

## REGIONAL ECONOMIES

**FERGHANA VALLEY:  
PROBLEMS OF MAINTAINING  
ECONOMIC STABILITY**

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The Central Asia region, which is located in the very heart of the vast Eurasian continent at the crossroads where four of the largest civilizations (Russian, Chinese, Indian, and Islamic) meet, has a long and profuse history teeming with difficulties and conflicts.

The Ferghana Valley is a territory where all the problems of the Central Asia region (border conflicts, poverty, shortage of fertile land and water resources, unemployment, ethnic disputes, and so on) are concentrated and come together in a tangled ball of contradictions. So an analysis of the main, primarily economic, problems of the Ferghana Valley is vital to understanding the overall situation in Central Asia and around it.

The Ferghana Valley, an intermontane depression nestled in the foothills of Tien Shan, up to 300 km in length from the West to the East and up to 170 km from north to south, is one of the main agricultural regions of Central Asia. Only four roads (Ferghana-Tashkent, Ferghana-Khujand, Osh-Bishkek, and Osh-Khorog) and one railroad branch (Ferghana-Khujand) link the valley to the outside world.

In Soviet times, national-state demarcation was carried out in Central Asia, including in the Ferghana Valley, on the basis of a rather arbitrary idea of ethnic borders. The Ferghana Valley, which was always a single area, was divided by the administrative borders of Uzbekistan, Kyrgyzstan, and Tajikistan, which acquired the status of state borders after the collapse of the U.S.S.R. Today, this

change in status is giving rise to many problems. The borders divide a previously indivisible region and have broken down historical economic, cultural, and political ties. The flat part of the valley belongs to the Republic of Uzbekistan and is divided into the Andijan, Namangan, and Ferghana regions. The eastern part of the valley as well as the mountains and foothills surrounding the valley from the north, east, and south belong to the Republic of Kyrgyzstan and are part of the Osh, Jalal-Abad, and Batken regions. The western part of the valley belongs to the Sogd (former Leninabad) Region of the Republic of Tajikistan.

All the regions belonging to the Ferghana Valley are extremely important to their respective states, since they play a significant role in their socioeconomic life. Over 27 percent of Uzbekistan's entire population lives in the Andijan, Namangan, and Ferghana regions, which occupy 4.3 percent of the territory. About 60 percent of Kyrgyzstan's population lives in the Batken, Jalal-Abad, and Osh regions (40.4% of the territory), and 29.9% of Tajikistan's population lives in the Sogd Region (17.6% of the territory).<sup>1</sup>

An interesting geopolitical situation has developed in the region. Uzbekistan controls the lowland and most of the population, Kyrgyzstan the upland and the main sources of water, and Tajikistan

Table 1

Main Demographic Indices of the Ferghana Valley

Country	Region	Size of population (mill. people)	Percentage of rural population (%)	Percentage of urban population (%)
Kyrgyzstan*	Osh	1.05	76.8	23.2
	Jalal-Abad	0.97	76.9	23.1
	Batken	0.42	80.8	19.2
Tajikistan**	Sogd	2.03	74.2	25.8
Uzbekistan***	Ferghana	2.75	71.0	29.0
	Andijan	2.30	70.1	29.9
	Namangan	2.05	62.3	37.7

*Notes:* \* Data on the size of the population presented as of 1 May, 2006, for the rural and urban population as of the end of 1999.

\*\* Data on the size of the population presented as of 1 January, 2005, for the rural and urban population as of the end of 2001.

\*\*\* Data on the size of the population presented as of 1 January, 2003, for the rural and urban population as of the end of 2003.

*Source:* Data of the State Statistics Board of the Republic of Uzbekistan [www.state.uz], the National Statistics Board of the Republic of Kyrgyzstan [www.stat.kg] and the State Statistics Board of the Republic of Tajikistan [www.stat.tj].

<sup>1</sup> Calculated by the author according to the data of the State Statistics Board of the Republic of Uzbekistan [www.state.uz], the National Statistics Board of the Republic of Kyrgyzstan [www.stat.kg] and the State Statistics Board of the Republic of Tajikistan [www.stat.tj].

the only railroad branch linking the Ferghana Valley with the outside world. Additional complications in interstate relations in the regions are created by the enclaves—Uzbek (Sokh, Shakhimardan) on Kyrgyz territory and Tajik on Uzbek territory (Sarvak) and on Kyrgyz territory (Vorukh).

High population growth is characteristic of the Central Asian countries. In so doing, this growth is mainly occurring among the rural population. The Ferghana Valley is primarily an agrarian region (rural residents constitute 60-80% of the population), which means that it is also experiencing high natural population growth.

So, as of today, approximately 12 million people live in the Ferghana Valley, which constitutes one percent of the land in the Central Asia region. This figure amounts to more than one fifth of the entire population of Central Asia (see Table 1). The average population density on the whole amounts to approximately 100 people/sq km, and more than 350 people/sq km in the lowland part of the valley (in the Andijan Region of Uzbekistan, the population density is higher than 500 people/sq km).<sup>2</sup> The rural overpopulation becomes obvious when we take into account that there is only 0.6 hectares of land per person in the most fertile areas.<sup>3</sup> In so doing, we should keep in mind that the population is continuing its rapid growth. The predominance of young people and children in the population structure (every second resident of the Ferghana Valley is younger than 18) will maintain the high birthrate in the future too. According to experts, the population of the Ferghana Valley in 2010 will reach 14-15 million people.<sup>4</sup>

In this way, the situation in the Ferghana Valley is a classical example of social tension caused by overpopulation, a dearth of land, and surplus labor resources, particularly in agriculture. These problems are aggravated by the complicated ethnic situation in the region, where, despite the absolute numerical domination of Uzbeks, the interests of several national communities (Uzbeks, Kyrgyz, Tajiks, and the members of a few other nationalities) come in conflict with each other. All of this is happening against the background of the high activity of various underground Islamist groups, both those acting at their own risk, and those associated with radical foreign Islamic organizations (for example, Hizb ut-Tahrir).

The conflict potential of the Ferghana Valley began manifesting itself during the final years of the Soviet Union. It was openly expressed in the conflict between the Uzbeks and Meskhetian Turks in Ferghana, in the clashes between Tajiks and Kyrgyz on the border of the two republics in 1989, in the Osh tragedy of 1990, and in the disturbances in Namangan in 1991.

The economic situation in the region is characterized by the acute shortage of resources (land and water), the inefficiency of the economic reforms, the poor development of small and medium business, the unfavorable investment climate, and the collapse of the local market due to governmental isolationist measures and toughening up of the border conditions. The percentage of the shadow economy is high and corruption is widespread. There is a drop in the percentage of the GRP (gross industrial product) in the regions belonging to the Ferghana Valley Region and in the GDP of their states. For example, whereas in 1991, the percentage of the Sogd Region in Tajikistan's GRP amounted to 20.8%, by 2000, it dropped to 15.1%.<sup>5</sup> In recent years, this trend has also been noted in Uzbekistan (see Table 2).

Despite the differences among the states in their choice of economic and political reform models and their rates of implementation, the authorities in all three parts of the Ferghana Valley are encountering the same threats to regional security—poverty, unemployment, inefficiency of the agricultural sector of the economy, disproportions in regional development, curtailment of border cooperation, envi-

<sup>2</sup> Calculated by the author according to the data of the State Statistics Board of the Republic of Uzbekistan [[www.state.uz](http://www.state.uz)], the National Statistics Board of the Republic of Kyrgyzstan [[www.stat.kg](http://www.stat.kg)] and the State Statistics Board of the Republic of Tajikistan [[www.stat.tj](http://www.stat.tj)].

<sup>3</sup> See: *Natsional'naya strategiya ustoiчивого razvitiia Respubliki Uzbekistan*, Tashkent, 1999, p. 48.

<sup>4</sup> See: S. Olimova, M. Olimov, "Vliianie antiterroristicheskoi kampanii v Afganistane na sosiednie strany Tsentral'noi Azii," available at [<http://www.cawarn.ru/pub/AnnualReport/AnnualReportWebHome2001/2001anrep05.htm>], 17 January, 2007.

<sup>5</sup> Data of the State Statistics Board of the Republic of Tajikistan can be found at [[www.stat.tj](http://www.stat.tj)].

Table 2

**Percentage of the GRP of the Ferghana Valley Regions  
in the GDP of the Republic of Uzbekistan (%)**

Region	2001	2002	2003
<b>Ferghana</b>	<b>9.4</b>	<b>9.2</b>	<b>8.5</b>
<b>Andijan</b>	<b>8.4</b>	<b>7.5</b>	<b>6.9</b>
<b>Namangan</b>	<b>5.0</b>	<b>4.7</b>	<b>4.3</b>

*S o u r c e: Regiony Uzbekistana v 2003 godu, Tashkent, 2004, calculated by the author.*

ronmental problems, a rise in social tension, aggravation of ethnic contradictions, stepping up of the activity of radical Islamist organizations, criminalization of society, and an increase in drug traffic volume.

Environmental problems are closely related, since the policy of the governments of the Central Asian countries in agriculture is currently aimed at reducing subsidies on the maintenance of irrigation facilities due to the shortage of financial resources. The increase in social tension, aggravation of ethnic contradictions, and stepping up of the activity of radical Islamist organizations is closely tied to economic reasons, since the high level of unemployment and low standard of living of most of the population is leading to the formation of closed groups of young unemployed people deprived of access to resources, education, and health care, and with no opportunity to change their lives for the better. This is the atmosphere in which extremist groups and radical Islamist organizations are stepping up their activity. Overall criminalization of society (the increase in crime, the growth of the smuggling and drug traffic volume, and corruption) is also related to problems in the region's economy. The absence of legal sources of income is forcing the residents of the Ferghana Valley to look for illegal ways of earning a living. The unsophisticated state of the legislation, primarily in the economic sphere, is creating fertile ground for corruption.

So it can be said that the fundamental threats to security in the region are economic threats: poverty, unemployment, the inefficiency of the agricultural sector of the economy, and curtailment of border cooperation, which form the basis of those negative processes taking place in the Ferghana Valley.

**Poverty and unemployment.** South Kyrgyzstan and the Ferghana regions of Uzbekistan are the poorest regions in their countries. During Soviet times, the Sogd Region was the wealthiest region in Tajikistan, but in the past few years, the standard of living in the region dropped at a faster rate than throughout the country as a whole. According to studies by the World Bank and the State Statistics Board of the Republic of Tajikistan in 2003, 64% of the region's residents lived on the poverty line (this amounts to 32% of the poorest people in the Republic of Tajikistan),<sup>6</sup> and in 2001 it was the highest index, in percent, of chronically undernourished children under the age of five (more than 33%).<sup>7</sup>

In 2004, the average monthly wage in the Kyrgyz part of the valley amounted to \$15, in the Uzbek part to \$11-12, and in the Sogd Region of Tajikistan to \$20 (one of the lowest in the country, it is lower only in the Khatlon Region at \$19).<sup>8</sup>

<sup>6</sup> Data of the State Statistics Board of the Republic of Tajikistan can be found at [www.stat.tj].

<sup>7</sup> See: *Strategy Paper 2002-2006 and the National Indicative Program 2002-2004 for Central Asia*, 31 October, 2002.

<sup>8</sup> See: "Samaia vysokaia zarplata v Tadjikistane u rabotnikov sfery svyazi," available at [http://news.mail.ru/news.html?940626], 11 January, 2007.

On the whole, the poverty situation in the Ferghana Valley is well illustrated by the results of studies carried out by experts from the European University Institute/University of Essex and the World Bank in 1995 and 2003 (see Table 3).

Table 3

## Level of Poverty in the Ferghana Valley

Region	Level of poverty (% of the local population)				Share of the poor (% of all the poor)			
	city		village		city		village	
	1995	2003	1995	2003	1995	2003	1995	2003
<b>Ferghana Valley</b>	<b>28</b>	<b>11</b>	<b>25</b>	<b>47</b>	...*	<b>12</b>	...*	<b>88</b>
<i>Note:</i> * No data.								
<i>Source:</i> Calculated by the employees of the European University Institute/University of Essex and the World Bank.								

These data indicate that, despite the efforts undertaken by the authorities and international community, poverty in the rural regions of the Ferghana Valley is not only failing to decrease, it has reached a truly catastrophic level, whereby essentially every second resident is impoverished. Nine out of ten people living below the poverty line are currently living in rural areas. But the main thing is that not only is the level of income low, so is the opportunity level, which is much more disturbing. The valley residents do not have access to resources, education, health care, or quality nutrition. Poverty destroys human capital, leads to violence, stimulates instability, and worsens social and ethnic relations.

One of the most important problems characterizing the social situation in all three parts of the Ferghana Valley is unemployment. It is caused by the sharp drop in employment in the state sector and the slow development of the private sector, the halt in production units, and the increase in disproportion between the burgeoning workforce and the low demand for it. In the Tajik part of the valley, 27% of the population older than 18 are unemployed.<sup>9</sup> The level of unemployment in the Kyrgyz and Uzbek parts of the valley is a little lower. The problem of unemployment among women and young people is the most acute. For example, according to official statistics, as of 1 March, 2006, women account for 60% and young people between the ages of 15 and 29 for 57.9% of all the unemployed in the Sogd Region.<sup>10</sup>

Precise data on the number of unemployed are not known, and official statistics present an artificially low figure. However, unemployment in the region, particularly in the Uzbek part, can only be fought mainly with the help of unskilled workers in agriculture by granting mandatory leave, reducing working hours, and introducing a system of home workers. This creates a situation in which a person is technically not unemployed, but nor does he have a permanent job either.

In the near future, there will be no significant changes in the trends that have developed in the workforce, in its overall size, or in the gender-age structure. The rate of replenishing the workforce with young people who are coming of able-bodied age will also remain high. So the authorities of the

<sup>9</sup> See: S. Lunev, "Ferganskaia dolina kak odna iz modelei regionalnogo razvitiia," *Central Asia*, No. 9, 1997, available at [[http://www.ca-c.org/journal/09-1997/st\\_04\\_lunev.shtml](http://www.ca-c.org/journal/09-1997/st_04_lunev.shtml)], 22 January, 2007.

<sup>10</sup> See: "V Sogdiiskoi oblasti zaregistrirovano 14 tys. Bezrabotnykh," *Information Agency AKIpress*, 27 April, 2006.

regions located in the Ferghana Valley have the complicated task of not only making as efficient use as possible of the available potential of young people, but also of the potential of those who will swell the ranks of the workforce in the near future. The main factor alleviating the contradictions between the demand and supply of workers in agriculture is cotton-growing, since it is more labor-intensive than fruit-, vegetable-, and grain-growing.

But on the whole, the underdevelopment of the production and social infrastructure and the sphere for applying labor beyond the agrarian sector has caused Kyrgyzstan's, Tajikistan's and Uzbekistan's agriculture to become oversaturated with manpower, and it is replenished every year with the recent graduates of agricultural schools. According to official estimates, this reserve amounts to 500,000-530,000 people in Uzbekistan alone, of which the Ferghana Valley accounts for 29%,<sup>11</sup> while experts say that these figures are actually 3-3.5-fold higher.

Under the conditions that have developed, there is an acute need for jobs not related to agriculture, primarily in the labor-intensive industries (for example, the textile industry) and in creating capacities for the industrial processing of agricultural raw material, with the subsequent supply of finished products to the domestic and foreign markets.

**Reform of the agrarian sector of the economy.** Agriculture plays a leading role in the economy of the Ferghana Valley, since it provides 30-40% of the GRP and up to 50% of the able-bodied population are engaged in it. Commerce and the services (20-30% of the GRP) play a perceptible role, while the significance of the extractive and processing industries is much lower (16-19% of the GRP).<sup>12</sup> According to the predicted estimates, the agrarian sector will continue to retain its leading role in the region's economy. So those measures the authorities are undertaking to reform and raise the efficiency of agriculture deserve particular attention.

Agrarian reform in the different parts of the Ferghana Valley is going at different rates. In Uzbekistan and Tajikistan, the state still owns the land. Land in Kyrgyzstan, on the other hand, was transferred to private ownership, and at present some 90% of all the farms in the republic are privatized.<sup>13</sup> But, despite the differences, agricultural producers everywhere are encountering the same problems.

Art 16 of the Land Code of the Republic of Uzbekistan reads "Land shall belong to the State..."<sup>14</sup> At first, the government laid special emphasis on the support of large agricultural cooperatives (shirkats). But the program currently being carried out in Uzbekistan, and in the Ferghana Valley in particular, is to transform the shirkats into private farms. After replacing the collective farms and state farms of the Soviet era, shirkats proved just as unviable, despite the resources saved from their enlargement. After rising out of the ruins of Soviet state farms and collective farms, the shirkats were to embody elements of market relations. According to the law, the shirkat is a cooperative enterprise, the members of which manage its activity through their own shares in the holding.<sup>15</sup> But the shirkats in fact only changed the name of the form of property, while the operating mechanism remained the same. Relations between the shirkat chairmen and the district leaders did not change. The unrealistic plans to turn in agricultural produce to the state and the outmoded technical base led to the fact that the plans for turning in cotton and grain to the state have not been fulfilled for several years now in the regions

<sup>11</sup> See: *Natsional'naya strategiya ustoychivogo razvitiia Respubliki Uzbekistan*, p. 48.

<sup>12</sup> Calculated by the author according to the data of the State Statistics Board of the Republic of Uzbekistan [www.state.uz], the National Statistics Board of the Republic of Kyrgyzstan [www.stat.kg] and the State Statistics Board of the Republic of Tajikistan [www.stat.tj].

<sup>13</sup> Relevant data (in Russian) of the Water Users Associations Support Program (WUASP) in Kyrgyzstan, Tajikistan, and Uzbekistan (joint project of the United States Agency for International Development (USAID), Winrock International, Academy for Educational Development and New Mexico State University are available at [http://www.wuasp.uz/index.php?module=ContentExpress&file=index&func=display&ceid=12&meid=22], 11 January, 2007.

<sup>14</sup> Relevant information (in Russian) on the Land Code of the Republic of Uzbekistan is available at [http://lawlib.freenet.uz/laws/uzbek/zemluz/4.html], 11 January, 2007.

<sup>15</sup> See: Art 1 of the Uzbekistan Republic Law on the Agricultural Cooperative (Shirkat), available at [http://zakonuz.narod.ru/z89.htm], 11 January, 2007.

of the Ferghana Valley (the only exception being 2005 when the bumper harvest and mobilization measures—not only were enterprise employees, students, and senior schoolchildren sent to gather in the harvest, but also junior schoolchildren and rent debtors—made it possible to fulfill the cotton plan). Shirkat members who do not fulfill the plan do not receive their wages, but the shirkat cannot withdraw from the state management system and independently dispose of its production.

The transformation of shirkats into private farms was called upon to expand the members' management powers. But the state contract system is still in effect in the country for the main agricultural products—cotton and grain. This system does not give farmers the opportunity to independently dispose of the produce they grow, regardless of the form of ownership, be they agricultural cooperatives or farms. Agricultural workers are obliged to give their produce to the monopolistic state purchasing agency at prices much lower than those on the market.

Meanwhile, practice has showed that farms are much more profitable than shirkats. Since 1999, when farms first arose as a form of economic management, they became an important part of the economy's agrarian sector. Whereas in 2004, they produced 51.6% of cotton and 46.9% of grain, in 2005, these figures already reached 66.3% and 56.4%, respectively.<sup>16</sup>

Ideally, farms are entirely independent private enterprises, but they are also responsible for executing the state contract. Farmers must fulfill the plan, and if they do not, they are more severely punished than shirkat chairmen. At worst, a shirkat chairman who does not fulfill the plan may be removed from his post, but a farmer is deprived of his right to rent land. Farmers are frequently punished even when they do not fulfill the plan for reasons beyond their control, for example, because of unfavorable weather conditions, or if the state did not supply them with seeds, fertilizer, or water for irrigation on time. The last factor is particularly important for the farmers of the Ferghana Valley, since, due to the poor state of the irrigation system, they are faced with constant breakdowns in water supply for irrigation. According to the law, farmers are exempt from land tax for the first two years, but they must pay off the debt of the former shirkats. What is more, they have to fulfill the cotton and grain plan of the former shirkat within ten years at the same rates that were set for the shirkats. Contradictions in legislation complicate the situation even more. Although the law on farming states that "A farm shall independently define the sphere of its activity, structure, and production volumes...",<sup>17</sup> this regulation of the law is violated by a government decision stipulating the procedure for reorganizing agricultural enterprises into farms. According to this procedure, the farmer does not have the right to change the crop he grows, he does not have the right to allow a drop in harvest yield, and so on.<sup>18</sup> Violation of these regulations is considered a gross violation of the rent agreement, and it could lead to loss of the right to rent land.

Another form of agricultural entrepreneurship—dekhkan farms—functions on the periphery of large agricultural producers (shirkats and farms). As a rule, such farms are made up of one family that works a small plot of land of up to two hectares.<sup>19</sup> Despite their small size, dekhkan farms are much more productive than shirkats. In 2004, they produced 89.7% of the potatoes, 77.3% of other vegetables, and 61.4% of the melons and gourds in the republic, while in 2005, these indices rose to 92.4%, 77.7%, and 61.6%, respectively.<sup>20</sup>

<sup>16</sup> According to the data of the State Statistics Board of the Republic of Uzbekistan, available at [<http://www.stat.uz/STAT/index.php?%ru%&article=65>], 11 January, 2007.

<sup>17</sup> See: Art 22 of the Republic of Uzbekistan Law on the Farm, available at [<http://www.wuasp.uz/modules.php?name=UpDownload&req=getit&lid=150>], 21 January, 2007.

<sup>18</sup> Decision of the Cabinet of Ministers of the Republic of Uzbekistan on Measures to Reorganize Agricultural Enterprises into Farms (5 January 2002, No. 8), available at [<http://www.wuasp.uz/modules.php?name=UpDownload&req=getit&lid=156>], 21 January, 2007.

<sup>19</sup> See: Republic of Uzbekistan Law on the Dekhkan Farm (No. 837-XII), available at [<http://www.wuasp.uz/modules.php?name=UpDownload&req=getit&lid=149>], 21 January, 2007.

<sup>20</sup> According to the data of the State Statistics Board of the Republic of Uzbekistan, available at [<http://www.stat.uz/STAT/index.php?%ru%&article=65>], 21 January, 2007.

The situation in Tajikistan is also developing along the same lines. According to Art 2 of the Land Code of the Republic of Tajikistan, "land in the Republic of Tajikistan shall be the exclusive property of the State."<sup>21</sup> But since 1997, collective farms have been actively disbanded and land divided up in Tajikistan. Tajikistan legislation envisages the transfer of the land of former collective farms and state farms to the dekhkans for their use and the creation of dekhkan farms.<sup>22</sup> By 2003, they accounted for about half of the total number of farms. But this did not change the crux of economic relations in the agrarian sector. Land reform is going very slowly. Former state farms and collective farms throughout the entire country have changed only their name and stamp during the reform, which fact contradicts public relations in the agroindustrial sector regulated by legislation. The dekhkans still operate according to the team method. Each individual member of a dekhkan farm does not know where his share of land is located. The chairmen of dekhkan farms still report to the local government bodies.

Land allotment is accompanied at all stages by bribes and additional payments. The dekhkans do not know the current laws regulating the course of the reform. So former state farm and collective farm chairmen abuse their powers when distributing land by taking advantage of the illiteracy of the dekhkans: they dispose of land at their own discretion or do not want to distribute it at all. In almost all regions of the republic, instances are known of regulating land relations by means of rent agreements, which contradicts the current laws and violates citizens' right to land.

As a result of various land manipulations, only a small percentage of dekhkans become landholders, one third rent it, and the rest are deprived of access to land at all, retaining only estate plots. There are cases when former collective farm and state farm heads established certain fees or distributed land in exchange for property. For example, in the Asht District of the Sogd Region, a dekhkan at the Bobodarkhon farm was supposed to give two rams for each hectare of land he was to receive. During the division of collective and state farms, the main assets go to large landholders. The chairmen of khukumats of the districts are trying to unite dekhkan farms by issuing decisions. In their attempt to fulfill the plans, they are making farmers sow more cotton to the detriment of other crops, determining independently which investor a contract should be entered with, and at which factory raw cotton should be processed. As a result of this, dekhkan farms are falling into debt and going bankrupt. This is leading to a significant increase in the number of landless peasants and undermining the position of the small farmer. It is also giving rise to the widespread migration of farmers to the cities and maintaining a high level of foreign work migration.

In contrast to the neighboring states, radical agrarian reform was carried out in the Republic of Kyrgyzstan. Its legislation envisages different forms of land ownership, including the private one (Art 4 of the Land Code of the Republic of Kyrgyzstan).<sup>23</sup> But here too farmers are encountering numerous problems.

The fragmentation of land plots and technology, and the scattering of them among numerous peasant, farm, and private holdings created during the agrarian land reform make it impossible to carry out scientifically justified crop rotation aimed at obtaining high harvest yields and to accumulate the resources needed for purchasing and using modern, powerful and, at the same time, economical technology. Problems are also arising in selling the produce grown due to its limited amount.

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<sup>21</sup> Relevant information (in Russian) on the Land Code of the Republic of Tajikistan is available at [<http://www.kishovarz.tj/documents/ru/qonunho/zemelny.doc>], 21 January, 2007.

<sup>22</sup> Ibidem; relevant information (in Russian) on the Law of the Republic of Tajikistan on the Dekhkan Farm is available at [<http://zakon.tj/index.cgi?lid=3629>], 21 January, 2007; Decision of the Republic of Tajikistan Government "On Reorganization of Agricultural Enterprises and Organizations between 2002 and 2005," available at [<http://zakon.tj/index.cgi?lid=3769>], 21 January, 2007 (in Russian).

<sup>23</sup> Relevant information (in Russian) on the Land Code of the Republic of Kyrgyzstan is available at [<http://lawlib.freenet.uz/laws/kyrgyz/zemkg/1.html>], 27 January, 2007.

More than 85% of the agricultural machinery has been in use for more than 15-20 years, that is, 2-3-fold longer than its standard lifetime, and is already due to be written off.<sup>24</sup> The high price of fuel and lubricants, spare parts, mineral fertilizers, pesticides, and technical services are making it unprofitable to grow agricultural produce. Many farmers are complaining about their insufficient core financial resources, as well as the shortage and incompatibility in terms of maturity and interest rates of loans offered by credit institutions.

The expensiveness of electric energy used for pumping stations supplying irrigation water for agricultural crops and the unclean state of a large part of the interfarm and intrafarm channels are making irrigated and provisionally irrigated land unproductive.

**Problems of cross-border cooperation.** Due to the differences in the areas and rates of conducting economic reforms, the prices of several goods, including raw agricultural material (particularly cotton) in the Uzbek part of the valley, are much lower than in the Kyrgyz and partly in the Tajik areas. This is an important prerequisite for smuggling goods. Many farmers from the border areas prefer to risk sending cotton to neighboring Kyrgyzstan or even Kazakhstan. In response, the Uzbek authorities are undertaking tough measures to fight the export of cotton to neighboring republics. But fighting economic interest using forceful methods is doomed to disaster in advance. A vivid example is the trading situation at the Kara-Suu bazaar, which is located in a small town 20 kilometers from the Kyrgyz city of Osh and right on the border of Uzbekistan. The prices here are low, since the goods largely come from China via the mountain passes from Urumqi and Kashgar. When, in 2002, the Uzbek authorities placed restrictions on trade at the bazaars within the country, hard currency gushed into the Kara-Suu market from Uzbekistan. Instead of easing off on the trade restrictions, the Uzbek government adopted a simple decision in an attempt to stimulate business in the country. In December 2002, the bridge connecting Kara-Suu with Ilyichovsk on the Uzbek bank of the river was pulled down, which put an end to all the legal cross-border trade in one fell swoop. But trade did not stop, instead it was taken under the control of organized criminal groups. Incidentally, Ilyichovsk, along with Andijan, became one of the centers of the mass disturbances in Uzbekistan in May 2005.

The threat from Islamic extremists is forcing Uzbekistan to constantly toughen up the border, customs, and migration conditions, which is dealing a heavy blow to the interests of the residents of the Ferghana Valley as a whole. Several grave incidents on the borders in the Ferghana Valley—people killed from stepping on mines set by the Uzbek authorities on the border with Tajikistan and Kyrgyzstan (mining of the Tajik-Uzbek border was begun by the Uzbek side in August 2000 to prevent the fighters of the Islamic Movement of Uzbekistan from crossing the border. According to the data of the State Border Protection Committee under the Tajikistan government, during this time sixty people have been killed and seventy peaceful citizens injured by antipersonnel mines on the Tajik-Uzbek border)<sup>25</sup> and firing by Uzbek border guards on peaceful citizens from neighboring states—are arousing a wave of public indignation in the valley.

Interstate contradictions are the reason for many of the everyday problems faced by the residents of the Ferghana Valley. Difficulties with gas and water supply have become run of the mill for the local residents. The Uzbek side periodically restricts the supply of gas to the border regions of Kyrgyzstan and Tajikistan, motivating this by an increase in the debt of Kyrgyz and Tajik consumers for fuel already delivered. This results in interruptions in gas supply to citizens. The last such incident took place in April of last year when the Uzbektransgaz Company introduced restrictions on gas deliveries to the Sogd Region, which gave rise to an acute fuel crisis in Khujand and the regions next to it.<sup>26</sup> In response, Tajikistan

<sup>24</sup> For more detail on the agriculture of the Osh Region see: [<http://www.osh.gov.kg/agr/agr.htm>], 27 January, 2007.

<sup>25</sup> See: A. Taksanov, "Razminirovanie—put miru i protsvetaniiu. Vzgliad iz Uzbekistana," *Varorud*, No. 36 (124), 22 September, 2004.

<sup>26</sup> See: "V Khujande ogranichena podacha gaza gorozhanam do 1 chasa v sutki," *Information Agency AKIpress*, 14 April, 2006.

periodically creates difficulties in goods transit to the Uzbek part of the Ferghana Valley (it is separated from the other regions of Uzbekistan by the Kuramin Mountain Range (altitude of up to 3,768 m), and the only railroad runs through the Sogd Region). The poor state of the irrigation system is leading to an increase in water shortages, which, in turn, is entailing periodical restrictions in water supply for agriculture and everyday needs from Kyrgyzstan to Uzbekistan.

At present, the isolationist measures undertaken by all the countries and the lack of coordination in legislation among Uzbekistan, Tajikistan, and Kyrgyzstan are preventing the movement of capital, labor, and goods, destroying traditional cross-border local markets, disrupting the common labor market, and hindering the development of private business within the framework of the entire region and, in so doing, aggravating unequal socioeconomic development and increasing poverty and instability in the region. Most of the goods circulation remains in the shadow, and the main flow of labor and trade migration has become illegal. The Ferghana Valley has turned into a zone of shadow capital, which is encouraging a spread in corruption. Bureaucrats in the parts of the valley are rapidly merging with semi-criminal and criminal structures.

Taking into account the above, emergency measures must be carried out to improve the socioeconomic situation in the region. The set of measures should include those aimed at developing the agrarian sector of the economy, attracting foreign investments, and forming a system for exporting manpower.

**Development of the agrarian sector of the economy.** In order to resolve this situation in the agrarian sector of the Ferghana Valley, we should keep in mind the specifics of the processes going on in each republic and take the following measures:

1. Improve the legislative base of all the republics and adopt regulatory acts aimed at economic stimulation of priority branches of agriculture.
2. Cancel VAT on agricultural produce in general, including on technical and other services.
3. Create government support funds for agricultural cooperatives and farms, where financial resources should be used for the centralized purchase of new machinery, spare parts, mineral fertilizers, high-yield seeds, pesticides, and so on intended for stimulating and supporting agricultural cooperatives and farms under conditions of credit recovery after a certain period of time (leasing system).
4. Cancel the existing system of mandatory state purchases of cotton and grain in Uzbekistan and Tajikistan.
5. Introduce a system of open auctions for purchasing agricultural produce to assist the formation of market mechanisms in the agrarian sector.
6. Lower electricity rates fixed for pumping stations and pumps supplying irrigation and drinking water in all the republics.
7. Develop, including with the aid of foreign investors, enterprises for the advanced processing of raw agricultural material.
8. Take urgent and comprehensive measures to oppose corruption in the government power and local self-government bodies.

The mandatory introduction of private land ownership in Uzbekistan and Tajikistan proposed by some experts is inexpedient, since private land ownership in itself is not a panacea against the difficulties in agricultural development. The example of the Republic of Kyrgyzstan vividly illustrates this. Therefore, the system of long-term land rental for 20-50 years is entirely acceptable.

**Foreign investments.** Another important factor determining the development of the economy in the Ferghana Valley is attracting foreign investments. The development of infrastructure (particularly of the irrigation system) and of the light and food industries is a priority area for foreign investors.

The insufficient financial resources allotted to maintain the necessary operation and technical servicing of the irrigation infrastructure has led to a significant deterioration in the state of the irrigation and drainage system, a reduction in the throughput capacity of canals, significant water loss, widespread and intense salinization of water and soil, and a reduction in the yield of agricultural crops in the Ferghana Valley. Programs for attracting foreign investments into this sphere should be aimed at financial and technical assistance for improving the operation of the irrigation and drainage infrastructure, developing technically approved procedures for drawing up water use plans and for improving irrigation techniques. This will help to raise the harvest yield and efficiency of agricultural production.

Due to the enormous demand for finished products, most primary resources are exported from the Ferghana Valley without advanced processing (for example, 85% of the cotton fiber produced and hundred of thousands of tons of fruits and vegetables).<sup>27</sup> And this is despite the fact that the production infrastructure in the rural areas is characterized by a relatively stable state of road-transportation and energy management, gas supply, as well as the reserve capacities of construction organizations. In order to resolve this problem, the light (particularly the textile) and food (processing of fruits and vegetables, canning, and so on) industries must be developed.

An important place in agricultural potential in the future, as it was in the past, will be occupied by cotton production. So the emphasis must be placed on developing production plants for advanced processing of raw cotton and cotton fiber, as well as of the textile and sewing industries. An important fact defining the need to attract foreign investments into the region's light industry is the fact that the enterprises of this branch are envisaging the use of a large amount of labor resources, thanks to which additional jobs can be created with relatively small amounts of investments. This primarily concerns the creation of clothing manufacturers. In light of the high unemployment level, particularly among women, this will be extremely conducive to reducing the level of social tension.

What is more, the investment climate must be improved in the region by offering foreign investors tax and other benefits and eliminating the administrative barriers that hinder the development of small and medium business.

**The manpower export system.** As already noted above, the labor market in the Ferghana Valley is under rather strong demographic pressure. So the authorities of Uzbekistan, Tajikistan, and Kyrgyzstan are objectively interested in increasing the export of manpower to other countries. According to the estimates of the Institute of Macroeconomic and Social Studies, together with the Republic of Uzbekistan's Ministry of Labor, labor migration in Uzbekistan currently encompasses no fewer than 600,000-700,000 people.<sup>28</sup> According to official data, approximately 350,000 of Tajikistan's able-bodied workers are currently working outside the republic. Most of them are in the Sogd Region. Labor migration from Kyrgyzstan is similar in volume. The main flow of working migrants goes to Russia, but those who leave are mainly young people under the age of 30, primarily men with very different levels of education.

But factors exist that are hindering the development of labor migration in the Ferghana Valley. Organized labor migration has still not become widely developed. There is no streamlined system for exporting manpower at the state level in Uzbekistan, Tajikistan, and Kyrgyzstan. For example, Uzbekistan has a state monopoly on the export of manpower abroad, and there is no legal private intermediary activity in this sphere. The government bodies are not taking advantage of the opportunity to augment both potential partners in labor migration, as well as quotas for the export of manpower under contracts, although the population's demand for such labor activity is very high. So most labor migration from the Ferghana Valley is carried out illegally and in indirect forms—by means of guest visas, tourism, shuttle trips, and so on.

<sup>27</sup> See: *Natsional'naia strategiya ustoichivogo razvitiia Respubliki Uzbekistan*, p. 48.

<sup>28</sup> See: L. Maksakov, "Eksport rabochei sily iz Uzbekistana," *Trudovaia migratsiia v SNG* (Labor Migration in the CIS), No. 7, 2002.

The dimensions of informal labor migration are difficult to define, since no record is kept of this phenomenon. Only indirect estimates can be made. We can only say for sure that the actual volumes of registered labor migration account for only a small part of the main flow.

Based on this, the local authorities should develop state programs for exporting manpower, assist private intermediary activity for providing citizens with jobs abroad, and enter corresponding international agreements with manpower importer countries (particularly with Russia).

So labor migration of the population of the Ferghana Valley is economically favorable both for the region, and for the participants themselves. It ensures an inflow of hard currency and helps to reduce tension on the labor market, particularly in the most densely populated areas. This means that support of manpower export should be one of the most important areas of state policy in the employment sphere.