Discovering Opportunities in the Pandemic?

Four Economic Response Scenarios for Central Asia

Farrukh Irnazarov
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Preface

The COVID-19 pandemic is affecting the entire world, and Central Asia is no exception. It has hit the region at a time of great dynamism, as several Central Asian states were embarking on systemic reform, while also seeking to build mechanisms of cooperation across the region. Once the pandemic is over, however, the economic impact will remain. How will this affect efforts at reform of political and economic systems? Will reformists be emboldened by the pandemic's effect, or will states retreat to more traditional methods of governance? These are some of the questions raised in this paper, authored by the Joint Center's long-time friends and alumni of the Rumsfeld Fellowship, Farrukh Irnazarov and Roman Vakulchuk.

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Svante E. Cornell

Director, Central Asia-Caucasus Institute & Silk Road Studies Program, Joint Center"

Executive Summary

The COVID-19 crisis represents not only an unprecedented economic disruption but also an opportunity for Central Asia. A specific economic policy response may trigger either game-changing reforms that can facilitate the development of full-fledged market institutions or lead to a protracted crisis that would jeopardize almost 30-year long market economy transition progress. As it is rather unclear where the recovery pendulum will make its final swing, the current situation provides fruitful soil for various assumptions. This paper proposes and examines four scenarios of economic response strategies for the region as a whole, and for Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan in particular, that result in unique development trajectories. The paper employs the foresight methodology to build four scenarios related to the situation after the lockdown is fully lifted. The scenarios serve the purpose of helping decision makers to embark on informed decisions while shaping anti-crisis measures and better understand causality mechanisms behind their policy choices.

***Scenario 1 (Protectionist Autarky)**: Stability upheld, limited reforms, increased role of the state and protectionism.*

***Scenario 2 (Impactful Diversification)**: Increased social support, augmented role of the private sector, comprehensive diversification and enhanced regionalization.*

***Scenario 3 (Inertial Asymmetry)**: Selective support measures, inequality-conducive, restricted diversification and limited reforms, "business-as-usual" commodity market, growing regionalization.*

Scenario 4 (Unleashed Bazaar)*: Major institutional reforms, FDI-oriented economic openness, leapfrogging from stagnant to advanced emerging markets.*

Introduction

After the pandemic is over and economies start going back to normal, the key question across all the states of Central Asia will be how to save and reinvigorate damaged economies. Emerging markets are viewed to be more vulnerable to the pandemic's impact than more developed economies.[1] The economic impact in developing countries, however, is highly disproportionate and uneven and therefore requires individual country-specific mitigation measures.[2] Central Asia is no exception. The region faced parallel economic supply and demand shocks that triggered rising unemployment and external and public debt vulnerabilities.[3] Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan are dealing with the pandemic and have already incurred significant economic losses, which are hard to calculate at this stage. In 2020, the regional GDP is projected to contract on average by 3.1 percent and countries will enter a protracted recession phase.[4] In response, these four countries have already announced and introduced a number of anti-crisis measures, while Turkmenistan remains officially free from coronavirus and have reported zero instances of COVID-19.

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[1] "COVID-19 Crisis Response in Central Asia." *OECD*, 2020.
http://www.oecd.org/coronavirus/policy-responses/covid-19-crisis-response-in-central-asia-5305f172/.

[2] Norman V. Loayza, "Costs and Trade-Offs in the Fight Against the COVID-19 ..." *World Bank Group*, March 15, 2020.http://documents.worldbank.org/curated/en/799701589552654684/Costs-and-Trade-Offs-in-the-Fight-Against-the-COVID-19-Pandemic-A-Developing-Country-Perspective.

[3] "Regional Economic Outlook. Middle East and Central Asia." *International Monetary Fund*, 2020.

[4] "Regional Economic Outlook Middle East and Central Asia." *IMF*

This study addresses the following questions: Will the pandemic become a full-fledged crisis or an opportunity to introduce much-needed reforms in the respective economies? What scenarios will be more attractive for the respective governments and what is the role of regional cooperation in overcoming the crisis? There are no single and straightforward answers to these questions, as the answers depend on policy choices, response strategies and a number of external and internal factors. There is an assumption that the crisis can help "rebalance the role of the state and the private sector" in Central Asia.[5] Moreover, we assume that the crisis presents an opportunity for Central Asia to implement long-awaited structural economic reforms.

Given the high degree of uncertainty regarding the future economic trajectories of Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan, we applied a scenario-building technique (foresight method) to project four possible scenarios for four Central Asian economies after the end of COVID-19 lockdown. Each scenario presents a unique development path. Also, each trajectory is an outcome of a specific policy choice made by the government as well as a complex combination of external and internal factors. Scenarios differ in terms of their short- and long-term economic impact,[6] economic growth projections, economic model developments, the role and share of the state in the economy, benefits and negative externalities. The starting point in our scenarios is the moment *after* the pandemic is over and the entire economy is on the way back to normal.

In this regard, one can draw a parallel with the situation "back in 1991" when post-Soviet countries of Central Asia had to rebuild their economies

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[5] Lilia Aleksanyan and Werner E. Liepach. "It's Time for Central Asia to Do Whatever It Takes to Minimize the Pandemic's Economic Impact." *Asian Development Bank*, 2020. https://blogs.adb.org/time-for-central-asia-to-do-whatever-it-takes-to-minimize-pandemic-s-economic-impact.

[6] Here and elsewhere, "short run" refers to the period of 1-3 years and "long run" to the period of 3-5 years after the pandemic is over.

and select a distinct economic reform strategy. Some countries resorted to a shock therapy approach (e.g. Kazakhstan), other countries followed gradualism (e.g. Uzbekistan).[7] Each approach pre-determined the future development path of the countries and led to different institutional models and economic performance.

[7] Roman Vakulchuk. *Kazakhstan's Emerging Economy: between State and Market,* Frankfurt am Main: Peter Lang, 2014; Herman Hoen and Farrukh Irnazarov, "Transition Strategies in Kazakhstan and Uzbekistan since Independence: Paradoxes and Prospects," In Joachim Ahrens and Herman W. Hoen (eds) *Institutional Reform in Central Asia. Politico-Economic Challenges*, Routledge: London and New York, 2013, 21–42.

Pre-Pandemic Status Quo

Kazakhstan

Kazakhstan continued to rely on hydrocarbon exports as one of the main sources of revenue during 2015–2020. The share of the state in the economy in Kazakhstan was traditionally high.[8] At the same time, the government initiated significant reform measures aimed at reducing the share of the state and achieving diversification via privatization of 60 large state-owned companies in 2015. The process was anticipated to be completed in 2020.

The country also initiated fiscal decentralization and fast-tracked improvement of the attractiveness of its business climate, a task in which it largely succeeded. It achieved a major progress in the World Bank's "Doing Business" Index,[9] making a leap forward and improving its ranking position from 51st to 25th out of 190 countries by 2020. Similarly, Kazakhstan improved by 30 positions in the Index of Economic Freedom, from 69th in 2015, to 39th in 2020 out of 186 countries.[10] According to the World Economic Forum's Global Competitiveness Report,[11] out of 140 economies, Kazakhstan was ranked 50th in 2015 but lost five positions by 2019, pointing to a relative stagnation of economic productivity during that period.

Kazakhstan was among the most dynamic regional players by actively participating in the Chinese Belt and Road Initiative and the Eurasian

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[8] "Kazakhstan. The Challenge of Economic Diversification amidst Productivity Stagnation." *The World Bank*, 2018.

[9] "Doing Business 2020." *The World Bank*, 2020.

[10] "The Index of Economic Freedom." *The Heritage Foundation*, 2020.

[11] "The Global Competitiveness Report." *World Economic Forum*, 2019.

Economic Union (EEU). It also boosted economic cooperation with its Central Asian neighbors, with Uzbekistan in particular.

Kyrgyzstan

In Kyrgyzstan, the role of the state was moderate during 2015–2020. The economy continued to rely heavily on agriculture, exports of minerals, and remittances from its labor migrants who work primarily in Russia and Kazakhstan. The government also received extensive external support and development aid from international donors, the role of which has been traditionally high in the country. The 2015 oil crisis and related economic decline in Russia led to a contraction of remittances and had a negative impact on the Kyrgyz economy. Economic development largely stagnated and external debt increased during the period in question.

Similarly, institutional reforms did not display much progress either. Kyrgyzstan lost seven positions in the World Bank's "Doing Business" Index,[12] from 73rd in 2015 to 80th in 2020. It improved one position in the Index of Economic Freedom, from 82nd in 2015, to 81st in 2020.[13] At the same time, Kyrgyzstan improved 12 positions in the World Economic Forum's Global Competitiveness Report,[14] jumping from 108th in 2015, to 96th position in 2020.

Kyrgyzstan actively participated in regional and international economic initiatives, which, however, had limited impact on boosting economic growth and recovering from the reduced scope of remittances.

Uzbekistan

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[12] Ibid.

[13] "The Index of Economic Freedom." *The Heritage Foundation*, 2020.

[14] "The Global Competitiveness Report." *World Economic Forum*, 2019.

Uzbekistan has shown an impressive pace of reforms since 2016 and was named as "the country of the year" in 2019 by *The Economist*.[15] The economy was largely based on natural gas, gold and cotton exports during 2015–2020. The government has been trying to diversify its agriculture towards horticulture products.[16] Job creation was one of the major concerns for the country, though dependence on remittances was moderate – accounting to 15 percent in 2018.[17] Primarily due to its financial non-integration, Uzbekistan's economy has not been subject to external shocks since 1991.

According to the "Doing Business" Index,[18] Uzbekistan significantly improved its position, jumping from the 103rd position in 2016, to 69th in 2019. It has been steadily improving its position in the Index of Economic Freedom, from 166th in 2016, to 114th in 2020.[19] Uzbekistan has not been ranked by the Global Competitiveness Index yet, but it may be included in the ranking in 2021.[20]

Uzbekistan was rather passive in regional processes before 2016 but with the new government coming to power, it declared Central Asia the priority region in the foreign policy of Uzbekistan.[21]

In sum, it can be concluded that before the COVID-19 outbreak the region had been experiencing increased cooperation and connectivity, primarily

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[15] "The Economist Recognized Uzbekistan as the Country of the Year." Investment portal of Uzbekistan, December 20,2019. https://invest.gov.uz/bez-rubriki/uzbekcha-the-economist-nashri-uzbekistonni-jil-mamlakati-deb-etirof-etdi/.

[16] "Uzbekistan." *Trading Economics*, 2020. https://tradingeconomics.com/uzbekistan/gdp-growth-annual.

[17] "Uzbekistan" *Global Economy*, 2018. https://www.theglobaleconomy.com/Uzbekistan/remittances_percent_GDP/.

[18] "World Bank Predicts Sharpest Decline of Remittances in Recent History" *The World Bank*, 2020.

[19] Ibid.

[20]"Uzbekistan May Be Included in Global Competitiveness Index from 2021." Kun.uz, 2019. https://kun.uz/en/news/2019/10/18/uzbekistan-may-be-included-in-global-competitiveness-index-from-2021.

[21] "Central Asia – The Priority of Foreign Policy of Uzbekistan." *Ministry of Foreign Affairs of Uzbekistan*, 2017. https://mfa.uz/en/press/news/centralasia/.

due to the new leadership of Uzbekistan. Even Turkmenistan, which traditionally remained largely uninterested in extensive regional cooperation, started gravitating towards closer economic ties with the rest of the region, particularly with Uzbekistan.[22] Kazakhstan, Kyrgyzstan and Tajikistan valued Uzbekistan's regional efforts, something that is evident through their strengthened regional trade. In addition, the region was trying to reconnect through joint tourism projects, efforts to improve the environment for foreign direct investments, and revitalization of energy trade.[23]

[22] "Uzbekistan – Turkmenistan: A New Stage of Cooperation." *The Permanent Mission of the Republic of Uzbekistan to the UN*, 2018.
[23] Lilia Burunciuc and Ivailo Izvorski, "Encouraging Transformations in Central Asia." *Brookings*, 2019. https://www.brookings.edu/blog/future-development/2019/12/13/encouraging-transformations-in-central-asia/

The Economic Impact of COVID-19 on Central Asia and Regional Responses

According to the World Bank,[24] if Central Asia lifts anti-pandemic measures after the second quarter of 2020, GDP is likely to decrease by -5.4 percent in 2020. The pandemic represents an unprecedented disruption to Central Asian economies because commodity prices have dropped, regional supply chains are disrupted and labor migration remittances fell to an extent previously unseen in the region.[25] The large role of the informal economy has an aggravating effect. According to the OECD,[26] "[r]elatively undiversified structures of production and export, along with the high level of informality in some countries, will exacerbate a number of challenges that arise as governments respond to the crisis." Central Asian governments have more constrained financial means to respond to the crisis compared to OECD member states and will experience more difficulty in borrowing money in international markets.

The World Bank predicted a 20 percent decline in global remittances in 2020,[27] and Kyrgyzstan and Tajikistan will be particularly hard hit due to their dependence on remittance inflows. Many labor migrants from Kyrgyzstan, Tajikistan and Uzbekistan working in Russia and Kazakhstan – where local currencies already devalued by 11.3 percent and 14.2 percent respectively during the first month of lockdown – will face a protracted

[24] "Europe and Central Asia Economic Update" *The World Bank*, 2020.
[25] Gregory Gleason and Anna Gussarova, "COVID-19's Long-Term Implications for Central Eurasia." *Diplomatic Courier*, 2020.
[26] "COVID-19 crisis response in Central Asia." *OECD*, 2020.
[27] Ibid.

negative impact.[28] The share of remittances has already contracted in absolute and relative terms in USD equivalents, being further aggravated by low oil prices.[29] Labor migrants thus belong to one of the most vulnerable groups affected by the lockdown and have been pushed into poverty by the pandemic.[30]

Needless to say, regional governments have different but nevertheless limited means to deal with the crisis. For instance, Kazakhstan can rely on its National Oil Fund and has allocated 10 billion USD to cope with the pandemic and 740 million USD to stimulate employment. Uzbekistan allocated 1 billion USD to offset COVID-19's impact in the first month of lockdown, while the limited scope for public borrowing in Kyrgyzstan and Tajikistan is a significant barrier to robust stimulus measures.[31] In response to the financial needs of Kyrgyzstan, Tajikistan and Uzbekistan, the Asian Development Bank allocated nearly 700 million USD to address the economic impact of the pandemic. The International Monetary Fund will disburse 375 million USD to Uzbekistan for anti-crisis measures.[32] Debt relief measures to developing economies were also discussed by international donors in March-July 2020. However, the assistance pledged by donors by July 2020 does not compare to the real needs the region requires to tackle the crisis.[33]

The countries also announced a wide-ranging set of measures to fight the pandemic which will be subject to constant change and expansion in the near future (see Table 1). Similar support measures in the four countries

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[28]"Удержание курса – прямой путь к банкротству." *Gazeta.uz*, 2020. https://www.gazeta.uz/ru/2020/04/18/currency/.
[29] Ibid.
[30]"Millions of migrants across Russia, Central Asia, 'teetering on the brink'." *United Nations (UN)*, 2020.
[31] Ibid.
[32]"IMF Executive Board Approves a US$375 Million Disbursement to the Republic of Uzbekistan to Address the Impact of the COVID-19 Crisis". *IMF*, 2020.
[33] Gregory Gleason, "Post-Pandemic Central Asia: Moving Beyond 'Helicopter Money,'" *The Diplomat*, May 20, 2020.

make it possible to speak of a regional approach to tackling the crisis. The governments reacted to the outbreak by enacting quarantine, channeling funds to the healthcare sector, adopting measures targeting small- and medium-sized businesses and large companies, promoting tax holidays and suspending loan repayments. The anti-crisis measures adopted in the region were adequate to tackle the pandemic; yet they "were not unique" compared to other countries.[34] By the end of July 2020, the rapidly deteriorating situation with the pandemic in the four countries questioned the effectiveness of adopted measures and showed limited governance capacity to manage the crisis.

International economic policy trends are likely to influence the economic response strategies and anti-crisis measures in Central Asia. For instance, since the pandemic outbreak, protectionism and increased dirigisme have been growing and are likely to spread widely and remain after the crisis is over.[35] France and other countries announced nationalization and direct state support among economic recovery measures.[36] Thus, one can also expect a growing reliance on protectionism in Central Asia and the first response measures are indicative of this trend.

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[34] Bakhrom Radjabov, "Post-COVID-19: Challenges and Opportunities for Central Asia." *Central Asia-Caucasus Analyst*, June 4, 2020. (https://www.cacianalyst.org/publications/analytical-articles/item/13622)

[35] Chad P. Bown,"COVID-19 Could Bring Down the Trading System." *Foreign Affairs*, April 28, 2020. (https://www.foreignaffairs.com/articles/united-states/2020-04-28/covid-19-could-bring-down-trading-system); Aaditya Mattoo and Michele Ruta, "Don't Close Borders against Coronavirus." *Financial Times*, March 12, 2020. (https://www.ft.com/content/b571fc08-f985-4322-9a88-3bd0fbb52e5a)

[36] Cécile Barbière, "After Declaring 'War' on COVID-19, France Readies Measures to Uphold Economy." *Euractiv*, March 18, 2020. (https://www.euractiv.com/section/coronavirus/news/after-declaring-war-on-covid-19-france-readies-measures-to-uphold-economy/)

Table 1. Economic support measures during the March-May 2020 pandemic in Central Asia

Major support measures	**Kazakhstan**	**Kyrgyzstan**	**Tajikistan**	**Uzbekistan**
Fiscal stimulus (% of GDP)	9%	0.1%	n/a	1.5%
Fiscal stimulus in USD (bln)	10 bln	0.1 bln	first measures	1 bln
Liquidity support measures	yes	yes	n/a	yes
Tax holidays and other measures	yes	yes	discussed	yes
Suspending loan repayments	yes	yes	n/a	yes
Reliance on external donor support	medium	very high	very high	high

Sources: OECD, 2020; ADB, 2020.

It is difficult to predict the full scale of the economic consequences and costs of the pandemic for the region. What is relatively easy to claim, however, is that the crisis represents not only an unparalleled disruption but also an opportunity for the region to implement game-changing reforms that can help Central Asia complete full-fledged market reforms. Based on this assumption, we propose four scenarios of economic response strategies for the region.

Scenario Methodology

While scenario building or foresight methodology is a widely used technique that can help construct different futures and develop adaptive capacity of individual firms, governments, international organizations and other actors. Scenario building was first applied by the Royal Dutch Shell oil company in the 1970s and later expanded to different industries and contexts.[37] Unlike strategic forecasting methods, scenario building takes into account not only past events but also possible disruptive events that can happen in the future.

Schoemaker and Van der Heijden explain that "[s]cenarios are tools for improving the decision-making process against a background of future environments".[38] They can better inform decision-makers on sequencing of policy measures and strengthen adaptive capacity to unforeseen events. When applied to the present study, scenarios serve as an analytical tool that helps to see that if government A chooses policy path B, it will lead to an economic model C that can help mitigate the crisis in the short run but will be unsustainable in the long run, or vice versa. Thus, each scenario can help

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[37] Jürgen Gausemeier, Alexander Fink, and Oliver Schlake, "Scenario Management: An Approach to Develop Future Potentials," *Technological Forecasting and Social Change*, vol. 59 no. 2, 1998, pp. 111–130; Ron Bradfield, George Wright, George Burt, George Cairns, and Kees Van Der Heijden, "The Origins and Evolution of Scenario Techniques in Long Range Business Planning," *Futures,* vol. 37 no. 8, 2005, pp. 795–812; Michael Jefferson, "Shell Scenarios: What Really Happened in the 1970s and what May be Learned for Current World Prospects." *Technological Forecasting and Social Change*, vol. 79 no. 1, 2012, pp. 186–197; Paul J. Schoemaker and Cornelius A.J.M. Van der Heijden, "Integrating Scenarios into Strategic Planning at Royal Dutch/Shell," *Planning Review*, vol. 20 no. 3, 1992, pp. 41-46; Matthew J. Spaniol and Nicholas J. Rowland, "Defining Scenario," *Futures & Foresight Science*, vol. 1 no. 1, 2018.

[38] Schoemaker and Van der Heijden, "Integrating scenarios", p. 42.

understand the direction, outcome and sustainability of adopted anti-crisis economic measures.

Scenarios are constructed in three main domains: assumptions, uncertainties and wild cards. Assumptions indicate events, factors, trends we are confident will not change. Uncertainties relate to factors or events that are likely to change under different circumstances. Each scenario is built around the same uncertainty factors which, however, differ by the degree of impact. Wild cards or black swans are events with a low probability of occurring, which nevertheless can cause a major disruption of existing plans and scenarios. For instance, the coronavirus pandemic is an example of a wild card that has ruined development plans in 2020 and beyond for many countries.

Figure 2 summarizes all four scenarios and is based on our selected uncertainties. Each uncertainty is assigned a score on the scale from 0 to 40. Each score is based on researchers' perceived impact of each score, extensive discussion and pilot testing of uncertainties' scores with a focus group of experts.

Caveats and Limitations

This paper has several limitations to consider. First of all, it is largely based on a snapshot of the latest COVID-19 developments in Central Asia in mid-July 2020. During the production of this study, Turkmenistan reported no cases of the coronavirus, while Kazakhstan, Kyrgyzstan and Uzbekistan experienced a rapidly deteriorating situation with the pandemic. Our analysis, therefore, is based on this static situation that may experience unexpected twists, for example a more severe and protracted new wave of the COVID-19 pandemic, which would affect our current assumptions, uncertainties and conclusions. Furthermore, the governments may decide to change the scope and level of anti-coronavirus measures to protect their economies and/or an external situation may undergo significant changes that will affect the preference of certain scenarios over the other ones.

Secondly, the paper is based on macroeconomic premises and, therefore, separate scenarios for individual industries are not captured in a systematic and discrete way. In a similar vein, the paper does not factor in any political upheaval that may arise as a result of the pandemic situation.

Thirdly, the paper provides four hypothetical scenarios that are currently available for the countries under investigation after the lockdown ends. These are not pre-set or the only scenarios, as hybrid scenarios that embrace elements of two or more scenarios presented here are also possible.

Last but not least, this paper does not attempt to convince readers or decision-makers on a preference of one scenario over another, but aims to assist decision-makers in embarking on informed decisions while shaping anti-crisis measures and better understand causality mechanisms behind their policy choices.

Scenario Methodology

Drawing possible scenarios of response strategies in the region, we first outline *assumptions* that are likely to be present in Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. In our case, the major assumptions or factors will be:

- Stagnated economic growth/downturn.
- Industries hit hard by COVID-19.
- Increased unemployment.
- Rising poverty and income inequality.
- Rise of individual and corporate debts.
- Increased demand for financing (loans).
- Disintegration of value chains.
- Inward-driven political economy.
- Stable and consistent monetary and fiscal policies.

The majority of domestic industries will be hit hard by the coronavirus. This will trigger high unemployment, rise of individual and corporate debts, and an increase in demand for loans. Countries will also face the challenge of disintegrated value chains both domestically and internationally. The crisis is likely to increase poverty, especially in rural areas, and deepen income inequality because it has a bigger impact on the most vulnerable sections of society. The poor strata of the population were less prepared to the crisis in the first place, and this is the case also in advanced Western economies. As a consequence, the economic policy will be inward-oriented and aimed at the immediate bailout of the entire economy. For each scenario to be effective, it is required that central banks uphold stable monetary and fiscal policies. For instance, uncontrolled inflation may be a factor that can undermine the feasibility of our scenarios.

A question of high importance is which post-crisis response strategies and policy choices – which represent *uncertainties* in our scenarios (see Table 2) – the governments in four countries are likely to apply to tackle negative outcomes. First of all, not many options will be available and the countries will need to decide largely between two policy choices: to either focus on comprehensive financial support of the main industries and boost the demand for goods or services (see Scenario 1) or to largely expand the provision of social support services to target the most vulnerable parts of the society and rely on increased donor assistance/borrowing from international markets (Scenario 2).

Table 2. Response Strategies and Policy Choices as Uncertainties

Uncertainties	**Scenario 1: Protectionist Autarky**	**Scenario 2: Impactful Diversification**	**Scenario 3: Inertial Asymmetry**	**Scenario 4: Unleashed Bazaar**
Level of state support	Comprehensive	Selective	Selective	Limited
Social expenditure	Average	High	Low	Low
Share of state in economy	Increased	Moderate	As before	Reduced
Demand for goods	High	As before	Average	Average
Demand for services	High	Increased	Low	Average

Global oil price	More than 50 USD; stable	30-50 USD; stable	20-30 USD; highly fluctuating	30-40 USD; stable
Donor support	Selective	Increased	Increased	Highly increased
Regional cooperation	Limited	Increased	Increased	Highly increased

Source: Authors' own compilation.

It is highly unlikely that the governments will have resources to support both equally. They will need to prioritize among the two response strategies, none of which is perfectly ideal. A focus on either of the two will lead to different economic outcomes both in the short and long run. Moreover, it is also likely that the governments will have limited resources to extend state support to industries or to the vulnerable strata of society and this can lead to a different outcome (Scenario 3). If the available bailout funds are limited, policy measures could also focus on fast-tracking improvements in business climate, reduction of red tape and corruption, better governance, enhanced transparency in order to become an attractive destination for foreign direct investment (FDI) (Scenario 4). Georgia, in this regard, could serve as a reference model to fast-track reform measures that are conducive to FDI inflow.

Global oil price is one of the key uncertainty factors that can affect policy choices and modify outcomes. With a higher and stable oil price (above the 50 USD per barrel) and improved import-export dynamics, the governments should have more resources to increase the level of state support to key industries. Kazakhstan's public budget for 2020–2022 was adopted based on oil price of 55 USD.[39] In turn, a low (30-50 USD or less) and highly fluctuating price can be a factor of deeper financial uncertainty and limited resources. It can become critical for the budget if prices remain below 30

[39] "Парламент принял республиканский бюджет на 2020-2022 годы." *Capital.kz*, 2019.

USD for a protracted period of time. Labor migrants' remittances to Kyrgyzstan, Tajikistan and, to a lesser extent, Uzbekistan will also be affected by oil price dynamics. The region's excessive dependence on revenues from hydrocarbon exports and remittances (which in turn depend on hydrocarbon export prices) indicate the limited degree of diversification in the four countries in question. This increases their economic vulnerability. Thus, one of the overarching objectives for any policy response after the crisis should be attaining a higher level of economic diversification to reduce dependence on hydrocarbons and remittances.

The global 2015 oil crisis can provide some hints of how regional governments handled it. Kazakhstan conducted fiscal and exchange-rate adjustments to tighten its monetary policy. It also reduced budget spending on several large infrastructure projects including *Nurly Zhol* to balance the state budget deficit during low oil prices.[40] Partly as a response to the 2015 downturn, Kazakhstan also embarked upon a large-scale privatization strategy aimed at long-term economic diversification that yielded some results but has not been finalized yet. Kyrgyzstan and Tajikistan focused more on immediate measures to tackle the crisis. Remittances to the two countries dropped due to economic decline in Russia and the governments of the two countries adopted a number of mitigation measures such as local currency depreciation vis-à-vis U.S. dollar to secure international reserves and support the local currency value of remittances.[41]

Given the unstable oil prices in 2020, it is difficult to predict how the prices will look like and how stable they will be after the pandemic is over. On the one hand, one can expect a surge in economic activity globally that could increase the demand for oil and increase the price as a result. On the other

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[40] "Kazakhstan: Adjusting to Low Oil Prices, Challenging Times Ahead." *The World Bank*, 2015.
[41] "Caucasus and Central Asia: Oil Price Decline and Regional Spillovers Darken the Outlook." *International Monetary Fund (IMF)*, 2015.

hand, the world is facing a large oversupply of crude oil. All these factors will need to be taken into account when modelling different scenarios.

Scenario 1: Protectionist Autarky

In this scenario, the level of state support of the economy will be comprehensive and bailout measures far-reaching. Growing oil prices will benefit the economy and state support measures. The oil price will certainly have a direct effect on Kazakhstan's economy, and an indirect effect (via remittances) on the economies of Kyrgyzstan, Tajikistan, and Uzbekistan. Regional governments will use available resources to address economic challenges and bailout key industries. This can have side-effects, as it can lead to increased state intervention and a larger share of state in the economy (nationalization of certain industries and companies appears to be likely). This can also bear implications for the ongoing privatization process in Kazakhstan.

As most value chains have been disintegrated as a result of the COVID-19 pandemic, the governments will have to shoulder up and occupy niches of disintegrated links to ensure smoothness of recovery for enterprises. Another important aspect is maintaining employment. Even before the pandemic the unemployment situation, especially in rural areas, required government intervention. The current circumstances have further exacerbated it and governments will have the arduous task of keeping job places and creating jobs that are not necessarily good and effective but rather numerous, focusing on quantity and less so on the quality of jobs. Certainly, the resource base of Kazakhstan's and Uzbekistan's governments – economic, political and social – appears to be stronger than the ones in Kyrgyzstan and Tajikistan. Kazakhstan's economy can also rely further on the support of the National Oil Fund. Nevertheless, Kyrgyzstan's government may consider this scenario to set control over key private enterprises without much resentment from stakeholders.

The increased share of the state is likely to translate into boosted artificial demand for goods and services. However, the focus on economic bailout may limit social service expenditures. Donor support will be selective compared to state financial support. This is in line with the OECD's analysis.[42] For instance, Kyrgyzstan already applied to donors for direct financial emergency support. However, the OECD holds a skeptical view that international donor institutions will be able to fully cover the crisis-related financial needs of Kyrgyzstan and other countries in similar conditions.[43]

Under this scenario, regional cooperation is likely to remain limited as governments are likely to be inward-looking. A protectionist autarky is a possible result. The prospects for economic diversification are likely to remain bleak in the long run under this scenario. Moreover, the support will not be even, as key industries will have to be prioritized and, as a result, non-key industries will have to put up with partial measures that will not become a game-changer for them in the long run.

Therefore, this scenario is more suitable for effective short-term minimization of the impact of COVID-19 on the economies, as it can stimulate the demand for services and goods and decrease unemployment. However, the share of state in the economy and protectionism are likely to increase. This can prove problematic for economic competitiveness, productivity and diversification measures in Kazakhstan, Kyrgyzstan, Tajikistan, and Uzbekistan. In addition, this scenario treats the COVID-19 pandemic as a full-fledged crisis, rather than an opportunity to develop new industries and try new governance approaches. Under this scenario, Uzbekistan appears to be the most disadvantaged country out of the four, as it has never experienced a full-fledged crisis in the past. Therefore, the

[42] Ibid.
[43] Ibid.

Uzbek system lacks the institutional memory to recover from the crisis and will have to learn different recovery strategies by trial and error. Kazakhstan, in this regard, is in a better position, as the country successfully restored its economy after financial and oil crises in the past.[44] Kyrgyzstan, due to its decentralized model of governance compared to Kazakhstan and Uzbekistan, will have to manage two challenges – the lack of resources to offset short run losses and ever-growing social resistance from people who expect rapid and effective measures from the government. It will be a mounting challenge for Tajikistan to accumulate ample resources to opt for this scenario. Thus, Scenario 1 is similar to a gradual transition strategy, according to which long-term development and economic growth is sacrificed in favor of short-term economic stability and balance.

Scenario 2: Impactful Diversification

Under this scenario, state support is likely to be selective with respect to industries and will be comprehensively targeting the most vulnerable parts of society. Low but stable oil price will be a significant factor limiting bailout options. The share of state in the economy is likely to remain the same and no massive nationalization is expected. Demand for goods is likely to be high, while services are likely to face a decline in demand. This could trigger the need for more extensive external support from international organizations. The expansion of social policies and the provision of social benefits will help mitigate the negative impact on most vulnerable parts of the society. Moreover, the governments will prioritize the building of a welfare system where healthcare, education and social service provision will be improved. The share of the state will increase in the social realm.

At the same time, the private sector can be an engine of growth under this scenario. However, in the short run the impact on uncompetitive industries and small- and medium-sized firms can be devastating due to limited state

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[44] Roman Vakulchuk, *Kazakhstan's Emerging Economy.*

support. But this also opens up the way for broader market forces and a competitive environment. In the short run, many uncompetitive enterprises will have to curtail or reorganize their production, much to the resentment of the private sector. However, the governments can use the pandemic to develop a far-reaching vision of creating competitive industries without fearing massive public disgruntlement. This is highly topical for Uzbekistan, as the country is slowly drifting towards the accession to the EEU and the major economic argument for opting out is the weakness of domestic industries that will be unable to compete with stronger firms from Russia and Kazakhstan. If EEU accession is inevitable, then the Uzbek government may wish to seize the opportunity to make its industries more competitive, as in the current status most Uzbek firms will fade away within the EEU anyway.

For Kazakhstan, this scenario enables a much-desired diversification of the economy, in which the non-oil sector will be able to stand tall and compete without full government back up. For Kyrgyzstan, this scenario is not expected to bring crucial changes in the domestic realm, as the country has been more or less operating within this environment for many years. However, if all Central Asian countries under investigation opt for this scenario, Kyrgyzstan may reap better trade and economic benefits with its immediate neighbors. Also, if this scenario is treated as an opportunity to reshuffle domestic economies, this may give a boost to the emergence and/or strengthening of new sectors, including in IT. For Tajikistan, this scenario will enable the country to retain skilled workers. The scenario holds most promise for deep structural economic reforms. Unpopular but much-needed reform measures can be carried out with relative ease during the pandemic. In this regard, the pandemic offers an opportunity for Central Asian economies to pursue economic reform measures aimed at increasing the competitiveness and productivity of the private sector in the long-term.

If reform measures are implemented, this can spur the emergence of more competitive industries and enhance the innovation potential, planting seeds for better economic diversification in the future. The negative impact on the economies will, nevertheless, be high in the short run, but if reforms are conducted during that period, this can lead to the emergence of stronger private sectors in all four countries. Moreover, deeper regional economic cooperation will be a necessary ingredient for success due to limited size of domestic markets. As the region becomes more competitive in the long run, broader collaboration between neighboring markets could result in higher complementarity effects.

This scenario is somewhat similar to the shock therapy model of transition. While it would have been hard to justify drastic measures described above in the absence of a crisis, the pandemic can certainly serve as an opportunity to implement hard but effective solutions in the long term. In this regard, Kazakhstan appears to be more prepared for this scenario, as it already applied the shock therapy model in the past. Kyrgyzstan may consider this scenario to strengthen its IT sector and related infrastructure as well as its regional trade. However, Uzbekistan and, to a lesser extent, Tajikistan appear as the most "needy" for this scenario in light of upcoming/possible accession to the EEU.

Scenario 3: Inertial Asymmetry

Under this scenario, the impact of COVID-19 is likely to have a protracted negative impact on the economy coupled with ongoing uncertainty with respect to global oil prices that could fall to the 20-30 USD range and keep fluctuating. New negative oil price shocks – similar to the one the world experienced in April 2020 – should not be ruled out. The short-term impact will be severe both for the private sector and socially vulnerable economic groups. Austerity measures do not imply the full inertia by the governments. It is rather a selected approach towards key (extractive) industries and creating artificial employment, hoping that the private sector along with the banking sector will be able to pull itself out of the crisis. The level of state support is likely to be selective and oftentimes limited including the private sector and social support. This scenario implies the adoption of severe austerity measures both in the short and long run.

Expanded donor support will be needed for a long period of time. Given low or even negative economic growth in the region, demand for goods and services will be limited. The key advantage of this scenario lies in maintaining low public debt that will result in a more sustainable but lopsided economy in the long run. One of the possible side-effects is more active outward-looking economic strategies of industries and firms in search for more economic opportunities abroad. The likely outcome is the emergence of more robust cooperation and integration ties between countries of the region in the long run that can serve as a major source of growth and development. Yet, economic diversification will hardly be achieved in the long run.

The scenario might be an option for Kyrgyzstan and Tajikistan, as the countries lack sufficient resources to stick to the previously described scenarios. Kazakhstan and Uzbekistan may opt for this scenario, should they consider the price for the first two scenarios unaffordable. However, the scenario is fraught with widening the gap between state-dominated sectors vis-à-vis the private sector, increased corruption and inequality levels. Scenario 3 can be compared to the situation "back in 1991" when countries needed to rebuild their economies and go through painful years of reforms.

Scenario 4: Unleashed Bazaar

This scenario implies that the government slowly releases its grip over the economy and retracts its involvement, enabling private actors to step in and carry out some of the government functions, such as job creation. This is the most challenging scenario, as the government will have to invest its resources in country brand-building and in fostering a favorable business climate that could, in turn, help attract a big inflow of FDIs. Low but relatively stable oil prices can facilitate the provision of recovery support in the short term.

The countries will have to make a quantum leap in most international indices, such as “Doing Business”, “Index of Economic Freedom”, “Global Competitiveness Index”, “Rule of Law Index”, etc. Regional governments will need to greatly increase the quality of public service provision. This will require an enormous level of coordination, effort, and institutional change. For example, this scenario requires creation and adherence to strong institutional foundations: establishing and strengthening land and private property rights; guaranteeing protection from unlawful expropriation; straightforward profit repatriation procedures and independence of economic courts and arbitrage systems. In addition, accountability and transparency of public agencies have to be dramatically strengthened, which will ensure reduced corruption and enhanced credibility to public agencies and bureaucrats. As a result of these changes, in the short run, the growth will be patchy and uneven.

State-owned enterprises will have to deal with a new reality, where they will have to compete with private sector firms without relying on state support as much as they are accustomed to. Many state-owned enterprises are too cumbersome to absorb these changes and adjust, however, the survivors will (re)emerge as much stronger entities. In the long term, it will result in considerable investment into different sectors of the economy and will serve as a major source for economic development and growth. In addition, the large informal economy will move to the formal sector, something that will facilitate the collection of taxes. According to Uzbekistan’s Ministry of Labor and Social Protection of Population, only 5.7 million out of 19 million people are currently employed in the formal sector.[45]

Donors' projects will revolve around the social sector and the public and international debt will be moderate to low. This scenario will be hard to implement for Uzbekistan, as a strong government that defines and regulates all major processes in the economy has been a trademark for the country since the dissolution of the Soviet Union and there is no indication that the government would be willing to change the trajectory. Kazakhstan achieved significant progress in improving conditions for doing business during 2015–2020. However, opting for this scenario would require substantial efforts to conduct further reforms and enter the top-20 countries in international rankings. Under this scenario, Kazakhstan could fast-track the completion of the large-scale privatization initiated in 2016. This would eventually reduce the share of the state in the economy.

It is unlikely that Tajikistan will opt for this scenario but the government may consider it if economic stagnation is protracted. Kyrgyzstan, on the other hand, has more chances to internalize this scenario, however, this scale of reforms will require substantial help from outside, besides a strong political will. Regional cooperation is likely to stay as it was during the pandemic with regional peers turning into goodwill competitors over FDI.

Black Swans

Wild cards (black swans) represent dramatic and game-changing events that can completely alter the outcomes of each scenario or even ruin them. Thus, it is important to account for possible wild cards that are not highly realistic but plausible. We divide our wild cards into two groups: those related to natural disasters and those involving human-induced events. The

[45] Ibid.

first group includes a possible new wave of the coronavirus pandemic; spread of new diseases, earthquakes or other types of natural disasters.

The second group includes the following wild cards: possible introduction of tight control mechanisms such as digital crowd control that could change the rules of the game among economic actors in the region; and the outbreak of regional conflict. These wild cards are unlikely, but at the same time, often they happen suddenly without being predicted. The rapid outbreak of COVID-19 is a case in point of how instantaneously wild cards can enter our reality and distort it.

Scenario Outcomes

Table 3 summarizes main outcomes of policy choices under each scenario and provides two time scales, with short-term and long-term impacts. Each scenario results in a specific economic model with a different degree of presence and role of the state.

Table 3. Main Scenario Outcomes

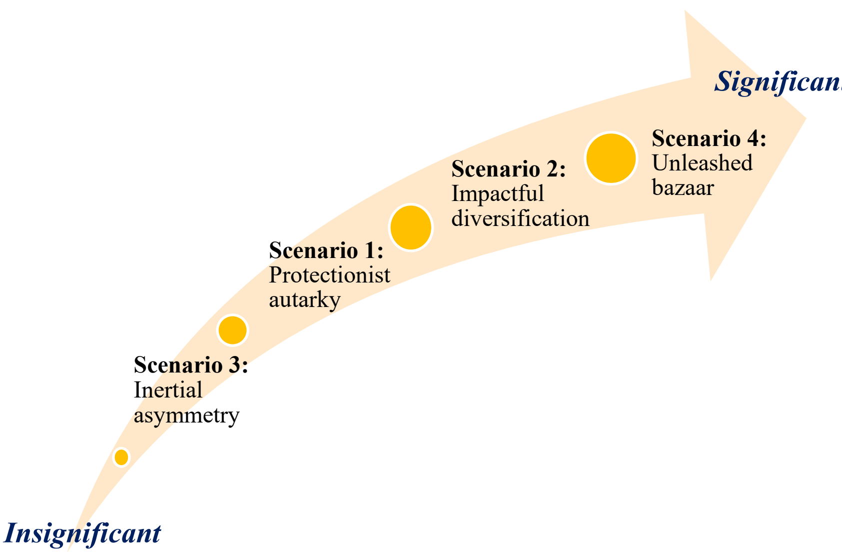
Outcome of policy choices	**Scenario 1: Protectionist Autarky**	**Scenario 2: Impactful Diversification**	**Scenario 3: Inertial Asymmetry**	**Scenario 4: Unleashed Bazaar**
Economic model	State-led economy (gradualism)	Welfare state with competitive private sector (shock therapy)	State-centered economy (institutional stagnation)	Investment-driven economy with state control abatement (institutional change)
Economic growth	Consumption-led	Non-natural resources export-led	Natural resources export-led	Investment-led

Short-term economic impact (1-3 years)	Consistent recovery (back to the pre-COVID-19 situation) and increased role of the state in the economy	Closure of companies, sharp restructuring of production and manufacturing, high unemployment that will be offset by the government support	Increased role of the state, key (extractive) industries and/or remittances. Closure of firms in the non-strategic sector and high unemployment rates	Drastic changes in legislation leading to major improvement of the business environment. Strong pressure on state-owned enterprises to change, increased entrepreneurial activity and high level of domestic and international investment
Long-term economic impact (3-5 years)	Vulnerable economy with high public and international debts, prone to crisis	Competitive and sustainable economy with moderate public and international debts, less prone to external shocks	Uncompetitive economy that is reliant on extractive sector and raw material prices. Other sectors will be washed away, low public and international debts	Release of the state grip over the economy, increased investment, institutional change, formalizing informal economy
Main benefits	The fastest way to stabilize the	Emergence of new competitive	Depending on major exporting	Government "delegates" its

	economy. No major shake-ups for the economy and employment	industries and strengthening of existing competitive industries. Dissolution of uncompetitive industries. Decreased corruption and increased transparency of the economy	commodity prices, the economy may rise or plummet. Low level of debts and increased support from international organizations. Stronger regional ties	responsibilities to the market. Market economy institutions grow stronger and increased economic activity results in enlarging the tax basis. High level of accountability and transparency, reduced corruption
Negative externalities and risks	Disruption of regional cooperation, protectionism, import-substitution measures, resource-based economy with corruption and low accountability	High level of unemployment in the short run is the major concern	With low commodity prices, the economy will be in constant crisis. No diversification is envisaged. Increased inequality, corruption, poor accountability and ineffective public sector	The government hands over its control over the economy and once labor force wages and commodity prices grow high, the capital flight risk might become a hazardous scenario

As can be inferred from Table 3, all scenarios have their clear advantages and disadvantages. For some scenarios, the advantages lie in the short run, whereas for others they are in the long run. Apparently, such cleavage and the level of institutional change effort will impact decision-makers in adhering to particular scenarios (see Figure 1). In this regard, Scenarios 3 and 1 appear as low-hanging fruits.

Figure 1. The degree of institutional change required under each scenario



Source: Authors' own elaboration

Thus, while long-term benefits are more strategic and sustainable, short-term advantages appear to be more luring, as they provide fast relief and heal immediate problems. On the other hand, a short-term medicine is only curing the symptoms rather than treating the disease at its core. Most governments around the globe would also prefer the remedy with an immediate effect primarily to be re-elected. But Central Asian governments, in their own way, are rather driven by stabilizing their economies to get back to old "normal" as soon as possible. In this regard, it is interesting to examine which scenarios and priorities particular governments will be more in favor of gravitating toward.

For Kazakhstan, in light of currently worked out measures, Scenario 1 appears to be the most attractive option, as the country can afford to rely on consumption-led economic growth in spite of sinking crude oil prices. For instance, it can rely on partial use of 61.9 billion USD assets of its sovereign National Oil Fund. A hybrid of Scenario 1 and Scenario 3 is possible, as such an approach does not require a significant reshuffle of the economy and its institutions. Scenario 4 is a subsequent option, however, it will require the government to release and gradually share the control over the economy with market institutions. Before the crisis, Kazakhstan was more inclined and moving gradually towards Scenario 4 (see section on Pre-pandemic status-quo). Scenario 2 is highly unlikely, as the government can avoid major economic instability that would otherwise force the government to promote rapid large-scale diversification of the economy. Yet, protracted uncertainty related to global oil prices may stimulate fast adoption of diversification measures and leaning towards Scenario 2.

For Kyrgyzstan, Scenario 3 appears to be operational, as the government has not yet indicated any drastic measures to revamp the economy. Under this scenario, the country will be highly dependent on remittances and low value-added exports. The current situation makes Scenario 2 a great opportunity to conduct unpopular reforms among the public and the private sector to strengthen and make competitive a few strategic industries, such as the IT sector and the creation of higher value-added exports coupled with introducing attractive tax measures for investors and entrepreneurs. Scenario 4 is also possible with the presence of strong political will and considerable help from international donors and foreign governments. Scenario 1 is a somewhat viable option, however, it requires mobilization of significant financial and non-financial resources, which are not readily available in the domestic or international market.

For Tajikistan, both Scenarios 1 and 3 appear to be low-hanging fruits at first glance, while Scenario 1 is more attractive but costlier at the same time. Therefore, Scenario 3 may be embraced, whereas Scenario 1 might be selected if the government will be able to secure sufficient funds from international donors and foreign states. Scenarios 2 and 4 are less likely, as the government has been displaying no indication of releasing its grip over the economy. Nevertheless, in terms of priorities, Scenario 2 appears to be more reasonable than Scenario 4, as Scenario 2 enables the government to be more at the forefront of economic and institutional development processes in the country compared to Scenario 4.

Finally, for Uzbekistan Scenario 1 is the most probable scenario, as the country has been living in similar conditions for almost three decades. The current measures clearly indicate that the "back to normal" approach is more important than fostering long-term economic sustainability based on boosted enterprise competitiveness that will be needed in light of the looming accession of Uzbekistan to the EEU. Surprisingly, the second best scenario can be selected from two divergent if not opposite Scenarios – 2 and 3. The Uzbek government has been showing an impressive pace of reforms since 2016 but with COVID-19 in full swing, it is currently at the crossroads – whether to try some unprecedented changes that will be most likely hailed and supported by the international community in spite of huge unemployment costs; or return to the safe harbor of the government controlled economy based on key strategic sectors. While Scenario 4 appears to be unattractive in its entirety, the government is likely to resort to some elements – such as creating a favorable business climate and improving the country's positions in international rankings – within either of the selected scenarios.

Regionalization Prospects

The high prevalence of Scenario 1 in the analysis above will leave its mark on regionalization processes in the region. On the one hand, it is rather logical for Central Asian governments to focus on domestic issues first and regional affairs afterwards. In this regard, this situation mirrors the 1991 state of affairs, when states suddenly gained independence and had to revamp their economies and deal with new realities with disrupted production chains. On the other hand, if Central Asian countries decide to set regionalization processes aside until better times, they may further drift apart which, in turn, may be used to their disadvantage by competing regional powers. On this point, drawing on ASEAN's experience might come in handy – countries with divergent economies of the Southeast Asian region got together during different stages of their development to function rather as a "talking club" with no binding commitments. Over time it helped the countries to keep their fingers on the pulse of their neighbors' political, economic and business processes that resulted in stronger connectivity of the region.[46] Therefore, under all scenarios these "talking clubs" at the highest political level as well as the convergence of business circles may result in enhanced cooperation and connectivity.[47]

No matter what scenarios the countries will decide to opt for, transport corridors will be a crucial factor to boost exports and foreign trade. Therefore, the countries will have to cooperate on tariffs, non-tariff barriers and cross-border regulations and facilitate transit procedures and infrastructure to improve foreign trade. That will be a common element in medium- and long-term considerations under any scenario. If these

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[46] Svante E. Cornell and S. Frederick Starr, Modernization and Regional Cooperation in Central Asia: A New Spring? Washington & Stockholm: *ISDP Central Asia-Caucasus Institute & Silk Road Studies Program*, Silk Road Paper, 2018.
[47] S. Frederick Starr, "Is This Central Asia's ASEAN Moment?" *The Diplomat*, December 5, 2019. (https://thediplomat.com/2019/12/is-this-central-asias-asean-moment/)

measures are prioritized, regional cooperation along with domestic reforms can be a vital factor facilitating the post-crisis recovery in the region.

As regional countries displayed unprecedented solidarity by disbursing humanitarian assistance to each other during the COVID-19 outbreak, it clearly demonstrates not only a diplomatic gesture but a clear signal of willingness to strengthen regional cooperation. For example, Uzbekistan sent humanitarian aid to all coronavirus-affected neighbors, including Afghanistan.[48] In this regard, the pandemic resulted in stronger regional ties that can be capitalized upon further along the road.

Thus, while at first glance it appears that the countries will concentrate their efforts on domestic issues at the expense of regional cooperation, the above-mentioned aspects imply that regionalization processes will be at a somewhat similar level in the short run and intensify in the mid and long term.

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[48]Akram Umarov, "COVID-2019: Lessons for Central Asia and Impact on Foreign Policy." *CABAR*, April 6, 2020. (https://cabar.asia/en/covid-2019-lessons-for-central-asia-and-impact-on-foreign-policy/.)

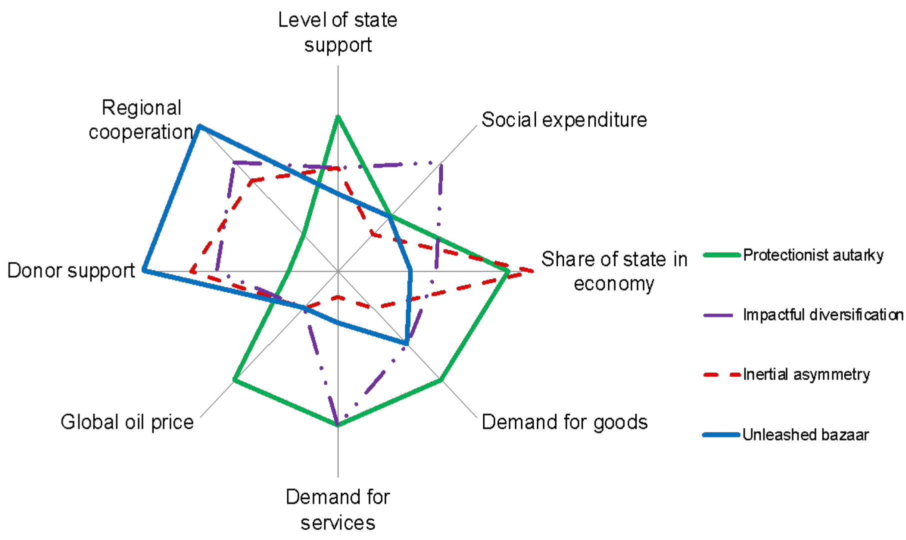
Discussion and Conclusion

The COVID-19 pandemic opened up a portal for refurbished transition for Central Asian countries, as if almost 30 years of transition did not take place. It has tested the resilience of regional economies and clearly demonstrated their overall fragility, in which full-scale transition to market institutions has not been finalized, leaving the economies to hybrid models: Kazakhstan relies on natural resource exports, Kyrgyzstan and Tajikistan depend on remittances, and in Uzbekistan, the lack of self-sustained economic institutions coupled with uncompetitive enterprises resulted in great losses for the domestic economy. The costs related to tackling the pandemic turned out to be excessive due to the fact that chronically underfinanced health sectors were unable to fully cope with the pandemic. In fact, building robust healthcare systems has not been among the development priorities in Central Asia for a long time.

The pandemic elicited one essential disadvantage that is common to all Central Asian states. While during the non-crisis years this issue was not that conspicuous, COVID-19 exposed all the disadvantages of the informal economy. In fact, the governments were not able to calculate the precise extent of the damage, provide adequate assistance and support to entities and individuals who were operating in the shadow economy. Actors in the shadow economy were able to upkeep themselves on a daily basis with varied success before the pandemic broke out, however, the lockdown pushed their vulnerabilities to the edge and displayed the need both for the governments and the informal sector to find a mutually acceptable solution to transition to the formal sector. Surprisingly though, to date, only a few attempts were made by the governments to benefit from this opportunity and create a discourse to nudge the informal sector to formalize.

Out of four elaborated scenarios (see Figure 2), the Central Asian governments appear to opt for short-term benefits that will enable them to put their economies on feet as soon as possible. While this fervor can be easily justified in the short run, it may nevertheless be fraught with long-term negative consequences. Scenario 1 appears to be the most sought-after, while the popularity of Scenario 3 is based on resource-constrained possibility rather than on a conscious and informed decision. Scenario 2 is an alluringly bold option for rather conservative Central Asian governments; however, it may appear to be risky and unpopular among the general public in the short term and might, therefore, get discarded on this foundation. Scenario 4 is the least preferred option and the viability of operationalization of this scenario appears to be less likely.

Figure 2. Four scenarios for Central Asia



Source: Authors' own elaboration.

As for regionalization under the prioritized scenarios, in the short term, COVID-19 appears to lead to lower level of economic regionalization by Kazakhstan and Uzbekistan in terms of their inward-looking approaches and protectionist measures, whereas Kyrgyzstan and Tajikistan will be seeking for increased connectivity to fill in the gaps of restricted domestic opportunities.

Thus, with the adoption of Scenarios 1 and 3, the Central Asian economies under COVID-19 will be subject to a crisis rather than an opportunity in light of the pandemic. However, if all governments (or some of them) will manage to bring out entities and individuals from the shadow economy and formalize an essential part of the informal economy, the pandemic would partially serve its purpose of seizing the opportunity by contributing to stronger economic and legal institutions and, as a result, to stronger market economies. For this to happen, "[t]he private sector needs to be unshackled and allowed to grow and fully contribute to revitalizing economies and creating jobs".[49]

Donors' resources will be limited and constrained due to the fact that every economy in the developing world requires substantial assistance. Unless the world's billionaires create an additional multi-billion pool to offset the COVID-19 losses for all countries, it is highly unlikely that the existing international aid will be an economic game-changer for the emerging economies of Central Asia.

Importantly, a one-size-fits-all approach in post-crisis development assistance can do more harm than good. Thus, anti-crisis measures and

[49] Aleksanyan and Liepach. "It's Time for Central Asia to Do Whatever It Takes to Minimize the Pandemic's Economic Impact."

mitigation strategies need to be highly country-specific and aim at producing long-term and sustainable impact through building stronger institutions and improving governance in Central Asia and globally.

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