>25</sup> The Republic of Kazakhstan is one of the fastest-growing economies in the region.<sup>26</sup> Moreover, Beazley et al. argue that Kazakhstan, taking advantage of its oil wealth and economic diversification and liberalization, is engaged in a gradual modernization of the political, administrative, and legal culture within the country, although some reforms are at an early stage.<sup>27</sup> Significant investments are being made in infrastructure and human capital. In 2021, the GDP of Kazakhstan amounted \$197 billion; Uzbekistan - \$69.24 billion; Turkmenistan - \$45.23 billion; Tajikistan - \$8.75 billion; Kyrgyzstan - \$8.54 billion.<sup>28</sup>

The index of the physical volume of GDP of Kazakhstan for 2022 compared to 2021 was 103.2%<sup>29</sup> (Table 1).

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<sup>24</sup> Ross, M. L. (1999). The Political Economy of the Resource Curse. *World Politics*, 51(2), 297–322. <https://doi.org/10.1017/s0043887100008200>

<sup>25</sup> Movkebayeva, G., Aktymbayeva, A., Tyurina, Y., Baikadamov, N., Beketova, K., Troyanskaya, M., ... Imangaliyeva, A. (2020). Energy security and sustainability in Eurasian economic union in the terms of economic growth: The case of Kazakhstan's energy sector up to 2040 perspectives. *International Journal of Energy Economics and Policy*, 10(2), 497–503. <https://doi.org/10.32479/ijeep.9073>

<sup>26</sup> Beazley, I., Downes, R., & Nicol, S. (2019). Budgeting in Kazakhstan. *OECD Journal on Budgeting*, 18(3), 9–80. <https://doi.org/10.1787/08310b83-en>

<sup>27</sup> Ibid

<sup>28</sup> GDP: Asia. GDP - Countries - List | Asia. (2022). Retrieved March 31, 2023, from <https://tradingeconomics.com/country-list/gdp?continent=asia>

<sup>29</sup> Center of business information “Kapital”. (2023, February 17). At the end of 2022, Kazakhstan's GDP increased by 3.2%. Business portal Kapital.kz. Retrieved March 27, 2023, from <https://kapital.kz/economic/113144/po-itogam-2022-goda-vvp-kazakhstana-uvlichilsya-na-3-2.html>

Table 1. Nominal value and structure of Kazakhstan's GDP in 2022<sup>30</sup>

		Gross value added, mln. tenge	Structure, %	To the previous year, %	
				Index of physical volume	Deflator
	Gross Domestic Product	101,522,983.7	100.0	103.2	117.2
I	Production of goods	40,335,725.5	39.8	103.2	115.5
1	Agriculture, forestry, and fishing	5,267,971.4	5.2	109.1	114.3
2	Industry	29,678,203.5	29.3	101.0	118.2
3	Construction	5,389,550.6	5.3	109.4	103.4
II	Service production	53,407,849.7	52.5	102.6	115.0
	Gross value added	93,743,575.2	92.3	102.9	115.2
III	Net taxes	7,779,408.5	7.7	107.9	148.5

According to Table 1, construction (9.4%) and agriculture, forestry, and fisheries (9.1%) showed the most significant growth. In the GDP structure, goods production has a share of 39.8%, while the production of services is 52.5%, indicating Kazakhstan's service-oriented economy. At the same time, according to Kozhukhova, M., Amanzholova, B., & Zhiyenbayev, M., the main problem of Kazakhstan's economy is the high energy intensity of GDP, which “is a common characteristic of almost all post-Soviet countries, which...suffer from weak institutions and underdeveloped legal and regulatory framework in the fuel and energy sector.”<sup>31</sup>

If we talk about the region as a whole, over the past 20 years the average annual growth rate of GDP was 6.2%.<sup>32</sup> Table 2 shows the GDP growth rate by country for the periods from 2000 to 2010 and from 2010 to 2020.

Table 2: Growth rate of gross domestic product of Central Asian countries<sup>33</sup>

		GDP		Agriculture		Industry		Manufacturing		Services	
		2000 - 2010	2010-2020	2000-2010	2010-2020	2000-2010	2010-2020	2000-2010	2010-2020	2000-2010	2010-2020
1.	Kazakhstan	8.3	3.4	3.8	3.1	9.0	3.1	6.3	3.3	9.1	4.1

<sup>30</sup> Ibid

<sup>31</sup> Kozhukhova, M., Amanzholova, B., & Zhiyenbayev, M. (2019). The legal regulation of energy efficiency and energy saving policies in the Republic of Kazakhstan. *International Journal of Energy Economics and Policy*, 9(4), 54–62. <https://doi.org/10.32479/ijeep.7550>

<sup>32</sup> Eurasian Development Bank. (2022). Economy of Central Asia: a new look. Eurasian Development Bank. Retrieved 2023, from [https://eabr.org/upload/iblock/d0b/EDB\\_2022\\_Report-3\\_The-Economy-of-CA\\_rus.pdf](https://eabr.org/upload/iblock/d0b/EDB_2022_Report-3_The-Economy-of-CA_rus.pdf)

<sup>33</sup> *World development indicators: The World Bank* (2020). World Development Indicators | The World Bank. Retrieved March 31, 2023, from <http://wdi.worldbank.org/table/4.1>

2.	Kyrgyzstan	4.5	4.0	1.8	2.4	1.5	6.3	-0.5	3.1	8.1	3.4
3.	Tajikistan	8.1	6.9	7.8	6.0	7.0	11.2	-	-	13.5	5.3
4.	Turkmenistan	8.3	8.3*	-	-	-	-	-	-	-	-
5.	Uzbekistan	7.1	6.1	6.3	4.5	7.0	7.5	-	7.3	7.6	6.4
* Growth rates are not calculated for the entire period											

According to the World Bank data in Table 2, all CA countries had higher GDP growth rates from 2000 to 2010 than from 2010 to 2020. It is due to both the effects of the global financial crisis that erupted in 2009 and COVID-19. According to Movkebayeva et al., the economy of Kazakhstan is based on heavy industry, ferrous and non-ferrous metallurgy, and oil and gas, which determines economic growth.<sup>34</sup> At the same time, the growth rate of the service sector was 9.1 and 4.1, which indicates structural changes in the economy of Kazakhstan. However, according to experts, “the growth rate of real GDP in Kazakhstan is primarily correlated with the volume of oil production and its cost.”<sup>35</sup>

The same situation is characteristic of other Central Asian countries. The high growth rates in Uzbekistan - 7.1 in the first decade and 6.1 during the second decade - also testify to the significant potential of this republic. As for Kyrgyzstan, relatively low growth rates and even a slowdown observed in agriculture, industry, and manufacturing indicate the systemic economic problems of this economy.

The added value of production and its structure by sector are presented in Table 3.

Table 3: Structure of Manufacturing in the Economies of Central Asia<sup>36</sup>

		Value added of production, \$ bln		Food, drinks and tobacco, %		Textiles and clothing, %		Machinery and transport equipment, %		Chemicals, %		Other production, %	
		2010	2020	2010	2020	2010	2020	2010	2020	2010	2020	2010	2020

<sup>34</sup> Movkebayeva, G., Aktymbayeva, A., Tyurina, Y., Baikadamov, N., Beketova, K., Troyanskaya, M., ... Imangaliyeva, A. (2020). Energy security and sustainability in Eurasian economic union in the terms of economic growth: The case of Kazakhstan's energy sector up to 2040 perspectives. *International Journal of Energy Economics and Policy*, 10(2), 497–503. <https://doi.org/10.32479/ijeep.9073>

<sup>35</sup> Muminov, A. (2019) What are the strengths and weaknesses in the economy of Kazakhstan, Business portal Kapital.kz. Center of business information “Kapital”. Available at: <https://kapital.kz/economic/74718/kakovy-silnyye-i-slabyye-mesta-v-ekonomike-kazakhstana.html> (Accessed: April 5, 2023).

<sup>36</sup> *World development indicators: The World Bank*. (2021) World Development Indicators | The World Bank. Retrieved March 31, 2023, from <http://wdi.worldbank.org/table/4.3>

1.	Kazakhstan	16.8	22.4	21.2	-	1.1	-	7.5	-	3.9	-	66.3	-
2.	Kyrgyzstan	0.8	1.1	14.3	14	4.1	3.9	1.4	1.2	0.5	0.6	79.6	80.4
3.	Tajikistan	-	1.3	-	-	-	-	-	-	-	-	-	-
4.	Turkmenistan	-	-	-	-	-	-	-	-	-	-	-	-
5.	Uzbekistan	5.1	11.8	-	15	-	13.2	-	9.6	-	9.0	-	53.2

According to Table 3, a complete picture of the production structure for both 2010 and 2020 is available only for Kyrgyzstan, with value added in 2020 of \$1.1 billion. The “Other Manufacturing” category has the largest share, almost 80%, in 2021 and 2020. The “Other Manufacturing” category includes those industries that create “new products either from raw materials or components” and cover the working professions of “assemblers, bakers, dental and medical equipment technicians, food manufacturers, jewelers, locksmiths, machinists, typists, quality controllers, tailors, upholsterers, welders, carvers, and joiners.”<sup>37</sup> Further analysis shows that the added value of manufacturing production in Kazakhstan in 2020 was \$22,4 billion, which exceeds the similar figure for Uzbekistan (11,8) by almost two times. At the same time, the structure of manufacturing production in Uzbekistan testifies to its particular potential.

It must be recognized that natural resources and geographic size matter in achieving economic prosperity. For example, it allowed Kazakhstan to confidently follow the path of “complex interdependence” and political balancing than its “poor and weak neighbors” in Central Asia, especially Tajikistan and Kyrgyzstan, which were forced to become more dependent on Russia and China.<sup>38</sup> At the same time, Kazakhstan has significant renewable energy potential, the development of which could provide significant environmental, economic, and social benefits.<sup>39</sup>

Lee & Tai identified factors that can contribute to the development of entrepreneurship and small businesses in Kazakhstan - they include the promotion

<sup>37</sup> What is manufacturing? (Definition, types and examples). TWI. (2023). Retrieved March 31, 2023, from <https://www.twi-global.com/technical-knowledge/faqs/faq-what-is-manufacturing#WhataretheTypesofManufacturing>

<sup>38</sup> Vanderhill, R., Joireman, S., & Tulepbayeva, R. (2020). Between the bear and the dragon: Multivectorism in Kazakhstan as a model strategy for secondary powers. *International Affairs*, 96(4), 975–993. <https://doi.org/10.1093/ia/iaaa061>

<sup>39</sup> Karatayev, M., Hall, S., Kalyuzhnova, Y., & Clarke, M. L. (2016, December 1). Renewable energy technology uptake in Kazakhstan: Policy drivers and barriers in a transitional economy. *Renewable and Sustainable Energy Reviews*. Elsevier Ltd. <https://doi.org/10.1016/j.rser.2016.07.057>



of social entrepreneurship, increasing the availability of credit, improving the institutional environment, and support from international organizations.<sup>40</sup>

Table 4 below shows the macroeconomic indicators of the Central Asian countries, which give an idea of the standard of living in these countries.

Table 4. Main macroeconomic indicators of the countries of Central Asia<sup>41</sup>

		Population, million	GDP, current \$ billion	GDP per capita, current \$	Upper middle income poverty rate (\$6.85)	Gini index, %	Primary school enrollment (% gross)	Life expectancy at birth, years	Total GHG emissions (mt CO <sub>2</sub> - eq.)
1.	Kazakhstan	19.0	197.1	10387.9	14.3	27.8	100.3	71.4	270.2
2.	Kyrgyzstan	6.7	8.3	1235.8	67.6	29.0	102.6	71.8	10.1
3.	Tajikistan	9.8	8.7	897.1	66.4	34.0	100.9	71.3	19.7
4.	Uzbekistan	35.0	69.2	1980.2	-	-	100.1	71.8	168.0
5.	Turkmenistan	6.2	-	-	-	-	-	-	-

According to Table 4, in terms of population, Uzbekistan is in first place with 35 million people, followed by Kazakhstan with 19 million, then Tajikistan and Kyrgyzstan. Overall, the population growth in CA from 2000 to 2021 was 1.4.<sup>42</sup>

In terms of GDP and GDP per capita, Kazakhstan is in first place, followed by Uzbekistan and Tajikistan. For example, the GDP per capita in Kazakhstan is \$10,387.9, which is significantly higher than in other countries. Analysis of the Gini index demonstrates the level of the gap between the incomes of the country's population and "the closer its value is to 100%, the more income is concentrated in the hands of certain groups of the population."<sup>43</sup> For Kazakhstan, the Gini index is minimal. There is no significant difference between Tajikistan and Kyrgyzstan, which anyway indicates a situation typical of all CA countries when wealth is

<sup>40</sup> Lee, J., & Tai, S. W. (2011). Motivators and inhibitors of entrepreneurship and small business development in Kazakhstan. *World Journal of Entrepreneurship, Management and Sustainable Development*, 6(1/2), 61–75. <https://doi.org/10.1108/20425961201000006>

<sup>41</sup> World Bank. (2022). *Social Protection for Recovery*. Fall 2022 Europe and Central Asia Economic Update. Retrieved April 2, 2023, from <https://www.worldbank.org/en/country>

<sup>42</sup> Eurasian Development Bank. (2022). *Economy of Central Asia: a new look*. Eurasian Development Bank. Retrieved 2023, from [https://eabr.org/upload/iblock/d0b/EDB\\_2022\\_Report-3\\_The-Economy-of-CA\\_rus.pdf](https://eabr.org/upload/iblock/d0b/EDB_2022_Report-3_The-Economy-of-CA_rus.pdf)

<sup>43</sup> Babyn, O. (2022). *Gini index: countries by level of income inequality*. InternationalWealth.info. Retrieved April 3, 2023, from <https://internationalwealth.info/life-abroad/index-dzhini-po-stranam-gde-net-bednyh-i-bogatyh/>

concentrated in the hands of a particular population - we assume that this is the result of the oligarchic foundations in the economy of CA.

Kazakhstan has made some economic progress thanks to market reforms and foreign investment in the extractive industries. It led to decreased poverty and pulled Kazakhstan's economy up to above-average income poverty levels. However, Kazakhstan's chosen economic growth model was resource-based and entirely state-driven. According to the OECD, Kazakhstan is one of the most energy-intensive economies in the world and has long depended on unsustainable resource use patterns.<sup>44</sup> According to Ongdash et al., the high energy intensity of the economy has become one of the main tools of industrial modernization of the Republic of Kazakhstan<sup>45</sup>, which can be perceived as a signal of slow economic growth, growing inequality in society in the future, resulting in a growing risk of falling into the "middle-income trap." The middle-income trap is when a middle-income country cannot make transition to a high-income economy due to rising costs and declining competitiveness.<sup>46</sup> Few countries successfully manage the transition from low-income to middle- and high-income. Many countries in Latin America and the Middle East are stuck in the middle-income trap, and recent evidence suggests that some East Asian countries are in a similar position.<sup>47</sup> According to The World Bank, growth slowed in 2022 and was mainly due to the harmful effects of the ongoing war in Ukraine, which accelerated inflation, reduced real income, and reduced household spending.<sup>48</sup> After the 2022 January events in Kazakhstan, "the government introduced fiscal support measures estimated at 3 percent of GDP" and partially financed by additional withdrawals from the National Oil Fund.<sup>49</sup> These measures include increased spending on social programs, transfers to local governments, infrastructure, and projects focused on food security. In contrast, the budget deficit 2022 is projected to remain small at 2.6 percent of GDP.<sup>50</sup>

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<sup>44</sup> *Kazakhstan - OECD Eurasia regional platform*. OECD. (2019). Retrieved April 3, 2023, from <https://www.oecd.org/eurasia/countries/kazakhstan/>

<sup>45</sup> Ongdash, A. O., Omirtay, A. D., Bayetova, M. T., & Ongdashuly, E. (2020). Economic growth modeling for the Republic of Kazakhstan based on the Higher Energy Efficiency Level. *International Journal of Energy Economics and Policy*, 10(6), 396–403. <https://doi.org/10.32479/ijeep.10523>

<sup>46</sup> Griffith, B. (2011). Middle-Income Trap. In *Frontiers in development policy a primer on emerging issues* (pp. 39–43). essay, World Bank.

<sup>47</sup> Ibid

<sup>48</sup> World Bank. (2022). *Social Protection for Recovery*. Fall 2022 Europe and Central Asia Economic Update. Retrieved April 2, 2023, from <https://www.worldbank.org/en/country>

<sup>49</sup> Ibid

<sup>50</sup> Ibid

In general, according to the World Bank recommendations, Kazakhstan should take significant steps to strengthen competition and human capital, improve the efficiency of the public sector and state-owned enterprises, initiate carbon and energy pricing reforms, strengthen social protection, and invest in adaptation to climate change to ensure its economic progress and overcome the crisis—the looming risks of the middle-income trap.<sup>51</sup>

Kyrgyzstan's economy depends on the agricultural sector, migrant workers' remittances, and the gold mining industry (10% of GDP and 35% of exports).<sup>52</sup> Due to the COVID-19 pandemic, GDP fell by 8.4%, exacerbating poverty in Kyrgyzstan.<sup>53</sup> The nationalization of Kumtor Gold Company undermined investor confidence. The Ukrainian conflict and Russian sanctions also exacerbate economic instability because Kyrgyzstan is a member of the EAEU and has close economic ties with Russia. Bureaucracy and corruption harm the private sector. Gold mining (up 43.1% YoY), agriculture (8.4%), construction (3.6%), and services (7.7%) contributed to real GDP growth in January-July (3.5%). The strong ruble and Russian remittances (up 7.5% in \$ terms) supported domestic consumption.<sup>54</sup> Higher food prices, lower wages, and fewer job opportunities worsened poverty in 2021. The welfare of the population is most threatened by high inflation.

Tajikistan has made significant gains as it moved from a low-income state in 2000 to a lower-middle-income state by 2021, and GDP per capita rose from \$159.4 in 2000 to \$877.8 in 2021; the poverty rate fell from 34.3% to 26.3% from 2013 to 2019.<sup>55</sup> Tajikistan's economic growth declined from 7.6% to 4.5% in 2020 due to the COVID-19 pandemic, then increased to 9.2% in 2021.<sup>56</sup> According to an Asian Bank report, the country needs private investment, regional cooperation, trade development with other countries, and increased productivity “through human capital development.”<sup>57</sup> From 2011 to 2021, Tajikistan demonstrated steady GDP growth of 7% and reduced poverty from 32% in 2009

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<sup>51</sup> Ibid

<sup>52</sup> Ibid

<sup>53</sup> Ibid

<sup>54</sup> World Bank. (2022). *Social Protection for Recovery*. Fall 2022 Europe and Central Asia Economic Update. Retrieved April 2, 2023, from <https://www.worldbank.org/en/country>

<sup>55</sup> Eurasian Development Bank. (2022). *Economy of Central Asia: a new look*. Eurasian Development Bank. Retrieved 2023, from [https://eabr.org/upload/iblock/d0b/EDB\\_2022\\_Report-3\\_The-Economy-of-CA\\_rus.pdf](https://eabr.org/upload/iblock/d0b/EDB_2022_Report-3_The-Economy-of-CA_rus.pdf)

<sup>56</sup> Asian Development Bank. (2022, April 25). *Asian Development Bank and Tajikistan: Fact sheet*. Asian Development Bank. Retrieved April 2, 2023, from <https://www.adb.org/publications/tajikistan-fact-sheet>

<sup>57</sup> Ibid

to 14.6% in 2021.<sup>58</sup> At the same time, Tajikistan is a country with a fast-growing population and has economic potential.

Turkmenistan is the third economy after Kazakhstan and Uzbekistan, with a GDP of \$45.23 billion in 2019<sup>59</sup> and already \$63.4 billion in 2021, according to IMF estimates.<sup>60</sup> Turkmenistan is washed by the Caspian Sea, which allows it to develop cooperation with many countries and has significant reserves of gas, oil, and minerals. Gas reserves account for about 10% of the world's reserves. Turkmenistan is involved in the construction of the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. The economy is highly centralized, which hinders the development of the private sector. The country needs a more robust institutional framework. Turkmenistan is not a member of economic blocs and has limited economic ties with other Central Asian countries.<sup>61</sup>

Uzbekistan is the second largest economy in Central Asia, with a GDP of \$69.2 billion in 2021.<sup>62</sup> Uzbekistan's economic strategy aims to diversify, liberalize and integrate into the global economy. The country has made some progress, including reforming the exchange rate system, liberalizing the trade regime, and attracting foreign investment. At the same time, systemic changes are needed to increase productivity, expand private business and create jobs. Uzbekistan's state-dominated economy is based on the agricultural sector, industry, and services.

Central Asian economies face similar challenges, such as an underdeveloped institutional framework, limited access to new technologies, and limited diversification. Strengths include natural resources, strategic location, and growing consumer markets, and close cooperation among the CA countries is the key to overcoming challenges and realizing new opportunities. Table 5 shows the strengths and weaknesses of the Central Asian economies.

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<sup>58</sup> World Bank. (2022). *Social Protection for Recovery*. Fall 2022 Europe and Central Asia Economic Update. Retrieved April 2, 2023, from <https://www.worldbank.org/en/country>

<sup>59</sup> *Turkmenistan GDP2022 data - 2023 forecast - 1987-2021 historical - chart - news*. Turkmenistan GDP - 2022 Data - 2023 Forecast - 1987-2021 Historical - Chart - News. (n.d.). Retrieved April 2, 2023, from <https://tradingeconomics.com/turkmenistan/gdp>

<sup>60</sup> Eurasian Development Bank. (2022). *Economy of Central Asia: a new look*. Eurasian Development Bank. Retrieved 2023, from [https://eabr.org/upload/iblock/d0b/EDB\\_2022\\_Report-3\\_The-Economy-of-CA\\_rus.pdf](https://eabr.org/upload/iblock/d0b/EDB_2022_Report-3_The-Economy-of-CA_rus.pdf)

<sup>61</sup> *Turkmenistan GDP2022 data - 2023 forecast - 1987-2021 historical - chart - news*. Turkmenistan GDP - 2022 Data - 2023 Forecast - 1987-2021 Historical - Chart - News. (n.d.). Retrieved April 2, 2023, from <https://tradingeconomics.com/turkmenistan/gdp>

<sup>62</sup> World Bank. (2022). *Social Protection for Recovery*. Fall 2022 Europe and Central Asia Economic Update. Retrieved April 2, 2023, from <https://www.worldbank.org/en/country>

Table 5. SWOT analysis of Central Asian economies

Strengths:	Weaknesses:
<p>Rich natural resources, including minerals, water, and agriculture.</p> <p>Investment in human capital, education, and health care.</p> <p>National industrialization programs helped diversify economies.</p> <p>Relatively developed economic sectors.</p> <p>The attraction of foreign investment.</p> <p>Progress in the socio-economic development of the region.</p> <p>Developing tourism industry.</p> <p>Growing hydropower potential.</p> <p>Growing consumer market.</p> <p>Growing labor pool.</p> <p>Stable macro indicators.</p>	<p>High level of poverty.</p> <p>High level of informal economic activity and corruption.</p> <p>Dependence on mining and migrant remittances.</p> <p>Uneven regional development.</p> <p>Limited private sector activity.</p> <p>Limited economic diversification.</p> <p>Limited access to finance and technology.</p> <p>Lack of access to the sea.</p> <p>Political instability.</p> <p>Disagreements in the water and energy sectors.</p> <p>Resource curse.</p> <p>Weak institutional framework, which increases transaction costs.</p> <p>Growing gender gap due to the Islamization of the region.</p> <p>The economy is vulnerable to fluctuations in world commodity prices.</p>
Opportunities:	Threats:
<p>Development of transit transport potential.</p> <p>Coordinated development of the water-energy complex.</p> <p>“Green economy.”</p> <p>Further integration in the framework of:</p> <ul style="list-style-type: none"> <li>- Central Asian Regional Economic Cooperation Program (Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan).</li> <li>- Shanghai Cooperation Organization (Kazakhstan, Kyrgyzstan, Uzbekistan, and Tajikistan are members).</li> <li>- EAEU (Kazakhstan and Kyrgyzstan are members).</li> </ul>	<p>Climate change and environmental degradation.</p> <p>China’s infrastructure projects “have become questionable because Beijing is involved in many international conflicts.”<sup>63</sup></p> <p>The war in Ukraine affects the region.</p> <p>Secondary sanctions could be imposed.</p> <p>“Energy geopolitics.”</p>

<sup>63</sup> Khitakhunov, A. (2022). *Challenges for Central Asian economies*. ERI. Retrieved April 5, 2023, from <https://www.eurasian-research.org/publication/challenges-for-central-asian-economies/>

According to Table 5, which presents a SWOT analysis of the Central Asian economies, the strengths and weaknesses presented relate to its internal environment. At the same time, opportunities and threats are represented by external environmental factors. The rich natural resources that Central Asia has made possible the economic reforms aimed at liberalizing and privatizing the economy after the collapse of the Soviet Union. At the same time, Siraj U. & Javaid F. believe that “economic development, democratization, and nation-building are still separate spheres in Central Asia.”<sup>64</sup> Along with a strong dependence on natural resource exports, the “centralized political and economic system” of Central Asian countries, along with a “predatory system of financial regulation and vested interests,” are manifestations of the resource curse theory, according to which resource-rich states are unable to build a solid democratic base.<sup>65</sup>

At the same time, it is essential to note that economic cooperation in Central Asia has always been hindered by the conflicting policies of the countries, conflicts over natural resources and borders. For example, the border conflict between Kyrgyzstan and Tajikistan has led to numerous violent incidents, which hampers economic cooperation.<sup>66</sup> Also, water competition is a severe obstacle to cooperation. Tajikistan has started the construction of the Rogun hydroelectric power plant on the Vakhsh River, which upon completion will be the highest hydroelectric power plant in the world,<sup>67</sup> which creates certain risks for Uzbekistan and Kazakhstan due to high seismicity, tectonic faults, and reduced water flow into the Amu Darya. According to Zhou Q., He Z., & Yang Y., the geopolitical situation in Central Asia determines energy development and cooperation in Central Asia, which is “disrupted by internal and external factors” - all this creates a “unique energy geopolitical pattern in Central Asia.”<sup>68</sup>

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<sup>64</sup> Siraj U. & Javaid F. (2021). Resource Curse and Political & Economic Transition in Central Asia. *Pakistan Journal of International Affairs*, 4(2). <https://doi.org/10.52337/pjia.v4i2.141>

<sup>65</sup> Ibid

<sup>66</sup> BBC. (2021). *Conflict over water: Bishkek announced an attack by Tajikistan on five frontier posts*. BBC News Russian Service. Retrieved April 5, 2023, from <https://www.bbc.com/russian/news-56930390>

<sup>67</sup> 24.KG. (2015, March 4). *A tender for the Rogun hydroelectric power station has been announced in Tajikistan*, *Vremya Vostoka reports*. 24.kg. Retrieved April 5, 2023, from [https://24.kg/bolshoj\\_tirazh/8245\\_v\\_tadjikistane\\_obyavlen\\_tender\\_po\\_rogunskoy\\_ges\\_rasskazyivaet\\_vremya\\_vostoka/](https://24.kg/bolshoj_tirazh/8245_v_tadjikistane_obyavlen_tender_po_rogunskoy_ges_rasskazyivaet_vremya_vostoka/)

<sup>68</sup> Zhou, Q., He, Z., & Yang, Y. (2020). Energy geopolitics in Central Asia: China's involvement and responses. *Journal of Geographical Sciences*, 30(11), 1871–1895. <https://doi.org/10.1007/s11442-020-1816-6>

Despite obstacles, it is economic interdependence as well as cultural and historical ties that compel Central Asian countries to cooperate. Common language, religion, and cultural heritage can foster trust and cooperation. Landlocked countries depend on their neighbors for trade and transit to world markets, making economic interdependence important. Terrorism and instability in neighboring countries have also contributed to security and stability cooperation.

Central Asian countries can cooperate in trade, investment, infrastructure, and natural resource management. Trade and investment stimulate economic development and job creation. Regional infrastructure, such as transport and energy communications, can stimulate cross-border trade and investment. Joint management of natural resources, especially water, can accommodate the conflicting interests of upstream and downstream countries while ensuring sustainable use.

Despite the many obstacles to Central Asian cooperation, there are many prospects for integration. Central Asian countries can contribute to economic progress, stability, and prosperity by leveraging their economic assets and solving problems that hinder cooperation.

### **Conclusion**

The study helped to identify the strengths and weaknesses of the Central Asian countries and identify points of contact for their cooperation.

In 2000 the foreign trade turnover of goods for all Central Asian countries was \$27.4 billion; in 2021 this figure increased to \$165.5 billion.<sup>69</sup>

The Central Asian economy has many advantages. These include abundant minerals, oil, and gas, and vast arable land and pastures used in the agricultural sector. Furthermore, these natural resources give economic growth and development prospects in the CA region. Another important aspect is the location of Central Asia, which is at the crossroads of all transport routes connecting Europe and Asia. Central Asia is the central trade and transport hub linking these regions of the Eurasian continent.

To varying degrees, the countries of Central Asia have put their economies on a market footing and carried out privatization, liberalization, and deregulation,

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<sup>69</sup> Eurasian Development Bank. (2022). Economy of Central Asia: a new look. Eurasian Development Bank. Retrieved 2023, from [https://eabr.org/upload/iblock/d0b/EDB\\_2022\\_Report-3\\_The-Economy-of-CA\\_rus.pdf](https://eabr.org/upload/iblock/d0b/EDB_2022_Report-3_The-Economy-of-CA_rus.pdf)

resulting in investment and an increase in the number of local companies, which contributes to economic growth and development. As a result, a growing middle class is stimulating consumer demand.

Central Asian economies face some challenges. First and foremost is the dependence on natural resources, which makes Central Asian economies vulnerable to price volatility in commodity markets. Here, we should mention the so-called resource curse theory, which served as the theoretical framework for the study; as a result, countries with rich natural non-renewable resources are less interested in economic diversification and the development of democratic foundations in society.<sup>70</sup> In turn, this situation can generate high transaction costs, reducing the effectiveness of economic reforms by intensifying corruption at all levels of government.

At the same time, Central Asian countries have the potential for cooperation in logistics, energy, tourism, and collective security. The Central Asian region also needs advanced infrastructure development for the 21st century. It is a question of transport infrastructure and communication networks, which also play an essential role in integrating the countries.

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<sup>70</sup> Siraj U. & Javaid F. (2021). Resource Curse and Political & Economic Transition in Central Asia. *Pakistan Journal of International Affairs*, 4(2). <https://doi.org/10.52337/pjia.v4i2.141>



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