

**USAID Regional Trade Liberalization and Customs Project (RTLК)**

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**APPENDIXES TO  
THE REPORT  
FREE ECONOMIC ZONE IN SOGD REGION  
– BLUEPRINT FOR THE CREATION OF  
A TRANSPORT AND LOGISTICS CENTER  
IN THE FERGANA VALLEY**

Dushanbe/Minsk/Almaty

June 2010-February 2011

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<b>Appendix 1</b> <b>Socioeconomic indicators of regions neighboring Sogd Region</b>		Urban population, % (2008)	Rural population, % (2008)	Average monthly salary (USD) (2009)	Average monthly income (USD) with account of remittances (2009)	Share of the main ethnic group, % (2000)	Share of the second largest ethnic group, % (2000)	Share in national GDP, % (First half of 2009)	Share in the national retail sector, % (First half of 2009)	Share in national foreign trade, % (First half of 2009)	Share in national imports, % ( First half of 2009)
<b>Market No 1 (the Fergana Valley) without Sogd Region</b>	<b>10.43</b>	<b>28</b>	<b>72</b>	<b>80-140</b>		<b>Uzbeks - 66%</b>	<b>Kyrgyz - 23%</b>	<b>18% (Uzbekistan)</b> <b>15% (Kyrgyzstan)</b>	<b>23% (Uzbekistan).</b> <b>22.5% (Kyrgyzstan)</b>	<b>10.6% (Uzbekistan)</b> <b>% (Kyrgyzstan)</b>	<b>16.5% (Uzbekistan)</b> <b>% (Kyrgyzstan)</b>
Fergana Region	2.99	29	71	120-130		Uzbeks - 88%	Tajiks – 6 %	8%	9%	4%	5%
Andijan Region	2.47	30	70	<b>120-140</b>		Uzbeks – 90%	Kyrgyz – 6%	6%	7%	6%	10.5%
Namangan Region	2.19	37	63	90-100		Uzbeks – 81%	Tajiks – 12 %	4%	7%	0.6%	1%
Jalal-Abad Region	0.99	23	77	70-80		Kyrgyz – 70%	Uzbeks – 24%	4%	6%		
Osh Region (with the of Osh)	1.34	24	76	70-80		Kyrgyz – 64%	Uzbeks – 31%	10%	15%		
Batken Region	0.43	25	75	60-70		Kyrgyz – 75%	Uzbeks – 14%	1%	1.5%		

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<b>Market No 2 (Tashkent oasis)</b>	<b>4.73</b>	<b>72</b>	<b>28</b>	<b>120-210</b>		<b>Uzbeks – 70%</b>	<b>Russians – 14%</b>	<b>29%</b>	<b>40%</b>	<b>52%</b>	<b>68%</b>
City of Tashkent	2.19	98	2	190-210		Uzbeks – 63%	Russians – 20%	20%	28%	44%	59%
Tashkent Region	2.54	46	54	120-130		Uzbeks – 76%	Russians – 8%	9%	12%	8%	9%
<b>Market No 3 (The Zeravshan Valley)</b>	<b>9.77</b>	<b>32</b>	<b>68</b>			<b>Uzbeks – 81%</b>	<b>Tajiks – 12%</b>	<b>28.5%</b>	<b>24.7%</b>	<b>24.6%</b>	<b>14.1%</b>
<b>"East" Zeravshan</b>	<b>4.82</b>	<b>30</b>	<b>70</b>	<b>70-80</b>		Uzbeks – 79% %	Tajiks – 13%	<b>8.5%</b>	<b>10.7%</b>	<b>3.6%</b>	<b>3.6</b>
Syrdarya Region	0.70	30	70	70-80		Uzbeks – 80%	Kazakhs – 5%	1.5%	1.7%	0.6%	0%
Jizak Region	1.09	25	75	70-80		Uzbeks – 83%	Kazakhs – 6%	2%	2%	0.5%	0%
Samarkand Region	3.03	35	65	70-80		Uzbeks – 75%	Tajiks – 15 %	5%	7%	2.5%	3.6%
<b>"West" Zeravshan</b>	<b>4.95</b>	<b>33</b>	<b>77</b>	<b>70-120</b>		Uzbeks – 87%	Tajiks –5 %	<b>20%</b>	<b>14%</b>	<b>21%</b>	<b>10.5%</b>
Navoi Region	0.83	41	59	100-120		Uzbeks – 90%	Russians –	6%	3%	4%	4%

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							5%				
Bukhara Region	1.58	32	68	80-90		Uzbeks – 85%	Tajiks – 5%	6%	5%	2%	1.5%
Kashkadarya Region	2.54	27	73	70-80		Uzbeks – 85%	Tajiks – 6%	8%	6%	15%	5%
Sogd Region	2.17	26	74	40-50	45-55	Tajiks – 78 %	Uzbeks – 20%	25%		20%	24%

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### *Appendix 2*

#### *Markets and Development Scenarios for the Region. Synopsis of Sogd Region in 2025*

*Three potential markets for transit and selling products.*

#### **Market No 1. The Fergana Valley**

The region is historically and geographically closely tied to Sogd Region. The total size of the population (without Sogd Region) is almost 10.5 million people, of whom two-thirds are Uzbeks and over 20% are Kyrgyz.

The region is agrarian and industrial (with a third of the population is urban and two-thirds is rural). Agriculture plays a significant role in the Fergana Valley's economy and it accounts for 40% to 60% of gross regional product (GRP) and it employs up to 60% of labor force. Trade and services are significant (25-30% of GRP), while the importance of the extractive and processing sectors is much lower (10-15% of GRP). The average salary in the region is about \$130.

The region's retailing accounts for over 20% of the retailing sector in Uzbekistan and Kyrgyzstan, and the region accounts for over 10% of foreign trade and 15% of these countries' imports.

#### **Market No 2. Tashkent Oasis**

The total size of population is 4.7 million people, of whom 70% are Uzbeks and 14% are Russians. The region is industrial (two-thirds of the population is urban and a third is rural) with high income in terms of Central Asia (up to \$250 per month).

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Industry plays a leading role in the economy of the Tashkent oasis, sharing 40-40% of GRP and employing up to 40% of labor, and trade and services are also important (20-35% of GRP), while the significance of agriculture is lower (20-25% of GRP).

The region's retailing accounts for 40% of Uzbekistan's retailing sector, and the region accounts for 52% of foreign trade and 68% of the country's imports.

### **Market No 3. The Zeravshan Valley**

The total size of the population is almost 10 million people, of whom two-thirds are Uzbeks and over 12% are Tajiks. Tajik cultural influence is very strong. The region is agrarian and industrial (a third of the population is urban and two-thirds - rural).

Agriculture plays a leading role in the economy of the Zeravshan Valley, sharing 40-60% of GRP and employing up to 50% of labor and the share of trade and services is also important (20-30% of GRP), while the extractive and processing sectors are less significant (15-20% of GRP). The average monthly salary ranges from \$70-80 in Samarkand and Jizak to \$100-120 in Bukhara and Navoi.

Its retailing sector accounts for almost 25% of Uzbekistan's total, with almost 25% of the country's foreign trade and 14% of its imports.

### **Three scenarios for the development of the region's economy:**

***The restoration of Soviet legacy (an agrarian and industrial region with a stress on the cotton industry, the extractive industry and non-ferrous metallurgy).***

Problems of restoring Soviet legacy:

1. There is no long-term investment;
2. Shortages of specialists (for industry);

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3. Obsolete infrastructure (including transport): shortages of power, obsolete vehicles and equipment and poor road networks;
4. Break-up economic relations and problems of transit: exports from the region mainly aim at non-CIS countries and transit through Uzbekistan, which regularly imposes transport blockades;
5. The problem of ensuring food security (the Soviet system of food supplies broke down and countries now heavily depend on food imports).

### 2. Restoration of pre-Soviet legacy

Problems of restoring pre-Soviet legacy:

1. The lack of necessary infrastructure (roads, storehouses and transshipment centers);
2. Changes in the directions of flows of goods: the role of Soviet and pre-Soviet (Bukhara-Andijan) transit is falling. Uzbekistan is developing internal transit through Angren (an intermodal logistics center, a road, a gas pipeline under construction and a railway line is being planned). In addition, goods flow to the Fergana Valley via Kyrgyzstan. Khujand accounted for 80% of the Fergana Valley's foreign trade in the 19th century and 95% in Soviet times against 50% now (estimates);
3. Obstacles to crossborder trade, above all, with Uzbekistan (customs and legislative obstacles).

**3. Creation of a "new regional economy" (creation of a powerful agrarian-industrial cluster for the deep processing of local raw materials, first of all, in the textile and food industries, the development of trade and logistics networks that aim at both the international and local markets).**

Present problems of the creation of a "new regional economy":

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1. Access to neighboring markets is complicated because of fierce competition and serious barriers to crossborder trade, above all, with Uzbekistan (customs and legislative barriers).
2. The lack of large-scale investment.
3. Competition from China and Uzbekistan and on some goods from Kyrgyzstan and Kazakhstan.
4. The lack of well-developed roads in the region.

### ***Scenarios of the development of the situation in the region:***

#### **A. Worst-case (50% likelihood, 2010-2015):**

The further destabilization of the situation in Kyrgyzstan (the continuation of interethnic clashes), Uzbek refugees from southern Kyrgyzstan again aim to cross into Uzbekistan's border regions, the Uzbek government closes the border, the situation in the Uzbek part of the Fergana Valley becomes tense, the population demands the government interfere in the situation and protect Kyrgyzstan's Uzbeks, representatives of Islamic opposition come out from underground, antigovernment protests start, the state of emergency is announced, force is used against protests and armed hostilities start. Unrest spills over to Tashkent and its suburbs, the situation is complicated with an illness or the death of Uzbek President Islam Karimov. The issue of power transfer emerges, and the fight between three clans (Bukhara-Samarkand, Tashkent and Fergana) breaks out. Refugees from the Fergana Valley flee in three directions (Kyrgyz to the north and Kyrgyzstan's mountainous regions, Uzbeks to Tashkent Region and Tajiks and some Uzbeks to Sogd Region). The problem of exclaves intensifies.

Problems for Sogd Region: refugees (up to 200,000), problems of delivering and distributing humanitarian aid (millions of metric tons), the establishment of refugee camps, the deployment of foreign (international) peacekeepers (up to 10,000 troops). The issue

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of the transit of military cargoes from Russia, Afghanistan (Kabul and Kunduz) and Kyrgyzstan (Kant and Manas). The need to modernize Khujand's airport and the region's railway networks emerges.

### **B. Neutral (35% likelihood, 2010-2015):**

The authorities in Kyrgyzstan and Uzbekistan keep the situation under control, the problem of setting up legitimate government is solved in Kyrgyzstan and power transferred to Karimov's successor in Uzbekistan. Tajikistan and Uzbekistan agree to jointly run and use the Rogun hydropower station, the total blockade of Tajikistan is lifted, but the border is not open. The larger part of border trade remains in the shadow and is conducted using semi-legal structures built around markets. Unemployment and high demographic pressure continue to strongly influence the regional economy. Consumer goods and foodstuffs are the basis of border trade. Demand for vehicles grows, and this prompts the modernization of road networks in the region.

### **C. Positive (15% likelihood, 2010-2015):**

A legitimate and stable government comes to power in Kyrgyzstan and solves major socioeconomic problems. The situation in the country's south remains tense, but stable. The construction of roads and railways continue and they become the foundation of transit transport corridors linking Europe and China.

After power change, Uzbekistan thaws relations with Tajikistan and solves the problem of transit of goods and operations of the Rogun hydropower station. The border is gradually opened and broken economic relations are restored. Tajikistan, Uzbekistan and Kyrgyzstan arrive at the understanding that it is necessary to develop a free trade zone between them and restore a single industrial complex in the Fergana Valley. In this situation the industrial potential of Sogd Region starts to recover and it increases exports of industrial goods to neighboring countries and non-CIS countries. The need arises to modernize railway networks in the region. Enterprises in Sogd Region enter markets in the Tashkent and Bukhara-Samarkand regions, maintaining significant involvement in trade with China, India and Pakistan.

### **Vision for Sogd Region in 2025. Synopsis of Possible Development**

Sogd Region is an important province of "New Sogdiana", or, to be more precise, "New Bukhara Emirate" (Tajikistan proper plus regions of Afghanistan and Uzbekistan with strong Tajik influence), a center of the textile and clothing industry, a major trade and logistics center, with a network of major markets of regional significance and a developed transport network (modernized railways, a

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network of modern roads (the Dushanbe-Tashkent and the Bukhara-Osh corridor), an airport modernized to meet international standards and receive large cargo aircraft). Khujand is a city beaming secular Iranian (Tajik) culture to the north and northwest, a center that helps boost Tajik identity among people living in the Uzbek part of the Zeravshan Valley, and a regional center of education for people from Bukhara, Samarkand, Karshi and the Fergana Valley.

### Appendix 3

#### Political Processes around the Sogd FEZ:

trends, risks and possible scenarios,

consequences of the development of the free economic zone (FEZ) for the FEZ itself,

Tajikistan and the Central Asian region.

#### *Trends*

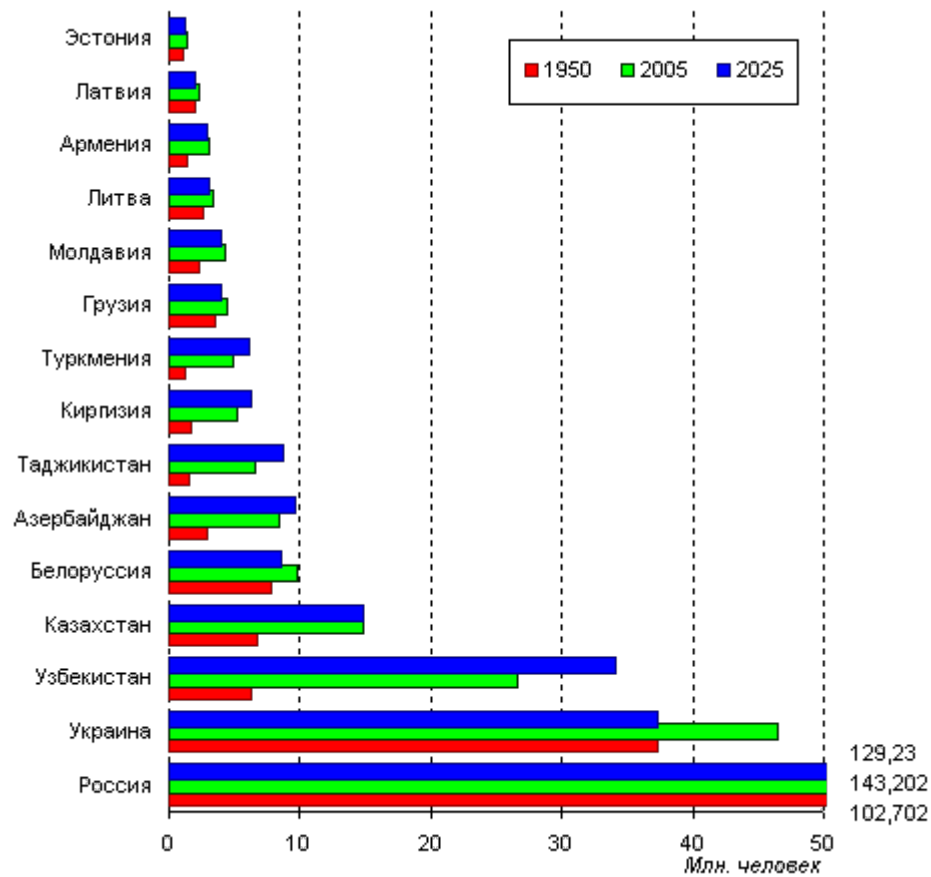
The Sogd FEZ is in a complicated, conflict-prone region and the development of the FEZ may both encourage conflicts and become a major factor in stabilization in the Central Asian region and one of the backbones of Tajikistan's national security.

#### *Risks and Threats that May Hinder the FEZ*

Rise of political tension in the Fergana Valley and the Central Asian region

A worrying set of threats has emerged in Central Asia. The most dangerous factor is natural population growth in the Fergana Valley, especially in Uzbekistan, that outstrips economic growth in the countries of the region (Uzbekistan now has a population of 28 million people, and the UN estimates its population to stand at 40 million people at a moderate growth rate and about 50 million people at a high growth rate in 2030. Tajikistan population grows with a similar rate).

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The size of the population of former Soviet republics in 1950, 2005 and 2025 (according to UN forecasts), million people

Ranked by the size of population in 2005 (<http://guralyuk.livejournal.com/1524256.html>)

Factors that may significantly contain demographic growth in the region do not exist:

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- *the share of rural population* is decreasing slowly. The urbanization pace is insufficient to remarkably reduce population growth in the next 20 years.
- *cultural groups that adopt small families* - Russians and people of European origin in general - are insignificant. The bulk of the populations of Uzbekistan, Tajikistan and southern Kyrgyzstan is made up by Uzbeks and Tajiks who have large families. The main outflow of Russians and people of European origins from the region already took place. The departure of the remaining people of European origin will not significantly influence demographic processes. Kazakhs and Kyrgyz living in the Fergana Valley and southern Kazakhstan either also belong to a group of peoples who have large families or do not have a significant impact on the demographic situation in the region because of their relatively small numbers compared with Uzbeks and Tajiks.
- rural population in the region, above all Uzbeks and Tajiks, adhere to traditional views regarding family and have large families. The spread of Islam among young people in the region will strengthen traditional views regarding family. The deteriorating economic conditions for the majority of rural population with the growing population and shortages of land and unemployment will increase the social importance of the family as an institution that ensures the survival of the larger part of rural population using internal cooperation within family.
- large-scale labor migration to Russia and Kazakhstan eases the critical situation relating to the *overpopulation of the region*, but it is not sufficient to stop the process itself.
- the migration of impoverished young rural people to towns is also insufficient for slowing down the demographic growth. The phenomenon of urban mahalla (neighborhood) in which Uzbeks and Tajiks lead traditional lives, *conserves the orientation of these youth to large family*, postponing the birth of young people's children until they achieve a certain level of prosperity.
- *the decline of real state social protection* of the elderly because of economic growth lags demographic growth and political problems in the region's countries strengthens people's dependence on large family as a safeguard of children's support of their parents in old age.
- large-scale state programs to constrain population growth in the region are impossible because of the *growing significance of traditional and Islamic values* and proximity to Islamic states. Large-scale population control programs are also impossible because of the weak political systems in the region's countries as the governments are not capable of enforcing such programs on their

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populations, with the declining social security of the elderly and youth. Significant migration outflows from the region because of a major regional war are impossible: *neither Russia, nor Kazakhstan is ready to accept 10-15 million refugees and resettle them in a short time*. Other regional countries cannot do this either. A smaller number of refugees will not have a significant influence on demographic processes in Central Asia.

As a result, the population will boom in Central Asia, first of all, because of Uzbeks and Tajiks. This growth will deteriorate complicated political problems in the countries. The region will remain politically unstable and volatile.

*The booming population will cause the following problems:*

- shortages of farmland;
- unemployment and impoverishment of the majority of the population;
- threats of famine;
- a growth in the influence of traditional values and Islamic political radicalism based on them;
- the growing contradiction between different peoples and cultural groups that will cause major conflicts and local wars;
- threats of the destruction of state institutions and a political chaos in the countries, like in Kyrgyzstan and Afghanistan;
- the growing drug production and crime;
- the strengthening of despotic political regimes that are internally unstable but receive foreign military and political support for retaining power.

One of the most dangerous consequences of the inevitable continuation of demographic growth in the region is a change in relations between different peoples and cultural groups that will lead to the redistribution of political spheres of influence in the region and, possibly, the redrawing of borders. This will also lead to a growth in political significance of cultural features of those peoples and cultural groups that will grow fast.

In this connection the most conflict-prone trends are:

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- *the growth of the numbers of Uzbeks and Tajiks compared with Kyrgyz, Kazakh and Slavic ethnic groups.* Slavic and European ethnic groups will stop being visible in the region in 15-20 years. Kyrgyz will exhaust the resource of the village and will switch to small family after moving to town in about 15-20 years. Emigration to Russia or Kazakhstan will become significant for Kyrgyz and this will constrain demographic growth. Kyrgyz will number 5-6 million in Kyrgyzstan in 15-20 years, Uzbeks 1-15 million and Russians - up to 300,000.

Uzbekistan's population will grow to 50 million people in 15-20 years. Out of them, over 35 million will be Uzbeks and Tajiks will number 5 to 15 million people depending on cultural processes taking place among the Tajik-speaking population of Uzbekistan - whether their Tajik identity strengthens or their Uzbek self-determination and language become stronger.

With ongoing demographic trends, Tajikistan will have 12 to 15 million people in 15-20 years, with Uzbeks numbering 1.5-3 million. Labor migration will influence demographic relations both in Tajikistan and Kyrgyzstan. This factor will equally influence Uzbeks and Tajiks, but it will hardly change their population growth in relation to one another.

Afghanistan's population will continue to grow thanks to sedentary peoples, namely Uzbeks and Tajiks. The number of Tajiks is expected to grow from the current 12 million people to about 20-22 million people, and their share may increase from the current 30% to 40-50%. Northern Tajik provinces will become the most densely-population region of Afghanistan. *Regions around Kabul may also become predominantly Tajik to even greater extent.*

The number of Kazakhs will not likely to increase significantly in Kazakhstan. On the contrary, Kazakhs may start experiencing demographic decline. The share of southern Kazakhs, who are culturally close to Uzbeks and Tajiks, will increase, while the share and number of Russians in Kazakhstan will fall. As a result, the share of Kazakhs will increase to 70-80% in Kazakhstan. The share of Kyrgyz and Uzbeks will also become remarkable.

Thus, the demographic weight of formerly nomadic people - Kyrgyz and Kazakhs - will decrease in Central Asia in the next 15 to 20 years. Urbanization and a switch to small family will accelerate their demographic decline. Slavic peoples will stop being a noticeable ethnic group in Central Asia altogether. The demographic domination of Uzbeks and Tajiks will become clear and strong. This will lead to a growth in political and cultural importance of Uzbek and Tajik factors in the region, as well as problems and contradictions relating to Uzbeks and Tajiks. Contradictions between formerly nomadic people - Kazakhs and Kyrgyz - will grow on the one hand, and Tajiks and Uzbeks on the other. A particular example of this trend - a similar situation with its peculiarities and

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the lack of a tradition to have small family - will develop in Afghanistan. Afghanistan may also face the growing contradictions between sedentary and formerly nomadic peoples, above all, between Tajiks and Pashtuns.

A special factor in this context is similar processes in Iran which is linguistically close to Tajiks. Demographic growth in Iran also concerns sedentary peoples, and is fraught with political and cultural pressure on the north of Iran and the culture of Persians. This is a factor that helps weaken the position of Pashtuns in Afghanistan. Iran's pressure is also a factor that weakens Uzbekistan's position in the region.

The main contradiction in relations between sedentary and nomadic peoples is the issue of political power over a major space where it is possible to manage crop farming, trade and water resources. Kazakhstan and Kyrgyzstan have such areas, but for political reasons the mass colonization of these areas are not possible by Uzbeks and Tajiks. Internal conflicts in farming areas of Central Asia will cause the exodus of refugees and other forms of pressure on northern countries that will shake statehood in Kazakhstan and Kyrgyzstan.

- Another important consequence of the continuing demographic growth in Central Asia is a change in numbers of Tajiks and Uzbeks in the region, or, in a wider sense, between Turkic crop farming peoples and Persian-speaking peoples, above all, Tajiks. In Tajikistan proper, this growth may be somewhat constrained by labor migration to Russia, but this is not the case in neighboring Afghanistan. Tajiks of Afghanistan migrate internally, mostly to Kabul and other major cities.

The number of Tajiks and their share of population are not simply growing in Afghanistan, but the area of their compact settlement is expanding too. This compensates labor migration in Tajikistan. This also changes the structure of Uzbek-Tajik cultural and political interaction. Uzbekistan will face competition not from versions of Tajik culture and identity that are familiar to it but Tajik culture of Afghanistan's Tajiks. This will manifest in the growth of Islamic culture adopted by Tajiks, some forms of military culture of Afghanistan's Tajiks, the growing significance of politicians from Tajik parts of Afghanistan and in a new Afghan diplomacy that will aim at closer relations with Tajikistan and Iran.

In Afghanistan itself changes in the proportion of Tajiks and Pashtuns in the country and of Tajiks (Persians) and other peoples in Central Asia will lead to a new political configuration for the stabilization of the country. Afghanistan's Tajiks, supported by independent, demographically booming Tajikistan, and, on the other hand, Iran, cannot seriously raise the issue of their political dominance in Afghanistan, and for a long time. This would mean fundamental restructuring of domestic politics in Afghanistan: the

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emergence of a strong ethno-political core that will unite the country in place of disunited Pashtuns centralizing the country to replace the nucleus of ethno-politically disunited Pashtuns. As a result, a "Greater Tajikistan", consisting of Tajikistan and Afghanistan's Tajik areas, will become a region with common interests to rival their main regional competitors - the Pashtuns and Uzbeks. Interaction between Tajikistan and Afghanistan's Tajik areas will strengthen both regions. Moreover, there is no need to change the political map of the region and for Tajikistan to become part of Afghanistan. Interaction between politically different parts of the area populated by Tajiks is more efficient than a policy to build a united and independent Tajikistan, or to enlarge Afghanistan. Different political attachment of Tajiks will help them to focus, helping each other, on solving various ethnic problems and prevent them from turning into a source of political tension in the region, as it has happened to Kurds and Kurdistan.

Attempts to unite Tajikistan with Tajik areas of Afghanistan into a single state will lead to strong internal conflicts between Tajiks and will reignite a civil war: Afghanistan's Tajiks will inevitably try to build a political system in Tajikistan based on Islam, which will lead to a conflict with more secularly-minded Tajiks and Uzbeks of Khujand. This will weaken Tajik culture's capability to compete with Uzbek culture and cause a larger part of Tajiks of Uzbekistan's Fergana Valley to lose their Tajik identity.

At the same time, a secular statehood in Tajikistan will help this country turn into a promising entity for global powers that want to contain political radicalization of Islam. A secular Tajikistan will be interesting to the USA, China, Russia, NATO and India as a factor of influence on the nature of government in Afghanistan that will restrain Islamic radical influence. Secular Tajikistan can serve as a strong argument for the gradual creation of a similar social and political system in Afghanistan. This will offer significant opportunities for Tajik statehood for a greater geopolitical game in the region in partnership with global powers.

A secular Tajikistan will also serve as a strong argument in the worsening political situation around Iran. Islamic, namely Shia, version of political system in Iran will inevitably cause conflicts with many global powers. These conflicts have been multi-faceted. However, ideology plays a significant role in them. A secular Tajikistan, as a factor of secular development of new Afghanistan, against the background of the growing demographic weight of Tajiks in Central Asia, is a version of building a "Greater Tajikistan" as another version of Persian culture and, in a wider sense, "another Iran". A Greater Tajikistan, as a geopolitical region, and cultural commonness may become a foundation and example of modernization of sedentary Islamic cultures for the region between India, China, Kazakhstan and Iran, given Tajikistan is Sunni in contrast to Iran and is more adapted to the emergence of a modernized universal version of Islamic culture for neighboring countries compared to Shia Iran.

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*The idea of "another Iran" in form of a Greater Tajikistan may consolidate global powers' efforts to support Tajiks and Tajik culture and statehood and turn Tajikistan into a strong regional geopolitical player.*

This, above all, is important because of the growing problems caused by demographic growth in the Fergana Valley, especially in Uzbekistan. If great powers see a Greater Tajikistan as a base in the region that is close in terms of civilization, then *Tajikistan will have a chance of turning into a point of stabilization for the entire Fergana Valley and Uzbekistan, and even entire Central Asia.* Meanwhile, the Republic of Tajikistan may become a core of Greater Tajikistan, with support from global powers and to some extent from Iran.

In this situation, the majority of the Tajik-speaking population of Uzbekistan and people with border, mixed forms of identity may preserve their Tajik identity, language and culture. This may even expand Tajik culture to other parts of Uzbekistan, with the Tajik population growing to 10-15 million people and these people will strengthen the position of not only Greater Tajikistan and a greater Persian world, but also the position of the Republic of Tajikistan because of historical links with the territory of the Republic of Tajikistan.

For this *the Republic of Tajikistan should focus on economic breakthrough* and avoid deep involvement in political fight in Afghanistan and preserve the secular nature of its statehood and culture. With favorable conditions for Tajikistan in 15-20 years, a Greater Tajikistan, made up of the Republic of Tajikistan and Tajik parts of Afghanistan and Uzbekistan, may have about 50 million people, which will be greater than the demographic potential of Uzbeks and will equal all sedentary Turkic peoples in Central Asia combined. Moreover, the economic situation of Tajik regions will generally be more favorable than overpopulated regions of Uzbekistan with their socio-political problems because of it.

As a result, the Sogd free economic zone is not just an economic project. The Sogd FEZ should become an important element to attract surrounding regions of neighboring countries to prevent conflicts in this volatile region, and become an element to unite Tajik regions of Afghanistan, the Fergana Valley and other regions of a Greater Tajikistan into a single economic body. Khujand is being turned into one of the backbones of Tajik culture in Central Asia by the course of demographic and cultural processes and into a center of gravitation for Uzbekistan's Tajiks, a center of restructuring of political and economic relations in the region, orienting them at a new regional geopolitical center - Tajikistan. Khujand has turned out to be in the sphere of geopolitical trends that determine its transformation into a major urban center and a very important Tajik and Uzbek cultural center with the dominance of Tajik culture.

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*A transport component* is acquiring particular importance in this. Khujand should become a hub uniting a Greater Tajikistan into one economic space, and a center of transit for China, Uzbekistan and Iran. If the growth of Khujand and other hubs of Greater Tajikistan that unite it into one is not planned, these hubs will emerge spontaneously. In any case, the demographic growth Tajiks requires the emergence of a strong center of gravitation for Tajiks and Tajik culture, politics and economy in the Fergana Valley. The transformation of Khujand into such center is practically inevitable.

The Sogd FEZ has significance not only as an economic project, but also as a geopolitical one. Based on it, those elements of the region's new socioeconomic and cultural infrastructure that are replacing the previous system can quickly be formed with the development of demographic processes. The Sogd FEZ cannot for objective reasons be a source of separatist trends, because it is in the sphere of actions of geopolitical trends that unite Tajikistan into a single regional force. The particularly quick economic growth of Khujand and the FEZ will strengthen, not weaken, Tajikistan.

Bearing in mind interests of great powers and Iran in the growth of secular Tajikistan's geopolitical importance, the Sogd FEZ may have major strategic investors from China, Iran, the USA, the EU and Russia, as well as Afghan and Persian Gulf investors. Political risks relating to them are relatively insignificant. These investors will strengthen Tajikistan, not break it up. However, it is necessary and possible to aim to establish the state's and FEZ administration's control over them. Geopolitically, the Sogd FEZ is enjoying favorable trends. It may implement major investment projects that aim at the market of a Greater Tajikistan and entire Central Asia, especially in the sphere of transit.

It is necessary to facilitate interaction between the process of forming an urban center from Khujand and neighboring small towns and the development of the Sogd FEZ. The free economic zone cannot be isolated from the transformation of Khujand into a megalopolis. On the contrary, the FEZ should become a growth center for the megalopolis and entire Sogd Region, which is why the narrow specialization of the FEZ is not acceptable. The FEZ should be multi-faceted, with the possibility of building it by modules and bringing in extraterritorial residents that are needed for the work of complicated industrial projects. The FEZ should become *a growth center of Tajikistan and Sogd Region* as an integrated economic region. At the same time, it should not copy specialized export-based FEZ in coastal China. The FEZ should be multi-faceted and take into account its continental location.

### ***Current Political Risks to the Development of the Sogd FEZ***

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Demographic trends define the medium-term development of the region for about 15-20 years. These trends are favorable for the accelerated development of the Khujand region and the Sogd FEZ. This makes it possible to plan and anticipate a breakthrough in the development of the FEZ itself.

If we consider short-term forecasts for five to 10 years, the situation around the FEZ and Khujand should be considered in other categories. Instead of demographic trends it is necessary to consider the development of the political situation in the region.

Among political risks faced by the region in the short-term the following is most dangerous:

- the situation in Kyrgyzstan;
- prospects for power change in Kazakhstan;
- prospects for power change in Uzbekistan;
- the development of the situation in Afghanistan and around it;
- crime associated with Afghan drugs production;
- a threat of military conflict in Iran;
- a new factor - rapid economic development in Xinjiang and its influence on neighbors.

Kyrgyzstan will be the weakest country in Central Asia politically for a long time. Regular outbreaks of conflicts are inevitable in this country. CIS CSTO troops or other foreign troops that may theoretically be deployed in this country would not safeguard peace in the country. It is highly likely that Russian troops may be deployed in Kyrgyzstan, but for Russia with its current economic situation and army a war in Kyrgyzstan will become a burden that it may struggle to cope with.

Structural causes of Kyrgyz instability:

- the division of the country into two regions and the establishment of control on either part requires significant efforts, while reliance on one of the regions will not provide sufficient resources for the central government to control the other part and successful interaction between the two parts of Kyrgyzstan is problematic;

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- the continuing exodus of rural Kyrgyz to towns that are populated in the country's south by Uzbeks and there are problems between the two communities.
- the growing conservatism of Kyrgyzstan's political system with the migration of people of Slavic people and Europeanized Kyrgyz to Russia and the coming-of-age of youth people who received very poor secondary education;
- the lack of strategic interest in stabilization in Kyrgyzstan from major powers;
- the growing crime in Kyrgyzstan and its involvement in drug trafficking and production;

Kyrgyzstan will continue to be a source of regional threats for a long time, with possible involvement of Uzbekistan in a conflict in Kyrgyzstan's south and possible water conflicts with Kazakhstan and regular interruptions of transit routes cutting through Kyrgyzstan.

However, instability in Kyrgyzstan does not bear a threat of major conflict between Tajikistan and Kyrgyzstan. Kyrgyzstan does not have enough forces to attack Tajikistan, and the likelihood of the establishment of Islamic extremists in Kyrgyzstan on a scale that will pose a serious threat to Tajikistan is very small.

The main threats coming from Kyrgyz instability are linked to a possible spillover of the conflict in Kyrgyzstan to Uzbekistan and a crisis in Uzbekistan, but this spillover is possible only if Uzbekistan will have additional, much more serious, conditions for an internal crisis that are bigger than Kyrgyz instability. Khujand and the Sogd FEZ may serve as a factor to weaken instability in southern Kyrgyzstan and Uzbekistan.

Instability in Kyrgyzstan offer some advantages for the Sogd FEZ:

- transit routes from China to the south, namely to Uzbekistan, are unreliable. *The Sogd FEZ may claim a role of one of the main points for flows from China to bypass southern Kyrgyzstan.* A transport hub in the FEZ may develop a major transshipment point. Tajikistan's road networks will turn into the main gates of booming Xinjiang to the south - to Iran, Afghanistan and Uzbekistan. Potential Chinese investment that may have been placed in Kyrgyzstan may possibly be placed in the FEZ.
- *a major market in Kara-Suu may largely relocate to Khujand*, because the FEZ will have 320 ha of premises and empty space with ready-to-use infrastructure. A significant part of flows of goods that have traditionally been linked to Kara-Suu should be and may be

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moved to the FEZ. This should *turn part of local, border Uzbek capital into a production chain* that is aimed at the FEZ and turn it into a lobbyist group that will expand opportunities for trade between Tajikistan and Uzbekistan from the Uzbek side of the border. Bringing a significant part of flows of goods from Kara-Suu should also strengthen the position of traditionally Tajik trade capital, especially in Uzbekistan.

- the FEZ should largely aim at transit linked to Xinjiang. Transit in the direction of Russia will face regular complications due to Kyrgyz instability. That is why the FEZ will become important for Chinese capital that aims at Uzbekistan, Afghanistan, Iran and possibly Europe. *The FEZ may acquire a partner major FEZ or other similar strategic partner in Xinjiang*, which will ease the lobbying of Tajik interests in China and will guarantee reliable strategic investors linked to Xinjiang for the FEZ itself and major transport projects in the Khujand region.

- Instability in Kyrgyzstan will strengthen Tajikistan's positions regarding Uzbekistan and the importance of Khujand and the FEZ for Uzbekistan. There may be a strong partner of the FEZ not just in China, but also in Uzbekistan.

### ***Prospects for Power Change in Uzbekistan***

A very important political risk for the FEZ is an inevitable change of leader in Kazakhstan and Uzbekistan because of their age. These two countries' leaders are expected to depart from power in about five years. A similar change is expected to take place in Tajikistan too, but Tajikistan, in contrast to Kazakhstan and Uzbekistan, has a mechanism of horizontal regulation of relations between various elites. A common geopolitical trend also exists in the region that favors Tajiks and Tajikistan, providing insurance from a strong crisis at a time of changing leader.

Power change will hardly be easy in Uzbekistan and Kazakhstan, especially in Uzbekistan. Internal tension, prompted by demographic growth, instability in Kyrgyzstan and Islamic extremism in Afghanistan, is high. There is almost no experience in horizontal regulation of relations between elites in Uzbekistan. The entire period of independent existence Uzbekistan has spent under the power of one person.

Regardless of scenario for Karimov's departure from power there is a risk of long-term instability in Uzbekistan or of a major military and political crisis. The greatest threat in both development scenarios and in case of more or less conflict-free power change is a

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set of contradictions between Uzbeks and Tajiks in the Fergana Valley. These contradictions are superimposed on the growth of political Islamic radicalism and may cause a major conflict.

Power change in Uzbekistan may prompt a growth in Tajik self-consciousness in Samarkand and Bukhara in any cases except for one: an internal conflict in Tajikistan proper. If Tajikistan avoids an internal conflict, which seems to be the case, during a crisis in Tajikistan will receive a major group of influence in the Fergana Valley from local Tajiks. Khujand is the main city and region through which Tajik influence may be exercised on Uzbekistan's Tajiks.

Khujand and the FEZ should be ready to accept major investment from Uzbekistan that may arrive in case of crisis there. The FEZ should create conditions for using Uzbekistan's Tajiks and Uzbeks as a production chain in Uzbekistan. In other words, a power crisis in Uzbekistan should bring major investors to the FEZ who are trying to take their capital of the unstable country. The attractiveness of Tajik routes, especially ones in Sogd Region, for transits to and from Xinjiang.

During instability in Uzbekistan, Tajikistan will not be able to raise the issue of changing the borders and merging Tajik regions of Uzbekistan:

- demographic growth in these regions will continue and their annexation will become an unaffordable burden for Tajikistan. Moreover, it will be impossible to merge them without significant areas with predominantly Uzbek populations and this will be impossible without waging a protracted war with Uzbekistan.

- the best policy for Tajikistan in case of Uzbek instability is to focus on an economic breakthrough in Khujand, and *turning it into an important economic and political center for Uzbek and Kyrgyz border regions*, and helping Uzbekistan and Kyrgyzstan weaken the level of instability in their territories, supporting Tajik culture, economy, language and identity in Uzbekistan and ensuring free transit through the border and trade with Uzbekistan's neighboring regions.

A potential crisis in Uzbekistan does not necessarily mean Tajikistan's involvement. On the contrary, this crisis may increase Khujand's importance in the region and encourage the development of the FEZ.

### ***Prospects for Power Change in Kazakhstan***

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Power change in Kazakhstan is expected to take place almost at the same time as the one in Uzbekistan. It is most likely to happen in 2012. Kazakh President Nursultan Nazarbayev cannot afford himself to take part in an election in 2017, and there is no sense in leaving his post between 2012 and 2017 due to force majeure circumstances (illness or death). The most likely scenario is his departure from presidency in 2012 and transferring power to his successor with the preservation of his strong positions while he is physically capable while his successor is in power. Given Nazarbayev's age, the process of power change in Kazakhstan has started and it will last five to seven years.

Power change in Kazakhstan will take place in a different domestic political and demographic situation from Uzbekistan and in a more favorable demographic condition from the point of view of neighbors. Kazakhstan may rely on Russia, China and Western countries. The largest threat to Kazakhstan's political system is the current threats posed by instability in Kyrgyzstan and potential instability in Uzbekistan. *That is why Kazakhstan is a strategic ally of Tajikistan in the region.* Tajikistan may also use this partnership in the interests of its economy, above all, Khujand and the FEZ. First of all, in joint projects involving partners from Kazakhstan, Russia and Xinjiang.

Instability in Kazakhstan and Uzbekistan will increase China's positions in Central Asia, because it will coincide with Chinese economic programs in Xinjiang, transforming this autonomous region into the region's economic leader.

It is most likely that stabilization in Kazakhstan will be accompanied by a growth in Russia's and China's influence on Kazakhstan and through Kazakhstan on Central Asia. Whereas instability in Uzbekistan poses certain threats of bringing instability to Tajikistan, instability in Kazakhstan during power change entails the opposite: the strengthening of Russia and global powers' influence in Kazakhstan offers Tajikistan an additional tool of security and possibilities of major projects with China and Russia. Because of its geographical position Khujand will benefit from these projects. The Sogd FEZ should be ready to implement such projects.

### ***The Development of the Situation in Afghanistan and around It***

The war in Afghanistan will hardly turn into a large-scale conflict. The current situation - smoldering combat actions may drag on for long. Tajikistan borders Tajik regions of Afghanistan that are the most stable in terms of military actions and most rapidly developing demographically. Instability in Kyrgyzstan and potential instability in Uzbekistan, economic growth in Xinjiang create most favorable conditions for the economic development of these Afghan regions and for transiting them to Iran, Turkmenistan, China and other countries.

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As a result, the Khujand region is close to the most favorable and stable part of Afghanistan that is populated predominantly by Tajiks. This is an additional factor that helps attract major investment in Khujand and the FEZ.

The Tajik part of Afghanistan does not have a major town that may become a megalopolis to compete against Khujand. The development of major transport companies in the FEZ and transport routes in the Khujand region along the north-south line, major storehouses and a financial market will benefit Afghanistan's Tajik regions. Production chains in Afghanistan's Tajik part may rely on ethnic Tajiks and boost Khujand's significance. The FEZ may count on a major flow of targeted investment from Afghanistan's Tajik regions that will be withdrawn from a stable but semi-warring part of Afghanistan.

*The specifics of Afghanistan is that its population has a lot of cash. The poor development of a financial services market, money from foreign troops, badly managed loans and investments embezzled by corrupt military and officials, money raised from smuggling and drug trafficking have created a dangerous situation that encourages corruption and drug production. The fight against drugs in Afghanistan should include the seizure of large amounts of badly controlled cash and channeling free capital into long-term capital-intensive projects. Free criminal money that corrupts government agencies and destroys state institutions poses the greatest danger to society. It is difficult to expect that free money will be placed in major investment projects in semi-warring Afghanistan. However, free capital may be placed in Tajikistan's major projects, especially in the property sector.*

Any elementary level of order in Afghanistan raises the issue of investing free capital in major legal investment projects. Projects of the Sogd FEZ may become such projects if *law-enforcement agencies were able to strictly monitor the origin of money*. Obviously criminal money of large scale may be fought by joint actions of Tajikistan's law-enforcement agencies and international law-enforcement institutions. Joint actions by Tajikistan's law-enforcement agencies, international law-enforcement institutions and local authorities in Afghanistan's Tajik regions to fight drug trafficking and production may encourage a quick flow of free capital from Afghanistan to legal construction and industrial projects in the Sogd FEZ and increase Tajikistan's geopolitical significance. This capital may become one of the important components of the financial sector of the Sogd FEZ. *The financial component of the FEZ may become one of the main financial markets in the region*, or even a leading market. Perhaps, the main partner in this segment of the FEZ may be financial institutions from the Islamic world that are familiar with the work of such markets. Business structures linked to the UAE (Dubai) and Aga Khan seem to suit conditions of Tajikistan and Khujand.

### ***Threat of a Military Conflict in Iran***

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If wars in Afghanistan and Iraq spread into Iran, *the strategic importance of Tajikistan will sharply grow*. Tajikistan will become particularly important for China as a buffer between the war zone and Xinjiang. The importance of transiting through Tajikistan will grow for the USA.

Any scenario of war with Iran will lead to several independent wars along its borders: in Kurdistan, near the Strait of Ormuz, near Azerbaijan and along the Tigris and Euphrates. Shia regions of Afghanistan and Baluchistan may also become independent conflict zones. Tajikistan may be able to influence the development of these conflicts, which will not pose a direct threat to Tajikistan. On the contrary, the emergence of a single conflict zone involving Shia regions of Afghanistan and neighboring provinces of Iran will change the local arrangement of forces in Afghanistan in favor of Tajikistan. Afghanistan's Pashtuns will face a challenge from major Shia forces from regions that border Iran, while Baluchi will be distracted from an alliance with Pashtuns against the Shias and Tajiks.

A possible war in Iran will sharply increase the geopolitical significance of Tajikistan and expand Tajikistan's influence on Shia regions of Afghanistan and bordering areas of Iran.

*One of the consequences of a possible war in Iran is a sharp growth in the significance of the Tajik version of Persian culture and political system. Tajikistan, despite an increase in the influence of political Islam in case of a war in Iran, will represent the secular version of Persian culture.* This will create conditions for turning Tajikistan into a strategic partner of the USA, Europe, China, Russia and India for the deep reconfiguration of the entire political and cultural map of the region located between Iraq and China. The reconfiguration may turn Tajikistan into a country or force that will dominate in this region and represent another, more secular version of Iran. The Iranian significance of Tajikistan is particularly important for the reconfiguration of Iran itself and post-war settlement there.

It is most likely that in case of a war against Iran, Tajikistan may quickly become a force that will:

- control Afghanistan except for regions populated by Pashtuns and Baluchi;
- strengthen positions in Shia districts of Afghanistan and neighboring districts of Iran and thus influence the situation in central Iran and Persians living there;
- influence northern Pakistan and play a significant role in the permanent crisis in Kashmir;

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- constrain a crisis in Uzbekistan and the entire region of Soviet Central Asia.

Even if there will not be a war against Iran, all these trends will still take place, but more slowly and Tajikistan's domination in this directions will not be clear-cut as it may be in case of a war in Iran.

Cultural and religious contradictions between Sunni Tajikistan and Shia Iran have special importance. In case of a war in Iran, the reconfiguration of the region will also take place because of the strengthening of positions of Sunnis and the Sunni branch of Islam in general by reducing the importance and influence of Shi'ism in the region. A war against Iran will quickly actualize the religious and political importance of traditions of Tajik-speaking Samarkand and Bukhara as traditional centers of Islamic education as alternatives to Iran's Qom. Tajikistan's attempts to revive Samarkand's and Bukhara's religious and cultural importance may become one of the chief geopolitical tasks of the post-war reconfiguration of the region where Tajikistan will be able to count on support from global powers - the USA, Europe, China, Russia and India.

Khujand, in this context, is an important element in turning Samarkand and Bukhara into major Islamic centers of the region again, preventing the development of destructive forms of Islamic political activity and radical forms of Islamic religiosity in the region. The rise of Samarkand and Bukhara may start with the rise of Khujand as such center. Persian Gulf Islamic countries may offer serious support to this policy and invest in Khujand's economy.

*A long-term alliance with China for the sake of Xinjiang's stable development and pressure on India*

China is one of the countries that are most interested in the stable development of Tajikistan. China needs:

- a buffer state between Xinjiang and regions of instability in the region's Islamic countries;
- to strengthen a secular state with a predominantly Muslim population near Xinjiang that will prevent the development of Islamic radicalism in Xinjiang;
- a state that does not have significant numbers of peoples that ethnically close to the population of Xinjiang;
- a state that has potential to influence India and use it jointly with China;
- a state that is capable of stabilizing northern Pakistan if this country breaks up;

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- a state that is capable of influencing the Kashmir conflict if Pakistan weakens or breaks up;
- a state that ensures stable transit between the booming economy of Xinjiang and Central Asian countries, Afghanistan, Iran, Pakistan and so on.

Tajikistan fully suits to play the role of a major growing strategic partner and ally of China for a long time.

Moreover, China has already implemented strategically important, fundamental changes to transport infrastructure between Xinjiang and Islamic countries. *In the past five to 10 years, the capacity of roads leading to China via Tajikistan has exceeded the capacity of the Karakoram highway* and linked Xinjiang with markets that are larger and more important than those that are linked to Xinjiang via Karakoram. Routes that are planned to be modernized or built will increase this trend. The crisis in Kyrgyzstan and the threat of a bigger crisis in Uzbekistan also increase the transit significance of Tajikistan for China, while the significance of the Karakoram highway depends on the level of regional security in the zone of Indian-Pakistani conflict.

Tajikistan, developing transport routes between Xinjiang and Islamic countries, have turned into a significant factor of Chinese-Indian and Indian-Pakistani confrontation and geopolitical game. A breakout of a war in Pakistan will not influence China's interests and the development of Xinjiang now, because goods will flow through Tajikistan.

China also shows interest in the growth of Tajikistan's stabilizing influence along transit routes from booming Xinjiang to the Persian Gulf and the Caspian Sea, above all, in Afghanistan's Tajik and Shia regions. Khujand is an important element of this strategic policy of China.

### Russia

Russia has long-term interests regarding Tajikistan and this makes major Russian-Tajik economic projects and long-term geopolitical cooperation possible. Russia is interested in Tajikistan that is quickly gaining regional weight to prevent the development of crisis in Uzbekistan, Kyrgyzstan and Afghanistan.

The Tajik diaspora in Russia plays a special role. Russia has already received large numbers of migrants from Tajikistan. This process will continue. An important issue is that not all Tajiks in Russia have gone there from Tajikistan. The number of Tajiks from

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Uzbekistan is comparable to the number of Tajiks from Tajikistan. Moreover, the number of Tajiks arriving in Russia from Uzbekistan will grow faster than the number of Tajiks arriving in Russia from Tajikistan. A possible political crisis in Uzbekistan will most likely increase the migration of Uzbekistan's Tajiks to Russia.

As a result, the Tajik migration factor links Russia and Tajikistan to an increasingly greater extent and this factor is very diverse.

The Sogd FEZ may and should become a point of the greatest contact between Tajikistan and Tajik migration to Russia and other CIS countries: the majority of Tajik migrants have arrived in Russia from the Uzbek and Tajik parts of the Fergana Valley and this trend will continue. With the growth in size, the capacity of the Tajik diaspora in Russia will grow. The Tajik diaspora in Russia may become a nucleus of a production chain for goods from Tajikistan, Afghanistan and Iran transiting Khujand. The Tajik diaspora in Russia may become a source of major investment placed in the FEZ. The Tajik diaspora may use the FEZ to obtain guarantees of necessary financial services similar to those provided by offshore countries. A significant part of labor migrants may receive education at the FEZ to master construction and other specialties to work in Russia. These advantages may also be extended to some Tajik migrants who went to Russia from Uzbekistan.

The FEZ should become a nucleus of a structure that consolidates the Tajik diaspora in Russia, above all, its richest part. The number of Tajiks in Russia is no less than 1 million people. This number may soon grow to 2 to 4 million people. It is logical to establish efficient interaction between them and Tajikistan using the FEZ.

The FEZ may become a major channel between the economies of Tajikistan and Russia and of Tajikistan and Kazakhstan.

For this, the FEZ should and may be linked to major development programs in Russian and Kazakh regions: supplying food to Kazakh cities and some fruit and other goods to Russian regions. Perhaps, the work of Tajik builders in Russia may be licensed or regulated through resident structures of the FEZ.

In case of retaining Kyrgyzstan and, in future, Uzbekistan in relative stability, Tajikistan may consider joining the Customs Union of Russia, Kazakhstan and Belarus.

Close relations with Russia are important competitive advantages of Tajikistan and the FEZ. They may become a basis for close political cooperation between Tajikistan and Russia, especially in solving crises in the region. With Tajikistan's transformation into a regional leader, its relations with Russia may become important for Russia as much as Russia's relations with Kazakhstan.

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The power engineering component of the FEZ

Power engineering is a special factor of the development of the FEZ and the Khujand region. It is closely linked to agriculture and regional cooperation between Sogd Region and neighboring regions of Uzbekistan.

Regardless of the specialization of the FEZ that depends on various geopolitical factors in Afghanistan, Kyrgyzstan, Uzbekistan and Iran opens up opportunities for cooperation between Sogd Region and neighboring Uzbek regions. This requires a mutually acceptable solution to water and energy problems. This solution is based on the following formula: energy and water from Sogd Region is supplied to Uzbek regions in return for unhindered access to the Uzbek market and transit of goods through Uzbekistan and firm positions of FEZ residents in the Uzbek market and transit sphere.

New factors that may strengthen the positions of the FEZ and Tajikistan in general in this complicated issue are those factors that aim to link the FEZ to Tajiks in Russia and Uzbekistan and to increase the power engineering capacity of Sogd Region through the capacity of the FEZ.

This may be energy projects run by FEZ residents in the sphere of new sources of energy and production of new power engineering equipment. At some point of the development of the FEZ, the issue of greater cooperation between the FEZ and major power engineering facilities in Sogd Region will become topical.

The FEZ has potential to attract major targeted investors and form associations of major investors. These investors will aim to enter the local power engineering sector, expanding beyond the initial specialization of the FEZ. This has to be taken into account in the future development of the FEZ, because power engineering is the most important potential of Sogd Region.

It is logical to encourage the development of mostly power engineering technologies in the FEZ and creation of the FEZ's image as a structure that aims at technological breakthrough in power engineering. With the development of the FEZ's potential, there will be need to expand interaction between the FEZ and the economy of other parts of Sogd Region, especially in the power engineering sphere. Forms of this cooperation cannot be predicted now. This may be the inclusion of major power engineering facilities in the FEZ, attraction of major foreign investment in power engineering facilities and partnership between the FEZ and Sogd Region authorities and economic entities of neighboring Uzbek regions for the joint development of the entire border region, like in the EU.

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It is important to lay the foundation of the power engineering component as part of the development of the FEZ now, so that its increasing significance for the region is expected.

Agricultural production and processing produce are closely linked to power engineering. *The FEZ has an exterritorial principle of formation, so that part of residents are physically located outside the FEZ.* With the power engineering prospects of the FEZ, it is necessary to encourage agricultural production and processing produce in the FEZ to enable the agricultural component of the FEZ to become an element of the FEZ's involvement in major crossborder water and energy projects.

This idea also fully corresponds to another important task of the FEZ - ensuring import substitution of a number of goods in the Tajik market. Because of its aim to substitute imports the FEZ should aim to develop not like a classic FEZ that aims to increase exports through incentives for its residents. The FEZ should aim to become a growth center for entire Sogd Region and neighboring regions. This corresponds to a module-based exterritorial principle of forming it. It is important to correctly identify promising important specializations of the FEZ now:

- transit;
- agricultural production and processing;
- power engineering;
- investment in property;
- financial services;
- coordination of Tajik businesses in Russia and Uzbekistan.

The FEZ has potential to become a nucleus to create 10 to 15 million jobs in Tajikistan, Kazakhstan, Russia and other neighboring countries, above all, in the former Soviet countries.

### **Conclusions**

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- The Sogd FEZ is located in a region that is full of political risks, but these risks do not generally pose a threat of political collapse;
- With due attention to political risks, the Sogd FEZ may mostly obtain advantages from political instability that exists in Central Asia;
- In the medium and short-term, Khujand and the Sogd FEZ may become *centers of major capital* in Central Asia and reliable transit points along the China (Xinjiang)-Iran route;
- All major political forces present in the region - the USA, the EU, NATO, Russia, China and Iran - are interested in political stability in Tajikistan and have no opposition to the development of the Sogd FEZ and its transformation into the nucleus of a powerful economic region centered in Khujand. Political crises that exist in Central Asia (Kyrgyzstan and Afghanistan) or are anticipated (Kazakhstan and Uzbekistan) help the Sogd FEZ develop;
- The correct choice of strategic investors for the FEZ is particularly important. The FEZ may be attractive to five to eight major targeted investors some of whom have already arrived in the region: Arab investors from Dubai, Aga Khan, Russia's Tajik diaspora, Iran and Chinese capital and free disorganized capital from Afghanistan;
- Targeted investors need to be treated individually and in group in close cooperation with Tajik government agencies and the Sogd Region administration;
- The FEZ may be multi-faceted and aim at the Tajik domestic market as a growth center of Tajikistan and at the foreign market as a transit point and a financial center along the China-Iran route, as well as export-based production;
- The Sogd FEZ may act as a nucleus of a future megalopolis of Khujand;
- The development of the Sogd FEZ should be linked to the development of other FEZ in Tajikistan;
- The Sogd FEZ should become a leader of all Tajik FEZ and coordinate their growth and development as a single system of growth centers of Tajikistan;

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- In 10-15 years, the FEZ may become the nucleus of about 1.5-million-strong agglomeration of Khujand and start transforming Sogd Region and Khujand into an economic center of neighboring regions of neighboring countries through border cooperation programs;
- Up to 15 million jobs in neighboring countries and especially in Russia may be linked to the FEZ. This will ensure the transformation of Khujand into a leading economic center in Tajikistan and the entire Fergana Valley and an important transit, trade and financial center in the region located between China and Afghanistan;
- Khujand may also turn into a center of stabilization in Uzbekistan and Kyrgyzstan and a center of the prevention of a major crisis on the southern borders of Kazakhstan and Russia.