

## TAJIKISTAN'S FOREIGN TRADE WITH NEIGHBORING COUNTRIES: NEW TRENDS AND SOCIAL AND POLITICAL IMPACTS

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### ABSTRACT

Tajikistan is a very isolated country with the most difficult access and limited transport connections with other countries in the region and beyond. Under such restricted conditions, international relations that allow to develop the economy and promote social progress play a crucial role for Tajikistan. Considering the country's geographic location, Tajikistan's interaction

with neighboring countries plays a major role in the sphere of international relations. The paper analyzes the foreign trade relations between Tajikistan and neighboring countries—Afghanistan, China, Kyrgyzstan, and Uzbekistan. The relevance of examining Tajikistan's border trade with neighboring countries reflects the importance held by the analysis of this aspect's influence on the

country's socio-economic development. Border trade, defined as the flow of goods and services over international land borders in the up to 30-kilometer range, plays an important role in supporting the livelihood of the population of the border area, and is

thus a pillar of the republic's welfare. Moreover, by strengthening the trade connections and promoting mutual understanding between different communities, border trade stimulates the maintenance of friendly relations between neighbors.

**KEYWORDS:** *Tajikistan, external trade, border trade, socio-economic development.*

## *Introduction*

After the disintegration of the U.S.S.R., civil war broke out in Tajikistan, which brought on destructive consequences for the country's socio-economic situation. Mass emigration from the country in the 1990s had catastrophic results in terms of the washing out of human and labor resources, as the majority of highly qualified Russian-speaking population left Tajikistan, moving predominantly to Russia.

The socio-economic situation was largely complicated by the country's landlocked position at the foot of the Pamir Mountains without an outlet to the sea—a certain territorial confinement. Considering the country's geographic location, Tajikistan's relations with neighboring countries plays a vast role in the international relations sphere. It is the smallest state in Central Asia, which borders Uzbekistan in the west and northwest, Kyrgyzstan in the north, China in the east, and Afghanistan in the south. In this geopolitical situation, any exacerbation of the relations with its neighbors is fraught with significant negative consequences for Tajikistan's economy.

For instance, Tajikistan and Uzbekistan were in a state of cold war for a prolonged period of time because of the conflict related to the water energy resources. The issue of using water arteries is an extremely sensitive one in Central Asia. The conflict has begun in the 2000s, when Tajikistan had stated its intention to revive the construction of the Rogun Hydropower Plant on the Vakhsh River, a tributary of Amu Darya. Uzbekistan was sharply against it. In late 2012, Uzbekistan completely cut off the supply of natural gas to Tajikistan on the pretext of increasing export to Russia and China. Meanwhile, Uzbekistan's natural gas constituted 95% of all fuel utilized in Tajikistan at that time. As a result, Tajikistan's industrial sector was forced to switch to coal. International air and bus transportation was cut off, a part of railroad lines were dismantled, and a visa regime was implemented. This conflict had an extremely negative impact on Tajikistan's economic development. The relations between the two countries began to improve when Sh. Mirziyoyev had come to power in Uzbekistan.

Tajikistan's external economic ties began to recover along with the implementation of economic reforms, formation of a new economic structure, a search for the ways to integrate the country into the world economy and international relations. Thus far, a significant gap is in place between the dynamics and product structure of Tajikistan's exports and the main tendencies of the international trade development and international labor division; the country's imports do not aim to renew the production cycle. The degree of wear of the key technological equipment is over 75%.

Tajikistan's main competitive advantages are the mining of minerals, hydropower resources, certain industrial manufacturing, abundant and cheap low- and semi-skilled labor.<sup>1</sup> It is extremely

<sup>1</sup> See: M.B. Olcott, *Tajikistan's Difficult Development Path*, Carnegie Endowment for International Press, Washington, 2012.

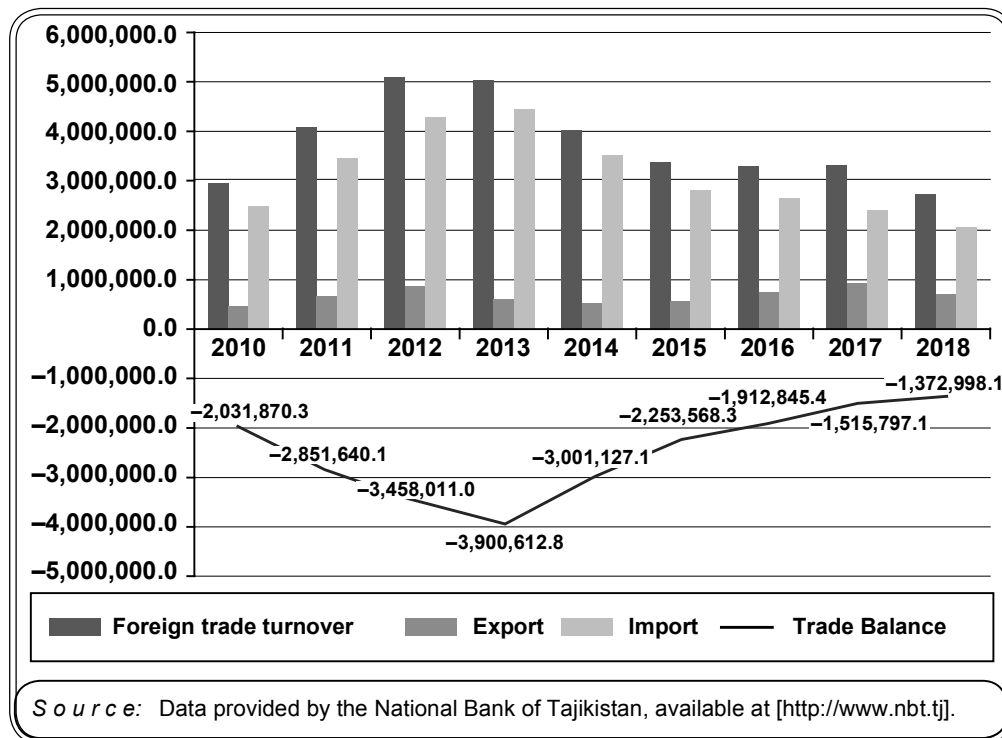
important to choose the right long-term strategy for the development of foreign economic relations, allowing the best use of these advantages. In conjunction with the above, the analysis of the directions of Tajikistan’s foreign trade development, including long-term prospects, is certainly relevant.

## Tajikistan’s Foreign Trade Turnover: Volumes, Dynamics and Structure

Tajikistan’s foreign trade turnover amounted to \$2.6 billion in 2018. The volume of import exceeded the export volume threefold, while the trade deficit constituted \$1.3 billion. The import had an upward trend, increasing by 13.5%, while export decreased by 10% compared to 2017.

Figure 1

Tajikistan’s Foreign Trade Turnover (\$, thous)



Minerals and cotton fiber, exported as raw materials, are Tajikistan’s leading export products. In 2018, Tajikistan exported \$65.4 million worth of cement to Uzbekistan, Afghanistan and Kyrgyzstan. Tajik-Chinese joint enterprises manufacture cement in Tajikistan: *Chzhungtsai Mohir Cement* produced 31%, *Huaxin Gayur Cement*—29%, *Huaxin Gayur Sughd*—26%, Dushanbe-based *Tajikcement*—6.4%. These enterprises inflict significant harm on the environment since they use coal as fuel. However, considering the fact that this is one of the few developing sectors of the economy, and the enterprises are quite profitable, the question of their ecological modernization, which increases the

cost of production, is not raised. The second export item is electric power. In 2018, its export increased by 44% and amounted to \$77 million. Afghanistan and Uzbekistan were the main buyers of Tajik electric power.<sup>2</sup>

Tajikistan's foreign policy in the economic sphere is based on good neighborliness principles and the desire to develop the principal spheres of economic cooperation with neighboring countries. Tajikistan is currently actively cooperating with all the bordering partner countries on all general economic issues, as well as in trade, socio-economic development, strengthening security and economic integration.

## **Trade Relations with China**

In recent years, China had seriously strengthened its positions in Central Asia, promoting the geopolitical and geo-economic Belt and Road initiative. First and foremost, the PRC is actively investing in the raw material sphere, the development of transportation and pipelines, providing financial and political backing for the economic activity. We can assume that in this manner the PRC is laying the foundation for maximal utilization of Central Asia's raw material sector for its own economic development in the future. Apparently, the transport and communication routes whose construction is being funded by Chinese investments will become the new links in the New Silk Road.

Among the many advantages, we can note certain geo-economic risks for Tajikistan and regional stability.

- First of all, the national economy is slanted towards the provision of raw materials, while the consumer goods and heavy industries cannot withstand the competition with Chinese goods and are on the decline.
- Secondly, Tajikistan is subject to risk of debt to China, since the amount of funds borrowed from China is growing, and the risk of their non-return is increasing along with it.
- Thirdly, PRC's active role is weakening Russia's position in Tajikistan and Central Asia, slowing down the process of Tajikistan's integration into the EAEU.

In 2013, in the course of one of the official visits of the President of Tajikistan to the PRC a joint Declaration of Cooperation was signed, heralding the two countries' relations moving up to the level of a strategic partnership. The Declaration states that it is "necessary to use the advantages of geographic proximity and economic complementarity to promote sustainable and intensive development of the economic cooperation between two countries by active promotion and implementation of relevant projects."

Up to the mid-2000s, Chinese presence was not strongly felt in the republic, and not least because of the absence of transport communications. After the auto road between Tajikistan and PRC was launched into operation, the trade volume began to increase. And although China's quick and massive penetration of Tajik economy is a relatively new phenomenon, the PRC today is Tajikistan's largest investor and trade partner. Another economic activity growth factor was the presence of available financial resources and PRC's readiness to invest them in the segments of the market that were not of interest to other investors. For instance, none of the regional or global powers were ready to invest funds in Tajikistan's infrastructure, while China not only provided the loans, but also ac-

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<sup>2</sup> See: "Tajikistan uvelichil eksport elektroenergii bolee chem na 50%," available at [<https://tj.sputniknews.ru/country/20180918/1026815877/tajikistan-uvlichil-eksport-elektroenergii.html>].

tively involved its national companies in these projects.<sup>3</sup> PRC had allocated a total of \$720 million to the upgrading of Tajikistan's transport communications. As a result, three tunnels, Shakhristan, Chormagzak and Istiklol, were built, connecting different parts of the country. The PRC is also participating in the construction of auto roads, which Tajikistan will be able to use to raise its transport communication capabilities and decrease its dependence on Uzbekistan.

Tajikistan and China are fully legitimate members of regional and international organizations and are actively cooperating in the framework of these organizations, in particular, the Shanghai Cooperation Organization. By the beginning of 2014, approximately 100 companies with Chinese participation were working in Tajikistan in the energy, communications, transport infrastructure, and mining industries. In 2015, the construction of the first industrial zone between China and the PRC was underway. Minerals, specifically, zinc, lead, copper, will be mined here. The volume of Chinese investments constituted approximately \$500 million. With support of Chinese companies, Tajikistan intends to raise the level of gold production to 5-7 tons per year by 2020. Chinese investors are also involved in mining coal, phosphorus, stannum, iron, stibium, rare-earth metals. According to Tajikistan's Agency for Statistics, in 2017 the volume of trade with China reached \$591.6 million, including \$35.4 million in exports and \$556.2 million in imports from the PRC.

## Trade Relations with Uzbekistan

Despite political controversy in the past, Uzbekistan is the number two trade partner for Tajikistan. The reason lies in the geographical proximity, common cultural roots, historical ties between the two nations. In 2010, the trade turnover constituted approximately \$72 million, while in 2017 it increased to \$126.4 million. Tajikistan's main import product is natural gas. In 2019, the *Tajiktransgas* gas distribution company intends to purchase 200 million cubic meters of natural gas in Uzbekistan. In 2018, Tajikistan purchased almost 54 million cubic meters of Uzbek gas. About 20 major enterprises in Tajikistan receive natural gas from Uzbekistan, and the number of consumers is growing.

In early 2018, the President of Uzbekistan Shavkat Mirziyoyev came to Dushanbe with an official visit. Prospects of relations were discussed in the course of the meeting, and 27 agreements were concluded between the two countries. In particular, an inter-state Agreement on Specific Sections of the State Border between Tajikistan and Uzbekistan, agreements on international auto and air transportation, cooperation in maintenance of operation of the Farkhad Dam, mutual visa-free travel.

## Trade with Afghanistan

Tajikistan and Afghanistan are connected by good-neighborly relations and historical and cultural commonality. The relations between Tajikistan and Afghanistan began actively developing after the disintegration of the U.S.S.R. According to the Agency for Statistics, in 2017 the volume of trade with Afghanistan amounted to \$100.2 million, including \$99.6 in goods exported to Afghanistan, and only \$0.6 million in imports from Afghanistan. The main exported items were: electrical power (51%), cement (33%), fruits and vegetables (tomatoes, onions, grapes), fruit and other juices,

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<sup>3</sup> See: L.V. Skvarya, V.I. Rusakovich, D.V. Lebedeva, "Vneshneekonomicheskie svyazi Respubliki Tadjikistan s gosudarstvami Azii: sovremennye tendentsii," *Upravlenie ekonomicheskimi sistemami*, Scientific Journal, 5 June, 2015, pp. 10-23.

walnuts, wheat products, steel and iron. Among the goods exported from Afghanistan to Tajikistan are mineral water and gas, equipment, and plastic construction materials.

Border trade is an important factor in strengthening economic ties. In order to invigorate trade connections, bridges were built at the border between Tajikistan and Afghanistan in the Ishkashim, Darvaz, Pandj and Vandj districts and the city of Khorog. The construction of bridges over the Pandj River had opened access to transport corridors that now connect the landlocked Tajikistan to the commercial seaports in Karachi and Bandar Abbas. The greatest positive effect on the socio-economic development was achieved by establishing markets in the border regions of Tajikistan, such as Ishkashim in the Ishkashim district, Tem in the city of Khorog, Ruzwai in the Darvaz district, Dusti in the city of Isfara.

The Ruzwai market in the Darvaz district is open every Saturday from 9 am to 2 pm. Our observations demonstrate that it is usually a busy bustling marketplace. Many buyers from the neighboring Afghanistan are anticipating the market day to make all their purchases in this border bazaar, since a market in their own territory is located at a great distance. However, if the situation on the Afghan side is volatile, the market does not open. The conditions are monitored by the border police of both countries. Citizens of Afghanistan who live in the border areas do not need a visa to Tajikistan. They are issued a pass that allows to enter Tajikistan and trade on the market.

Afghani citizens undergo strict border and customs control, as well as a check-up by the employees of the Drug Control Agency. After passing through all the points of inspection, people can buy or sell goods. For citizens of Tajikistan, access to the market is simplified. However, the trade process in general is under the control of the law and order structures of both countries.

Various goods are sold at the market. Afghani buy vegetables and fruit here, and then proceed to resell them in their territory. Besides the locally produced goods, Tajik merchants also sell clothes, shoes and Chinese-made electronic goods to Afghani buyers. Afghani sell domestically manufactured folk arts and crafts items, textiles, jewelry, surma (kohl), dishes (cauldrons), as well as imported medical goods. There is a foreign exchange office where Afghani currency can be exchanged for Tajik somoni. The Afghani people's spoken language is practically identical to that of the Tajiks from the Darvaz district. Tajiks only rarely use Russian words, while Afghani use English, however, they do understand each other.

For instance, an interview with an Afghani entrepreneur demonstrates that he buys goods on the Tajik market and then resells them on the Afghani bazaars. He most frequently buys Tajik fruit and vegetables that are not grown in Afghanistan. And Afghani buy them, despite the fact that the prices are relatively high. For now, food is not subject to customs duties—entrepreneurs undergo check-ups, but they do not pay any money.

The markets' size and trade turnover is not officially taken into account, trade is not subject to tax, and customs duties are not levied. Our observations and calculations demonstrate that the approximate daily trade turnover at the border markets may constitute: Ishkashim—over 150,000 somoni (1 million rubles); Tem (in the summer)—up to 100,000 somoni (600,000 rubles); Dusti—50,000 somoni (350,000 rubles); Ruzwai—approximately 30,000 somoni (200,000 rubles). The number of border trade participants is quite significant by the local standards—600-800 people from both sides of the border visit the Tem market, 800-1,000 visit Ishkashim, over 500 people come to Ruzwai and as many to Dusti.

Border trade resolves several community and socio-economic tasks—involving local regional goods and small batches of goods that are not used in “big” trade, promoting the socio-economic development of the country's remote regions by extending them the right to independently use the foreign currency revenue obtained from border trade, securing household incomes, creating workplaces, and strengthening the amicable ties with the residents of the nearby areas of the neighboring countries.

The markets in Khorog and Ishkashim are currently closed because of the Taliban. The Taliban movement became widespread in Afghanistan since 1996 as people's corps. Its ideology is based on the arbitrary and a rather crude interpretation of Islam; in particular, the Taliban aims to restrict various aspects of people's lives in Afghanistan. There are practically no Taliban at the borders. However, residents of Afghanistan's border regions may clash with them on their way to the markets in Khorog and Ishkashim. It interferes with people's participation in border trade and their attempts to improve their welfare.

It seems that border trade needs to be invigorated, and exhibition-fairs in the border regions were proposed to provide an opportunity for the entrepreneurs of the two countries not only to trade, but also to conduct negotiations and find trade partners.

## **Trade with Kyrgyzstan**

Diplomatic relations between the Republic of Tajikistan and the Kyrgyz Republic were established on 14 January, 1993.<sup>4</sup> Issues that are common to Central Asian countries, such as the bolstering regional security and stability and promotion of subsequent development of integrative processes are usually considered priorities in the political contacts between the two countries. Under conditions of independent development, Tajik-Kyrgyz relations are apparently aiming to establish mutually beneficial ties in different aspects of cooperation; there is a spirit of mutual trust, good-neighborliness and positive attitude to each other.

Both countries' declarations of independence in the early 1990s did not disrupt the traditional way of life or the trade and economic interactions between the population of the border regions and communities in Kyrgyzstan and Tajikistan. A border between two countries is traditionally a zone of intensive socio-economic contacts. Residential communities along half of the span of the border between Tajikistan and Kyrgyzstan use the same roads, water sources, grazing grounds. A border often divides residential communities that are located in two countries simultaneously. Border markets were likewise used by the residents of the two countries.

However, a series of conflicts in 2013-2014 on the border of Isfara and Batken districts had disrupted the everyday life in certain border clusters for a period of time. Many communities were forced to wrap up their trade relations, which led to a drop in incomes, living standards and quality of life of the communities located along the border.

In 2015-2016, the governments of both countries went to considerable lengths to salvage trust and cooperation. International organizations were also actively involved in the process of stabilizing the situation. Projects aimed at developing border trade have confirmed that economic interests are a priority for the people. The focus on the development of trade between communities had played a decisive role in restoring the trust. However, the existing trade potential that allows to attain a higher living standard is not used to a full extent by the rural residents.<sup>5</sup>

In connection with Kyrgyzstan's entrance to the EAEU, Tajikistan's trade turnover with the former began to decrease. Tajik entrepreneurs who have been purchasing goods at the Dordoi and Kara-Suu markets, can no longer import them into Tajikistan at the same prices. Tajikistan had currently begun to import goods directly from the PRC, while Kyrgyzstan began to function as a transit state. This led to lowered customs revenues. Despite Tajikistan's lowered interest in trading with

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<sup>4</sup> See: "Otnoshenia Tadjikistana s Kyrgyzstanom," // Foreign Ministry of the Republic of Tadjikistan, available at [<http://mfa.tj/?l=ru&cat=90&art=157>].

<sup>5</sup> See: Y. Mirsaidov, "Prigranichnaia trgovlia: menshe barierov, bolshe dokhodov," available at [<https://www.news.tj/ru/news/tajikistan/economic/20171215/prigranichnaya-torgovlya-menshe-barerov-bolshe-dohodov>].

Kyrgyzstan, the Tajik side is expressing its commitment to cooperating with Kyrgyzstan in certain spheres, such as electrical power industry, mining industry and tourism, which is a new way of reinvigorating joint economic potential. The volume of Tajikistan's export to Kyrgyzstan in 2017 amounted to \$11 million, and Tajikistan's import from Kyrgyzstan was equal to \$38 million. Tajikistan's main export items are energy resources and consumer goods.

## Socio-Political Role of Border Trade

Border trade is the flow of goods and services over international land borders in the up to 30-kilometer range. It plays an important role in the life sustenance of the population residing along the border, ensuring social stability of the local communities in the border areas. Moreover, by strengthening commercial ties, cultural understanding and deepening community relationships, cross-border trade nurtures amicable relations between neighboring countries.<sup>6</sup>

A characteristic feature of border trade is the fact that the geographic proximity of border regions makes transportation expenditures negligible, which allows merchants to make use of the difference in supply, demand and prices for various goods and services available on both sides of the border. Border trade has a positive effect on the merchants' life and revenue; it also supports local manufacturing enterprises and promotes the development of the service industry (warehouse services, goods transportation, supplementary services at local bazaars).

Border trade promotes the growth of income for people working directly at the markets, as well as those connected with the bazaars and trading by the nature of their business. Border trade significantly stimulates employment, increases household incomes, and contributes to decreasing local poverty. Border trade, if the conditions for it are simplified, will create a source of income for all households, and is more lucrative than most of other potential types of economic activity in the remote areas that are characterized by a deficit of workplaces and low wages. Finally, border trade lowers the prices of imported goods for consumers in the border areas (in the absence of border flows, the difference in prices would be even greater) and allows the exporters to obtain profits from the higher added value.

First and foremost, the construction of a market costs significantly less than the construction of a large shopping mall; meanwhile, bazaars provide similar opportunities for the encounter of large groups of buyers and sellers. Owing to the concentration of merchants and the mediation of market administration, the relations with state authorities have become more predictable. Traditions also play an important role, since bazaars have existed in both regions for centuries.

The markets contribute to decreasing poverty by offering goods at lower prices and creating opportunities to earn not only on the markets themselves, but also far beyond them. The impact on employment affects a wide range of services required to transport goods and passengers to the markets and from them.

Local manufacturers have an opportunity to present their goods to potential local and foreign clients with no travel expenditures. The role of markets is especially important in creating market opportunities for manufacturers who are willing to expand their markets due to high marketing costs abroad. Potential buyers come to the manufacturers themselves, but not the opposite.

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<sup>6</sup> See: B. Kaminski, S. Mitra, *Skeins of Silk: Borderless Bazaars and Border Trade in Central Asia*, World Bank, Washington, D.C., 2010, p. 8.



## *Conclusion*

Foreign trade allows to significantly develop Tajikistan's economy, whereby even despite the imbalance between export and import, the country is starting to develop its economy via its trade with neighboring countries, realizing the need for their support. PRC is Tajikistan's most active foreign trade partner.

The role of foreign trade in the country's socio-economic development is hard to overestimate, since it allows to obtain the lacking resources and sell the excessive ones, and, when used properly, it raises the level of the country's socio-economic development, and has a positive effect on the country's investment attractiveness.

Tajikistan's foreign trade with neighboring countries has been developing quickly in recent years, with the trade relations with the PRC and Afghanistan receiving a particularly strong thrust. There is also a negative point, namely, the fact that imports significantly exceed exports; however, this tendency may mean that Tajikistan buys the resources required to develop its economy from its neighbors, while the increase in the share of imported goods from neighboring countries reveals their significance for Tajikistan compared to other countries, since this allows to reduce transportation expenditures significantly. Considering the fact that Tajikistan's foreign trade is generally characterized by a substantial excess of imports over exports, this tendency is not a critical one.

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