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## THE IMPACT OF THE RUSSIAN-UKRAINIAN WAR ON CENTRAL ASIA'S ECONOMY. POLISH PERSPECTIVE

### ВПЛИВ РОСІЙСЬКО-УКРАЇНСЬКОЇ ВІЙНИ НА ЕКОНОМІКУ ЦЕНТРАЛЬНОЇ АЗІЇ. ПОЛЬСЬКА ПЕРСПЕКТИВА

*The invasion of Ukraine by the Russian Federation on February 24, 2022 and Russia's desire to conquer the entire territory put the whole world in a difficult situation. The war itself has serious consequences – especially for Ukraine, which is facing the risk of losing its independence. Many people lost their lives fighting for their homeland. The war also affects the condition of the economy in both countries. It can lead to economic losses in the region of Central Europe, Asia, and around the world. Central Asia is one of the regions that has been strongly affected by the consequences of the war and the sanctions imposed on Russia by the West. A region with a strategic location between the two powers, Russia and China, on the border of conflict areas, like Afghanistan or Iran. After the collapse of the USSR, five independent Central Asian republics found themselves in a deep economic crisis. What is more, they were mired in internal conflicts. Therefore, relations between the republics and Russia, mainly in the economy, remain strong. Modern Central Asia is seen as a territory rich in natural resources, which means that its position is constantly growing.*

*The effects of the Russian-Ukrainian war are felt in the economies of Central Asia. Governments are implementing many solutions to mitigate the effects of sanctions imposed on Russia. There are many discussions on this topic at the international level, including in Poland. The article presents selected conclusions of Polish experts on the impact of the Russian-Ukrainian war on the economy of Central Asia. Among them, the collapse of local currencies and distribution routes to Ukraine, which have now become limited due to the war, seem to be extremely important. The depreciation of the currency has led to economic crises in countries, particularly noticeable in Kyrgyzstan and Kazakhstan. It is worth mentioning that the war is perceived not only as a threat but also as an opportunity for the region. The negative consequences can be mitigated if the countries of Central Asia take the right steps now.*

**Key words:** Russian-Ukrainian war, economy, Central Asia economy, Polish press.

*Вторгнення Російської Федерації в Україну 24 лютого 2022 року та прагнення Росії захопити всю територію поставили світ у скрутне становище. Сама війна має серйозні наслідки – особливо для України, яка ризикує втратити незалежність. Війна також впливає на стан економіки обох країн. Це може призвести до економічних втрат у регіоні Центральної Європи, Азії та в усьому світі. Середня Азія є одним із регіонів, які сильно постраждали від наслідків війни та санкцій, накладених на Росію Заходом. Після розпаду СРСР п'ять незалежних середньоазійських республік опинилися в глибокій економічній кризі. Більше того, вони загрузли у внутрішніх конфліктах. Тому відносини між республіками та Росією, переважно в економічній сфері, залишаються міцними. Сучасна Середня Азія розглядається як територія, багата природними ресурсами, а це означає, що її позиції постійно зростають.*

*Наслідки російсько-української війни відчуються в економіці Середньої Азії. На міжнародному рівні, в тому числі і в Польщі, на цю тему ведеться багато дискусій. У пропонованій статті представлені вибрані висновки з польської преси і публіцистики щодо впливу російсько-української війни на економіку Центральної Азії. Варто зазначити, що війна сприймається не лише як загроза, а й як можливість для регіону. Негативні наслідки можна пом'якшити, якщо зараз країни Центральної Азії зроблять правильні кроки.*

**Ключові слова:** російсько-українська війна, економіка, економіка Середньої Азії, польська преса.

**Formulation of the problem.** The Russian invasion of Ukraine on February 24, 2022, has many consequences. Above all, it threatens the security and values of Ukraine. The state is struggling with the humanitarian, economic, political and social consequences. This war

is also felt in other regions of the world, for example Central Asia. This region is strongly associated with the parties to the conflict, especially with Russia.

Relations with the Russian Federation are mainly related to the economy. It came

as no surprise that the Russia's invasion and the sanctions imposed on it had an impact on the state of the economy in Central Asia. Although in many cases this effect is negative, it does constitute a kind of opportunity for the development of the region.

**Analysis of recent research and publications.**

The Russian-Ukrainian war and its impact on the countries of Central Asia is an extremely current problem, considering the dynamic development of the situation in Ukraine. Central Asia's natural resources and Russia's influence were studied in the works of Ł. Gacek (Gacek, 2013) and E. Kochanek (Kochanek, 2017). The economic impacts of war for Central Asia were considered in the works of J. Olędzki (Olędzki, 2022) and M. Sobańska-Cwalina (Sobańska-Cwalina, 2022). K. Ochman (Ochman, 2022) i L. Włodek (Włodek, 2022) analyzed the impacts of war in Central Asia not only in the economy, but also in the sphere of security and politics.

**The aim of the article** is to present the impact of the Russian-Ukrainian war on Central Asia's economy from the Polish perspective. In order to achieve the purpose of work, a detailed content analysis of selected articles written by Polish scientists, experts and journalists was made.

**Presenting main material.** Central Asia consists of five republics, once belonging to the USSR: Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan. The region is characterized by specific international and transnational ties. What is more, the countries are connected by similar language, religion, history and development level [11]. In 1991, after the USSR's collapse, the states were not ready to receive sovereignty. A non-adaptation to the new geopolitical conditions, the Soviet mentality or the lack of institutional structures put the Central Asia republic to a hard test of maintaining independence. The Russian Federation still plays an important role in the region. As R. Kłaczyński and E. Sadowska stated "Its position, role and function can be described as hegemonic" [4]. The main element which is stimulating Russian policy is maintaining its influence in the economic sphere, especially in the raw materials industry. Central Asia is rich in natural resources, which is why it's very important to Russia, especially considering China and its growing activity in the region. An unstable situation after the USSR collapse and Russia's strong position makes the Central Asia's republics to be dependent on Russia. This has led to conflicts that directly affect Russia, and also affect Central Asia. This thesis is confirmed by Russia's invasion of Ukraine on February 24, 2022, of which the effects are felt throughout the region. As it was mentioned,

Russia's role is focused mainly on the economic sphere, so the consequences of the war were felt by Central Asia primarily in the economy. Nevertheless, these effects are also reflected in the political situation and security of the region.

The war in Ukraine hits many branches of the economy of Central Asia. The first visible effect of the invasion was the depreciation of local currencies and hence the financial crisis, especially noticeable for Kazakhstan and Kyrgyzstan. As J. Olędzki states "The strong connection with ruble make Kazakhstan's tenge lose its value in relation to USD dolar (since the out-break of war there was a sudden jump from 430 to 467 tenge for the dolar, and on March 15 the rate was already 511 tenge), which is probably an indirect effect of the republic's membership of the EUG" [10]. On the day when invasion started the Central Bank of Kazakhstan raised the interest rate from 10.25 percent, up to 13.5 percent. In the case of Kyrgyzstan, the demand for American currency was so huge that there was a lack of banknotes in the local exchange offices. The local bank was forced to intervene by selling huge amounts of American currency. The Russian ruble regained its balance after the Russian Central Bank used a series of measures to back it up, it should be mentioned that Central Asian currencies are heavily dependent on the ruble, so it came as no surprise that most of their value initially fell. It should be remembered that after the annexation of the Ukrainian Crimean peninsula by Russia in 2014, the sanction imposed by the West contributed to the loss of around 30 percent of the ruble value [8].

In the case of Kazakhstan, the exchange rate of the national currency has another very important aspect – it affects the rapidly growing costs of securing agriculture with fodder, machinery, fertilizers and grain. This is important because the scenario of another drought is realistic, and on a larger scale than the one that devastated the Almaty region last year and led to the loss of tens of thousands of cattle and horses. In this situation, imports from Europe and even South America are becoming more and more important, especially in the light of Russia's decision to ban the export of grain and sugar [10]. For Kazakhstan, a country that shares a thousand-kilometer border with Russia, the Russian-Ukrainian war is of great importance. The state rejected the request to join its troops to the invasion, which was a step that met the expectations of Western countries and internal moods. It should be mentioned, that on January in Kazakhstan there were mass riots in the cities as a result of the increase in LPG prices. It only fueled the growing discontent among the society

to the corruption of the authorities and the low standard of living. According to data, 227 people were killed in the riots [2]. In the face of these events, Kazakh experts said it is hard to imagine Kazakhstan sending troops to Ukraine. There is also a forecast of a deterioration in relations with foreign investors. Although the January protests only slightly disrupted production, they forced investors to assess the safety of their investments. Russia's invasion of Ukraine caused the concerns among investors to appear again. Downtime without unloading or loading goods generated losses for Kazakh companies. The transport of food from distant lands turned out to be really severe [10]. On the other hand, the Russian-Ukrainian war is seen as a possibility of attracting new investors to Kazakhstan. As Magdalena Sobańska-Cwalina states "In this concept, the deteriorating investment climate in Russia may make Kazakhstan more attractive to international business" [12].

Discussing the impact of the Russian-Ukrainian war on Central Asia's economy, it is impossible not to mention the reduced remittances from Central Asia's migrants (especially from Kyrgyzstan, Tajikistan and Uzbekistan) working in Russia. 8 percent of the GDP of the Russian Federation is the work of migrants [14]. The greatest demand is observed in the agro-industrial complex of Russia. In 2022, the demand for migrants increased to 43.6 thousand people, compared to about 41 thousand people a year ago. In the case of Kyrgyzstan about 1,118 million Kyrgyz people work abroad, most of them in Russia. The money sent back to Kyrgyzstan (approximately two millions dollars) represents about 30 percent of the country's GDP. Remittances are expected to fall by around 33 percent in 2022, compared to the 3 percent increase expected before the Russian invasion [7]. This sharp decline in remittances, as well as the decline in investment due to the war, made the World Bank forecast that the Kyrgyz economy will shrink by 5 percent this year.

The severe effect of the war in Ukraine is the collapse of the current distribution system to Europe, especially for the two most developed republics of the region – Kazakhstan and Uzbekistan. Routes running through Russia, further through Belarus and Ukraine are currently partially or completely inaccessible, which it comes down to reducing trade ties with Europe. This issue is extremely important, especially after the pandemic, which had a significant impact on the economies [13]. Changes in the distribution network influenced the increase in the prices of goods imported from Europe. As a result, some imported groceries rose by 40 percent [10]. Moreover,

Kazakhstan has suspended air connections with Russia, and Russia – with Central Asia. Apart from passenger flights, the suspension of the transport of goods turned out to be severe, especially for goods that required a short transport time. In addition, the costs of using the airway have increased significantly, not only due to high fuel prices, but also due to the rapidly growing insurance costs [10].

The war in Ukraine may also affect the expansion of Chinese influence. It is worth noting that, next to Russia, China strongly interferes and expands its influence in Central Asia. For over three decades, China has maintained a high pace of economic development, which is why there is a noticeable increase in demand for energy resources, the key for rapid development. According to Łukasz Gacek "Central Asia perfectly fits into the Chinese plan for long-term security of energy supplies" [1]. Which is why, many researchers believe that the Russian invasion will contribute to Chinese expansion [15]. Before the break-out of conflict some of the Asian experts anticipated that poor countries, like Tajikistan, of the region will "fall into the China arms". According to them, this will happen when the economic situation in Russia deteriorates significantly as a result of the war [13]. They also noticed the prospect of bankruptcy of the sovereign state in Kyrgyzstan and Tajikistan. These countries have accumulated considerable state debts (mainly to China) and are already struggling to pay it off. The loss of income from remittances that provided much-needed currency inflows increases the chances of a default. One way to avoid insolvency, as Kyrgyz President Sadyr Żaparov stated, would be to hand over control of many infrastructure facilities to China [7].

Many scientists state that the aspiration of strategic diversification would be facilitated by the expected decline in Russia's importance as an economic or trade partner of these countries, as a direct result of Western sanctions. As the devaluation of the Russian ruble continues and unemployment increases, Russia will lose two key aspects of its economic impact on the countries of the region: a reliable labor market and source of remittances [6]. It is also said that there is no doubt that migrant workers from Central Asia will be among the first to be fired in the devastated Russian economy, while those who will manage to keep their jobs will experience a sharp and painful diminution in the value of their remittances – the prospect of worsening situation as budget shortages and inflationary pressures have already increased the cost of living in Central Asia.

Russian sanctions offer the region several opportunities to mitigate their negative effects and promote domestic economic development. The first is the use of certain Russian companies when they are relocating abroad. Kazakhstan, due to its common border, developed economy and widespread use of the Russian language, is likely to benefit the most. The second benefit for Central Asia is the influx of highly qualified specialists, especially from the IT sector and those who have worked for foreign companies in Russia. The third positive prospect of sanctions for the economies of Central Asia is greater access to the Russian market. For example, to compensate for the loss of European exports, Russia has allowed the resumption of vegetable imports from nine countries, including Kazakhstan, Kyrgyzstan, Turkmenistan and Uzbekistan. Another benefit of the sanctions is the realization that Central Asia needs logistical alternatives to trade, especially with the EU. The war in Ukraine and the Russian-Belarusian sanctions effectively closed the existing air and land routes. A real alternative for exporters from this area is the connection with Azerbaijan through the Caspian Sea, and then with the Baku-Tbilisi-Kars railway line and Europe. However, the possibilities for increasing it are slim; replacing routes from Russia and Belarus would require doubling this capacity [6].

**Conclusions and prospects for further research.** The Russia-Ukraine conflict has a huge impact on Central Asia's economy – the conflict itself, but also the sanctions imposed on Russia. It is believed that the return to the economic situation that existed in Central Asia before the war seems almost impossible as conflict has already caused shortages in disruptions in

important commodities and exports such as grain, oil, gas and metals. And these problems are likely to get worse. On the other hand, it is said it is too early to predict the severity of the impact of Russian sanctions on Central Asia. The region managed and survived the sanctions imposed in 2014. In the event of a collapse in the Russian economy, given the unprecedented scale of current measures, the region could hit a domino effect. Additionally, it should be considered that the Russian-Ukrainian conflict is very dynamic. Russia's actions create uncertainty. Central Asia's countries, despite being strongly dependent on Russia, did not support Russia's imperialist aspirations. In March, at the debate organized by the United Nations about resolution condemning Russia's actions, representatives of Kazakhstan, Kyrgyzstan and Tajikistan abstained. Uzbekistan and Turkmenistan representatives did not appear at the session at all. Countries did not recognize the separatist republic of Donetsk and Lugansk, moreover, Kazakhstan refused to send Russia its troops to help in the invasion. It is worth mentioning that even the states did not help Russia, they still did not condemn the attack. This position can directly affect Russia's attitude towards Central Asia republics. Central Asia has been put in a difficult situation in which it has to make a choice between Russia and the West. However, importantly, the solution to this situation may be the choice of the South, which consists of countries like Turkey, Iran, India, and above all China. As Wojciech Jagielski stated, "In this way, the Ukrainian crisis would liberate Central Asia from Russian domination, but at the same time it would push into a new dependence – on China" [3].

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