Background paper of the webinar

“Strategic Aspects of Water Resources Management in Central Asia”

organized in the framework of the Programme “Water as a driver of sustainable recovery: economic, institutional and strategic aspects of water resources management in Central Asia”

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Introduction

Water has been a strategic resource in Central Asia for over two millennia. The prosperity and security of oasis states depended on safe water supply for drinking and irrigation. Irrigated agriculture remained the bedrock of the economies of many Central Asian countries in the Soviet period, with hydropower, communal and industrial water use gaining an increasing weight. The water sector retained its importance for the economies and societies of the newly independent states of Central Asia. The pandemic has highlighted the significance of the water sector for public health and food security and at the same time exposed its vulnerabilities.

Replacing resource competition with cooperation

In the last three decades national level policies of Central Asian countries reflected the strategic importance of water, but strategic cooperation on water at the regional level has remained elusive. During Soviet times upstream countries operated their large, multipurpose reservoirs in irrigation mode, releasing accumulated water in the vegetation period in exchange for electricity and fossil fuels in winter time. After Central Asian countries gained independence, the cooperative regime of Soviet times started to unravel under the economic, social and political pressures of a difficult transition period. Countries often endeavoured to achieve self-sufficiency, rather than seek cooperative solutions. Neither an obsolete and weak legal framework, nor market mechanisms (of an imperfect regional market) could fully ensure the continuation of efficient, mutually advantageous cooperation on water between upstream and downstream countries. The relationship of upstream countries with a certain control over water (the big reservoirs) and downstream countries with significant resources of fossil fuels could, at times, be characterized as resource competition rather than cooperation.

Resource competition among European countries contributed to instability and clashes of interests that led to several wars, including two World Wars. The European Coal and Steel Community was established in 1951 by the Treaty of Paris by Belgium, France, Italy, Luxembourg, the Netherlands and West Germany.

The Treaty created a common market for coal and steel among its member states to end competition over natural resources. The European Coal and Steel Community started the process of integration that ultimately led to the establishment of the European Union.

The dramatic effects of climate change and a challenging geopolitical and geoeconomic environment make it imperative for Central Asian countries to replace resource competition with strategic cooperation on water if they want to achieve long-term water, energy and food security, sustainable economic development, social stability and preserve their strategic decision-making space.

Climate change: a strategic game changer

Climate change is reshaping the strategic landscape of Central Asia. In the coming decades earlier snow melt, irregular weather patterns (more frequent droughts, larger fluctuations in water flows) and higher average temperatures will aggravate the water stress caused by increasing demand for water thanks to economic development, demographic growth and huge water losses due to poorly maintained infrastructure. Beyond peak water (when the relative abundance of water flows thanks to rapid glacier melting ends due to the disappearance of too many glaciers) a dramatic increase of water stress can be expected. Water stress may negatively influence economic development, and social and political stability in the region.

According to some studies, large parts of the irrigation infrastructure of Central Asia may completely collapse within four decades if the present low rate of investment continues[1]. The current state of the infrastructure is already making it difficult to manage water resources in an efficient and economically and environmentally sustainable manner, and there is a danger that spiralling costs of restoration and proper maintenance may soon overwhelm the capacity of Central Asian economies. Without crucial investments the acute need for more efficient water use is not likely to be achieved.

Underinvestment in infrastructure has become a stumbling block to economic growth in many countries of the world. Recovery costs of poorly maintained, degrading infrastructure follow an exponential curve, until a rupture point is attained.

There are numerous telltale reports in the press in many countries of the world on collapsing bridges or exorbitant water losses in the communal water supply of large cities. The USD 2 trillion investment in the aging infrastructure of the US presently proposed by President Biden is expected to significantly boost the competitiveness of the American economy.

[1] Statement by the representative of SIC ICWC during the first webinar.

Increased investment in the water infrastructure of Central Asian countries would be a good example of far-sighted demand side economic policy, facilitating stable, long-term recovery after the pandemic.

Successful adaptation to climate change and achieving long-term water security would require investment in water infrastructure that exceeds the capacity of the economy of a single country. Closing the gap between investment needs of the water sectors of individual countries and the actual capacity of their economies should become a shared strategic objective of all Central Asian countries.

Increasingly forceful international action to mitigate climate change will inevitably influence economic policy making in Central Asia. More and more companies, economic sectors and even countries endeavour to become carbon-neutral in the coming decades. Legislation and policies in developed countries are increasingly bringing climate risks and resilience into the heart of financial and business decision making. Demand for fossil fuels is forecast to plateau in the coming years. Investment by big oil companies is held back by expectation of subdued demand. The window of opportunity for the countries of the region to use income from the export of fossil fuels and primary commodities to develop a green, diversified and resilient regional economy, among others by investing in the modernization and expansion of water infrastructure, is likely to become narrower.

Only cooperative solutions would empower the countries of the region to efficiently address these long-term trends. Replacing self-reliance and competition with strategic cooperation on water is the only way to achieve long-term water security for all countries of the region.

Preserving strategic decision making space in an uncertain international environment

Central Asian countries need to address internal and regional challenges brought about by climate change in an uncertain international environment. In the last three decades Central Asia enjoyed a degree of strategic stability. The countries of the region maintained diversified trade and economic relations with their large neighbors and other important partners. Relatively balanced investment by various companies from a number of countries in the energy sector, the production of primary commodities and transport infrastructure facilitated the conduct of “multi-vector” foreign policies.

In the coming decades Central Asian countries may face a more challenging geopolitical and geoeconomic environment. Strained relations among global powers and a continuing shift of relative strength among the biggest countries and economic

blocks that dominate the global economy (China, US, EU, India, Russia and others) are likely to influence such cooperation and integration frameworks as the Belt and Road Initiative or the Eurasian Economic Union. Difficulties with debt repayments triggered by the pandemic and the emerging trend to make supply chains shorter and more secure may also influence investment flows. These changes could pose both opportunities and risks for the water sector of Central Asia.

International economic and political pressure to accelerate climate action is likely to grow each year, as wide-spread effects of climate change become more and more visible for the broad public, the electorate and policy makers. Decisions to wean economies from fossil fuels may become inevitable earlier than expected.

In the past decades strategic decisions - e.g. on foreign investment in the production of fossil fuels and primary commodities or the development of transport infrastructure - could be taken at the national level. In the coming decades the growing importance of water will require joint strategic analysis and decision making by Central Asian countries, inextricably linked by two large transboundary rivers.

As a result of the increasingly dramatic effects of climate change, control over regionally important water infrastructure will equal strategic control of the region. There are several important reasons why Central Asian countries need to preserve their control over this vital resource through strategic cooperation:

- Decisions by one country on investment in and operation of regionally important water infrastructure inevitably affect the strategic interests of other countries.

- Cooperation on water would help Central Asian countries to preserve their strategic decision making space: it would allow them to jointly formulate and promote their strategic interests, including within larger cooperation and integration frameworks.

- Strengthened regional cooperation on water would greatly enhance the ability of Central Asian governments to design and implement long-term strategies to address problems brought about by climate change.

- Climate action and green development strategies by Central Asian countries would be more credible and efficient if formulated at the regional level. Regional projects and programmes would be the confirmation of strong commitment to cooperation, with the objective of making a positive contribution to global efforts to mitigate climate change and protect the environment. Displaying a strong commitment to regional cooperation would increase long-term stability and create a favourable regional investment climate.

Recommendation

Launching a structured dialogue on strategic aspects of water resources management could be the first step towards developing a deeper strategic cooperation in the Aral Sea basin. As a follow-up to the present Programme, assistance could be provided to the establishment of a permanent consultative group on water with the participation of institutes of strategic studies and involvement of other experts as necessary. Such a dialogue would support and complement the development of a green development strategy with a smart regional investment concept at its core. Such a concept would facilitate the involvement of a broad range of sovereign, institutional and private investors in the restoration and buildout of regionally important water infrastructure. Since investment in water infrastructure has a long break-even period, consultations on strategic cooperation to ensure long-term stability of the water sector would encourage investors to join regional or international consortia.