

**SOCIOECONOMIC  
CONTRADICTIONS BETWEEN  
THE NORTH AND THE SOUTH  
IN KYRGYZSTAN'S ECONOMIC COMPLEX**

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*Introduction*

The regional economic complex should be viewed as an aggregate of interrelated components, each of which has its own clearly defined place and function. “The region’s economic complex is a functioning and, consequently, relatively stable system, while it is also evol-

ing and changing.”<sup>1</sup> This article aims to show how

Kyrgyzstan’s regional economic complex is distinguished by historically caused contradictions which seriously interfere with the successful development of its economy.

<sup>1</sup> T.G. Rozanova, *Regionalnaia ekonomicheskaiia sistema*, Moscow, 2005, p. 3.

## Historical Background

The territory of present-day Kyrgyzstan has never been a unified whole; the South and the North developed under different conditions within the framework of different state formations.<sup>2</sup> After establishing Soviet power, the Bolsheviks, intent on eradicating all remnants of the past, deliberately destroyed the traditional social structures of the Kyrgyz people. Regional and district division began to gradually take over tribal and patrimonial division as a source of Kyrgyz self-identification, particularly in society’s relations with the ruling communist political establishment. By virtue of the special features of the Soviet system based on the centralized redistribution of resources, every Kyrgyz community wanted the leader of the republic to be someone from their own region who would help to develop his “small motherland.” So regional division began to acquire political and social importance.

From the historical viewpoint, the 1930s were a turning point in the social, economic, and cultural history of Kyrgyzstan. During these years, the traditional lifestyle reached a crisis point and contemporary industrialization began. Collectivization and improvements in irrigation and the agrarian sector as a whole brought about profound changes in the rural districts. However, immense changes also occurred in the correlation of the size of certain ethnic groups, and a rift formed between the cities and the villages.

At the very beginning of World War II, the Soviet government posed the task of turning the fraternal republics in the rear into a powerful military-industrial arsenal in the shortest time possible. A strategic program was drawn up, according to which the Urals, Western Siberia, Kazakhstan, and Central Asia were to become rear hubs for producing technology, weapons, industrial products, and food, as well as population evacuation zones.

During the war, 36 large industrial enterprises went into operation in Kyrgyzstan and new branches emerged. At that time, the number of industrial workers rose from 36,000 to 46,000, and the share of industry in Kyrgyzstan’s national economy increased from 50.2% in 1940 to 67.5% in 1945.<sup>3</sup> The enterprises moved from the European part of the Soviet Union were mainly relocated in the North of Kyrgyzstan (in the Chu Region and in Frunze).<sup>4</sup> On the strength of the new enterprises created in the republic, the gross volume of industrial production rose manifold during the postwar years. Power engineering, the machine-tool industry, and the manufacture of silk, leather footwear, and canned food, etc. rose at a rapid rate. During the first post-war Five-Year Plan, more than 20 major enterprises were put into operation and many plants and factories were reconstructed. The gross volume of industrial production rose 4.2-fold in 1950 compared with 1940.

Machine-building (such plants as Kirgizavtomash, the Frunze Car Assembly Plant, the Frunze Agricultural Machine-Building Plant, Torgmash, the Osh Pump Plant, and so on), the electrotechni-

<sup>2</sup> See: N.A. Madaliev, *Istoria arkhelogicheskogo izucheniia Iuzhnogo Kyrgyzstana (regionalnyy istochnikovedcheskiy analiz)*, Synopsis of a thesis for a PhD in History, St. Petersburg, 2003.

<sup>3</sup> See: S.K. Kerimbaev, *Sovetskiy Kirgizstan v Velikoi Otechestvennoi voyne 1941-1945 gg.*, Frunze, 1985; E. Allworth, *Central Asia. A Century of Russian Rule*, Columbia University Press, New York, 1990, p. 57.

<sup>4</sup> See: *Izoria kirgizskoi SSR*, Vol. 2, Frunze, 1968, p. 101.

cal industry (the Kaindin Cable Plant, Kirgizelectrodvigatel, Tiazhelectromash, the Issyk Kul Association of Electrotechnical Plants), and tool engineering (the Orgtekhnik plant in Minkush, and the control and measurement instrument plant) were among the most dynamically developing industries in Kyrgyzstan.

In terms of machine-building development, Kyrgyzstan, which manufactured more than 200 types of products, occupied second place in Central Asia after Uzbekistan, and first place in terms of truck, pump, and gas stove manufacture. The products manufactured in the republic were exported not only throughout the Soviet Union and socialist countries, but were also purchased by France, Germany, and Great Britain. In so doing, the raw material industries were essentially counterbalanced by the processing industry and machine-building. This proved to be a relatively efficient structure that permitted the attainment of a stable economy. In terms of many of the products manufactured, Kyrgyzstan was a true monopolist in the Soviet Union: baling machines, steam boilers, many radio parts, and so on were produced only in Kyrgyzstan. In 1979, the share of the urban population of the republic reached 39%.<sup>5</sup>

However, industrial development also had its flaws. Enterprises and transportation means often sat idle or functioned inefficiently. Task plans designed to produce many types of commodities and improve their quality were not fulfilled. Industry mainly grew by virtue of a perfunctory increase in the number of enterprises and workers. A constant inflow of qualified personnel was needed for the republic's industry to continue developing at the same rate. But most of Kyrgyzstan's population lived in rural areas, which was in no way conducive to augmenting the number and professional level of workers from among the indigenous people. This resulted in the intensive migration of workers from the industrial areas of the Soviet Union to Kyrgyzstan.<sup>6</sup>

More than 500 large enterprises were built during the years of Soviet power.<sup>7</sup> Significant changes occurred in the territorial location of industry. In the prerevolutionary period, the few artisan enterprises were mainly located in the south of the country. In the postwar years, two major industrial zones formed—the North and the Southwest. The North zone put out 2/3 of the industrial production and was distinguished by relatively well-developed machine-building, metal processing, electricity generation, building material production, and the light and food industry. The Southwest zone put out 1/3 of the industrial production and was distinguished by well-developed nonferrous metallurgy and the fuel and textile (cotton and silk) industry.

North Kyrgyzstan is one of the republic's two economic-geographic regions and is distinguished from South Kyrgyzstan by its high level of urbanization, industrialization, socioeconomic development, and large Russian and Russian-speaking population, which predominated until 1990. The Chu Region, Bishkek, and the Issyk Kul Region situated in the north of the country have traditionally been part of North Kyrgyzstan since the time of the Russian Empire and Soviet Union. Two other regions, Talass and Naryn, are sometimes also included geographically in North Kyrgyzstan. This is also because the Kyrgyz living there consider themselves part of the so-called northern clans, although most indices show that these regions are more reminiscent today of the South. This particularly applies to the Naryn Region. Even back in Soviet times, the difference in socioeconomic development and demographic trends of these two regions of the republic was quite dramatic. The flatter northern territories were largely populated by Russians, Ukrainians, Germans, and others who had higher professional training and a more stable demographic structure (moderate natural increment and higher share of able-bodied population, etc.). Moreover, the country's capital, the town of Frunze (Bishkek), is situated in the north, and many people wanted to live and work there.

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<sup>5</sup> See: M.Kh. Abuseitova, et al., *Istoria Kazakhstana i Tsentralnoi Azii*, Textbook, Bilim, Almaty, 2001, p. 579.

<sup>6</sup> See: S. Attokurov, *Promyshlennost Kirgizii v poslevoennye gody (1946-1955)*, Frunze, 1975, pp. 77-80.

<sup>7</sup> See: *Istoria Kyrgyzstana: XX vek*, Textbook for higher educational institutions, Bishkek, 1998.

In Soviet times, southern employees were always undeservedly infringed upon, and fewer financial and material resources were sent to the South. Since it was so far from the capital and separated from the rest of the country by an impassible mountain range, the southern region of Kyrgyzstan found itself on the periphery.

When talking about the structure of the Soviet state, well-known expert S. Kara-Murza writes: "It was a production organism of an entirely different type, unknown both in the West and in old Russia. Western experts still have no idea about how Soviet enterprises were organized, why one enterprise was responsible for the waste treatment facilities or heating of an entire town, why the polyclinic, housing services, kindergarten, and pioneer camp were all financed from its budget. In the economic, technological, and social respect, dividing this system up would have meant a national disaster, the dimensions and outcome of which we can still not fully comprehend."<sup>8</sup>

However, despite all of this, organization of the Soviet national economy was extremely contradictory, since its development was primarily dictated by ideological motives and not by economic expediency. The principle of regionalism was deliberately ignored and the century-old economic traditions of specific ethnic groups were not taken into account. A contradictory situation developed in Kyrgyzstan: although it had an extremely rich raw material base for developing the light and food industry, branches of the machine-building and metal-processing industries were implanted artificially in it without the metallurgy industry or raw material base necessary for this, and without the required industrial traditions and skills among the indigenous population.

Raw material for Kyrgyzstan's machine-building industry was produced in Belorussia, processed in Ukraine, certain parts were made in Russia, while dump trucks were assembled in Kyrgyzstan; then all of this was distributed by the Soviet State Planning Committee in Moscow. At the same time, a large percentage of agricultural raw material was exported from Kyrgyzstan itself in an unprocessed state. For example, 87% of untreated fur, 74% of cotton fiber, 76% of washed fleece, and 88% of woolen and cotton fabric. All of this was naturally accompanied by immense financial, transportation, and many other expenses. (Documents of the Soviet State Planning Committee for 1978-1984.)

But the main thing in the conception of the Soviet unified national economic complex was the fact that the Soviet state deliberately failed to create production plants with a full production cycle—raw material-processing-finished product—in any of the Union republics. Economists calculated that the Union republics were bound by a network consisting of more than five billion economic ties, mainly artificial.

Raw material and qualified blue- and white-collar workers for Kyrgyzstan's machine-building plants were brought in from other regions of the Soviet Union due to the deliberate local absence of a targeted and well-conceived system for drawing the indigenous population into industrial production, especially into branches that played a vital role in scientific-technical progress. As a result, the share of workers from the indigenous population amounted to 5-8% at many machine-building plants. And in 1977, the republic's industry as a whole could boast no more than 15.5% of blue- and white-collar Kyrgyz workers.<sup>9</sup>

In 1970, the Kyrgyz made up 43.8% of the republic's total population, only 14% of which lived in the cities. The urban population was largely augmented by external migration. Qualified workers who came to Kyrgyzstan from different regions of the Soviet Union were provided with housing and other favorable conditions to help them socially adapt, which naturally created grounds for ethnic contradictions. The agricultural Osh and Jalal-Abad regions of Kyrgyzstan differ vastly in the economic and cultural respect from the country's northern districts. These differences were clearly manifested in Soviet times too. For example, the North tends more toward the Kazakh steppes, forming

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<sup>8</sup> Quoted from: S. Kozhemiakin, "Lipovaia nezavisimost," *Pravda*, 25 May, 2009.

<sup>9</sup> See: *Istoria kyrgyzov i Kyrgyzstana*, Bishkek, 1999.

with it, in the words of G. Sitnianskiy, a “Eurasian community” in counterbalance to the rest of settled Muslim Central Asia.<sup>10</sup>

The backwardness of the light industry stood out in stark contrast to the development of heavy industry. Insufficient attention to enterprise reconstruction meant that the quality of most of the production of the light industry left much to be desired.

By the beginning of the 1980s, extensive industrial development had reached its limits. Attempts continued to retain extensive development of agriculture, but the main efforts went to increasing gross volume rather than to improving the quality of the products manufactured or to ensuring production efficiency. As a result, the net cost of agricultural production increased.

Although it gained its political independence at the beginning of the 1990s, Kyrgyzstan continued to be dependent on other states economically,<sup>11</sup> since in the unified national economic complex the republic’s industry largely specialized in the production of raw material and semi-finished products. When the Soviet Union disintegrated, the established economic ties were broken and the republic found itself in extremely dire material and financial straits.<sup>12</sup>

Along with Tajikistan, the Kyrgyz Republic (KR) occupies the least advantageous geographical location in Central Asia (CA) and has an extremely limited mineral-resource base. This, along with its inefficient economic policy and social instability, has placed the economic system in a difficult position.

## The Economic Complex and the Challenges of Independence

Production in Kyrgyzstan decreased by 27% in 1992 compared to 1989, whereby unemployment rose abruptly and the standard of living dropped. Privatization was thought to be the answer to a healthier socioeconomic situation in the country. The Law on General Principles of Decentralization, Privatization, and Entrepreneurship in the Republic of Kyrgyzstan adopted on 20 December, 1991 formed the legal base for privatization in Kyrgyzstan.<sup>13</sup> According to most experts, all the revenue from privatization went directly into the pockets of the president’s entourage.<sup>14</sup>

Privatization resulted in 67 enterprises of the machine-building industry being sold for an average price of 1.1 million soms, although their net asset value was hundreds of times higher. For example, an open-pit coal mine in Tash-Kumyr along with all its equipment—excavators, bulldozers, etc.—was privatized for 1.3 million soms, although the cost of one excavator alone was more than 2 million soms. Property that served the whole nation, was created over decades, and should have ensured the republic’s residents and their descendants a decent life was sold for a song to a bunch of swindlers.<sup>15</sup>

Moreover, even the miserly amounts gained from privatization (the real value of the privatized facilities, according to experts, amounted to \$24 billion) did not reach the state’s coffers. According to the data of the State Property Committee, the estimated cost of the facilities priva-

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<sup>10</sup> See: G. Sitnianskiy, “Evraziyskaia obshchnost,” available at [<http://www.postsoviet.ru/print.php?pid#179>].

<sup>11</sup> See: A.A. Akunov, *Gosudarstvennoe upravlenie Kyrgyzstana v tranzitnyy period*, Bishkek, 1999.

<sup>12</sup> See: A.A. Asankanov, O.J. Osmonov, *Istoria Kyrgyzstana (s drevneyshikh vremen do nashikh dney)*, Bishkek, 2002, p. 474.

<sup>13</sup> See: U. Chotonov, *Suverenny Kyrgyzstan: vybor istoricheskogo puti*, Bishkek, 1996, pp. 83-87.

<sup>14</sup> See: “Shans dlia Maksima, Adilia i Aydara,” *AIF Kazakhstan*, No. 38, 2010.

<sup>15</sup> See: “Privatizirovali vse ili eshche chto ostalos?” *Epokha*, 5 May, 2004.

tized in the first five years amounted to around 14 billion soms. However, only 0.3 billion actually reached the treasury.

The most valuable equipment was further exported as scrap metal. The new bosses were not interested in production continuing or in its modernization, all they thought about was instant gain. Production itself either stopped entirely or was severely cut back. Whereas, for example, 48,000 centrifugal pumps were produced in 1990, only 74 were put out in 2000, and the same applied to electric machines, the manufacture of which amounted to 1,263 and 26, respectively. Whereas in 1980, the republic's industry accounted for 55.6% of the gross domestic product, in 2008, it accounted for only 14%; whereby high-tech production—instrument-building and machine-building—was dealt the severest blow.<sup>16</sup> The situation was also aggravated by the fact that the caste approach of the administrative elite excluded the participation in the drawing up and implementation of programs of analysts and experts who represented nongovernmental structures.

Many experts believe that the country's ruling elite has been unable to this day to get on the right track and define the objectives and directions of the country's development. This is shown by the many and mainly unsuccessful attempts to implement state programs after the country gained its independence.<sup>17</sup> It is largely explained by the absence of strategic thinkers in the ruling elite of independent Kyrgyzstan capable of drawing up their own draft of the country's long-term development strategy and ways to implement it. S. Slepchenko, an analyst from the Perspektiva Analytical Consortium, noticed this and explained it as follows: "Things have developed in such a way that during the past one hundred years Kyrgyzstan has not had the opportunity to form a full-fledged social stratum with a strategic vision of the country's future. It began its independent life without a strategy. Unfortunately, no major changes have occurred in the ensuing years; indeed, the situation has possibly even worsened."<sup>18</sup>

Kyrgyzstan is mainly an agrarian country where two thirds of the able-bodied population are engaged in agriculture, which produces 40% of GDP. Agriculture has played a significant role in the country's economy for a very long time. So an analysis of the socioeconomic situation in agriculture is extremely important.<sup>19</sup> The country's total land area amounts to 19.6 million hectares, 10.6 million of which, or 55.8%, are suitable for farming. Of all the arable land (including vegetable plots), 12.3% is used as plough land, 0.1% is virgin land, 0.4% is used for perennial crops, and 1.7% for hay making; natural pastures account for 85.6%.<sup>20</sup>

Agriculture began declining in the 1990s when the collective and state farm system was destroyed. During President Akaev's rule, the Kyrgyz authorities began carrying out the "recommendations" of Western financial institutions regarding the establishment of farming enterprises. They issued the country multimillion loans and grants for this which, according to most people of Kyrgyzstan, did not reach the ordinary farmers but found their way into the pockets of the highest officials. As a result, agriculture turned into a variegated conglomerate of more than 300,000 small farms which found it difficult to function normally. Wide-scale development of agriculture was impossible without major credit and financial investments. When the reforms began, the government started distributing the multimillion loans through the Dyykan Ordo Association and Dyykan Bank, but they were squandered across-the-board by agents and only a small amount reached the farmers.

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<sup>16</sup> See: "Privatizirovali vse ili eshche chto ostalos?"

<sup>17</sup> See: Z. Kudabaev, "Nekotorye itogi stanovleniya svobodnoi ekonomiki v Kirgizskoi Respublike," *Mirovaia ekonomika i mezhdunarodnye otnoshenia*, No. 2, 2005.

<sup>18</sup> "Sovremennye preobrazovania na prostorakh SNG," *Delovaia gazeta*, 23 May, 2008.

<sup>19</sup> See: General information on the agrarian sector of Kyrgyzstan (see [[http://www.centralasia-biz.com/cabiz/kyrgyzstan/ agrarny/abt\\_agrarny\\_kg.htm](http://www.centralasia-biz.com/cabiz/kyrgyzstan/ agrarny/abt_agrarny_kg.htm)]).

<sup>20</sup> See: State of agriculture in Kyrgyzstan (see [[http://www.kazakh-zerno.kz/index.php?option=com\\_content&view=article&id=27647:2010-12-04-04-12](http://www.kazakh-zerno.kz/index.php?option=com_content&view=article&id=27647:2010-12-04-04-12)]).

When journalists asked a well-known political scientist, Professor A. Kniazev, in 2007 how realistic it was to expect people to invest in Kyrgyzstan, he replied: "We have a vicious circle here. On the one hand, investments are the anchor that can stop the economic crisis from advancing and improve the situation. While on the other, large investments are impossible because of the obvious incompetence of the Kyrgyz government, the impossibility of securing its guarantees, and the obvious weakness, lack of confidence, and lack of systematic coherence in its work. The same is also seen in the president's entourage. In addition, the parliament is unpredictable and unprofessional. All of this does not bode well for attracting investors to our country. A vicious circle? Yes. But without investments the Kyrgyz economy cannot be raised."<sup>21</sup> Western experts assess the investment climate in the country as unfavorable primarily due to the corruption among the upper crust and the social instability.<sup>22</sup>

## New Government, Old Problems

The new government that came to power after March 2005 did not change anything. During his election campaign trip to the Naryn Region, now former president Kurmanbek Bakiev said that compared to 2005 financing of agriculture had increased seven-fold.<sup>23</sup> This statement was very out of synch with the actual situation. Moreover, the efficiency of a specific measure is shown not by the amount of money spent on it, but by the end result. And this is far from positive. It is a well-known fact that there is a direct correlation between the size of a farm and its productivity. The smaller a farm, the less opportunity it has to acquire state-of-the-art agricultural technology and fertilizers or to carry out reclamation work.

The average size of a farm in Kyrgyzstan is 3 hectares (by way of comparison, in the U.S. it is around 200 hectares). So most farms are returning to a primitive way of farming. They are resorting to beasts of burden instead of tractors and combines, while there is no point in even mentioning rational land use. As a result, harvest yield, according to specialists, has decreased by 40-60%. Most farms have returned to natural farming, while thousands of young people who cannot find work in the village are migrating to the cities where they are swelling the ranks of outcasts and vagrants.

At the same time, according to Head of the National Secretariat of Initiative of the Central Asian Countries for Land Resource Management K. Kulov, "...approximately 100,000 hectares in the republic are unused. Plough land is turning stony and unsuitable for planting crops... Moreover, more than half of all the plough land is salinized, waterlogged, or subjected to wind erosion."<sup>24</sup> The state's withdrawal from the village and its dumping all the problems onto the shoulders of the small farmer, who is simply unable to cope with them, are to blame for this.

In our opinion, the Kyrgyzstan leadership made a big mistake when it decided to join the WTO. In so doing, it pledged not to overstep the 5% threshold in budget subsidizing of agriculture, although all other developing countries set this threshold at 10% when they joined the WTO. In addition to this,

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<sup>21</sup> A. Kniazev, "Natsionalnaia ideologija Kirgizii voobshche ne mozhet byt pridumanoi," available at [<http://www.centrasia.ru/newsA.php?st=1186519620>], 8 August, 2007.

<sup>22</sup> See: *Strany i regiony mira v sovremennykh mezhduarodnykh otnosheniakh*, ed. by M.S. Ashimbaev, A.Zh. Shomanov, Institute of World Economy and Policy under the Foundation of the First President of the Republic of Kazakhstan, Almaty, 2006, p. 432.

<sup>23</sup> See: "Sdelano mnogo," *Obshchestvennyy reyting*, 2009.

<sup>24</sup> K. Kulov, "Problemy zemlepolzovania v Kyrgyzstane," *De-fakto*, 28 April, 2009.

the Kyrgyz authorities established a zero rate of export subsidies for agriculture. Now Kyrgyzstan has found itself a hostage of the unconsidered decisions of its former rulers, and it will be very difficult for it to extricate agriculture from the ongoing crisis.

Production from Iran and China is being imported into Kyrgyzstan, since the products of these countries are cheaper than those produced in Kyrgyzstan. Its WTO obligations prevent it from rejecting these imports. According to several Kyrgyz experts, Kyrgyzstan has become a country that is feeding off the economies of other countries. Not one branch is functioning as it should.<sup>25</sup> Former minister of agriculture of Kyrgyzstan A. Nogoiev maintained that “if intelligent people had carried out land and agrarian reform, we would have a well-developed farming sector today... At first glance, everything seems to have been done correctly: land was given to private entities and a new class—farmers—has appeared. But without systemic state support, these farmers have been left to deal with the problems on their own.”<sup>26</sup> Admittedly, the minister goes on to contradict himself and the facts by saying: “I want to emphasize that Kyrgyzstan’s food safety is in no way threatened...”<sup>27</sup>

Incidentally, many experts believe that the hopes of raising the economy as a whole by enhancing agriculture are totally absurd and entirely unjustified.

- First, no world economy builds development on agriculture; on the contrary, most developed states subsidize this branch from the state budget.
- Second, there is no farming culture in Kyrgyzstan. No amount of international grants or loans can change the mentality about working the land.
- Third, there is no precise conception of agricultural development in the country.
- Fourth, there are no qualified managers, agronomists, or farmers, and Kyrgyzstan has no intelligent marketing strategy in the sphere of agricultural production.

Due to the increasing problems in agriculture, which has become the country’s main economic sector, the problem of poverty is growing. Most experts agree that poverty threatens the state’s sustainable development and that it stems from poor state management and all-out corruption at all levels of the bureaucracy. However, A. Oslund, former advisor to former president Askar Akaev, believes: “Kyrgyzstan is one of the most attractive countries and the only free country in the post-Soviet expanse. In Kyrgyzstan, the genial population, well-educated representatives of civil society, and openness are prospering like nowhere else in the territory of the former Soviet Union.” Oslund goes on to say: “At the beginning of the post-communist transition period, Kyrgyzstan surprised observers thanks to Askar Akaev, who occupied the post of president from 1990 to 2005. The simplified tax system promoted an upswing in small business. Timely land reforms and low fiscal taxes for small farmers boosted a rise in agriculture. Moreover, Kyrgyzstan became the first CIS country to enter the WTO in 1998, which promoted active trade with China. Thanks to the excellent reform of public health, the life expectancy of the male population has increased by four years, and these indices are better than in Kazakhstan.”<sup>28</sup>

In 2009, former president Kurmanbek Bakiev took a working trip around Kyrgyzstan’s regions. His speeches mainly focused on the imminent growth in industry, stability of the economic situation in the country, and the need to raise the population’s standard of living. According to the press, Bakiev was generally pleased with what he saw. But he continued to hope for assistance from abroad. He

<sup>25</sup> See: M. Niazov, “U nas ostryy defitsit politicheskikh sil, sposobnykh vyvesti stranu iz krizisa,” *Reporter-Bishkek*, No. 16, 15 May, 2009, p. 4.

<sup>26</sup> *Ibidem*.

<sup>27</sup> *Ibidem*.

<sup>28</sup> “Novyy shans vystroit’ Kyrgyzskuiu demokratiyu,” 30 April, 2010, available at [<http://diesel.elcat.kg/lofiversion/index.php?t3884618.html>].



said: "Despite certain difficulties associated with the world economic crisis, the economy of our country is steadily developing. According to the economic growth statistics for this year (2009), our country ranks second among the CIS countries." Bakiev repeated this phrase several times in different villages he travelled to within the span of one week. He also often repeated the promise to make life easier for businessmen, lower the number of audits, and clamp down on corruption. All of this was to be done in the interests of raising the population's standard of living.<sup>29</sup> However, in reality, as experts maintain, more than 50% of Kyrgyzstan's GDP is formed from trade mediation activities and rendering services.

So during the reforms several miscalculations and flaws were admitted, and new difficulties and contradictions appeared:

- the material-technical agricultural base has been depleted; and technology, equipment, agricultural buildings and structures have been destroyed and squandered;
- production has catastrophically dropped, resulting in lower profitability and earning capacity of agriculture;
- there are not enough funds for purchasing agricultural machinery and equipment, seeds, fertilizers, fuel and lubricants, and so on;
- previously used fertile land has been abandoned;
- unemployment and poverty is widespread in the rural areas, particularly among young people;
- difficulties have arisen in selling the produce raised.

Small towns are in dire straits. Due to the unequal starting opportunities and conditions, the disproportions in the development of small towns and urban-type settlements have become even more glaring during the transition period. Despite adoption of the Conception of State Policy Regulation and the Small Town Socioeconomic Development Program of the Kyrgyz Republic, which set forth objectives and tasks, the general problems and ways to overcome them, as well as priority areas in the socioeconomic development of small towns for 1998-2000, many of the problems of small town development have only become worse.<sup>30</sup>

In so doing, the opportunities for reforming small towns and urban-type settlements by means of privileges, donations, grants, and sponsor funds have largely been exhausted. The high level of unemployment and drop in the standard of living below the poverty line are problem issues for essentially all of Kyrgyzstan's small towns and settlements, which is causing an increase in migration.

Serious contradictions have formed in hydropower engineering. In terms of its hydropower potential, Kyrgyzstan occupies third place in the CIS after Russia and Tajikistan. But only 8% of its hydropower resources are being used, whereby rather irrationally. Kyrgyzstan, a country with enormous potential for electricity production, is suffering from an energy crisis, sometimes electricity is switched off for 10 hours a day. So it goes without saying that enterprises cannot operate reliably. At the same time, in 2009, when there was not enough electricity for domestic needs, Kyrgyzstan exported around 12 million kWh a day to Kazakhstan.

Kyrgyzstan's energy system has long been built on rigorous exploitation of the Toktogul GES alone without investing in its reconstruction or maintenance in proper working condition. This has resulted in increased losses in the energy system. Energy consumption cannot be paid for on time, so

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<sup>29</sup> See: G. Mikhailov, "Ekonomika Kirgizii okhvachena krizisom, odnako vlasti obeshchaut neminuemoe protsvetanie," *Nezavisimaa gazeta*, 29 October, 2009.

<sup>30</sup> See: "Malye goroda Kyrgyzstana," available at [<http://municipalg.narod.ru/cc.htm>].

debts have become a great problem. An attempt to reform the energy industry (divide the sector into several independent structures and privatize them) made the situation even worse. At present, according to experts, the losses reach up to 45%, while power engineers owe the budget almost two billion soms. Corruption is cited as one of the main reasons for the unsuccessful reform of this sector.

The wear and tear on equipment at some hydropower stations is reaching 80%. When the Toktogul GES went out of operation in Kyrgyzstan on 15 April, 2009, Almaty and part of the Almaty Region were left without electricity for many hours. All of this shows the major problems and contradictions in Kyrgyzstan's power industry.<sup>31</sup> As Central Asian analyst E. Marat notes, "due to precisely drawn up pyramid schemes, which have been profitable for only a chosen few in this sector, Kyrgyzstan is collecting a mere 30% of the fees for the electricity it produces, while even according to rough estimates more than \$40 million in profit are squandered every year by means of fraud."<sup>32</sup> During a sponsor conference in July 2010 in Bishkek, Roza Otunbaeva said: "Ensuring transparency in the energy sphere, which was the most corrupted under the country's former leaders, is a super important task."<sup>33</sup>

It should be noted that Kyrgyzstan's geographical location has had a significant influence on the energy system being divided into two parts: the South and the North. In terms of capacity balances, the northern part of the energy system suffers from a shortage of energy, while the southern part has an energy surplus. The real throughput capacity of the high-voltage power line of the Toktogul GES (HL 500 kV) cannot ensure the predicted increase in energy consumption of the country's north, which hinders economic development potential.<sup>34</sup> Studies show that an increase in the country's economy along with a 4% rise in energy consumption a year means that approximately ten new 220-500 kV power transmission lines will have to be built before 2020 for transmitting the surplus electricity from the south to the north of Kyrgyzstan.

In addition to hydropower resources, Kyrgyzstan also has sufficient coal supplies. In Soviet times, Kyrgyzstan's miners produced 7-8 million tons of coal. Kyrgyzstan was in fourth place in terms of reserves in the Soviet Union (after the Russian Federation, Kazakhstan, and Ukraine). Coal reserves amounted to 1.3 billion tons. Today, Kyrgyz mines produce an average of 400,000 tons a year. The rest of the coal required (more than 1 million tons) is brought in from Kazakhstan.

## Disproportions in Regional Development as the Foundation of Social Conflict

The socioeconomic contradictions are most acute in South Kyrgyzstan. The Ferghana Valley, a permanent seat of instability and site of many contradictions, arouses particular concern among all experts, analysts, and politicians without exception. The Ferghana Valley is distinguished by a high level of overpopulation, growing unemployment, and intensifying Islamicist moods. More than 7.5 million people live in the valley, 75% of whom reside in rural areas. The population density in it reaches 500-600, with as many as 1,000 people per sq. km in some places. In terms of this index, the Ferghana Valley yields to only one region in the entire world, which is located in the south of China.

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<sup>31</sup> See: "Avaria v Kyrgyzstane paralizovala Almaty," *Karavan*, No. 16 (089), 17 April, 2009.

<sup>32</sup> The Jamestown Foundation Center, available at [<http://www.rursor.ru/article.aspx?id=8281>].

<sup>33</sup> "Chto eshche nam nuzhno sdelat?" *Litsa*, 29 July, 2010.

<sup>34</sup> See: A. Prashchaeva, "Energeticheskie problemy Kyrgyzstana i puti ikh resheniia," *Nezavisimiy obozrevatel stran Sodruzhestva*, No. 5, 2010.

The fact that many different ethnic communities live in the valley (including in the territory of Kyrgyzstan) acts as a powerful conflict-prone factor. Uzbeks constitute the majority of the population in all of the Ferghana Valley's regions.

Russian scientist I. Artemov said: "The living spaces of Central Asia are confined by deserts and mountains, so a further demographic revolution could lead at the turn of the 20th and 21st century to attempts to redistribute spheres of national influence within the region and expansion beyond it, where 'the only vector of movement is toward the north,' that is, to Kazakhstan."<sup>35</sup>

The enclaves of Sokh, Shakhimardan, Kalacha, and Jangayl are situated in Kyrgyz territory in the Batken Region. The Kyrgyz enclave of Barak and the Tajik enclave of Sarvan are in the Ferghana Region of Uzbekistan. There are also two Tajik districts in the Batken Region—Vorukh and Western Kalacha.<sup>36</sup> "Due to their geographical location and isolation from the mainland, the enclaves are quite a significant source of tension," says Mamazhan Berdishev, an employee of the state administration of the Batken Region. "The local residents must pass through border and customs posts several times a day, which wears people out, and during checks the controlling bodies demand money from them, which leads to disputes that aggravate the situation in the enclaves."<sup>37</sup> The residents of the enclaves complain about the shortage of plough land and pastures. This is leading to clashes among the residents of neighboring villages.

More than 700,000 Uzbeks, 18% of the country's population, live in Kyrgyzstan, mainly in the south. As a rule, they are merchants and businessmen, that is, a socially active group of people.

South Kyrgyzstan (including the Ferghana Valley) is an extremely complicated, contradictory, and volatile region. Former chairman of Kyrgyzstan's National Security Service K. Imankulov said on 18 January, 2005: "Extremists can nominate candidates for deputy in order to lobby laws through them and turn Kyrgyzstan into a springboard for gaining control over the whole of the Ferghana Valley." According to him, there is "information that some still insufficiently known politicians think it possible to organize uprisings." But the only revolutionaries the opposition can count on are the lumpen youth, who cannot name one political party, but are willing for money to participate in demonstrations, and "it only takes a couple of provocations for blood to be spilled."<sup>38</sup>

The "us-them" factor (northerner-southerner) can be clearly seen here. The people striving for power primarily try to rally people from their own district (fellow countrymen) around them. "Look at Bakiev and his entourage. They are absolutely incompetent, irresponsible people with a very provincial and predatory mentality. They have decided that they have been given power to earn money exclusively for themselves."<sup>39</sup>

Despite the mass exodus of the Russian-speaking population, the size of the population in Kyrgyzstan's capital, Bishkek, more than doubled between 1999 and 2009.<sup>40</sup> This shows that it is essentially the only place in the country where it is possible to live quite prosperously. On the whole, the population of Bishkek amounts to approximately 20% of the country's total population. Zbigniew Brzezinski has described Central Asia as "the Eurasian Balkans," stating that "their diverse ethnic composition makes them [the Central Asian countries] vulnerable to internal and external conflicts, which cumulatively tempt intrusion by more powerful neighbors."<sup>41</sup> As Kazakhstan political scientist D. Satpaev says: "neither Askar Akaev, nor Kurmanbek Bakiev took it upon themselves to give due

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<sup>35</sup> I. Artemov, "Rossia i Sredniaia Azia," *Nash sovremennik*, No. 7, 1992, p. 142.

<sup>36</sup> See: "Ferganskaia dolina," *Ekspress-Kazakhstan*, 17 October, 1994.

<sup>37</sup> E.V. Saliev, "V 'Mertvoi petle'," *Oazis*, No. 11, 2010.

<sup>38</sup> N. Ayyp, "Kyrgyzstan mozhet byt ispolzovan ekstremistami kak baza dlia zavoevaniia vsei Ferganskoi doliny," *Kyrgyz Weekly*, 19 January, 2005.

<sup>39</sup> A. Kniyazev, "Znakomye momenty vlasti," *AIF Kazakhstan*, No. 16, 21-27 April, 2010, p. 7.

<sup>40</sup> See: "Bishkek kak Noev kovcheg," *De-fakto*, 22 October, 2009.

attention to the economy, a sphere of such vital importance. And this is in a country where the number of poor people is critical and the disproportion among the regions in economic development is also colossal. And there is essentially only one place in Kyrgyzstan that is developing more or less normally—Bishkek, which is literally a state within a state.”<sup>42</sup>

In Bishkek, the poverty level amounts to 22.4%, in the Chu Region, it is 46.3%, and in the Osh Region, it reaches 67.2% (according to the National Statistics Committee for 2007). In so doing, the unemployment level in the south of the country is on average 80%. The state of natural resources and level of industrial development, agriculture, and trade have a significant impact on the standard of living. From this it follows that the remote villages in the high altitude and foothill districts with a poorly developed economy and culture and the overpopulated southern regions are the poorest. In 2008, consumer goods amounting to 5,000 soms per capita were produced in the Chu Region, to 875 soms in the Naryn Region, to 1,434 soms in the Issyk Kul Region, to 725 soms in the Osh Region, to 629 soms in the Jalal-Abad Region, and to 2,700 soms in Bishkek. As we can see, the difference is enormous.<sup>43</sup> Per capita income in terms of region in 2006 varied insignificantly: from 1,023.8 soms (11%) in the Jalal-Abad Region to 1,932.9 (20%) in the Chu Region. So the residents of the most lucrative Chui Region earn an average of 809.1 soms (9%) more than those who live in the low-income Jalal-Abad Region. If income is considered in dollar terms, the difference between the highest and lowest income regions amounts to \$24. Per capita income reaches \$27 in the Jalal-Abad and Naryn regions and to \$51 in the Chu Region. The average per capita income for Kyrgyzstan as a whole amounts to 1,417.3 soms a month, or \$37.<sup>44</sup>

The once favorable, even prosperous by Kyrgyz standards, Issyk Kul Region is also gradually turning into a poor region due to the revolutionary disturbances. According to Toktagul Kokchekiev, ex-advisor at the local ministry of internal affairs, when people were polled, 99% said: “‘In Soviet times, we lived as though in paradise. But now we are starving.’ I suggest that the deputies raise the question of urgently acceding Kirghizia to the Russian Federation at the very first session of the new parliament in October 2010.”

Like in the rest of the republic, the situation is also difficult in the Issyk Kul Region, which has an unemployment rate of 17.4%. This region is unique in that it is the country’s resort zone and is popular among the residents of many of the CIS countries. In the holiday season, the local residents try to earn enough money in 3-4 months to see them through the whole year. In the other seasons, most of the population do not receive a steady income.

On the whole, the highest unemployment level is in the south of the country. The high birth rate, which is typical of the Osh, Jalal-Abad, and Batken regions, is causing a rapid increase in the population. Southerners constitute 51% of the total size of Kyrgyzstan’s population. The absence of industrial enterprises in this region means that most of the residents are engaged in irrigated farming, which is aggravated by a constant shortage of irrigation water.

According to the year-end report for 2007, the lowest human development index of 0.650 was registered in the Batken, Naryn, and Osh regions, while the highest was in Bishkek, the capital (0.828).<sup>45</sup> The state of the economy in the southern regions of Kyrgyzstan leaves much to be desired. The low standard of living and pernicious unemployment are driving people from their homes in search of

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<sup>41</sup> Z. Brzezinski, *The Grand Chessboard. American Primacy and its Geostrategic Imperatives*, Basic Books, New York, 1997, p.130.

<sup>42</sup> Zh. Baitelova, “Bunt tolypy ili volia naroda?” Information and Analytical Portal of the Republic, 9 April, 2010.

<sup>43</sup> See: *Statistics Yearbook of the Kyrgyz Republic*, 2008, National Statistics Committee of the Kyrgyz Republic, Bishkek, 2008.

<sup>44</sup> See: D.K. Osmonbetova, “Bednost v Kyrgyzstane i ee otrazhenie v pokazateliakh vodopotrebleniia,” *Vestnik Moskovskogo universiteta, Seriya 6, Ekonomika*, No. 3, 2010, p. 66.

<sup>45</sup> See: *UNDP Report in Kyrgyzstan, 2010*.

a living. According to the statistics, a huge number of Kyrgyzstan's residents work as labor migrants in Russia and Kazakhstan (90% of them are from the southern regions). In 2007 alone, they sent more than \$1.5 billion in earnings to Kyrgyzstan.<sup>46</sup> Most of the migrants from Kyrgyzstan go to Russia, where their number reaches almost 500,000 people. Their remittances amount to approximately \$1.5 billion a year, which is equal to almost half of the republic's budget. In the past five years (2004-2009), approximately 100,000 people from Kyrgyzstan have acquired Russian citizenship. It should be noted in particular that labor migrants from Kyrgyzstan are not only trying to find temporary work in Russia, they would also like to settle there permanently.

The contradictions have become acutely aggravated since the end of 2008, after the beginning of the economic and financial crisis in Russia and Kazakhstan. Migrants have lost their jobs and been forced to return home. By the middle of 2009, more than 4,500 unemployed who had returned from Russia and Kazakhstan were counted in the city of Osh alone, according to the city branch of the State Migration and Employment Committee. However, many experts maintain that the actual picture is much more serious than the official statistics. "If labor migrants return home en masse, we can expect social upheavals," says well-known political scientist Nur Omarov. "The army of potential unemployed will bring with it problems which the state structures are not ready for, or to be more precise, do not know how to resolve."<sup>47</sup>

Deutsche Welle notes that unemployment is an officially recognized problem in Kyrgyzstan. Referring to its own sources in Kyrgyzstan, the publication claims: "They [returning work migrants] are steadily increasing with each passing day. Witnesses are even talking about entire train carriages filled with migrants returning home to Kyrgyzstan."<sup>48</sup> In the southern districts of Kyrgyzstan, where the unemployment problem is particularly acute, the situation on the labor market is beginning to acquire a catastrophic nature.

Due to devaluation of the som and economic problems, Kyrgyzstan has become the poorest CIS country with a per capita GDP, according to the 2009 year-end report, of only \$630. The weak economies of its main neighbors, Russia and Kazakhstan, are preventing Kyrgyzstan from developing. The increase in unemployment and the government's desire to cut back on budget spending, shifting the burden onto the citizens, have become fertile ground for discontent. The festering contradictions led to another revolution in April 2010.

According to experts, "such revolutions will keep on happening until someone comes to power who will resolve the country's problems and not transfer the levers of governance of the country and economy to his own clan."<sup>49</sup> Deputy Director of the Institute of CIS Countries V. Zharikhin said: "Bakiev tried to maintain a balance between the traditionally hostile North and South in Kirghizia. But then everything got out of hand. What is happening now in Kirghizia was triggered by people having their economic interests affected. The trigger could have been privatization of the hydropower industry, which began to be taken away from the northerners. The second factor was Bakiev's striving to stay in power for long years and the statement that the Kurultai, and not the people, should decide who will be president."<sup>50</sup>

Contradictions and rivalry between the North and the South run like a veritable refrain through the entire history of independent Kyrgyzstan. Askar Akaev agrees with A. Kniazev that one of the factors triggering the March 2005 state coup was the aggravation of interregional contradictions. "I, as president, declared the city of Osh to be the second capital of the republic; many people from the

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<sup>46</sup> See: B.B. Esenalieva, "Sovremennyy rynek truda i trudovaia migratsiia v Kyrgyzstane," *Vecherniy Bishkek*, 20 June, 2009.

<sup>47</sup> "Migranty vozvrashchaiutsia v Kyrgyzstan, kotory ne gotov ikh priinat," *Litsa*, 4 May, 2009.

<sup>48</sup> [<http://www.centrasia.ru/newsA.php?st=1239680820>].

<sup>49</sup> "Chem zakonchitsia bunt v Kirgizii," *Komsomolskaia pravda*, 9 April, 2010, p. 3.

<sup>50</sup> "Gorkiy opyt sosedy," *Kazakhstanskaia pravda*, 14 April, 2010.

South were incorporated into the country's leadership; and the southern youth gained wide access to education. Socioeconomic policy was drawn up with priority attention to the needs of the South. But there was not enough time for all of this to bear fruit, while the difficulties, particularly with unemployment, in the South grew."<sup>51</sup> After Bakiev was overthrown in April 2010, his supporters suggested that he declare one of the southern cities, Osh or Jalal-Abad, as the republic's capital.

Most experts agree that the main prerequisites of the negative events in Kyrgyzstan were the disproportions in the country's regional development, the contradictions within the regions themselves and between them, the serious shortcomings in resolving socioeconomic problems, and the inefficiency of the mechanisms applied for ensuring sustainability of the economy and establishment of long-term relations with the main trade partners.

The ethnic conflict that flared up on 11 June, 2010 in the south of Kyrgyzstan threatens the stability of the entire Central Asian region. The Kyrgyz state, which has essentially collapsed, is unable to cope with the situation and can only hope for help from the outside.<sup>52</sup> As the traditional class of merchants in these districts, Uzbeks are usually better off than the Kyrgyz, who are historically a nomadic people earning a living from farming and unskilled labor. The economic inequality between the two ethnic groups is one of the reasons for the tension, contradictions, and conflicts.

There is also an economic component in this tension. Throughout the Soviet era, the Uzbeks, who have always lived in the south of Kyrgyzstan, prospered, making use of the old trade networks traditionally unavailable to the nomadic Kyrgyz, who were mainly shepherds. Following the dissolution of the Soviet state, "successive Kyrgyz governments have encouraged a muscular, ethnic-based nationalism."<sup>53</sup> Russian President Dmitri Medvedev said at a press conference on the results of talks with Barack Obama: "The country (Kyrgyzstan) is essentially divided de facto into parts, civilian clashes continue, including, which is particularly grievous, on ethnic grounds, many people have been killed, the authorities proved incapable of preventing what happened."<sup>54</sup>

Separatists are calling for Kyrgyzstan to be divided into two democratic republics: the Southern with its capital in Osh and the Northern with its capital in Bishkek, delegating equal powers to them. The provisional government thinks these ideas are dangerous, and ex-premier of Kyrgyzstan Felix Kulov is sure that "the people will never support such a statement."<sup>55</sup> Prime Minister of Kyrgyzstan A. Atambaev said on 24 January, 2011: "Trends toward Kyrgyzstan's disintegration indeed exist. The Kyrgyzstan government should conduct a coherent and sober policy. Rational and constructive forces, which I think there are more of in our country, understand that the matter does not concern only the economic situation, but also Kyrgyzstan's integrity, its existence and independence. Some foreign and local experts say that there are trends toward the republic's collapse. And this is in fact true. The economy, of course, is the main fulcrum. But without stability and ethnic accord it will be difficult to develop that economy."<sup>56</sup>

## Conclusions

Kyrgyzstan's unsystematic and chaotic development during the years of sovereignty along with the absence of a clearly conceived strategy supported by all of society have given rise to a mass of

<sup>51</sup> A. Kniyazev, *Gosudarstvennyy perevorot 24 marta 2005 goda v Kirgizii*, Bishkek, 2007, p. 161.

<sup>52</sup> See: G. Mirzaian, "Kto potushit Ferganskuiu dolinu?" *Ekspert*, No. 24, 21 June, 2010.

<sup>53</sup> See: I. Greenberg, "Between Uzbekistan and a Hard Place," available at [[http://www.foreignpolicy.com/articles/2010/08/10/between\\_uzbekistan\\_and\\_a\\_hard\\_place](http://www.foreignpolicy.com/articles/2010/08/10/between_uzbekistan_and_a_hard_place)].

<sup>54</sup> *Nezavisimaia gazeta*, 26 June, 2010.

<sup>55</sup> [<http://kara-balta.ru/forum/archive/index.php/t-1004.html>].

<sup>56</sup> [<http://www.kginfo.org/index.php?newsid=1909>].

contradictions and problems which the country tried to resolve by means of confrontation. This has also given rise to the permanent instability that has created the image of Kyrgyzstan as one of the most unpredictable states in the post-Soviet expanse. The exacerbating contradiction between the traditional nature of society and the challenges of globalization, which are reducing to naught the national characteristics of the Kyrgyz people, were and remain the source of instability at the systemic level. This contradiction also came into play in Soviet times, when an attempt was made to foist socialism, bypassing feudalism and capitalism, on the people of Kyrgyzstan, who had still hardly emerged from the tribal society.

Kyrgyzstan's problems are also directly related to the contradictions between the North and the South. The most prosperous regions of the North are Bishkek, the Chu Region, and the Issyk Kul Region. The least prosperous, or, to be more exact, depressive are the regions of the South: the Osh, Jalal-Abad, and Batken regions. So there is no point in talking about Kyrgyzstan's smoothly functioning economic complex. It appears that these poorly interacting parts of the same country and the contradictions between them are only getting worse, which in the future, if systemic and integrating measures are not pursued, could lead to even greater aggravation of the socioeconomic situation in Kyrgyzstan with all the ensuing political consequences.

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