

**CIS AND EXTERNAL ECONOMIC DEPENDENCE WHY CENTRAL ASIAN COUNTRIES DO NOT NEED ECONOMIC DEPENDENCE ON EXTERNAL STATES TO DEVELOP.**

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*This paper critically examines the argument that Central Asian countries must rely on external economic dependence to achieve development. Focusing on Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, and Turkmenistan, it argues that while external engagement has historically supported economic stabilization, dependence on foreign actors is neither necessary nor desirable for long-term growth. The study identifies key forms of dependence, including commodity export concentration, remittance inflows, and reliance on foreign investment, and demonstrates how these factors create structural vulnerabilities such as economic volatility, weak domestic industries, and limited policy autonomy. Drawing on political economy literature and regional evidence, the paper emphasizes the central role of domestic institutions, state capacity, and economic diversification in shaping sustainable development outcomes. It further highlights the importance of industrial policy, SME development, and regional integration as viable alternatives to dependence-driven growth. The findings suggest that external engagement should function as a complementary tool rather than*

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*a substitute for internal reform, enabling Central Asian states to maintain economic sovereignty while integrating strategically into the global economy.*

## **Introduction**

The Central Asian countries which includes Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan have experienced the challenge of building national economies under conditions of weak institutions, limited access to industry and geopolitical vulnerability since gaining independence after the collapse of the Soviet Union in 1991. According to advanced argument in political economy, it is suggested that these countries can only achieve economic development through dependence on external states such as Russia, China and Western-led financial institutions. The main reason for this argument is that the Central Asia's landlocked geography, vulnerable domestic markets and capital shortages make external dependence inevitable. This paper clearly contradicts with that claim. Although external engagement has hugely supported the growth in Central Asia, economic dependence cannot be a desirable condition for development. Drawing on academic literature, policy reports, and regional case studies, this paper suggests that the long-term development in Central Asia is directly connected with domestic institutional reform, economic diversification, and strategic integration with other countries rather than dependence on global economy. External states can be the source of supporting development, yet it should be taken into account that reliance on them as the main engine of growth creates structural restriction and undermines economic sovereignty.

## **Understanding the Origins of the Dependence Argument**

The argument for external dependence is rooted in Central Asia's Soviet legacy. During the Soviet period, the region mainly functioned as a resource-producing periphery which means that cotton, hydrocarbons and minerals were supplied from this region but it relied on other states for manufactured goods and technology (Pomfret, 2019). After independence, the collapse of Soviet supply chains caused severe economic contraction, with GDP declines of up to 40% in some states during the early 1990s (Mitra, Selowsky and Bank, 2002).

When Central Asian countries faced some obstacles such as financial crisis and institutional weakness, they turned to international financial organizations which includes International Monetary Fund, World Bank, and later Russia and China for loans and investment. This early dependence was the basis of creation misleading perception that

external dependence is unavoidable, however, historical necessity should not be confused with long-term inevitability.

### **Forms of external economic dependence in Central Asia.**

#### **Commodity-based trade dependence**

It should be said that Central Asia export structures remain highly concentrated. For instance, Uzbekistan relies on the export of gold and primary commodities, Kazakhstan on oil and Turkmenistan on natural gas. According to the statistics of the World Bank, three-fifth of Kazakhstan's total export revenues belonged to hydrocarbons. Such reliance exposes economies to global price volatility and external demand shocks, as it was demonstrated during the 2014-2016 oil price collapse (EBRD, 2022).

#### **Remittance Dependence**

Remittances from labor migrants, especially in Russia, contributes 25% and 35% of GDP in Kyrgyzstan and Tajikistan. (World bank, 2024). It should be considered that remittances may reduce the poverty or stabilize consumption but it also created macroeconomic fragility which means that sanctions or migrations restrictions in host countries can immediately transmit shocks to domestic economies. This form of dependence does not actually promote economic development but instead discourages domestic job creation.

#### **Foreign Investment and Infrastructure**

Infrastructure investment in Central Asia has been increased because of China's Belt and Road Initiative. Despite the fact that these projects address critical connectivity gaps, some experts believe that heavy reliance on a single external financier increases debt exposure and political leverage (Hillman, 2020). As a result, external capital may bring some short-term benefits but it really risks locking countries into asymmetric dependency relationships.

#### **Structural weaknesses which are created by external dependence**

In spite of external engagement that has supported short-term economic stability, sustained dependence has brought new forms of structural weaknesses that limit long-term development. One of the major issues is rent-seeking behavior. When countries heavily rely on foreign loans, commodity revenues or remittances, they experience weaker incentives to develop efficient tax systems or competitive domestic industries (Auty, 2001).

Kazakhstan and Turkmenistan believed that there is no need to implement reforms or diversification due to the dependence of hydrocarbon revenues. Instead of encouraging innovation, external income streams often strengthen the position of economic elites and reinforce inefficient use of resources. If countries rely on external income too much, it may weaken the development of domestic enterprises. Foreign direct investment in Central Asia

is largely concentrated in capital-intensive extractive industries, where spillover effects to the wider economy remain limited (UNCTAD, 2022). As a result, local firms gain few opportunities to grow, job creation remains constrained, and technological learning is slowed, creating potentially long-term negative consequences for economic development.

### **Why Economic dependence is not necessary for development**

#### **The Role of Domestic Institutions**

The central weakness of the argument that Central Asian states can only develop through dependence on external financiers or states lies in its failure to consider the decisive role of domestic institutions, policy choices, and structural transformation. In spite of the fact that external resources may support growth in the short-term, long-term development outcomes are mainly determined by internal economic governance rather than external reliance.

According to Acemoglu and Robinson, inclusive economic and political institutions which consists of rule of law, property rights and accountability are considered to be the main drivers of long-term development (Acemoglu and Robinson, 2012). External dependence cannot compensate for weak institutions and often exacerbates inefficiency and corruption. In Central Asia, Uzbekistan and Kazakhstan can be very good examples that experienced more stable growth rather than those with weaker governance due to strong institutional frameworks. This demonstrates that institutional capacity, not dependence, explains divergent development outcomes.

#### **State capacity and policy autonomy**

Except institutional quality, state capacity plays an important role in achieving development without dependence. By that, state capacity is considered to be the government's ability to design, build, and enforce policies efficiently (Fukuyama, 2013). Countries that have higher state capacity can easily control FDI, collect taxes effectively, and make favorable agreements with external partners. According to statistics, Kazakhstan and Uzbekistan showed stronger administrative capacity in industrial regulation as well as investment among Central Asian states (OECD, 2020). Strong state capacity makes states use external engagement strategically instead of dependently. Maintaining policy autonomy allows states to pursue national development strategies rather than external agendas (Rodrik, 2011).

#### **Economic diversification and domestic value creation**

First of all, it should be taken into account that economic diversification is fundamental for reducing external dependence. If states rely on commodity exports heavily, it can make

them vulnerable to global shocks as well as limits growth potential. Diversifying into manufacturing and services increases employment, productivity, and resilience.

Uzbekistan's recent industrial reforms can be very good example of domestic value creation driven by internal policy choices. As a result of investment in textile manufacturing and automotive production, domestic value chains have been expanded and reliance on commodity exports was reduced (Fund, 2023). Based on historical evidence from East Asian economies, it is said that the state-led industrial strategies drive successful late development (Chang, 2002).

### **Industrial Policy and the Developmental State Perspective**

It should be said that proactive role of the state which guides structural transformation is required for economic diversification in Central Asia. While some experts believe that market forces alone can generate diversification, historical evidence suggests that states need industrial policy to overcome structural constraints (Chang, 2002). According to Chang, successful industrializers in East Asia depended on state intervention which includes protection of infant industries and coordinated investment strategies. As a result of these policies, domestic firms managed to develop competitiveness before exposure to full international competition.

In the Central Asian context, adopting a developmental state approach does not mean a return to central planning but instead it means to build strategic coordination between public institutions and domestic enterprises. In this situation, government is supposed to be vital since it invests in industrial infrastructure, supports technological upgrading and facilitates access to finance for emerging industries. Domestic market may lag behind by depending on commodity exports and external capital without such policies.

### **The role of Small and Medium-sized Enterprises**

According to political economists, small and medium-sized enterprises are significant for sustainable development because of the fact that they generate employment, foster innovation and enhance economic resilience. On the other hand, SMEs face many challenges in highly dependent economies due to the fact that they have limited access to finance, they get weak institutional support as well as there is risk of dominance of foreign or state-linked enterprises.

In Central Asia, SMEs are believed to account for a significant proportion of employment, yet they contribute less to output and exports at the same time which means they reflect structural barriers to growth (Bank, 2021). If countries heavily depend on

external players, it will be possible to make these challenges worse since FDI usually flows into capital-intensive extractive sectors with minimal linkages to local businesses.

In order to strengthen SMEs, domestic reforms are required instead of increased external dependence. If countries improve access to credit, enforce property rights, reduce bureaucratic barriers, they can enhance SME productivity and competitiveness. According to statistics of OECD, those countries which have stronger domestic SME ecosystems experience high level of diversification which reduces vulnerability to external shocks therefore supporting domestic enterprises is a crucial step toward reducing dependence-based development.

**External engagement as a complement, not a substitute**

Although this paper says that dependence on external factors is not necessary, it does not undervalue the importance of external engagement. External trade, investment, and financial cooperation can influence domestic development strategies if they are managed effectively. The key distinction lies in whether this kind of engagement reinforces domestic capacity or substitutes for it.

Rodrik pointed out that in order to integrate into global economy successfully, states require maintaining policy shape. When governments take the responsibility of regulating capital flows, shaping industrial policy and prioritizing national objectives, external actors can enhance long-term growth. On the other hand, dependence happens when external actors start affecting indoor policies or when domestic institutions are too weak to make balanced agreements with partners (Rodrik, 2011)

Central Asian countries have diversified their external partnerships. Nowadays, they are not only making negotiations with Russia or China but also with the EU, Japan, South Korea and international development banks. As a result of this strategy, geopolitical vulnerability is reduced and bargaining power is enhanced which demonstrate that strategic pluralism can replace dependence without isolating economies from global markets.

**Regional integration as an alternative development path**

Another pathway to development which reduces reliance on external powers is regional integration. Despite geographic location and historical relationships, intra-regional trade in Central Asia still remains restricted. According to statistics, most Central Asian countries trade more with external partners instead of neighboring states. If countries strengthen regional economic cooperation, they can expand markets for local producers and reduce logistical costs. Regional energy and transport integration could significantly improve efficiency while reducing dependence on single export routes controlled by external actors

(ADB, 2021). It should be said that regional cooperation also enhances collective resilience since Central Asian countries can lower the level of vulnerability to global shocks and stand against external political pressures by coordinating policies and pooling resources. This idea supports that dependence is not structurally imposed but it can be mitigated through policy coordination and regional initiatives.

### **Conclusion**

The view that Central Asian countries can develop only by depending on external powers overlooks how much domestic choices actually matter. Cooperation with foreign partners was clearly important in the difficult years after the Soviet Union collapsed, when these economies were trying to stabilize and avoid deeper crisis. However, over time, heavy reliance on external actors has also created new problems. Economies became more sensitive to global shocks, diversification moved slowly, and governments often found themselves adjusting policies to suit outside interests rather than domestic needs.

In practice, long-term development in Central Asia has been shaped far more by what happens inside these countries than by how much foreign capital they attract. It should be taken into account that progress depends on whether institutions function properly, whether the state is capable of enforcing policy, and whether governments are willing to invest in diversification beyond raw materials. External engagement can be helpful, and in many cases necessary, but it cannot substitute for internal reform. For Central Asian states, economic dependence should not be treated as a path to growth, but as a temporary condition that needs to be reduced if sustainable and independent development is to be achieved.

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