

## The Events in Afghanistan 2021: Impact on Security in Central Asia

### *The Taliban Takeover and Its Implications for Central Asian Economic Security*

#### Introduction

Much has been said in the media and by think tanks and research institutes about the implications of the Taliban's takeover of Afghanistan for various dimensions of Central Asian security; fears over the potential rise of extremism in the region, an increase in narcotics and drugs trafficking and concerns over high numbers of refugees evacuating Afghan territory. Tajikistan, with the assistance of China, has already been increasing its military presence along the Afghan-Tajik border. Uzbekistan and Kazakhstan have also held military drills near the former's border with Afghanistan, highlighting a readiness to respond quickly to any increasing tensions or threats. Academic literature written prior to the collapse of Afghanistan already speculated about the impact of US-withdrawal for the security and stability of the region.

However, this essay addresses a matter which has received less immediate attention; the impact of the Taliban takeover on the economic security and long-term sustainable development of the five Central Asian states (Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, and Turkmenistan). Whilst Afghanistan was far from a major economic player in the region, its geographic location, the economic crisis it now faces and other factors all impact or have the potential to impact on ongoing or planned economic projects and cooperation in Central Asia.

Due to the infancy and speculative nature of this topic, there is a lack of substantive academic literature. As such I refer to predominantly journalistic sources and analyses from think tanks and other research institutes in highlighting the economic impact of the Taliban takeover on Central Asia. I shall begin by defining economic security and addressing its importance for security more broadly. I will then address previous and ongoing economic cooperation between Afghanistan and Central Asia. Using the examples of the China-Pakistan Economic Corridor, the Turkmenistan-Afghanistan-Pakistan-Indian Pipeline, the CASA-1000 project and the refugee situation, I shall demonstrate how the situation may or does impact economic security in the region. I shall conclude by addressing alternative projects and sharing my recommendations for the region.

#### **Economic security and its importance for wider security**

At the level of the nation-state, a country can be considered economically secure when it is able to execute the policies which it desires in order to develop its economy (USA, 2009). Guaranteeing future access to economic resources such as finance and capital is another important element of economic security. It is closely related to notions of sustainable, long-term development – that is, the development of an economy which is ensured to be maintainable in the long run. States' economic security is often vulnerable to other states' (Kahler, 2004) and cooperation between states can be an important dynamic in maintaining economic security (Cable, 1995).

An interest in maintaining economic security is not just important in terms of matters such as GDP or productivity growth. The relationship between economic prosperity, cooperation and integration and broader security has been well documented in the literature and by inter-governmental organisations. Khetran & Khalid (2019) argue that economic stability and ample job opportunities are a recognised powerful way to combat extremism – a key issue on the agenda for all Central Asian states in the face of the rise of the Taliban. Any increase in real or perceived threats to security could burden the state budget with additional necessary security related costs.

### **Pre-Taliban & Current Economic Cooperation**

Although the long-term security situation in Afghanistan, along with a weak economy, has meant that its opportunities to be a direct or major economic partner for the Central Asian states have been limited, economic relations between the countries have not been non-existent. According to OEC figures, in 2019, although Afghanistan was by no means the biggest importer of Central Asia goods, its shares were also not insignificant either. They frequently topped other nearby countries such as Iran and Pakistan. Uzbek exports were worth 455 million USD; Kazakh 399 million USD and Kyrgyzstan 1.88 million USD (unfortunately statistics for Tajikistan and Turkmenistan were unavailable). Kazakhstan had been interested in investing in the development of mineral resources in the country – a project from which it would hopefully have made returns (Weitz, 2013). The other four Central Asian states were all involved in financially significant energy deals and cooperation with Afghanistan. USAID funded projects were seeking to increase trade cooperation between Afghanistan and all Central Asian states (excluding Kazakhstan). Afghanistan was also a member of the Regional Economic Cooperation along with all five Central Asia states plus Iran, Pakistan, Turkey and Azerbaijan.

Now, the stances of the five Central Asian states towards the new Taliban government differ. Tajikistan has taken the most fervent stance against the Taliban, however it still continues to conduct trade with its Persian-speaking neighbour (Umarov, 2021). Kazakhstan and Kyrgyzstan have exercised caution and expressed concerns for security and stability in the region, but have also been willing to engage in continuing trade, with Kazakhstan resuming export of flour and grain to Afghanistan (Pannier, 2021). Uzbekistan, despite conducting military drills along its border, seems most willing to cooperate with the new Taliban government and there are several economic advantages to it doing so (Pannier, 2021). Turkmenistan also seems willing to engage, particularly on the basis of resuming construction of its much-needed TAPI pipeline project.

Evidently, the five Central Asian states continue to maintain a pragmatic approach towards dealing with the Taliban. But even if the attitudes of the Central Asian leaders are to maintain pragmatism and optimism regarding economic matters, continuing results and the emergence of future hurdles will in many regards be out of their control. Some projects have already begun to unravel. These events could have potential negative consequences for the future economic development of the region. I shall now address what some of those potential impacts are.

## Potential Impacts

One major event related to the region's economy has already been beyond the control of Central Asian leaders – the freezing of Afghan assets. The US alone has frozen 9 billion USD of Afghan foreign reserves and the IMF, the World Bank and other international donors have also begun to withhold aid and other financial resources (Putz, 2021). Headlines about Afghanistan have been mired with stories of economic crisis - high inflation, rising poverty, cash shortages, a plummeting currency and rising unemployment (Friedman, 2021). Without inflows of cash, these problems are only likely to get worse, and in turn, as we shall read below, affect the economies of neighbouring countries.

As noted, a lot of what may happen in Afghanistan and its impact on the wider region economically is still speculative and hypothetical, leading to many questions. As the US and the West have pulled out the region on a security basis, will this affect their general interest in engaging Central Asia in other regards? In other words, will the influence of Afghan instability lead them to a perception that the region as a whole is too risky to invest in? One of the major concerns over the US and NATO forces pull out from the region has been the creation of a “power vacuum”. This is a vacuum which Russia or China are most likely to fill. But if the Central Asian states end up turning to these two great powers for further security cooperation and support (more so than they already do), will further ingrained economic cooperation and leverage over the Central Asian states' economies become a bargaining chip? Over-dependency on China and being indebted to the country are already causing concerns and dissatisfaction amongst the populations of several Central Asia states. How will the situation in Afghanistan affect other neighbouring economies such as Pakistan's – another economic partner of the Central Asia countries? If the situation was to destabilise and further fighting was to break out between the Taliban and other ethnic or insurgent groups, then pipelines, electricity pylons and other vital infrastructure and economic tools could be attacked, destroyed, or held hostage, as the Taliban has done during previous episodes of fighting. These things are valuable economic assets and anything that impacts on their proper functioning, for instance leading to energy or water shortages, would also impact on wider economies and their efficient functioning.

There are many unknowns and potential situations that could have an economic and wider security effect in the region. To highlight both the ongoing and potential effects of the Taliban takeover on regional economic security, I will now discuss three existing projects in the region; the China-Pakistan Economic Corridor, CASA-1000 and the Turkmenistan-Afghanistan-Pakistan-Indian natural gas pipeline, as well as the ongoing refugee and migrant situation and how they have or could affect the region's economy.

### *China-Pakistan Economic Corridor*

One of the biggest projects initiated under China's Belt & Road Initiative has been the China-Pakistan Economic Corridor (CPEC). Figures from 2018 suggest that 46 billion USD had been invested in creating new infrastructure such highways and railways through Pakistan to facilitate trade and other economic activity. The jewel in the crown of the project is the Gwadar Sea Port, Pakistan's third deep-sea port. Long term plans state that by 2045 the port will be able to hold up to 400 million tonnes of cargo.

For the Central Asian states, CPEC is major opportunity to gain quick and direct access to the sea and to establish alternative trading routes. As landlocked countries, access to the sea is of vital importance. According to Khetran & Khalid (2019), landlocked states tend to have a lower income per capita than those with access to the sea.

One of the issues faced by many of the Central Asian economies is their need to diversify. Kazakhstan's national development strategies and local leaders have recognised and emphasise the need to diversify their national economy, which largely relies on natural resource exports. Of those exports, over 50% are currently of crude petroleum. Heavy reliance on resource exports, particularly oil, is damaging to economies for several reasons – a vulnerability to global market trends and fluctuations in prices, economies based on rents and vulnerability to the 'Dutch disease'. They tend to be poorly diversified and create low numbers of jobs. Access to the Gwadar Port would give Kazakhstan access to markets from which it is currently isolated such as Sri Lanka, Bangladesh and South-East Asia. Some of these countries provide complementary trade to Kazakhstan's exports and might be more preferential markets for buying and selling goods other than oil. The Gwadar Sea Port would also increase their connectivity to the West via the Indian Ocean and the Suez Canal. There are several advantages to exporting via the sea compared to overland, including cost and the volumes able to be exported. For Kazakhstan, and other Central Asian states, CPEC is one way of diversifying their economies and ensuring their long-term sustainability.

The Taliban takeover of Afghanistan does not invalidate the possibility of the advantages of CPEC being realised. However, the quickest (and therefore cheapest) routes from Central Asia to connect with CPEC are either through Kabul or the Wakhan Corridor. There is nothing to say that the Taliban will not cooperate in allowing trade to pass through. In fact, one imagines that for a crippled Afghan economy, the Taliban would wish to support economic activity. However, the security situation and strained regional relations certainly makes a direct route through Afghanistan less appealing. Also, one does not know how the situation in Afghanistan and the Taliban's attitude will play out in the future. It could change quickly and frequently, making the route unreliable

Since many CPEC projects are not yet finalised, including the Gwadar Port itself, the immediate impact of the Taliban takeover will not be monstrous. Long term though, if the Taliban do not create a stable situation in Afghanistan, a lack of access to CPEC could affect the long-term prospects of the Central Asian economies.

### *CASA-1000*

Electricity is exported from Kyrgyzstan and Tajikistan to Afghanistan and Pakistan under the CASA-1000 project. On paper the project is a win-win scenario for the Central Asia states. With Pakistan and Afghanistan being hungry for energy resources and the two Central Asian states producing an excess of hydroelectric power in the summer months, when the agreement was signed it seemed to be a stable and reliant source of income for the two Central Asian states. Tajikistan has continued to export electricity to Afghanistan as per the agreement. However, in part due to their frozen assets, the Taliban currently cannot pay for it and has built up 11 million USD in debt to Tajikistan (Pannier, 2021). If the Taliban are not able to pay their debts, then the project will not pay the dividends that it initially promised and will affect the

economic security of Tajikistan and Kyrgyzstan. After minerals, precious metals and cotton, electricity is Tajikistan's biggest export and in the long run is a more sustainable choice than these resources or water intensive and environmentally degrading cotton. Electricity is less important for the Kyrgyz economy, but it is still another important opportunity for economic diversification.

And it is not just under the framework of CASA-1000 that there are issues regarding paying for electricity. Uzbekistan – who is actually Afghanistan's biggest supplier of electricity, provides them with 57% of their electricity. In autumn 2021, they signed a 10 year long agreement worth 100 million USD annually (Putz, 2021). This would hardly be money that Uzbekistan would want to lose out on.

Additionally, if electricity, and with it heat and running water, supplies were to falter, it would be likely that any economic activity in Afghanistan would likely slow or come to a halt. Dissatisfaction among locals in Afghanistan would more likely lead to the rise of some kind of rebellion or further instability in the country which would have a knock-on effect for regional stability and security. Therefore, it is vital that Afghanistan is able to pay its electricity bills.

### *TAPI Pipeline*

The Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline has been a project in planning for many years now. Although construction on several sections of the pipeline has commenced – with some sections completed – the project has never been fully realised. With it, Turkmenistan has not been able to reap the financial rewards it so desires. Turkmenistan's economy is heavily reliant on exports of oil and gas. It has the 4<sup>th</sup> largest levels of natural gas reserves in the world, which is their most important export commodity, totalling 81.4% of Turkmen exports. However, Turkmenistan has struggled with finding an adequate number of buyers for its gas. China, to whom it exports the most gas to, recently reduced the amount of gas it was willing to import from Turkmenistan (Pannier & Siddique, 2021).

At the same time, and perhaps due to China's reduction in Turkmen gas imports, Turkmenistan is undergoing a significant economic crisis. According to Radio Free Europe/Radio Liberty reports (Najibullah, 2021), in Ashgabat, the Turkmen capital, long queues form outside shops for state subsidized bread. The product is rationed in government stores and can cost up to 10 times as much in private stores. Additionally, there is not enough bread available, with only around 60% of people receiving their allocation.

And so, completing the TAPI pipeline and thus providing an alternative export route for Turkmenistan's vital gas exports would be a saving grace for the authoritarian state. It is estimated that the pipeline would carry an annual amount of 33 billion cubic metres of gas to Afghanistan, Pakistan and India. New countries such as Bangladesh have also already signed up to be part of the project, thus expanding the economic opportunities that it might provide. But how does the Taliban takeover affect the prospects for the project to be realised?

Until just last week, things looked good. The Taliban was enthusiastic to continue on with cooperation on the project and that would not halt the completion of such projects. Unfortunately, though, on the 25<sup>th</sup> November 2021, Pakistan's Economic Affairs Minister said they would be stopping construction. It is unclear if work will continue in Afghanistan. Even so, with such an unstable economic situation, ongoing energy problems, and a whole other list

of problems in the region it seems unlikely that Afghanistan could effectively contribute to the completion of the project. Additionally, it is assumed that foreign workers with expertise in constructing these types of projects would assist in its construction. But as RFE/RL noted, who is likely to send foreign workers into such a volatile situation? For now, a project that seemed vital to solving Turkmenistan's economic difficulties seems to be dead in the water.

And in the future, if the project is complete, could it just become one of the pieces of infrastructure that falls in and out of different hands during periods of conflict, never allowing it to be properly used for its intended purpose?

### *Financial Implications of a Refugee Crisis*

Since the beginning of the war in Syria, recent figures suggest that Turkey has found itself home to 3.6 million refugees (World Bank, 2021). A European Commission report from 2016 states that at that point, Turkey had already spent over 7 billion EUR on dealing with the refugee crisis. Other sources (Sazak, 2019) suggest even higher figures – most of which came out of Turkey's own pocket. Costs involved in hosting refugees include paying the salaries and other expenses of officials and security services in charge of managing refugees (and thus diverted from other issues of national security), building and maintaining camps and other infrastructure, food and health aid, along with a whole host of other costs.

It is not just direct costs of hosting that makes any refugee crisis an economic strain – refugees can have implications for the wider economy. Large numbers of migrants into a country can distort its labour markets, and weaker economies, like Turkey's, often have a more difficult time absorbing such an influx. Infrastructure and resources such as water can be stretched.

And if an economy such as Turkey's is likely to struggle under the strain of a migrant influx, then the weak Central Asian economies who share a border with Afghanistan of Tajikistan and Uzbekistan are likely to suffer even more greatly. Turkey's GDP per capita currently stands at 8,538 USD. Uzbekistan's is 1,685 USD and Tajikistan stands at just 859 USD per capita – not much more than Afghanistan's itself – 508 USD. Uzbekistan was forward thinking in immediately refusing to accept any refugees from Afghanistan and officially still claims to have zero refugees (although reports suggest that there are still many undocumented migrants in the country). This is at least in part a geopolitical move, if not an economic one. Uzbek Foreign Minister, Akdulaziz Kamilov spoke out against offers from the West to provide funding for accepting Afghan refugees. He criticised them as being a way to shun responsibility for the situation in Afghanistan onto regional actors.

Fortunately for Tajikistan, most refugees who have already crossed into their territories do not have intentions of settling long-term and instead are seeking to continue onto third countries, usually in the West. But of course, there are still interim costs in hosting those 14,000 migrants and refugees who have already arrived and who have not yet managed to move on, such as the Popols, documented in a EurasiaNet report (Ibragimova, 2021). Additionally, there is reluctance from the West to accept more migrants and it seems unlikely that many, in fact, will actually be able to move on from Central Asia. Recently, Tajikistan announced that it would also stop accepting refugees and has even begun deporting some who are already there. Regardless, an estimated 500-600 Afghans are still attempting to cross the border on a daily basis. Whilst Uzbekistan has been able to share some of the burden of deterring migrants with

the Taliban, having made deals with them – it is likely that Tajikistan’s poor relations with the Taliban mean it will have to deal with things more single-handedly and incur significant costs in doing so.

Even before the Taliban takeover, cost was associated with being a reason for the fact that a group of Pamir Kyrgyz attempting to cross from Afghanistan to Tajikistan with the aim to be repatriated to their ancient homeland of Kyrgyzstan were sent back to Afghanistan by Tajik border forces (Misra, 2021).

So, whilst it seems unlikely that Tajikistan or Uzbekistan will face the same kind of crisis that other countries such as Turkey have seen, there will nevertheless be ongoing costs associated with keeping Afghans out and supporting those Afghans who, for now, seem to be stuck in Tajikistan.

### **Conclusion, Alternatives & Recommendations**

All four of the above examples highlight how the situation in Afghanistan already does or could impact economic security in the five Central Asian states. Leaders are not able to enact the policies that they wish to in order to successfully develop their economies in several regards, such as diversification. Several states, at least for the time being, have lost immediate access to certain significant revenue streams. One can see that the economies of the five Central Asian states are experiencing increasing vulnerability because of the situation in Afghanistan and that the benefits that could come from economic cooperation are being hindered due to the Taliban. The five Central Asian states are unlikely to fall into an economic crisis due to the situation in Afghanistan, but nor is the unstable situation, particularly in such a geographically pertinent state, useful to their long-term economic development.

There are of course alternatives to trade and projects which either directly or indirectly involve Afghanistan. Take for example CPEC. Concerns were expressed about the project even before Taliban collapse due to its proximity to Afghanistan (Khetran & Khalid, 2019). For most Central Asia states, as mentioned, the most direct access to CPEC and its benefits would involve, going through Afghanistan, either passing through the unstable Wakhan Corridor, a small strip of Afghan land dividing Tajikistan and Pakistan, or via Kabul. As noted by Malik (see Khetran and Khalid 2019, pg. 458), the situation poses “long-term challenges to the connectivity between Central Asia and Pakistan”. There are of course alternatives to this route – passing through China to join up CPEC, or circumventing through Iran. However, both of these alternatives pose their own challenges and passing through Afghanistan saves both time and resources (Khetran & Khalid, 2019)

Becoming even more intertwined with China economically might not have widespread popularity due to public perception of over-reliance on China and growing anti-Chinese sentiment in many Central Asia states – in some instances even leading to public protests. Several Central Asian states are already in-debt to China. Iran also has its disadvantages, and has been largely considered an ‘option B’ over export via Pakistan and the Gwadar Port. Distance to export via Iran is further and sanctions still keep the country isolated from much of the world’s economy. Overland routes to Europe via Kazakhstan and Russia invested in via the Belt and Road Initiative still remain extremely viable, although there has been criticisms

that these routes are not really for the benefit of local economies, but rather will simply be thoroughfares for Chinese exports. Additionally trade with Europe is already quite high for many Central Asian states – as such does this leave much room for continued growth?

In the opinion of this author, Afghanistan has long been an unstable economic partner for any state, not just in Central Asia. With the Taliban in power, and its ongoing exclusion from the international community in the form of sanctions, it becomes even more so. Politically and economically, it might seem unwise to engage with such a government. But what is the alternative? Continued isolation for Afghanistan? Even more economic hardship and instability in the region? That does not seem like it would do the Afghans themselves nor their neighbours any good either economically or from a security perspective.

In terms of large projects through which the Central Asian states hoped to secure revenues and diversify their economies which are affected by the Taliban takeover, the states should perhaps pin their hopes elsewhere, looking for alternative options, such as the aforementioned transiting through China and Iran, even if they are not the optimum choice. Turkmenistan could perhaps look to diversify its export make-up and perhaps negotiate re-increased exports with China and increased exports to Russia.

But none of them should certainly cease pragmatic, economic cooperation with Afghanistan. Even if the Taliban are here to stay, a stable economic situation in the country would lead to more security internally and therefore in the region. As some of Afghanistan's closest neighbours, the Central Asian states have at least some influence over how the situation in the country and therefore the region plays out. As such perhaps positive diplomatic engagement, at least partly in economic cooperation, is a more fruitful path forward than further isolation and economic hardship internally in Afghanistan.

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