



## CTTN Dialogue/CAREC Chai

### *The Impact of the Russia-Ukraine Conflict on the CAREC Region*

27 April 2023 | 16:00-18:00 Beijing/Manila (UTC+8)

#### **Introduction and Background**

The Russia-Ukraine conflict that started in early 2022 has significantly impacted the countries in the CAREC region, which were beginning to recover from the COVID-19 pandemic. The pandemic caused job instability, loss of income, and inequalities, and the conflict dealt another blow to the region's economies. This webinar will explore the economic impact of the conflict on CAREC countries, particularly the indirect impact of sanctions imposed on Russia.

CAREC countries have been affected by sanctions imposed on Russia and adhering to sanctions is an attempt to prevent their economies from collapsing and becoming isolated.<sup>1</sup>

Overall, the mid-term impact of the conflict on the CAREC region is mixed. Growth was solid in CAREC in 2022. In 2022, GDP in the Caucasus and Central Asia grew by 5.1%, higher than the 3.6% which was projected after the start of the conflict in Ukraine. Georgia had a remarkable growth of 10.2%, attributed to growth in domestic consumption boosted by the arrival of a large number of migrants relocating from Russia. Russian migrants boosted the region's trade in services, including air travel, accommodation, catering, and banking. In addition, the region witnessed the relocation of businesses relocating from Russia to CAREC countries to enable companies to shield their import-export businesses from sanctions and make receiving payments in foreign currency easier. The inflow of Russian migrants has an inflationary impact as it boosts demand. Sanctions disrupted supply chains, particularly in Kazakhstan, which relies heavily on imports from Russia. Kazakhstan's headline inflation rate rose to 15.0% last year.<sup>2</sup>

Russian migrants fueled a sharp rise in money transfers. Money transfers rose by 94% in five economies representing an increase from 5.2% of GDP in 2021 to 10.1% last year, with transfers from Russia rising by 156% and accounting for 87% of the overall growth in money transfers in the region. These transfers not only supported the consumption of Russian migrants in host countries but were also used to transfer their wealth from Russia.

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<sup>1</sup> Timur Umarov, Russia and Central Asia: Never Closer, or Drifting Apart?, Carnegie endowment for international peace: <https://carnegieendowment.org/politika/88698>

<sup>2</sup> Asian Development Outlook 2023. The Economic Impact of the Russian Invasion of Ukraine on the Caucasus and Central Asia: Short-Term Benefits and Long-Term Challenges: <https://www.adb.org/sites/default/files/publication/863591/ado-april-2023-special-topic.pdf>

However, the impact of labor migrants to Russia was mixed due to the economic contraction in Russia constrained labor demand, but emigration and mobilization in the army increased demand in certain locations and occupations. Only Tajikistan witnessed a growth of labor migrants to Russia in 2022.<sup>3</sup>

The sanctions on Russia are pushing Russia to reconsider its trade patterns by increasing its trade with China, Turkiye, and Central Asian countries. In 2022, bilateral trade between Russia and China increased by 34.3% year-on-year to a record US\$190 bln.<sup>4</sup>, whereas trade with Turkiye increased by twofold to US\$68.19 bln. Merchandise trade in the CAREC grew sharply in 2022. The region's total exports rose by 43% from 2021 and imports by 27% due partly to the spike in oil and gas prices because of the Ukraine conflict and sanctions against Russia. Azerbaijan's energy exports grew by 113% and Kazakhstan's by 49%. The region's energy imports rose by 33%, mostly from Russia. Annual exports to Russia rose for all countries in the region, albeit at a varying pace—a modest 6% in Azerbaijan and 7% in Georgia to record highs of 151% in the Kyrgyz Republic. Reexports accounted for 49% of the rise in exports to Russia. The reexported products included smartphones, printers, parts of electrical engines, and tractors from Kazakhstan; automatic locks and packaging equipment from the Kyrgyz Republic; and printers and some types of plastics from Uzbekistan.<sup>5</sup>

According to the ADB's latest forecast, the Caucasus and Central Asia are expected to grow by 4.4% in 2023 and 4.6% in 2024, with the highest GDP growth among CAREC countries expected in Turkmenistan (6.5% in 2023 and 6% in 2024), Tajikistan (5.5% in 2023, 6.5% in 2024), Mongolia (5.4% in 2023 and 6.1% in 2024), and Uzbekistan (5% in 2023 and 2024).<sup>6</sup> The upward revision reflects higher oil and gas prices in commodity-exporting countries, increased labor, capital, and remittances inflows, and increased intermediary trade.<sup>7</sup>

The EU's efforts to diversify its natural gas supply will likely accelerate, increasing demand for natural gas from Azerbaijan, Kazakhstan, and Turkmenistan.<sup>8</sup>

Overall, windfall gains may be temporary, and challenges may appear because of the temporary inflow of skilled labour from Russia, short-lived windfall reexports margins, Russia's ability to supply machinery and equipment, and diversification of the region's economic ties due to potential supply chain disruptions from Russia.

### **CAREC Think Tank Network (CTTN) Virtual Dialogue Series**

The Central Asia Regional Economic Cooperation (CAREC) Institute, the knowledge arm of the CAREC Program, is an intergovernmental organization dedicated to promoting economic cooperation in Central Asia and along the Silk Road through knowledge generation and sharing. The CAREC Think Tank Network (CTTN), supported by the CAREC Institute, promotes perspectives on regional cooperation and integration and enhances the critical role of think tanks in bridging the gap between knowledge and policy. The CTTN is an important platform for exchanging ideas and knowledge through regional forums, virtual dialogues, and talk series. It encourages think tanks to conduct collaborative research on topical regional issues through its Research Grants Program (RGP).

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<sup>3</sup> Asian Development Outlook 2023. The Economic Impact of the Russian Invasion of Ukraine on the Caucasus and Central Asia: Short-Term Benefits and Long-Term Challenges: <https://www.adb.org/sites/default/files/publication/863591/ado-april-2023-special-topic.pdf>

<sup>4</sup> Global Times, 13Jan 2023: <https://www.globaltimes.cn/page/202301/1283761.shtml>

<sup>5</sup> Asian Development Outlook 2023. The Economic Impact of the Russian Invasion of Ukraine on the Caucasus and Central Asia: Short-Term Benefits and Long-Term Challenges: <https://www.adb.org/sites/default/files/publication/863591/ado-april-2023-special-topic.pdf>

<sup>6</sup> Asian Development Outlook 2023: <https://www.adb.org/sites/default/files/publication/863591/asian-development-outlook-april-2023.pdf>

<sup>7</sup> EBRD's Regional Economic Prospects: <https://www.ebrd.com/what-we-do/economic-research-and-data/rep.html>

<sup>8</sup> ADB Asian Development Outlook 2022: Russia's invasion of Ukraine: Implications for Developing Asia: <https://www.adb.org/sites/default/files/publication/784041/ado2022-russian-invasion.pdf>

CTTN Virtual Dialogue series brings together shared views, opinions, and analysis of CAREC regional think tanks on global and regional emerging issues that impact the economic and social development of CAREC member countries. In the past, the virtual dialogue covered a theme of "thinking through the crisis – the role of think tanks" with a greater focus on the COVID-19 pandemic.

This Virtual Dialogue aims to (i) generate and share knowledge in the region for the important regional topic; (ii) collect insights of think tanks from the CAREC region on the impact of the Ukraine conflict in CAREC countries and measures taken by these countries to mitigate those impacts; and (iii) exploring and sharing new approaches on the roles of think tanks in overcoming crises.

### **Key Questions for Discussion**

- How are the Ukraine conflict and the sanctions on Russia impacting the CAREC economies?
- What alternative measures are countries in the CAREC region taking to address the emerging challenges?
- What is the role of think tanks in designing good policies to mitigate the impact of the conflict?

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## Agenda

**Moderator:** Khalid Umar, Chief, Strategic Planning Division, CAREC Institute

**16:00-16:10      Opening Remarks and Context Setting**

Lyaziza Sabyrova, Director, Regional Cooperation and Operations Coordination Division (CWRC), Asian Development Bank (ADB)

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**An Overview of CAREC Economies:**

**16:10-16:40      Macroeconomic Development in the CAREC Region (10 minutes)**

Hans Holzhaecker, Chief Economist, CAREC Institute

**Transit Arrangements in the CAREC Region (10 minutes)**

Richard Pomfret, Professor of Economics Emeritus at the University of Adelaide, and Adjunct Professor of International Economics at the John Hopkins University Bologna Center

**Trade Re-orientation and Migration Developments (10 minutes)**

Roman Mogilevskii, Senior Economist, CWRD, ADB

**16:40-17:20**

**Capturing Think Tanks' Perspectives (7 minutes each)**

1. Yaroslava Babych, Lead Economist, ISET Policy Institute, Georgia
2. Lidiya Parkhomchik, Chief Expert of the Eurasian Studies Program, Institute of the World Economics and Politics (IWEP), Kazakhstan
3. Kanat Tilekeyev, Associate Director, UCA's Institute of Public Policy and Administration
4. Abid Suleri, Executive Director, Sustainable Development Policy Institute (SDPI), Pakistan
5. Farrukh Hakimov, Head of the Department, Development Strategy Center (DSC), Uzbekistan

**17:20 – 17:50      Discussion / Q&A**

**17:50 - 18:00      Closing Remarks**

Kabir Jurazoda, Director, CAREC Institute