

CENTRAL ASIA AND THE CAUCASUS

Journal of Social and Political Studies

1 (25)
2004

CENTRAL ASIA AND THE CAUCASUS
CENTER FOR SOCIAL AND POLITICAL STUDIES
SWEDEN

FOUNDED AND PUBLISHED BY

CENTRAL ASIA AND THE CAUCASUS CENTER FOR SOCIAL AND POLITICAL STUDIES

Center registration number: 620720 - 0459
Journal registration number: 23 614
State Administration for Patents and Registration of Sweden

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<http://www.ca-c.org>

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CENTRAL ASIA AND THE CAUCASUS
Journal of Social and Political Studies
No. 1(25), 2004

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The Special Feature section in the next issue will discuss:

Central Asia and the Caucasus

- Tightening Regional Security
- Ethnic Relations and Population Migration
- World and Regional Centers of Power and their Impact on the Regional Situation

NATION-BUILDING

**POLITICAL CULTURE
AND MODERNIZATION
IN THE CENTRAL ASIAN STATES**

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Their newly acquired sovereignty has turned the attention of the Central Asian countries toward nation-building. Throughout history, the nation-state has been responsible for consolidating society: previously disunited peoples became a closely-knit civil nation. The process went in three directions: ethnic groups joined together to form a civil society; economic progress helped overcome social and class distinctions, while rivaling groups pursuing opposite interests reached unity on vitally important issues.

In Central Asia and elsewhere in the CIS the transition is creating numerous difficulties. Foreign researchers are trying to grasp the deep-rooted causes of these difficulties and critically assess our experience. An analysis of current socioeconomic dynamics and their possible future development suggested to certain foreign academics that the region “in fact lacks the necessary prerequisites” to move forward and that it is sinking “into a deep and protracted crisis” as a result of which the local states will degenerate into “failed countries.”¹

It goes without saying that the social and economic situation in all the Central Asian countries fighting for survival is still grave; the earlier optimistic forecasts proved to be unfounded.

¹ See, for example: *Central Asia and the New Global Economy*, ed. by Boris Rumer, Armonk, New York, London, 2000, p. IX.

Although landlocked, these countries preferred isolation from each other. Today they are following a pernicious road leading to regional disintegration. To survive they should obviously join forces and try to integrate. Any careful and rational analysis of the local developments produces less pessimistic conclusions than might be expected. Whatever the case, it is hard to agree that the local states are degenerating into “failed countries.” At the same time, if the situation does not improve and continues deteriorating, such degeneration can no longer be excluded.

It is easy to agree with the opinion that the economic problems reflect to a certain extent the political systems that have developed in these countries. American academic Boris Rumer has the following to say: “Obviously, if the social order, power systems and economic management that have taken shape in the post-Soviet period remain intact, none of the region’s countries, no matter how rich in natural resources, will be able to leave behind its present social and economic stagnation.”²

This hits the nail on the head: to overcome social and economic stagnation the countries must replace the key social indicators. They must form a framework that will allow the new emerging system to remain stable and even move forward. It seems that as a result of the recent developments in the Central Asian republics the political component moved to the frontline of social transformations. Only a democratic state can inspire society and bring in creative initiative.

There is the opinion that the former Soviet Central Asian republics and Kazakhstan proved unprepared for nation-building and were forced to set up statehood attributes rather than doing this willingly. Hence the “ineffective political system.” Freedom and sovereignty were like a bolt from the blue; so the region set about building democracy through trial and error rather than according to a rational and consistent economic and political strategy. More often than not Western standards were borrowed without discrimination. Hence a political system in which democratic garb covers the old authoritarian-clan core. Israeli political scientist V. Khanin has written in this connection: “All of the countries that emerged in the post-Soviet expanse have declared that their aim is to create a modern, open society with a democratic, secular state. Yet each of the former Soviet republics has developed variations of an authoritarian political model based on the personal power of political leaders (presidents).” He applied this first and foremost to the post-communist Central Asian republics, the presidents of which, while personifying the ideology of independence, assumed functions typical of the communist general secretary of Soviet times.³

Indeed, it would seem that the makeup of power in the post-Soviet states (the Central Asian states among others) has changed a lot. In the majority of them power became seemingly much more democratic. A keen observer, however, will soon discover that democracy is nothing more than a mask. Power is doing its best to become democratic, but is failing. It proved very hard to discard the mask and change the true face of power. Today, as before, the vertical of power is ruled from above: this is an autocratic, not democratic, method. Democratic elections at all levels did little to change the power pattern inherited from Soviet times. Obviously, the present election system should be radically changed. Recently, nearly all of the region’s countries have been displaying a tendency toward concentrating power in the hands of one person.

The post-Soviet countries are dominated by political groups eager to retain real power through authoritarian rule, which is best suited to this purpose. This is the most obvious explanation of the present situation. By maintaining the Soviet tradition these groups are strengthening their political and economic bastions—they do not need real democratic control over the state structures. The stereotypes of authoritarian Soviet mentality and behavior have anchored Central Asia to the past. They breed totalitarian methods of state administration better suited to the corporate and private interests of certain groups in the corridors of power. The bitterest conflicts in Central Asia occur within this extremely important sphere.

² B. Rumer, “Tsentral’naia Azia—desiat’ let spustia,” *AKIpress*, 1-2 January, 2003, p. 9; see also: B. Rumer, “Ne vizhu poka sveta v kontse kyrgyzskogo tunnelia,” *AKIpress*, No. 13-14, 2002; S. Zhukov, O. Reznikova, “Kyrgyzstan blizok k strukturnym proporsiam afrikanskikh stran,” *AKIpress*, No. 15-16, 2002.

³ See: V. Khanin, “Kyrgyzstan: Ethnic Pluralism and Political Conflicts,” *Central Asia and the Caucasus*, No. 3, 2000, pp. 123-124.

It must be said that similar political groups have been and are present in all societies, including the developed democratic ones where the political context alone prevents usurpation of power. The democratic state does not seek over-centralized power: it spreads control, influence and authority among individuals, groups, associations and organizations. Real power becomes diffused in civil associations, therefore the upper levels of the administrative vertical have to constantly verify their actions with what these associations want. In such societies no closely-knit group can concentrate power—it is spread among more or less independent associations. While wielding only part of authority such groups oppose domination of any of them; they compete among themselves for possible advantages, enter into conflicts that end in negotiations and carry out independent actions. It is this dissolution of power and control by civil structures that has so far eluded Central Asia, despite its efforts to achieve it.

The failure is rooted in post-Soviet society and people, as well as in their lifestyle and traditional institutions or, rather, in their political culture. In more general terms we can say that it is rooted in what is divorcing traditional and contemporary civilizations in historical reality. G. Almond and S. Verba, two American academics, have written that statesmen working toward political democracy usually concentrate on its formal side—a specific set of democratic institutions, the constitution, and political parties to stimulate mass involvement. Yet the authors write, such efforts should be concentrated on something much more important than political and administrative structures. Democratic developments depend on political culture: if it proves inadequate to a democratic system, then the latter is doomed to failure.⁴

This logic suggests the following conclusions. First, neither industrial development nor educational levels are conducive to breakthroughs. They are important, yet they depend on a factor that psychologists call “readiness” to accept radical social reforms and to suffer for their sake. Life has taught us that the nation’s spiritual makeup, its political culture, adequate mentality and values create its profound understanding of the aims and tasks of such reforms and its ability to effect them. The state has an important role to play when it comes to consistent reforms. Much, or even everything, depends on the state’s historical form; the state channels social development, therefore the state component (together with the personal component) serves as an indication of society’s historical potential and its development rate. The correlation between the state and the individual in each specific case varies. We regret to say that the CIS countries display a fundamental discrepancy between these two components; as a result the state institutions are democratic in form and authoritarian in content.

The political system’s weakness is manifested by its inability to create an efficient mechanism for regulating socioeconomic relations in order to prevent the poor majority from slipping into destitution and allow the rich minority to gain strictly legal profits. What is even more important is the fact that the present economic situation in the Central Asian countries does not allow them to radically increase their incomes while the political elite that decides the fate of the political and economic reforms does not meet democratic requirements. This was to be expected: its backbone was formed by that part of the Soviet nomenklatura that survived the changes. The U-turn in history that swept away the U.S.S.R. and created the CIS brought back the bureaucrats who, after filling the temporal vacuum, “transformed themselves” into democratic reformers and seemed to have discarded the old authoritarian forms of mentality and behavior “imbibed” under Soviet power.

Outward changes remained superficial: the totalitarian-authoritarian syndrome is still ruling the minds of these people. The bureaucrats of today are obviously developing into a “bureaucratic class” wishing to appropriate the state and use administrative resources to redistribute economic property. During the transition period public property in the CIS countries is becoming private while the bureaucrats are doing their best to have their share of it. This is an objective process, therefore subjective judgments do not apply. This happened in many countries. Subjectively, all people with few exceptions follow the objective logic of events; this gave rise to the term “nomenklatura capitalism,” which is widely used by the academic community. The process is accompanied by an intensive blending of the interests of corrupted bureau-

⁴ See: G. Almond, S. Verba, *The Civic Culture. Political Attitudes and Democracy in Five Nations*, Princeton, 1963, p. 479.

crats and shadow businesses and leads to a trap in which nomenklatura capitalism becomes oligarchic capitalism.

This made post-Soviet bureaucrats a solid barrier on the road to an efficient and extensive business environment, which they regarded as a threat to their basic interests. Society is split and the gap is widening because the interests of the social groups' basic interests widely vary. These factors prevent the social consolidation that a nation-state is trying to carry out. To resolve the problem in Central Asia, traditional societies should be transformed into modern ones, which means that the totalitarian-authoritarian institutions inherited from the Soviet system should be transformed into liberal-democratic ones. The fairly widespread opinion says that this will take a long time and that Central Asia will have to pass through several important modernization stages (already covered by the Baltic states, Russia and Ukraine). This is an exceptionally hard task—the Central Asian countries will have to negotiate a wide abyss that can be described as “civilizational incompatibility.”

Indeed, any attempt at modernization that will destroy the old institutions and remove old values to replace them with new ones is fraught with a very specific situation. According to Russian political analyst Andronik Migranian: “Traditional society finds itself stuck in a bottleneck where all social forces suddenly move toward opposite poles.”⁵ The accumulated economic, social, spiritual and other contradictions become even more acute; life is permeated with conflicts. Migranian says that historical experience offers three ways out. The first of them was realized in the Anglo-Saxon countries (Britain in the first place) where the political culture of the ruling elite proved to be civil enough to allow this elite to move to the center so as to become, in the shortest time possible, a link between the extremes. This created a social consensus, removed the sharpest of the contradictions and helped democratic institutions strike root in society. The second way out (more painful) was realized in France. The third, and the most painful and even tragic, fell to Russia's lot. Its history was dominated by servility that permeated its social life, mentality, and norms of behavior. The Central Asian nations, which for a long time remained within the Russian Empire and the Soviet Union, and their political culture were deeply affected by this.

Thus the question arises of how can real modernization be carried out in Central Asia? If the local states want to avoid many pitfalls, they should opt for the first of the alternatives described above. With this aim in view they should complete the stage of primary consolidation of a political democracy and market economy in the shortest time possible to create a class of property owners in the towns and villages who are able to support themselves. Being individually free and possessing all the political rights, this class will become a powerful factor that will prevent crises. Only a broad stratum of businessmen can create the “critical mass” capable of achieving economic breakthroughs. This process translates into reality all positive features of so-called democratic capitalism. There is no doubt that it played a decisive role in the spectacular progress demonstrated by those Western and Eastern countries that today are among the most developed countries in the world.

When discussing the inefficient political system emerging in the Central Asian countries we should avoid looking at it in isolation as if divorced from the socioeconomic, cultural and moral-psychological factors with which it is closely connected. The nature of any political and economic system in any country depends on traditional public institutions, which, in their turn, depend on the cultural milieu. The issue of a cultural type of worker prevailing in any society is very important. What is even more important is the type of individual that creates the social atmosphere, and directs the way of life and economic relationships. The social-psychological willingness to accept renovation depends on the mass individual and his political culture. Scholars have demonstrated that the primacy of political culture is expressed in the fact that any changes in social institutions and, consequently, in the political and economic system, should be accepted by the people in order to become new cultural imperatives. The political culture of servility that took the form of “man—the state” in the Soviet system still predominates in human minds and behavior. It is the main factor behind the authoritarian traditions still preserved in

⁵ A. Migranian, “Pochemu pobedili bol'sheviki i chto iz etogo vyshlo,” *NG-STSENARII. Prilozhenie k Nezavisimoi gazete*, No. 12 (21), November 1997.

the system of state administration. The political culture of civil spirit is coming to the fore; the process is slow and torturous, yet it alone can create a genuinely democratic atmosphere. Man will regain his dignity if he becomes a real source of power able to act together with his elected representatives as a "law-abiding citizen".

Mentality and behavior typical of servility forces man (even if he does take part in a democratic election procedure) to fully surrender to his elected representatives and behave like a "power-abiding subject." Holding forth on this, certain authors insist that the political culture of servility that put down root in Central Asia in the course of history changed but little even under the heavy pressure of the Soviet totalitarian system. This is not completely true: any attentive observer can see that the totalitarian-autocratic methods helped to destroy the earlier traditional political culture. Radicalism that rejected everything inherited from the past was dominant in the communist ideology. At the same time, communist dictatorship relied on those traditional norms of political culture that latently supported and strengthened the totalitarian and authoritarian mechanism. In other words, tradition is ground down and starts playing a new role dictated by the changed social conditions.

It seems that in Central Asia deeply rooted everyday tradition was responsible for the fact that the Soviet modernization of the 1930s-1970s that had upturned people's lives, labor, living conditions, mentality and behavior—in short, everything that Fernand Braudel called "the structures of everyday life"—was less destructive and much more superficial.

Russian academics are convinced that Soviet modernization destroyed society's homogeneous structure. The industrially developed western regions of the Soviet Union promptly became industrial and urban areas. The eastern part of the Soviet Union and Central Asia remained mainly agricultural. This explains why the new content, but not the shell, of local existence that is changing under the impact of the market economy and political democracy is being rejected in full accordance with the still alive political culture of servility. In other words, the old traditional content is being put into a new democratic form. We can agree that the Central Asian "parliaments," "parties," "presidency," and "executive and judicial power" should not be taken at their face value. To a certain extent they screen traditional political relations.

But nor should we go to the other extreme: these institutions are not entirely traditional; they are a blend of certain traditional and contemporary elements. In fact we are witnessing a slow, extremely complicated, very painful and contradictory clash between the old and the new. This process gradually pushes the traditional to the wayside in order to make way for contemporary elements. The democratic shell is being filled with new content. This process may prove to be long. We can still agree with D. Mikulskiy who said earlier: "The president of Uzbekistan differs from the president of France, Estonia or even Russia, but nor is he the emir of Bukhara. The Party of Islamic Revival of Tajikistan is not a party in the European sense of the word, but nor is it a group of clans wishing to climb as high as possible up the ladder of clan hierarchy."⁶

Ten years of independent development revealed to everyone the fact that Central Asian historical specifics are "civilizationally incompatible" with the European model. There were no adequate conditions for the Western development model in any of the Central Asian republics, or across the post-Soviet expanse for that matter. By the mid-1990s the contradictions between Western democracy and the locally planted market economy, on the one hand, and post-Soviet political culture and social psychology that badly distorted the European values, on the other, had reached boiling point. Post-Soviet academics and practical workers reluctantly recognized that the methods of implementing the market mechanisms used by the international financial and economic organizations, the IMF in particular, do not function in our conditions.

First, laws, morals and ideology guide individual economic behavior in the European market system making the commonly accepted norms obligatory for all involved in economic activities very important. When the masses fail to obey the laws and norms or to grasp their moral and ideological meaning, no smooth functioning of the market system is possible. History has demonstrated that the capitalism which

⁶ "Krugly stol 'Islam i obshchestvo'," *Voprosy filosofii*, No. 12, 1993, p. 22.

first developed in certain West European countries adjusted itself to the prevailing social order thanks to the predominant Protestant morals. Likewise, in the latter half of the 20th century it was Confucian ethics that helped capitalism move closer to the previously backward East and Southeast Asian countries. Rational behavior in market economy logically stems from legal, ethical and ideological aspects; it is only possible in a well-ordered environment created by strict observance of the rules. This alone leads to creative competition, obligatory contracts and reliable rights of ownership.

Second, the legal, ethical and ideological system that has taken many centuries to form became part and parcel of Western society. It takes into account and specifies the subtlest of nuances in economic relationships, thus making the punishment of violators of laws and rules inevitable. So it restrains those who tend to breach rules and transgress ethical limits. This moral and psychological atmosphere is conducive to trust in verbal obligations, the code of honor and personal reputation become all important.

Finally, third, how is the human factor being transformed in recently Soviet Central Asia? We all know that communist dictatorship imposed atheism, thus depriving Soviet people of religion as a spiritual foundation of human behavior. Socialist morals disappeared together with the disintegration of the united nation, while the ethical foundation remained extremely vague. As for the legal awareness, Soviet society declared it, but did not plant it in people's minds. In the legal, ethical, and ideological vacuum, "devastation in the mind" created "economic devastation." Commercialization of the state of the mind and behavior inevitably corrupts people's spiritual health, and negatively affects human relationships, thus causing economic stagnation. In a country where people have never been taught to respect laws, new conditions transformed the old moral values. Ideological devastation reigns in the people's minds, while they are rejecting the imposed Western legislative systems.

At the same time, the traditional political culture of servility oriented toward the collective and communal existence typical of Central Asian society can be adjusted to developed capitalism. To do this we should carefully observe capitalism's historical experience in different countries. The theory of capitalism's "alternative systems" gaining popularity among politicians and economists proves that a "pure" capitalist economy (the subject-matter of classical theory) is nothing other than an ideal image of European development. It has been proven that the West is unique but not universal. Capitalism today assumes various qualitative forms characterized not only by general regularities, but also by certain essential peculiarities. Theoretically, capitalism is a universal economic system while in real life numerous "economic systems" exist side by side. Rationality as a *sine qua non* of the capitalist economy can exist and develop outside the European environment. A systemic analysis must be carried out in order to take account of the extra-economic factors unrelated to production relations yet greatly affecting the nature of the economic system. These factors are control, power, political culture, personal relationships, axiological norms, and trust. Anybody wishing to understand how capitalism functions in different regions and countries should take these factors into account.

Japan's fast progress toward economic prosperity in the latter half of the 20th century is highly specific. The country has organically blended the universal capitalist rules and the nation's historical and ethnic specifics: something that has already created the concept of the "Japanese road" to contemporary civilization. The traditional political culture of servility deeply rooted in Confucian ethics, which has taken the shape of the "culture of duty" (*giri*), proved to be perfectly compatible with the modernized principles of political democracy and the market economy.

During the transition period, the social-psychological and mental-moral type prevailing in Central Asia can be described as a "marginal" personality. It seems that for a long time to come political culture in the region will remain a combination of traditional and contemporary elements and communal-collectivist and individual-personal orientations and behavior.

In an effort to understand the essence of this process, we can conclude that the previous non-capitalist stages can (and should) be blended with the neo-capitalist stage of social transformation in the most developed countries. This strengthens the conviction that more or less painless transformation of our society into a capitalist one is possible in the future. In other words, our past does contain factors that will help us to fit into the context of the structural changes obvious in developed countries. We have in mind a

mixed political culture or, rather, a combination of collectivist and individualistic orientations in the mentality and psychology of the post-Soviet person. Facts have shown that contemporary capitalism is socializing and individualizing at one and the same time, which requires both developed individualism and collectivism in human consciousness and behavior.

Obviously, modernization of the Central Asian states is a very complicated issue that should be carefully studied and discussed. This article should not be taken as an appeal to build competitive-corporate capitalism in Central Asia. There is no need to transfer this experience to our soil and there is no point in it. For this type of capitalism has both positive and negative sides. It seems that another alternative more in keeping with the requirements of our modernization will take root in Central Asia. Probably there is another, much better suited, model. One thing is obvious: the Central Asian countries have reached the point at which they must assess their development alternatives in the context of the increasingly globalizing world. We urgently need a development model that stems from national specifics and promotes social modernization. Will these states be able to create a common modernization model and develop along the same regional lines?

STATE POWER IN THE CENTRAL ASIAN COUNTRIES: QUO VADIS?

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(Moscow, Russia)*

I n t r o d u c t i o n

Despite the honorable slogans set forth in the constitutions of most of the region's former Union republics, not one of the newly independent Central Asian countries has been able to build a true democracy or law-based state. It is obvious that this situation did not come about by accident. It is the very legitimate and entirely explainable result of these countries' development throughout the entire period of their existence, beginning in 1991.

Almost none of the public politicians, including the leaders of the post-socialist states, has spoken out directly against democracy. On the contrary, they like to talk about their adherence to democratic development. But this is often just a front, propaganda, and not a genuine desire to es-

tablish democratic rule in a particular state. For at one time, outright dictators and the supporters of communist totalitarianism called themselves democrats. Today the Turkmenistan mass media, for example, also claim that their country has created true democracy.

In a literal translation from the ancient Greek, the word "democracy" means power of the people. The words of Abraham Lincoln, one of America's outstanding presidents, are also very well known: democracy is government of the people, by the people, for the people. Of course, these brief formulas do not divulge the academic meaning of democracy. But here I would like to emphasize an obvious point: European thinkers, beginning with Plato and Aristotle, always juxtaposed the concept

of “democracy” as a way of governing the political life by many entities against other categories, such as monarchy or tyranny (that is the power of one person), or the power of a small tight-knit group of people (oligarchy, aristocracy).

In our opinion, there is an obvious difference here in the approaches of the European and the Oriental thinkers of the past. In the East, we often hear arguments about the need for the broad participation of different entities in executing power in the state. As a rule, Eastern political thought went in a different direction—it attempted to exalt the power of one person (a monarch). The works of the thinkers of China, India, Persia, the Arab countries, and Turkey are full of such advice. Even the communal traditions which many contemporary politicians are inclined to unambiguously interpret as historical examples of power of the people are not, upon close inspection, very much different from the noted approach of the Oriental thinkers.

In this respect, Central Asia is explicitly following the example of Oriental tradition, whereby nation-building is largely finding its manifestation in creating and perfecting the power of one political entity—the head of state. If we look at the region’s most recent history (after the collapse in the U.S.S.R.) from this viewpoint, it is easy to see that it is the struggle of specific individuals to attain the supreme power of the head of state and to retain and hold onto this power that is the essential factor defining not only the political process as such, but also nation-building and constitutional changes. Most likely this was a manifestation of one of Georg Wilhelm Friedrich Hegel’s dialectic laws, the law of “negation of the negation.” Presidential posts in the republics of Central Asia were formally introduced in order to democratically break down the omnipotent regime of the communist nomenklatura. However, the regimes subsequently created be-

gan striving for absolute power themselves, thus being hardly any different from the power of the former general secretaries.

In so doing, there is no doubt that the true reason for many of the constitutional and political crises that the newly independent states have encountered and continue to encounter is in fact not the defects and flaws in the mechanism for constitutionally dividing power in a particular state, but something else. The thing is that this has been a time of ubiquitous economic changes, which went hand in hand with the redistribution of property. Some power figures obtained previously unprecedented opportunities to gain financial benefits from their position in the state structure. And the absence of true democracy in political life only promoted the formation of this new group of property owners. The arising crises appeared to stem from various intrigues or the struggle for power between the “old” and the “new,” while in actual fact they were caused by the struggle for ownership and other material paybacks.

Of course, major changes have occurred in the countries of the region during the years of independence, and attempts have been made more than once to reform the state structure. But these reforms cannot be considered consistent. In the sphere of political-power relations, presidential power has gradually transformed their ostensibly democratic course of reforms into something that is not at all characteristic of democratic states, but instead reminiscent of authoritarian regimes. Instead of creating a system where the actors compete and vie for the electorate’s votes and come to power as a result of free, open, and fair elections, the political course of the leadership in these republics became all the more obviously inclined toward forming a system with a dominant actor, unambiguously understood as the head of state. This is precisely what the constitutional changes were aimed at.

The Indicative Drift of the Central Asian “Island of Democracy”

In this article, we will look at the nature and trends in nation-building designated above using the example of only one Central Asian country. We will focus our attention on Kyrgyzstan, since this small republic can be considered the most democratic and liberal in the region. In general, its leadership likes

to exploit the theory that Kyrgyzstan is the pioneer of almost all the reforms, not only in the region, but throughout the CIS as a whole. So a critical analysis of how the “leader,” the “best research target among the given alternatives,” is doing might help us to define the problem as a whole.

In this country, the nation-building reforms have not been fast-moving and radical. On the contrary, they were drawn out over time and were not as evident as in Turkmenistan and Kazakhstan, for example. But, from our viewpoint, this only indicates that the power structures in Bishkek did not have the necessary resources for carrying out rapid reforms. An abrupt and unequivocal turn toward authoritarianism might have led to a significant reduction in interest toward the republic on the part of foreign states, international organizations, and various foundations. And under Kyrgyzstan’s conditions (the country does not possess raw hydrocarbon resources), this was fraught with immense difficulties. A scrupulous and objective analysis shows that during the political and constitutional reforms the question of how to create an efficient mechanism for uniting the declarative human and citizen rights and freedoms and institutions of a civil society with the activity of the higher state power institutions had essentially not been imperatively raised as realistic. The folly of this approach is extremely obvious: after all the main driving belt for helping the population and institutions of a civil society stay connected to the power structures—multiparty democracy—is something the republic has given very little attention to.

The country adopted its first constitution after gaining independence on 5 May, 1993 at the twelfth session of the 12th Supreme Soviet. A few years later, Askar Akaev would write that the old constitution had by that time become an obstacle blocking the way to the state’s sovereign development.¹

On the whole, the content of this constitution reflected the desire to build a contemporary democratic law-based state with the priority on universal human values. It can be presumed that at that time, this standpoint was entirely genuine and reflected the intentions actually existing in society. What is more, several provisions of this act were clearly brought about by the desire to avoid the abuses characteristic of the recent communist past. The people of the republic were declared the only source of state power (Art 1.3); no part of the people, no association, and no individual was to have the authority to appropriate power in the state (Art 2.2).

Nevertheless, it must be noted that to a certain degree this constitution was a compromise document, which probably suited all the most prominent political forces in the republic at the time. The leftists were indulged (Art 4.3 stated that the buy-sell of land was forbidden, although on the whole the Basic Law recognized the right to private property). The nationalists were to be inspired by the provisions in Art 5.1, which set forth that the state language of the Kyrgyz Republic is exclusively the Kyrgyz language.

Of course, a significant step forward was the formulation of the articles on human and citizen rights (sections II, III). They were now based on the theory of natural rights, so the emphasis was made on liberalism in constitutional regulation.

The constitution declared plurality (Art 8) and division of power (Art 7). The previous system of power of the Soviets was replaced by a system of state power and local self-government, and the president was called the head of state, acted as the guarantor of the inviolability of the constitution and the unity of state power, and ensured the coordinated functioning and interaction of the state structures (Art 7.1, Art 42.1, 2).

The president had an impressive list of powers, he was not the head of the executive power, but he defined the structure of the government, appointed the cabinet head with the consent of the parliament and, on the initiative of the former and with the consent of the parliament also appointed the cabinet members, controlled the work of the cabinet and had the right to chair its meetings. He also made decisions about dissolving the government (within the framework of a special procedure) and could cancel or stop its acts and the documents of certain government bodies from going into effect. The head of state had the right to dissolve the parliament, but only in compliance with the results of a national referendum. What is more, the parliament could be dissolved on a decision made by a qualified majority of the deputies

¹ See: A. Akaev, *Pamiatnoe desiatiletie*, Bishkek, 2001, p. 163.

themselves. It is interesting to note that the Basic Law made it possible to transfer presidential powers to the parliament chairman with respect to holding international negotiations and signing interstate agreements. The president himself could also be removed from his post by the parliament based on a decision issued by the Constitutional Court (Arts 51-53).

According to the 1993 Constitution, the republic's parliament—the Zhogorku Kenesh—was made up of one house and consisted of 105 deputies. It had the traditional prerogatives of a legislature of that rank. But it should be mentioned that they also included the right to officially interpret the normative acts the parliament adopted itself, and the right to bring up questions at the referendum. An important power enforced in Art 59.1.25 of the Constitution was the right to decide (by a two-thirds majority) if necessary the question of confidence in the cabinet or one of its members. The parliament chairman could temporarily be transferred the powers of the head of state if the latter were unable to perform his duties.

It should be noted that the very text of this constitution has not presented sufficient opportunity to judge the effectiveness of the parliament's representative function. The text of the Basic Law did not mention the proportional election system, although according to districts, political parties could participate in nominating candidacies for deputy posts. On the other hand, historically, the republic's domestic political problems are largely related to the regional characteristics of its northern and southern regions. And the fact that the higher representative power was a one-house body would make it impossible for an upper parliamentary house to make use of the system of taking into account the interests of regional constituencies widely applied in world practice. Finally, in this respect, attention should be drawn to yet another aspect: the number of parliamentary deputies compared with the Soviet era has significantly decreased (there used to be 350), which in itself was not conducive to best representing the interests of various groups of the population.

The president had the right to protest in the Constitutional Court any law adopted by the parliament (just as any international agreement ratified by it). It is interesting to note that the constitution set forth the right to recall deputies (Art 56.5), although the constitutional theory of contemporary parliamentarism repudiates it as part of the so-called "imperative mandate."

In general it can be said that despite the shortcomings mentioned above, the text of the 1993 Constitution was quite well executed from the technically legal viewpoint. The frequently expressed opinion among those close to the country's presidential structures that this constitution was in many respects a concession on the part of the reformers, who, for understandable reasons, the authors of these statements considered to be the president's supporters, to the "conservatives"—the parliamentary deputies, is not sufficiently justified. Such things always occur during the constitutional process and judgments like these should be taken with a pinch of salt. The formulation that it was impossible to fully implement private ownership of land really was a concession, but it has its roots in the past and in this sense was justified. It could not have been otherwise under the actual conditions existing in Kirghizia at that time. Any other wording would have led to an open conflict.

As for the system of power institutions, it would hardly be justified to unequivocally talk of any concessions. First, we should not forget that the Constitutional Commission was headed by the head of state himself. It is characteristic that criticism of the Basic Law was heard much later, when the political necessity for it arose. Some Kyrgyz lawyers believe that the 1993 Constitution implemented the formula "weak president—superstrong parliament," whereby they claim that this supposedly contradicted the division of power declared in this same constitution. This could only be true if division of power was understood as a system characteristic of a classical presidential republic, and with several major stipulations at that. But a presidential republic, no matter how dear it may be to the hearts of its supporters in Kirghizia, is not the only way to implement the principle of division of power. The Basic Law carried out this division, although perhaps not in an ideal way. A certain balance of power was also established. Of course, this constitution cannot be called the classical version of a presidential, parliamentary, or semi-presidential republic, but it nevertheless formally tended toward the model that combines elements of a semi-presidential and a parliamentary republic, and not only toward a parliamentary republic, as certain authors believe.

From our viewpoint, the problem with the effectiveness and workability of the constitutional model adopted in 1993 is not the theoretical and juridical arguments about the virtues or vices of this model, but how it could function under the changes the country was going through at that time. In reality, the republic underwent a serious socioeconomic crisis. Given the fact a civil society and party democracy had not yet formed, this crisis inevitably escalated into political crises and upheavals, the solution to which some actors of the political process tried to look for subjectively in further constitutional reforms. In so doing, the stimulating motives, in this case, the desire to reinforce presidential power as much as possible, were masked by criticism of the parliament, saying that it was not only the highest representative and legislative power body, but also the highest state power body in general, essentially, the “usurper” of all important state and power prerogatives. Therefore instead of honing the interactive “president—parliament—government” mechanism, some of the actors decided to go for more radical “repair” of the constitutional power mechanism.

Thus, the new constitution has not brought peace to the country’s domestic life, which Askar Akaev explained by the contradictions between the reform wing and the conservative part of the deputy corps. This view was rather widespread in the political circles of the CIS states. What is more, the parliament was not distinguished by any particular high work quality. This was natural since it was still carrying the baggage it inherited from Soviet times. Most deputies were not professionals in legislative activity, which reflected on the quality of the laws adopted. Of course, the elected representatives of the people were extremely carried away by purely political questions, in some cases, by personnel appointments, and zealously fought for leading posts in the parliament itself. They tried to grab as much power as possible for themselves. In the transfer from totalitarianism to the new rule, this was not that surprising, particularly since the authorities themselves called the republic an “island of democracy.”

The president finally began conducting a policy of cutting back the prerogatives of the legislative power. The events relating to the corruption scandals in the republic also prompted him to take this approach to some extent. The balance of power began to dissipate not so much because of the imperfection of the constitutional model, as due to certain entities of the political process conducting a primarily selfish, lopsided, and subjective policy. The state power structures fought among themselves, clearly having no consideration for society in the process. The president, whose rights were supposedly reduced under the constitution, would ultimately opt for dissolving the parliament.

Of course, the head of state tried to resolve the crisis, but at the same time initiated extremely serious and noteworthy constitutional changes. Whereby they were made in an extremely short time. On 21 September, 1994 Askar Akaev issued a decree On a Referendum to Introduce Amendments and Addenda into the Constitution of the Kyrgyz Republic.² According to this act, a referendum was to be held in the republic within a month (!)—on 22 October. The decree also set forth the main formal side of the constitutional changes themselves: the parliament was to consist of two houses. The country’s entire population was to be represented by 35 deputies of the first house—the Legislative Assembly, and the second house was to be elected on the basis of representation of territorial interests and called the Assembly of People’s Representatives. The first was to work on a permanent basis, the second in sessions. But counter to world practice and the common sense invested in the approaches to democratic rule, the second house was to be twice as large as the first, with 70 deputies. Whereby according to the authors of this reform, both houses were not to constitute the classical version of hierarchy—“upper and lower houses.” It was presumed that they would essentially be horizontal to each other.

Brainwashing of the population yielded the desired results. A decision was made at the referendum to reform the parliament into a two-house body (75% of the votes in favor).³ The president’s team managed to organize self-dissolution of the acting parliament. The election system itself was changed to ensure that its majority model would minimize the possibility of the head of state’s political adversaries, primarily the communists, of effectively participating in the elections. In February 1995, elec-

² See: *Slovo Kyrgyzstana*, 23 September, 1994.

³ Reuters, 24 October, 1994.

tions, which were rampant in mass violations, were held to the new parliament, the work of which began on 28 March of the same year. This was an obvious political victory for Askar Akaev, who outsmarted his rivals. As a result of the constitutional reform, the head of state, by technically remaining the arbitrator over all power branches, obtained even greater powers than before, including executive functions.

But the head of state's victory was not total. Under the conditions of the continuing socioeconomic crisis, the new parliament had not only deputies sympathetic to the president. Within the legislative body, criticism of the cabinet and the president himself began again. The republic's leadership was unable to make the work of the Cabinet of Ministers productive, and the numerous undertakings to reform individual areas of the national economy based on liberal market conceptions, mainly in non-production branches, failed to qualitatively improve the main macroeconomic indices. Upon inspection, the accelerated movement declared by the authorities toward a democratic society also looked dubious to say the least.

As a result, the constitution was subjected to various "repairs," each time with the assertion that this was a huge, decisive, etc. step toward democratic rule.

On 10 February, 1996, another referendum was held to introduce new amendments and changes into the Basic Law. The procedure for removing the head of state from his post has become much more complicated. Now, such an initiative can only be proposed by the majority of the deputies of the Legislative Assembly, and with a decision by a special deputy commission at that. This house made impeachment decisions according to the same procedure and with the same number of votes as in the former version of the Constitution. But the Assembly of People's Representatives was now also able to make this decision by a majority of no less than two thirds of the total number of deputies, whereby there was a set term for this procedure: no later than two months after the Legislative Assembly made its indictment of the president (otherwise it was considered denied). The main thing was that henceforth this constitutional norm spelled instant death for the deputies: if the Constitutional Court issued a negative decision on the indictment of the president put forward by the Legislative Assembly, it was followed by dissolution of this house (Art 51.2-4).

The parliament's powers were also significantly cut back on several major issues. For example, the president could dissolve both of its houses (or one of them) prior to term in the following cases: according to the results of a referendum, if when voting the deputies refused three times to consent to the appointment of the prime minister, as well as on the extremely flimsy grounds "of any other crisis caused by irresolvable disputes between the houses of the Zhogorku Kenesh, or between one or both of the houses of the Zhogorku Kenesh and other branches of state power" (Art 63.1-2, Art 71.4).

Having two houses complicated the legislative process, particularly during voting when the head of state used his right to veto (Art 66). But it is extremely indicative that norms were introduced into the constitution, which were borrowed from neighboring Kazakhstan, where as a result of the constitutional reform of 1995, the country's president, Nursultan Nazarbaev, gained extremely significant prerogatives for himself at the expense of the parliament. Art 68 appeared in Kirghizia's constitution, the norms of which permitted the parliament to delegate its legislative powers to the president for no more than one year (Item 1). What is more, legislative powers were also transferred to the head of state when both houses, or even one of the houses, of parliament were dissolved (in the latter case only the legislative powers of the particular house were transferred). In this way, the president could legislate by issuing decrees (Art 68.2-4), as a result of which the division of power and its balance clearly tipped in favor of the head of state in one of the most important spheres of activity in any parliament—the legislative.

The essence of the reform obviously consisted of reinforcing the powers of the head of state both in his relationship with the parliament and with the Cabinet of Ministers. In so doing, the president did not belong to one of the power branches, but was raised above them, and obtained real and very serious levers of influence over all of its branches.

The powers of the head of state were technically restricted by the constitutional limitations imposed on the term of office of a specific figure in a high-ranking government post and the fact that the parlia-

ment was able, at least in theory, to instigate an impeachment procedure against the president. But under Kyrgyz conditions, these guarantees were clearly insufficient, which was revealed by further practice. The constitutional limitations on term of office were later “adjusted” with the help of a decision by the Constitutional Court.⁴

Soon thereafter Askar Akaev initiated a new stage in the constitutional changes. This was not the most laudable stage in the republic’s constitutional development. Of course, there is nothing wrong in making amendments to the constitution, but any changes should be suitably processed. This primarily requires that an in-depth investigation be conducted of why the previous norms were ineffective along with an extensive discussion of the alternatives. This was not done in 1994, or in 1996, or in 1998. Discussions of the most important constitutional changes were nothing more than formal.

On 1 September, 1998, a presidential decree was issued on yet another referendum to vote on the draft law On Introducing Amendments and Addenda into the Constitution of the Kyrgyz Republic. This time, the “repairs” to the constitution were motivated by indications that one of the houses of parliament was not working efficiently. The reproaches were targeted at the Legislative Assembly of the Zhogorku Kenesh. It accounted for the most of the legislative activity, and it was this house that reviewed and adopted most of the laws. Due to the above-mentioned injudicious changes to the Constitution in 1994, however, this house was clearly too small and its productive work during the legislative process was often brought to a halt due to the trivial absence of a quorum at the meetings. Essentially any of the state’s most important normative acts could be adopted if 17 deputies voted for it.

What is more, when striving in 1994 to ensure greater administrative resource at the elections of deputies to the Legislative Assembly, which was expressed in a reduction in its size, the “architects” of the constitutional changes did not keep in mind another very obvious danger of this step. The small number of deputies in this house raised the “status,” significance, and weight of their votes not only with respect to the presence or absence of a quorum at meetings. It was enough for those interested in the voting going a certain way to incline (using various methods) the rather small number of elected representatives in their favor in order to pass a particular decision through parliament (or, on the contrary, come down on it). In other words, in light of the republic’s largely clan and regional society, the faulty decision on the size of the parliament adopted in 1994 opened up broad opportunities for uncivilized lobbying.

The measures proposed this time by the president were not radical: he proposed raising the number of seats in the Legislative Assembly to 67 and reducing the number in the Assembly of People’s Representatives to 38. In so doing, there was an attempt (which was inconsistent) to introduce the element of representation by political parties into the formation of one of the houses. It was suggested that approximately 22% of the seats in the Legislative Assembly (15 mandates) be distributed on the basis of the election results according to party lists, thus creating a 5% barrier.

At the same time, there were suggestions to introduce several amendments into the constitution, realistically aimed this time at changing the status of the parliament and specific deputies, mainly with respect to various limitations on their status and prerogatives. For example, there were proposals to establish a residence qualification of no less than five years. In so doing, a deputy of the Assembly of People’s Representatives must meet another residence qualification of at least three years on the territory of the corresponding region or in the city of Bishkek (Art 56.1). This was a formal attempt to strengthen the ties between voters in the regions and their elected representatives, but at the same time this measure was really aimed against the possibility of a large number of deputies obtaining seats in parliament from the most politicized and “advanced” region in the party respect—the republic’s capital.

Deputy immunity was also restricted, which the authorities motivated by the need to eliminate the contradiction between the constitutional principle of equality of all citizens before the law and court and this institution. The restriction on deputy immunity was apparently an attempt to put pressure on several elected representatives who were becoming too active in the political struggle.

⁴ See: A. Kurtov, «Presidential Elections in Central Asia,» *Central Asia and the Caucasus*, No. 6 (18), 2002, pp. 28-29.

The latest constitutional innovations also cut back parliamentary powers in the sphere of financial and budget relations. Now any amendments and addenda to the law on the republic-level budget, as well as new draft laws in any way related to taxes and increasing budget spending could only be introduced with the consent of the Cabinet of Ministers (Art 65.3).

Another important reason prompting the holding of the 1998 constitutional referendum was the problem of private ownership of land unresolved by the 1993 constitution. In the interim, the parliament discussed this question more than once, but did not adopt any decisions. Therefore Askar Akaev decided to make use of the referendum in order to introduce the institution of private ownership to land. This was done by changing the wording of Art 4.3 of the Basic Law.

As was to be expected, the brief referendum did not lead to serious adjustments of the mentioned presidential draft of the constitution. Only the number of seats in the houses of parliament was adjusted slightly: the Legislative Assembly was to have 60 seats, and the Assembly of People's Representatives 45 (Art 54.2).

On 17 October, 1998 a new referendum was held. The latest changes in the constitution were given legal force. And to make sure the deputies would not put up any resistance, two additional sections were introduced into the final eighth chapter of the constitution, the main sense of which was that the parliamentary deputies should retain their powers for the term for which they were elected.

As a result, the country's model of power united elements of a semi-presidential and presidential republic. Although he was not the head of the government, the president had vast opportunities to control its formation and activity. But, as practice showed, none of this raised the work efficiency of the executive power. During the past few years, the country's cabinet has changed hands ten times. And the republic is by no means prosperous. The average wage is one of the lowest in the CIS, now it is just a little more than 30 dollars.

Nation-Building Reaches Its Finale

The latest version of the constitution has not made life any easier for the country's citizens. The weakness of Kyrgyz statehood was demonstrated during the so-called Batken conflicts. But even after the Islamic militants were routed, life did not calm down. Internal civil problems became aggravated. Even the appearance of the forces of the North Atlantic Alliance, which were perceived at first as manna from heaven, did not justify the hopes of fattening up the state's emaciated treasury at the expense of the new "apartment owners" and of resolving several other problems. What is more, in March 2002 clashes of residents in the republic's south, who were protesting against the government's policy, ended in tragedy. Several of the demonstrators were killed by the police. The bloodshed only caused the opposition to become more brutal. Acts of civilian disobedience followed one after the other, spreading to more and more regions of the country. President Askar Akaev was forced to dissolve the government and swore to punish those who caused the demonstrators' deaths.

Kyrgyzstan, which for the past ten years has been trying to pose as the most democratic state in the region, could not resort to tightening screws and unbridled repression of the opposition. The people, who had already tasted the sweet air of freedom, were unlikely to part voluntarily with the rights they had acquired. And resorting to violence with an empty treasury would have made it hard for the Bishkek authorities to obtain more credits and financial aid from the world community, thus condemning the state to death from starvation.

So again the solution was found in adjusting the republic's political and state structure. At first Akaev put forward a new national idea—"Kyrgyzstan is a country of human rights." In November, the first ombudsmen—plenipotentiary on human rights—appeared in the country. The leader of one of the political parties, parliamentary deputy Tursunbai Bakir Uulu, was elected to this post. Admittedly, the authorities' human rights protecting efforts did not go as far as pardoning several opposition leaders,

such as Felix Kulov. And the president essentially did not keep the promise he made in the spring to punish those guilty of killing the demonstrators.

On the other hand, society's attention was diverted to constitutional reform. The republic's main political forces were drawn into its discussion. As early as 26 August, the president, to the surprise of many, announced the need for constitutional changes. And as early as 4 September, an urgently formed Constitutional Assembly set to work. On the basis of the half-finished articles of the presidential administration, it was able in just six weeks to draw up a draft of amendments to the Basic Law.

This haste was due to the desire to make use of a broad public discussion on the constitutional innovations as a counterbalance to the growing unrest and demonstrations by the irreconcilable opposition. What is more, it was important for Akaev to show those around him that the state ship was still moving confidently along the democratic route. In addition, the referendum on introducing amendments into the constitution was joined up with the question of the current president remaining in his post until 2005.

As a result, for the fifth time the authorities declared the need for constitutional reforms, announcing again that they planned to redistribute powers between the parliament and the president. The population was convinced that now the head of state would yield some of his powers, and the matter would henceforth concern the building of a presidential-parliamentary republic. The last version of the amendments to the constitution was published on 14 January, 2003,⁵ that is just three weeks before voting day.

The voting was held on 2 February, 2003. Seventy-six point six one percent of the total number of voters said yes to adopting the Law on the New Version of the Constitution of the Kyrgyz Republic. Seventy-eight point seven four percent of citizens who had the right to participate in the referendum voted for Askar Akaev to remain president until December 2005 (until the end of his constitutional term) and put the intended positive changes to the Basic Law into practice.⁶

In our opinion, a technical and juridical analysis of the amendments introduced cannot provide exhaustive arguments for making a qualitative evaluation of the constitutional reform of 2003. But we can assert that not all the goals declared by its organizers were reached during the Basic Law's latest facelift. Let us take a look at how it was carried out and the extent to which the assertions that the parliament received powers that no other parliament in the world enjoys are legitimate.⁷

The new formulation of Art 1.4 of the Constitution was the first to attract our attention. Whereas it used to read: "Only those elected to the Zhogorku Kenesh and the President of the Kyrgyz Republic shall have the right to act in the name of the people of Kyrgyzstan," after the 2003 referendum the head of state, rather than the parliament, is in first place in this extremely important juridical formula. Art 7.2 retained the procedure for listing entities that execute state power in the country: first the head of state, then the parliament, then the government. This formulation appeared as early as 1996, when it really did replace the previous norm (the 1993 version), which said that the parliament executes legislative power, the government and local state administration executive power, and various courts and judges judicial power. As we see, the priority was not placed on the parliament, and as for the government, Item 2 was supplemented with wording to the effect that the executive power bodies are subordinate precisely to it.

The president's status, which is formulated in Art 42, has essentially not changed. Insignificant amendments regarding his election were also introduced into the section. In our opinion, the new formulation on the term for conducting presidential elections set forth in Art 44.1 is not ideal, since in the future it could lead to contradictions between the constitutional norms on the date of the elections and the term during which the president shall perform his duties. This contradiction does not arise only if the president executes his powers during the entire term set forth by the constitution (five years). But Art 44.1 talks about two different principal legal concepts—regular and early pres-

⁵ See: *Slovo Kyrgyzstana*, 14 January, 2003.

⁶ See: *Ibid.*, 6 February, 2003.

⁷ See: *Ibid.*, 1-2 May, 2003.

idential elections, the deadlines for holding which are different, but precisely set. Art 52.1, which also sets forth the time for electing a new president after termination of the previous head of state's powers for the reasons set forth in Art 50.1, 2 (voluntary retirement, impeachment, inability to execute power due to illness or death), said nothing about the term of office of the new president somehow changing in this event. After all, it is doubtful that anyone believes the head of state is immortal, cannot get seriously ill, or become severely injured. Or that he is obligated no matter what, even against his will, to fulfill his duties as head of state like a slave without rights, chained to a galley's oars. Finally, the constitution prescribes an impeachment procedure. And any of these events may occur any day of the year.

For a situation could develop whereby after early elections, the next regular presidential elections must be held by the deadline set forth in Art 44.1, that is the last Sunday in October of the fifth year of the current president's term. But common sense says that this demand with probably run counter to Art 43.1 on the five-year presidency term and to Art 45.4, which regulates the time the president's powers begin and end. In other words, an obvious and gross error has been made, as the result of which one constitutional norm could contradict others.

The changes in the second section of the third chapter of the constitution were largely caused by two factors. First, the parliament now, as in 1993, consists of one house, which required replacing the formulations of those articles in which the names of the specific houses of parliament used to figure. Second, the reforms really have resulted in a redistribution of power to a certain extent between the head of state and the parliament. But this redistribution was in no way as radical as the intellectuals serving the head of state tried to make out.

The president retained his right to define the structure of the cabinet, but approval of this became the prerogative of the parliament (Art 46.1.1, Art 58.1.8). It is worth noting that the government is dissolved when the president comes into office (Art 70.1.3). The parliament's consent is required for appointing the prime minister and members of government, but the dismissal of the prime minister or a member of cabinet, just as the whole cabinet, is still the prerogative of the head of state. What is more, the president has powers with respect to several administrative structures that are not subordinate to the government. He appoints the secretary of state, forms his own administration and national security service, forms and heads the Security Council and "other coordinating bodies," the state defense and national guard service, and creates and dissolves executive bodies that do not belong to the government.

The president also has classical powers in foreign policy, but the constitution stipulates that the head of state can entrust the prime minister, cabinet members, or other officials with holding talks and signing international agreements (Art 48). We will remind you that this was also possible under the 1993 constitution, but at that time these rights were allowed to be transferred to the head of parliament. The president is also the commander-in-chief of the armed forces, and appoints and replaces their highest command.

The head of state has the right to issue two kinds of normative acts—decrees and orders. In so doing, the constitution has granted the president the following exclusive right: his decrees on questions regarding the financing of urgent measures using state funds have the force of legislative acts (Art 46.5.6, Art 47.3).

No major changes indicating a drastic redistribution of power in favor of the parliament were introduced, while the institution of impeachment was retained. And this, in our opinion, is extremely indicative. This institution of constitutional law is still constructed in a way that makes its implementation as difficult as possible. This means that in the new constitutional system too, the head of state is essentially protected from one of the most serious tools in the system of state power division at the disposal of parliaments in all of the world's civilized countries.

The impeachment procedure can only be instituted based on an accusation of state treason or other grave crime put forward by the parliament, which in itself seriously narrows down the possibility of using this institution (in the material-legal respect). In practice this means that the president cannot be subjected to impeachment for violating the constitution, for instance, but he can be for some trivial highway rob-

bery (which is highly unlikely). This is the way many former Soviet republics acted,⁸ that is, we have a version of the parliament's quasi-legal powers. However, impeachment is an extremely complicated procedure. The initiative must come from at least half of the parliamentary deputies, and parliament must create a special commission, which has to issue its own conclusion on the case. After this, the impeachment question is put to the vote in parliament and a qualified majority of votes must be gathered in support of this initiative.

If the parliament supports the accusation, this decision is passed on to the Constitutional Court. It should be noted that its members are appointed by the parliament, but on the initiative of the head of state. There have often been times when this structure has made very dubious decisions in favor of the current head of state. Nevertheless, the constitution sets forth a truly Draconian norm, which cannot be justified from the viewpoint of the division of power and the theory of a law-based state. The right of any entity to appeal to court should not be accompanied by a clear and unambiguous threat to use harsh state repressive measures against the appellant. Otherwise, the fundamental principles of justice themselves are deformed. But Kyrgyzstan takes a different approach. After considering the information presented by parliament, the Constitutional Court may issue a positive or negative verdict on it. But if it issues a negative verdict, this entails dissolution of the parliament. There is no legal logic in this approach, but there is an attempt to use this norm as a kind of "Damocles sword" hanging over parliament. For in so doing, the fate of the legislative power branch, which is trying to resolve the problem related to the head of state in a system of checks and balances, is made dependent not only on its own decision or the will of the voter, but also on the intermediate (within the impeachment procedure) verdict of a third party.

If the Constitutional Court issues a positive verdict, the parliament should hold a vote on the merits of the matter. An impeachment decision may be made only if two high impossible conditions are fulfilled. First, at least four fifths of the total number of deputies must vote in favor of this decision. Whereby even in the previous version of the constitution, this norm was not as strict—only two thirds of the votes were required. Second, this decision must be made no later than two months from the date the accusation is made by parliament. Otherwise, it is considered denied. As we see, fulfilling all these requirements is hardly realistic, therefore the parliament is essentially denied the opportunity of using this right. That is, in this respect, the constitutional amendments testify not to a weakening, but to a strengthening of the president's position in the state power system.

Essentially, the constitutional structure applied to nation-building largely returns to the version adopted in May 1993. Reform of the Basic Law has sort of turned a full circle, or more precisely a spiral, since it was obviously accompanied by significant reinforcement of the head of state's position. Under the conditions of a small mountainous country, it has been impossible to unite strong presidential power and an efficient democratic parliament in a beneficial way. Neither the head of state, nor the higher legislative body have been able to ensure the necessary constructivism required to make the state mechanism work.

Nevertheless, the last constitutional reform did increase the parliament's powers and beginning in 2005 it will become a one-house body. The Zhogorku Kenesh has the right to participate in forming the government and other state bodies, that is, the prime minister, ministers, the chairman of the Central Election Commission, the head of the Audit Chamber and the judges of local courts will be appointed only with the consent of the parliament. It is also regaining certain control functions, and deputy immunity is being restored, although not completely.

But all these positive aspects could be reduced to naught by two very important changes. First, the higher representative power branch is being reduced to 75 deputies. Second, the proportional election system is being eliminated. Now all the parliamentary deputies will be elected only according to majority voting districts (Art 54.2). What could this mean in practice? Presidential power, which in the past has been unable to subordinate the parliament to its will, particularly since active opposition deputies have invariably entered its ranks from several districts and political parties, has now carried out an extremely cunning combination. The reduction in the size of the parliament means that the borders of the voting districts will be extended, that is, the authorities are trying to form new districts in such a way as to make

⁸ For more detail, see: A. Kurtov, "Impichment: gor'koe lekarstvo ili instrument politikanov," *Obozrevatel*, No. 11, 1998.

it difficult for former opposition deputies to be elected in them. What is more, in a mountainous republic where most of the population does not have full-fledged means of communication (for natural terrain reasons), any enlargement of the voting districts will primarily play into the hands of candidates relying on the administrative resource, and representatives of the authorities are being given a head start with respect to influence on the electorate. Abolishing elections by party lists does not show progress toward multiparty democracy, but toward something else. Askar Akaev joked that Holland is called the “country of tulips,” whereas Kyrgyzstan can rightly be called the “republic of nongovernmental organizations.” But references to their abundance should not mislead us. It is not nongovernmental organizations, but political parties that should be created for functioning in the sphere of politics, and reducing their significance is extremely indicative.

S u m m a r y

Democracy requires the functioning of a complex system for regulating and coordinating the impulses coming from society. In any democratic state, the opposition acts as part of society. Therefore, its total or disguised isolation from politics is like a situation where an outwardly normal person takes a scalpel to engage in trepanation of his skull and removes the left hemisphere of his brain, claiming that he doesn't need it. The authorities in almost all the Central Asian states are essentially engaging in this absurd behavior, as a result of which the political process in the region's republics is an invalid suffering from a serious injury due to an operation carried out by apologies for surgeons.

The authorities of Kyrgyzstan (like of many other similar countries by the way) usually like to talk about how unprepared the opposition is to take up the reins of state rule. For example, Askar Akaev has noted on more than one occasion that there are approximately 30 active political parties in the republic at present. However, in his opinion, most of them do not reflect the political moods prevalent in society, the political field is not structured as it should be, and a systemic opposition has not yet formed. There is a grain of truth in this. Moreover, the truth is that he who does not have the opportunity will never learn to rule. Admitting that plurality is underdeveloped just happens to show the shortcomings and distortions in building a democratic nation. What is more, the participation of the opposition in the political process is much wider and more diverse than the circumstances Askar Akaev indicated, and does not merely boil down to transferring power from one party to another.

In this respect, the democratic gist of the relationship between the authorities and the opposition is very like today's understanding of the how the market economy works. The market, as a political democracy, presumes that anyone who wishes may participate in business. Not everyone has the God-given talent of becoming a successful businessman, but the law is obliged to guarantee all citizens the right to try their luck. Only then can the market economy have the necessary effect, but the market in itself cannot guarantee 100% success to every undertaking, there are also losers. The same goes for democracy, it in no way guarantees all the participants in the political process absolute success in the struggle for power, but it is obliged to guarantee them the right to try and achieve this goal in an honest way. Of course, presuming this is genuine democracy, and not its surrogate. Democracy on the whole, like the market, presupposes a priori a certain invariance, it is only in a planned economy or in the event of authoritarianism that everything is supposedly known ahead of time and for many years to come.

In the Central Asian countries, constitutions envisage a non-party nature in the organization of state power. Even if a certain political force wins a parliamentary election, it does not have the opportunity to implement its own program. Under such conditions, the meaning of political pluralism, a multiparty system, and representative rule is totally lost. The status and powers of the parliaments in all the Central Asian states without exception still do not allow these structures to efficiently control the activity of the president and the government. This is one of the sad results of nation-building in the region.

AZERBAIJAN: THE TRANSFER OF POWER

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The importance of the transfer of power issue is not limited to Azerbaijan: it applies to Central Asia as well. The present leaders will inevitably leave their posts, which will invariably lead to crises—this is the main weakness of the Central Asian regimes. To preserve the status quo and the

“family,” the leaders must transfer power either to a relative or to a trusted person. This explains the heightened interest in the presidential elections in Azerbaijan, since any scenario will affect political and economic life in Azerbaijan, the Southern Caucasus, and the Caspian region.

Socioeconomic Legacy

In his time Heydar Aliev managed to steer his country away from a political crisis and stabilize the situation, yet no serious social and economic achievements were reached. Under the signed agreements the republic's foreign debt is nearly \$2.3 billion with applied foreign credits amounting to \$1.4 billion. The promises to turn the country into another Kuwait proved to be built on sand: according to the EBRD in 2001, Azerbaijan's GDP was 44 percent of the 1991 figure.¹ The most conservative expert assessment shows that the ratio between the shadow economy and the official GDP is no less than 60 percent.²

This is not surprising considering the amazingly high corruption level: today even the largest foreign companies have to distribute bribes and include them as “contingencies” in their budgets. According to experts, there is corruption at all levels of power.³ (Together with his post Heydar Aliev also had to hand over the “Azergate” that surfaced on the eve of election campaign to his son.) Transparency International placed Azerbaijan at the top of the list in the CIS in terms of corruption and third in the world after Cameroon and Angola (in 2001 the country was in fourth place).⁴

The public education system is essentially in ruins. Before 1991, 90 percent of the nation had secondary and over 30 percent higher and specialized secondary education. Today, one out of three school-aged children does not attend school: he has to work to help his family. Health service is degenerating together with the standard of living; and power supply to apartment blocks, hospitals, and industrial enterprises is often disrupted.⁵

According to the State Committee for Statistics 97.5 percent of the country's population live below the subsistence level (today, it is between \$80 and \$90). The World Bank calculated that in 2000 the average per capita income was \$1.7 a day⁶ (the average monthly salary of state employees is 250,000 manats, or \$50; the average pension is 73,000 manats, or \$15). A loaf of bread or a bus ticket costs 1,000 manats, and

¹ See: *The Transition Report: November 2001*, EBRD, London, 2001, p. 36.

² See: I. Mamedov, “Ekonomicheskie preobrazovania v Azerbaidzhane: poiski strategii i perspektivy,” *Tsentrāl'naia Azia i Kavkaz*, No. 1 (7), 2000, p. 110.

³ See: R. Musabekov, “Korruptsia v Azerbaidzhane,” *Tsentrāl'naia Azia i Kavkaz*, No. 1 (7), 2000.

⁴ See: [<http://www.transparency.de/documents>].

⁵ See: A. Rasizade, “Azerbaijan after the First Decade of Capitalism,” *Central Asia and the Caucasus*, No. 3 (21), 2003, p. 100.

⁶ See: *Social Assessments for Better Development: Case Studies from Albania, Azerbaijan and Moldova*, World Bank, Washington, 2002, p. 36.

a pizza in a restaurant is ten times more expensive.⁷ On the whole the standard of living in Azerbaijan is lower than in Albania, the poorest European country.

The number of unemployed is high: only one branch, the oil industry, is functioning, all the others are either struggling or have already died because of the low competitive capacity of their products and lost markets. No wonder people are emigrating en masse. According to independent experts, over 1.5 million of the total population of 8 million (data of the 1999 census) have left for Russia in recent years. For over ten years now the country has been living with the negative migration balance.

However, according to official figures only about 10,000 people leave the republic annually.⁸ This low figure cannot but cause doubts: about 500,000 Armenians have already left the republic together with approximately the same number of members of other ethnic communities; the number of Azeris in Moscow and environs increased from 21,000 in 1989 to over 1.2 million today.⁹

Russian experts believe that the population has dropped by half and is now no more than 4 million.¹⁰ Highly qualified specialists are leaving and the country's intellectual potential is declining. The republic's payment balance for 2002, drawn by the National Bank, testifies that the country's economy (based solely on the export of hydrocarbons, which accounts for nearly 95 percent of the total, while over 75 percent of the budget revenue is covered by oil sales) may collapse if the flow of petrodollars runs dry.¹¹

Chronicles of the Azeri Clans

Azerbaijan's sociopolitical structure is very specific: since Soviet times the country has been dominated by several regional groups (clans), the most influential of them being the Nakhichevan, Baku and Karabakh ones.

The Nakhichevan clan came to the fore in the late 1960s when one of its members, KGB Major General Heydar Aliev, was appointed First Secretary of the Communist Party of Azerbaijan Central Committee. He, in his turn, distributed the key posts among his closest allies. The clan lived by selling flowers throughout the Soviet Union (certain researchers estimate its share as 80 percent of the lucrative market in the mid-1970s). In 1987, Mikhail Gorbachev replaced Aliev with Abdurrakhman Vezirov; his allies had to leave or were removed from their posts. In turn, Vezirov, who represented the Karabakh clan, had to resign after the January 1990 bloodshed in Baku. He was replaced by Aiaz Mutalibov from Baku (later elected first president of independent Azerbaijan).

The clan strife was responsible for an unprecedented number of coups and riots, the largest across the post-Soviet expanse. The summer 1993 coup restored Aliev and his clan to power. Today, nearly all the high-ranking posts are occupied by its members; they control oil export and trade in oil products, the import of and trade in foodstuffs, housing construction, gasoline stations, large restaurants and shops, and also handle billions of dollars.

The power system created by Aliev will not merely fall apart once he is gone: a new group at the helm will turn the members of the Aliev clan into scapegoats in order to heap the responsibility for the recent failures onto them and to confiscate their property (under Aliev the opposition ran out of money). A successor was urgently needed and found in the person of Ilkham Aliev.

Not all of the father's supporters were prepared to side with the son, but none of the influential groups in the corridors of power possessed enough influence to offer a nominee of their own. The choice is eloquent enough: the father did not trust the political elite to appoint a successor able to protect the "family"

⁷ See: A. Rasizade, op. cit.

⁸ See: *Ekho* (Baku), 28 September, 2001.

⁹ See: A. Rasizade, op. cit.

¹⁰ See: *Nezavisimaia gazeta*, 1 December, 1999.

¹¹ See: *Ibid.*, 1 April, 2003.

and defend it against the mounting discontent. This made the son the only candidate of the power structures, while the strife became latent.

Latent Instability

As is often the case, in Azerbaijan the interests of individual clans dominate over the interests of the nation. Heydar Aliev's withdrawal from politics and his subsequent death intensified the clan struggle over political domination and property. Some of the political parties (Civil Solidarity, the Popular Front, and Musavat) are dead set against "the family."

Both the ruling group and the opposition have their shares of popular support, yet an absolute majority of the voters (50 to 70 percent) trusts neither. In August 2001, when Heydar Aliev announced his intention to run for president in 2003, the Sociological Research and Forecast Center at the *Milletin Sesi* newspaper polled 287 Internet users to identify the most favored candidate. The votes were distributed in the following way among 10 candidates: 22.8 percent for Aiaz Mutalibov, Chairman of the Civil Solidarity Party and former president of Azerbaijan currently living in Moscow; 13.2 percent for Isa Gambar, Musavat Chairman and one of the former parliament speakers; 11.7 percent for Rasul Guliev, Chairman of the Democratic Party, another former speaker; 9.3 percent for Zardusht Ali-zade; 8 percent for Ilkham Aliev, Chairman of the New Azerbaijan Party; 5 percent for Etibar Mamedov, Chairman of the National Independence Party; 3 percent for E. Namazov, a political scientist; 1 percent for Lala Shovket, Chairperson of the Liberal-Democratic Party, and former state secretary; and none for Ilias Ismailov, Chairman of the Adaliat Party, and Sabir Rustamkhanly, Chairman of the Civil Solidarity Party; while 26 percent were against all the candidates. Obviously Mutalibov was way ahead of his rivals.

Today, lack of political unity, the widening gap between the rich and the poor, and unemployment have added instability to the social and political situation, thus leading to possible negative consequences. The ethnopolitical situation is far from simple: there is the Nagorny Karabakh issue; the Nakhichevan Autonomous Republic is seeking more independence; and the Lezghians in the north and the Talyshes in the south looking toward Iran are causing concern.¹² A danger of disintegration is quite possible since the country lived through a similar crisis in 1993.

How Transfer of Power Was Prepared

Under authoritarian rule, election results are predictable not only because all true rivals are removed in advance (intimidated or imprisoned). The desired result is achieved by the synergy of administrative, economic, financial, and information resources. Their effect cannot be overcome. The Aliev regime exploited the electorate's more or less substantiated fears of changes at the top and possible socioeconomic upheavals.

During his years in power Heydar Aliev accumulated enough resources to transfer power to his son. Some members of the expert community believe that it was back in 1999 that he started working on the transfer by weeding out the political field. He started talking about the role the youth could play in politics. In December 1999, the ruling New Azerbaijan Party at its second congress (separated by seven years from its constituent one) elected Ilkham Aliev its deputy Chairman. Until that time

¹² See: S. Smirnov, "The Fables and Foibles of Azerbaijan's Oil Policy," *Central Asia and the Caucasus*, No. 5 (17), 2002, p. 147.

Heydar Aliev preferred to keep a low profile as its chairman. In the summer of 2002, President Aliev proposed 39 amendments to the constitution; and a referendum was held on 24 August. According to the official figures, over 88 percent of the voters came to the polls; 97 percent approved all the amendments enacted on 16 September, even though the opposition was talking about wide-scale falsifications.

On the whole, the transfer of power was carefully planned and later enacted: the head of state could be elected by a simple majority of 50 percent plus one vote (the earlier scheme required a qualified majority of two-thirds of those who came to the polls). From that time on the president, being unable to fulfill his duties, transferred them to the premier, not the speaker as was envisaged by the 1995 constitution.

The Heir

Ilkham Heydar ogly Aliev was born in 1961 in Baku; in 1978, after finishing school in his native city, he attended the Moscow State Institute of International Relations from which he graduated in 1982; for five years (from 1985 to 1990) he was a lecturer at his alma mater. While his father was in disfavor all state offices were closed to him. He went into business, and owned several trade and industrial companies. In 1992 he moved to Istanbul, only to come back home late in 1993 when his father returned to power. Politics did not interest him; in fact he lacks many of the abilities that allowed his father to rule the republic for nearly 30 years.

At some point, however, Heydar Aliev realized that any other version of the transfer of power was fraught with catastrophe. For several years Ilkham was coached and transformed into a serious manager and a fairly strong politician. He was trained in the post of vice-president of the State Oil Company (1994) and first deputy of the ruling New Azerbaijan Party (2000). In 2001 he was appointed head of Azerbaijan's parliamentary delegation to the Council of Europe. He was presented to the nation as an independent and bold politician who dared to publicly criticize his father when he spoke about possible NATO membership for his republic.

On the eve of elections Ilkham held a high-ranking post in the State Oil Company, he was prime minister and deputy chairman of the ruling party, chairman of the special Oil Fund (that is accumulating nearly all oil export earnings), and head of the National Olympic Committee (1997).

The *Bakinskiy rabochiy* newspaper wrote: "Historic persons Heydar and Ilkham have scaled the most brilliant and highest summits that none before them have conquered. They have become legends in their lifetime. Their might, force and lives eclipsed not only society but also nature—the Moon and the Sun. One of them is both father and teacher—the other is his son and pupil. One of them is our past and present—the other is our present and future... They have conquered the world with their talents; they are mighty and outstanding giants. They have led Azerbaijan from darkness to light. These incomparable people with no worthy rivals are following their 'paths of thunder'."¹³

As soon as he was appointed prime minister, Ilkham took a leave of absence until the day the official results of presidential elections were to be published under the pretext of needing time and strength to run for president. The governmental resolution said: "This was done in accordance with Arts 69.2 and 70.1 of the Election Code that prohibits registered presidential candidates from holding state posts." (How do you like that! They can be appointed, but they cannot fulfill their duties.) The result was a weird one: the president was off in hospital while the prime minister was on leave. This appointment proved to be a very important one when it came to elections: as head of the cabinet he supervised the entire power system. In fact he followed in the footsteps of Vladimir Putin, who after becoming acting president by virtue of his post, tapped the administrative resource to win the 2000 presidential race.

¹³ *Bakinskiy rabochiy*, 8 August, 2003.

The opposition leaders responded negatively to these developments. In his interview with a *Turan* correspondent, Isa Gambar, the Musavat leader, described the situation in the following way: "It is typical of the backward countries with no ideas about democracy to appoint a son of the head of state as prime minister. This dishonored Azerbaijan in the eyes of the world community." Ali Kerimli, leader of the Popular Front Party (known as the party of reformers), described this appointment in the *Azadlyg* newspaper as "creating a de facto monarchy in Azerbaijan."

The Opposition

While trampling on popular discontent Heydar Aliev still preserved a dozen opposition parties in his country. The leaders of some of them joined in the presidential race. On 15 August the Central Election Commission completed the registration procedure and left 12 names on the ballots. The heads of nine parties were running against the president and his son: Ali Kerimli from the Popular Front; Isa Gambar from Musavat; Etibar Mamedov from the National Independence Party; Sabir Rustankhanly from the Civic Solidarity Party; Ilias Ismailov from the Adaliat; Iunus Aliev from the Milli Vakhdat; Abutalyb Samedov from the Alliance for Azerbaijan; Gudrat Gasanguliev from the unifying wing of the Popular Front; Khafiz Gadjiev from the Contemporary Musavat Party; as well as Lala Shovket Gadjieva nominated by the National Unity group. The Central Election Commission refused to register Rasul Guliev, the Democratic Party leader, who had been parliamentary speaker, and former president of Azerbaijan, Aiaz Mutalibov.

The opposition parties of Azerbaijan can be described as groups of intellectuals using popular discontent to put pressure on the powers that be. The local people seem to favor Musavat and the National Independence parties more than the others. The Musavat is an openly pro-Turkic party that uses the terms "pan-Turkism," "Islam" and "progress" to describe its ideology. It has close contacts with Turkish politicians; support for the Muslims fighting for independence is one of its priorities. Explanations are hardly needed. The rather frightening Allah Akbar slogan is invariably present in all its socioeconomic actions in Azerbaijan.

The geopolitical echo of the presidential elections that will resound across the Southern Caucasus is the main issue. None of the candidates came forward with an alternative for settling the Karabakh conflict that was equally acceptable to Russia and the West. All of them favored the use of force.

The Magnificent Eight

Money and support can place anybody on top of the pyramid of power. Few people doubted that the newly appointed premier would take his father's office. According to sociological polls he outstripped the others by gathering over 50 percent of the votes. The Transparent Elections Monitoring Center obtained the following answers to the question: "Who will get your vote if candidate No. 1 (H. Aliev) withdraws from the race?" 58 percent favored Ilkham Aliev; 22 percent, Isa Gambar (Musavat); 8.3 percent, Lala Shovket (the National Unity group); 7.8 percent, Etibar Mamedov (the National Independence Party); 2 percent, Sabir Rustamkhanly (The Civil Solidarity Party); 1.5 percent, Ilias Ismailov (the Adaliat Party), and 0.4 percent, Gudrat Gasanguliev (the unification wing of the Popular Front).

The returns should have planted optimism in the Aliev camp, yet the elections took place under the conditions of the new era. The social-political environment, the economic situation, the social expectations, and the demands were different in 2003. Heydar Aliev's long illness allowed many voters to feel freer than before and to openly support the opposition. The authorities and the opposition worked

hard to swing the situation in their favor. Rasul Guliev, leader of the Democratic Party of Azerbaijan, living in emigration in the U.S., called on the nation to vote for Isa Gambar, leader of Musavat, nominated by the Our Azerbaijan bloc, even though in the past the relations between them had been strained to say the least.

Some candidates merely left the race. In a letter read over national TV the incumbent president assured the nation that Ilkham Aliev would “guarantee the country’s future” and withdrew from the campaign in favor of his son. Iunus Aliev, the National Consensus nominee, and Abutalyb Samedov, from the Alliance for Azerbaijan, removed their candidacies in favor of the president’s son. Ali Kerimli of the Popular Front left the race to support another opposition leader, his more popular colleague Etibar Mamedov, leader of the National Independence Party.

The final list contained eight names,¹⁴ but Ilkham Aliev and Isa Gambar were the main rivals.

The Elections Did Take Place But...

According to the protocol of the Central Election Commission 1,860,346 voters out of 3,200,000 who came to the polls cast their votes for Ilkham Aliev (76.84 percent out of 71.23 percent of the total number of voters); Isa Gambar (the Musavat) got 13.97 percent; Lala Shovket Gadjieva, 3.62 percent; Etibar Mamedov, 2.92 percent; Gudrat Gasanguliev, 0.5 percent; Ilias Ismailov, 1 percent; Sabir Rustomkhanly, 0.82 percent; and Khafiz Gadjiev, 0.34 percent. The opposition leaders refused to accept the figures and accused the government of doctoring the election results. They claimed that according to independent agencies Isa Gambar got a relative majority of votes (46.2 percent); Ilkham Aliev failed with slightly over 24 percent.¹⁵ Isa Gambar had the following to say: “According to official reports I got between 60 and 80 percent at the polling stations supervised by international observers.” The opposition demanded that the votes be re-counted in a fair way; it organized protest rallies in the capital and led hundreds of its supporters out into the streets, who were beaten up by the police and other custodians of law and order. According to the official reports two people died in the skirmishes. An OSCE observer said that it was as though the government were waging war against its own people and added that similar developments had been observed in Africa—in Zimbabwe, Mozambique, and the Congo.¹⁶

International observers described numerous violations of the voting procedure: voters were bribed; supporters of the opposition were beaten up and arrested; and ballots were forged. The West needed Ilkham Aliev at the helm, therefore the OSCE was “on the whole” satisfied with the results even though its earlier expectations of a smooth transfer of power proved unfounded. Obviously, the violations, doctored returns, and bloodshed in the streets that brought Aliev Jr. to power will make his administration illegitimate at least for part of the nation. He might find it hard to rule. On 31 October he was inaugurated. The president’s son became the president.

Heydar Aliev’s powerful administrative resource played a decisive role in his son’s triumph. Let us compare the presidential campaign with the latest parliamentary elections. The Central Election Commission, two-thirds of the members of which belong to the New Azerbaijan Party, is loyal to the president. At first it refused to register some of the opposition structures (Musavat and the Democratic Party of Azerbaijan) for the parliamentary elections. It changed its tune two weeks later after Heydar Aliev made a personal request.

We should bear in mind that Aliev Sr. was very popular with certain population groups: he stopped the war with Armenia and achieved the political stability still lacking in Azerbaijan’s neighbors, Chech-

¹⁴ See: *Caspian Business News*, 6 October, 2003.

¹⁵ See: *Ekonomika. Finansy. Rynki*, 24 October, 2003.

¹⁶ See: *Ibidem*.

nia and Georgia. Stability attracted foreign investors to its oil sector, which, in turn, raised the living standards somewhat.

In turn the opposition lacked the very much needed unity: on the eve of the parliamentary elections the Popular Front, the largest organization, split in two. The leaders (Mirmakhmud Fattaev who headed the “classics” and Ali Kerimli who headed the “reformers”) were mainly squabbling between themselves while paying little attention to the election campaign. Ali Kerimli did call for unity. He said that a single candidate nominated by the united opposition had a chance to compete with the regime. Life has shown that in many countries the ambitions and contradictions among the opposition structures prevail over reason. On top of this the Azerbaijanian opposition had neither new ideas, nor new programs, nor new strong leaders. It continued its exposure of the regime and criticized Aliev. The response was an effective one: televised parliamentary sittings in 1993 at which opposition members heatedly accused each other of destroying the Popular Front regime and starting the civil war.

To neutralize the opposition the authorities set up their own pocket opposition parties with similar names and even with the same members. There are two Islamic parties in Azerbaijan, four democratic, and five communist parties.¹⁷ The ordinary people and even political analysts found it hard to sort things out.

A smooth transfer of power from father to son was potentially possible because some of the people were scared of being imprisoned for disagreeing with the official policies; others were reluctant to use their rights for fear of humiliation or even beatings; there was the very real danger of being accused of espionage or belonging to the “Islamic terrorists.” Part of the nation was gripped by apathy, while a large group of population wanted stability more than anything else. Ilkham Aliev was supported by the state structures: they set aside their usual disagreements to save their huge illegal incomes. They badly needed continuity of power.

The elections in Azerbaijan confirmed some analysts’ conclusions that to win in any country democracy needed a certain standard of living to allow the voters to set everyday concerns aside in order to ponder on their rights and freedoms.¹⁸ The results of the recent elections showed that Azeris voted for stability and predictability. Will this situation last long?

It was very easy to get Ilkham Aliev elected president. It will be much harder to keep him at the helm: any mishap may negatively affect the future.

First, we still know next to nothing about the new president’s political qualities: life alone will shed light on his psychological makeup, which will affect his choice of aides and advisors. If he proves to be a weak leader, the country will be torn apart by rivaling groups. This is probable since his clan is far from united. There is Rasul Guliev, one of the richest people in Azerbaijan, who immigrated to the United States in 1996. As member of the Nakhichevan clan he was the speaker; earlier during Aliev’s years of disfavor he financed him and remained his staunch support. Will Aliev Jr. be able to rally his clan together? This is not an idle question: on the eve of the parliamentary elections, Musa Musaev, member of the Our Azerbaijan parliamentary faction, accused certain of his colleagues of secretly negotiating with the opposition.

Second, will the new leader be able to offer a clear economic policy? Without it he will find it hard to keep his newly won post: he lacks his father’s experience and skills as an apparatchik.

What is in Store?

Much in the South Caucasian and Caspian politics and economy will depend on the developments in Baku. The country has found itself in the center of national interests of four large countries: Russia, the U.S., Turkey, and Iran. They will undoubtedly clash in their efforts to influence the president. Moscow is

¹⁷ See: A. Rasizade, *op. cit.*, p. 103.

¹⁸ See: *Azat*, 22 October, 2003.

eager to restore its former political influence; Washington clearly wants to control Caspian oil and has declared the region a zone of its national interests. Turkey can play a prominent role in the struggle. Ankara obviously prefers Isa Gambar, who it supports financially. Obviously, intensive flirtations between Baku and Moscow will increase Turkey's support of the national-democratic opposition. Tehran would like to see Azerbaijan a Shi'ite state, while the three main presidential rivals have demonstratively distanced themselves from Iran.

Both Russia and the United States regard Aliev Jr. as the most acceptable figure for president. It seems that the West, which wants political status quo, regarded the transfer of power as the shortest road to political stability. It was aware that large-scale bloodshed and unpredictable developments would follow if the election returns were invalidated.

We should bear in mind that several years earlier all the candidates (except Mutalibov) were regarded as western supporters. Today the majority of the local political elite is looking toward Russia while preserving its image of westerners. This was obvious when Aliev Sr. ruled the country: while Ilkham was moving toward his presidency, Baku was gradually moving closer to Moscow. This is amply evidenced by Vladimir Putin's visit to Azerbaijan and the deportation of Chechen fighters "not previously found in the republic."

On 25 January, 2002 during President Aliev's official Moscow visit, the sides finally resolved one of the old problems. They signed an agreement on the only Russian military facility in Azerbaijan, the Gabala radar station, which used to trace ballistic missiles launched in the Southern hemisphere. Russia will rent the station and its equipment for the next ten years for nearly \$7 million a year.

These developments were accompanied by publications in major Moscow newspapers¹⁹ designed to alter Russia's ideas about Baku's anti-Russian policies and to create a positive image of both father and son on the eve of the power transfer.

Trade and economic cooperation is picking up: in 2002 trade turnover between Russia and Azerbaijan reached \$376.6 million, or 1.6 times higher than the 2001 level. Railway cargo traffic in the same period increased by 63 percent to reach 1,124,000 tons, while deliveries of agricultural products grew four-fold. In March 2003, Moscow cut back payments for shipping fruit and vegetables from Azerbaijan along the Russian railways by 50 percent.²⁰

After becoming president, Aliev Jr. will soon have to accept the following. First, his country is no Kuwait or Saudi Arabia and will never thrive on oil. Second, it will be extremely hard to preserve the present parity of relations with the United States and Iran (this will become even harder if Washington tries to use Azerbaijan as a toehold in its fight against Iran). The same applies to the balance of relationships with the U.S. and Russia in the context of their conflicting interests in the Caspian region. We should bear in mind that historically Russia is Azerbaijan's natural trade partner: most of its industrial enterprises were designed to use Russian raw materials. The huge Azeri diaspora in Russia supporting families at home is another important factor. Baku and Moscow will inevitably draw closer together.

It is unlikely that Ilkham Aliev will be able to restore the ruined economy (today it accounts for 20 percent of the 1990 level), revive hundreds of idling enterprises, develop agriculture, carry out effective reforms, declare a war on corruption, and retain firm control over the country like his father did.

Large-scale reshuffling of the elite is also unlikely, while the fight over influence on the president will undoubtedly intensify. Changes at the top will inevitably cause replacements at the lower levels. Some of the former team members will find themselves excluded and will, more likely than not, join the Musavat, thus increasing the party's pressure on the regime. Mutalibov and Guliev, who for some time had to stand aside, will not remain indifferent observers. This means that the dynastic transfer of power will not prevent an acute political crisis and clashes in the struggle for power among the clans and parties.

¹⁹ See, for example: *Izvestia*, 20 August, 2003.

²⁰ See: *Integratsia*, No. 5-6 (38), 2003, p. 7.

Azerbaijan is not North Korea—here the nation is not devoted to the son, despite the votes cast for him. Like any other post-Soviet leader Aliev Jr. represents the interests of the very rich minority, which is antagonistic toward the impoverished majority. The opposition is not part of power (as it is in Russia, Ukraine and Tajikistan); the army is displeased with the Karabakh defeat, while among the nomenklatura there are many of those who hate the Aliev clan and the Nakhichevan protégés of the clan's leader. This will lead to a period of political tension, which only a unifying idea will be able to relieve. The Karabakh issue regarded as national humiliation may play this role. This is fraught with a renewed war and lost control over the situation: Baku is still not ready to wage a war and launch a successful offensive.

According to Azerbaijani political scientist Rasim Musabekov: "Only Heydar Aliev could maintain a neither-peace-nor-war situation for 10 years. Nobody else, not even a member of his own team if he succeeds the president, will be able to keep the situation frozen any longer." Undoubtedly, Baku does not need a new war in Karabakh. It may undermine Ilkham's power and bring down the Nachichevan clan. This will start re-division of property and bring back the early 1990s developments. Yet a large-scale civil war is very unlikely: the pan-Islamic opposition has not enough support either at home or abroad.

STATE-LEGAL AND ADMINISTRATIVE TRANSFORMATIONS IN ARMENIA (1991-2003)

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Almost right after it declared its independence on 21 September, 1991, Armenia gained international recognition (December) from the U.S., Russia, Canada, Rumania, and other countries. On 2 March, 1992, our republic became a full-fledged member of the U.N., and on 25 January, 2001, a member of the European Parliament. Literally from the moment it declared its sovereignty, Armenia began building an independent republic. It was unable to finance the immense volume of state functions inherited from the disintegrated Soviet Union on its own. At this difficult transition stage, a different state government system had to be created, which would make it possible to strengthen the country's economic potential and independence, raise the people's standard of living, and ensure the stable development of social relations.

Forming new power bodies became an urgent need. This process began as early as May 1990, after elections to the Supreme Soviet of Armenia, which was still a Union republic. At that time, the country was undergoing the transfer from the old Soviet power structures to a new parliamentary form of government. In order to form a new state government system, several vitally important documents were adopted. For example, the new constitutional Law on Fundamental Provisions set forth the state government pro-

cedure and distributed power among the executive, legislative and judicial branches.¹ On 1 August, 1991, the Law on the President of the Republic of Armenia was adopted.² There is no doubt that it is an important step toward political stabilization, even though discussions about the expediency of this institution and the president's powers are still going on. In November and December of the same year, laws On the Supreme Soviet and On the Administration Structure delimited the spheres of activity of the supreme power bodies.³

The republic's state power structure includes executive bodies, and executive power is the prerogative of the government, which is represented by the prime minister and ministers. In 1991-1992, executive power was carried out by the prime minister, his deputy, 22 ministries, and eight state administrations. Since then this structure has changed more than once. Between 1995 and 2000 alone, fifteen ministries went through all manner of reshuffling and merging more than twenty times. For example, in February 2000, the government formed 24 ministries instead of 17, in May this number was reduced to 20,⁴ but in June 2003 only 16 remained. The last government was formed on 11 June, 2003 by a political coalition, since after the elections held on 25 May, 2003, not one political party was able to obtain an overwhelming majority in parliament and form a government on its own.

So for the first time in the history of the independent republic, three political forces, the Republican Party, the Orinats erkir Party, and the Armenian Revolutionary Federation (ARF) Dashnaksutiun, which gathered the most votes at these elections, signed a memorandum on the formation of a parliamentary coalition and government. In other words, it was unanimously decided that they would share the responsibility for ensuring normal activity of the legislative and executive power bodies. The sides came to the following agreement on the composition of the new government: the president would appoint the defense, foreign, and justice ministers; the Republican Party would elect the prime minister, the head of the government administration, the trade and economic development, environmental protection, energy, transportation and communication, finance and economics ministers, as well as the minister for coordinating territorial administration and the activity of the substructures; the Orinats ekir Party would represent the ministers of urban development, education and science, culture, and youth affairs; and ARF Dashnaksutiun would nominate the ministers of public health, agriculture, and social security.

What is more, the memorandum stipulates that if these political structures are unable to settle major disputes by negotiations, each of them has the right to inform the others in writing of its withdrawal from the coalition, whereby recalling the officials set forth according to the memorandum.⁵ The 11th government was formed on the principles of this memorandum.

The ministry structure has also changed numerous times, which sometimes had negative consequences. These changes were caused by the vague delimitation of the tasks and authorities of the executive agencies and the overly swollen ranks of their employees.

In November 1991, Babken Ararktsian was elected chairman of the Supreme Soviet. And Vazgen Manukian became prime minister as early as 13 August, 1990.⁶ But the political changes of 1991-1994 were not systemic, since the ruling political force, the Armenian National Movement (ANM), still did not have an ultimate conception of the future state structure. What is more, at that time, the opinion was expressed that Armenia did not need a new Constitution, and that the state system could be formed gradually, by adopting several constitutional laws. During the first few years of independence, the laws and constitutional provisions of the U.S.S.R. and Armenian S.S.R. were used. But they and the beginning reforms often contradicted each other, at times creating confusion. Moreover, the old and new administrative systems were in effect at the same time with the cumbersome and overstaffed apparatus, imprecise delimitation of powers, and frequently recurring "incorrect selection of supervisors" that this

¹ See: *Collection of Current Laws of Armenia (1990-1995)*, Erevan, 1996, pp. 177, 178 (in Armenian).

² See: *Ibid.*, pp. 158-162.

³ See: *Ibid.*, pp. 189-196.

⁴ See: *The Republic of Armenia*, 29 February and 23 May, 2000 (in Armenian).

⁵ See: *Aiastani anrapetutiun*, 12 June, 2003.

⁶ Before May 2000, 10 governments with their prime ministers changed hands in the republic.

entailed. Among the reasons for the unproductiveness of the republic's state administration, we will note the following: there was no official ideology, there was no mechanism for setting goals, there was no reliable information exchange between the individual branches of power, there were incorrect assignments at various levels, and many of the functions of the executive power were duplicated.

In an attempt to correct the situation, the country's leadership concentrated its attention on the raising the efficiency of the state administration and the quality of services to the population. For this, a Commission on State Administration Reform was created in 1999 and is still functioning. It is drawing up a Conception of Structural Reforms for the State Administration System of the Republic of Armenia, and is carrying out extensive work in the ministries and other state administration departments in order to implement structural and functional reforms in keeping with the conceptual provisions being drawn up. The commission is also engaged in restructuring the territorial administration and local self-government bodies. The Law on Civil Service is of immense significance in this respect, which was adopted by the National Assembly on 4 December, 2001. A Civil Service Council was created as the highest administrative body of the civil service system, which is called upon to regulate the legal principles of this sphere. With the help of this council the government intends to carry out an efficient personnel policy, and recruit highly-qualified specialists, invested with the necessary moral qualities, to work in the civil service, who would not be affected by any changes in the balance of political forces, as well as ensure state guarantees on the social and legal protection of employees.⁷

But these measures have not eradicated the mistakes and omissions noted in the reform of the civil service. First, the functions and duties of the administrative bodies have not been fully clarified and delimited. Second, openness of the activity of the state bodies has not been ensured. Third, despite the fact that in 2002-2003 certain ministries began presenting annual reports to the government, a report system of state bodies and civil servants has not been instituted. Fourth, efficient anti-corruption mechanisms have not been introduced, which by raising civil servant responsibility might reduce the bureaucratic red tape and abuse. Fifth, the public is not carrying out a comprehensive program of control over the state power system.

The main tasks in the structural reform of this system are as follows: to establish an optimal number and structure of state administration bodies; transfer several of the powers of its central structures to other executive bodies, reduce state interference in the activity of economic entities, strengthen society's trust in the government, reduce the dimensions of the shadow economy, create a stable administration system, raise the personal responsibility of civil servants, and introduce systems regulated from the Center in the provinces (in certain regions).

One of the important events in a state's political life is ratification of the Constitution. The Constitutional Commission created (1993) for this purpose by the republic's Supreme Soviet set about drawing up the first draft of the Basic Law. A few parties also submitted their drafts. After the 1994 referendum, the extended membership of this commission, which was supplemented by representatives of the political parties, prepared a new improved version. Pursuant to constitutional law, after it was approved by the Supreme Soviet (27 March, 1995), it was brought up at the referendum, which was held on 5 July, 1995, during the parliamentary elections. At that time, 68.4% of the electorate voted in favor of the proposed version of the Basic Law.⁸ Thus a new Constitution was adopted on 5 July, 1995. Although the referendum held cannot be considered flawless, this Constitution nevertheless became the legal basis for transferring from a totalitarian and authoritarian system to a democratic state. The most obvious shortcomings of the Basic Law were as follows: no mechanism of checks and balances was created among the three branches of power, the president was invested with a large number of monopoly powers, the National Assembly had no control over the executive power, and the judicial power was not truly independent. In order to remove these shortcomings, as well as to encourage other changes, a presidential decree was issued which stipulated the formation of a Constitutional Reform Commission. The proposals it drew up were presented to the National Assembly and discussed by the

⁷ See: *Official Bulletin of the Republic of Armenia*, No. 1 (176), 9 January, 2001, pp. 20-25 (in Armenian).

⁸ See: *Bulletin of the Republic of Armenia Supreme Soviet*, No. 9 (185), 15 May, 1996 (in Armenian).

Standing Commission on State and Legal Issues. But the corrected final version of the prepared set of proposals put forward at the referendum (held during the parliamentary elections on 25 May, 2003) did not gather the necessary number of votes.⁹

On the whole, the Constitution made it possible to build a stable state structure, thus making it possible to prevail over a serious political crisis—the resignation of the republic's first president Levon Ter-Petrossian (3 February, 1998). As early as March of the same year, special presidential elections were held, at which Robert Kocharian reigned victorious.

During the election campaign, it transpired that the voters intended to vote not so much for a particular candidate, as against Levon Ter-Petrossian. Four contenders from the opposition rallied around Vazgen Manukian, who succeeded in winning the trust of those voters dissatisfied with the authorities. It appeared that Vazgen Manukian had realistic chances of victory, but according to the declared results, he obtained only 41.29% of the votes.¹⁰ Despite the fact that international observers registered a multitude of violations and cast aspersions on Lev Ter-Petrossian's victory in the first election round, he was elected president. The political forces helping him, who were in fact defeated, falsified the voting results. By violating the existing procedure, they prematurely, that is, before official tallying of the votes, declared their protégé president and congratulated him.

The mass citizen protests against these falsifications, including meetings and demonstrations aimed at getting the Central Election Commission to recount the votes, did not achieve their goal: the demonstration was disbanded, and many of the organizers were arrested. Whereby at that time, a large number of tanks appeared in the republic's capital and a state of emergency was declared.

The above-mentioned extraordinary presidential election held in March 1998 essentially resulted from a crisis in the ruling elite, which ended up in its removal from power. As early as 1 December, 1997, President Levon Ter-Petrossian published an article in the press called "War or Peace. Time for Reflection," in which he offered Azerbaijan several concessions in the Karabakh conflict. The article gave rise to a wave of alienation between society and the ruling circles, which ultimately led to Levon Ter-Petrossian's resignation.

The fourth presidential election was held on 19 February, 2003. There were nine candidates on the list of contenders. As estimated, Robert Kocharian (49.8%) and a candidate for the opposition, Stepan Demirchian (28.22%), made it to the second round. As a result, Robert Kocharian (with 67.48% of the votes) was elected president, and Stepan Demirchian gathered 32.53%. The opposition contended these results, organized a protest meeting in Erevan, and appealed to the Constitutional Court, which, after reviewing the case, noted violations at some polling stations and declared: "Believing the results of the voting at 40 polling stations to be fallacious, the CEC's decision of 11 March, 2003, according to which incumbent president Robert Kocharian was elected president of the Republic of Armenia, shall remain unchanged."¹¹ Nevertheless, the Constitutional Court suggested that the future National Assembly introduce amendments within one year to the Law on Referendum, and, as an effective method for quelling the aggravated public resistance manifested during the presidential elections, recommended holding a referendum of confidence.¹² (We will come back later to the violations committed during the presidential and parliamentary elections held in the country.)

Thus, as early as the beginning of the 1990s, the republic began forming new state and legal structures. The country's Constitution envisaged the model of a semi-presidential republic with power divided among the executive, legislative, and judicial branches. The executive power is represented by the nationally elected president. He appoints the prime minister, appoints the ministers on the latter's initiative, convenes and chairs the government's meetings, and ratifies its decisions. The president is the guarantor of the republic's independence, territorial integrity, and security, ensures adherence to the Constitution, and makes sure the legislative, executive and judicial branches are running smoothly.

⁹ See: *The Republic of Armenia*, 3 June, 2003.

¹⁰ See: *Presidential Elections. Armenia*, 2003, p. 15 (in Armenian).

¹¹ See: *The Republic of Armenia*, 18 April, 2003.

¹² *Ibidem*.

Local self-government ensures the formation of a civil society, decentralization of power, and development of the economy, and resolves questions relating to the population's vital activity. Despite the fact that the Constitution has become the legislative base for introducing this system, the legislation in this area needed improvement. In order to enhance the structure of territorial administration and local self-government, in December 1995, territorial-administrative changes were made and new units were created: *marzes* (provinces) and communities, and on 7 November, 1995, the National Assembly adopted a Law on Administrative-Territorial Division of the Republic of Armenia. On its basis, 37 of the republic's administrative districts were joined together and eleven *marzes* were formed: Aragatsotn, Shirak, Siunik, Gekharkunik, Lori, Kotaik, Armavir, Vayots, Dzor, Tavush, and the republic's capital Erevan, which was given the status of a *marz*. The *marzes* were divided into 930 communities, 47 of them were urban, 12 made up of quarters, and 871 rural.¹³ They differed greatly from each other in size of population, geographical location, level of development, and so on. For example, 21% of the communities are mountainous (at an altitude of 1,700-2,000 m above sea level), 15.4% are high mountainous (at an altitude of 2,000 and higher), and 17.7% are in the border regions. Defining these differences and specific characteristics is very important for developing a differential state policy with respect to the communities. In particular, the border communities enjoy certain privileges and a reduced price system. The communities also differ in size of population. On average, 4,048 people live in one urban community, in Erevan there are 2,777 people, and a rural community has 1,443 people.¹⁴ Whereby 36 of the latter have less than 100 residents, 421 have between 101 and 1,000, 228 between 1,001 and 3,000, and 96 have more than 3,001 residents.¹⁵ Small communities create immense difficulties for the local administration, so these communities must be enlarged. This will help to concentrate financial resources and resolve socioeconomic and other problems more efficiently.

On 30 June, 1996, the National Assembly adopted a Law on Local Self-Government, and then a Law on Elections to the Self-Government Bodies.¹⁶ Futile disputes over how to divide power, territorial, property, and ownership functions arose between the governors (heads of *marzes*) and the heads of communities. On 6 May, 1997, the presidential decrees On State Administration in the *Marzes* of the Republic of Armenia and On State Administration in the City of Erevan were ratified,¹⁷ which were preceded by the government's decisions on the property of republic-level, provincial, urban, and rural communities.¹⁸

Reforms of the local self-government system were aimed at delimiting the powers and obligations of the state (or to be more precise the governor appointed by the government), on the one hand, and of the local communities (in the form of their elected bodies and leaders), on the other. A governor should implement the government's territorial policy within the limits of the powers granted him by law. The presidential decree also designates him the following areas: finances, urban development, the municipal housing industry, transportation and road building, agriculture, and environmental protection. What is more, the governor is supposed to systemize coordinated activity of the community heads and put the prime minister's and government's decisions into practice in the regions. The governors are mediators between the government and the *marz*, and not independently acting entities. The communities and their bodies can make independent decisions (within the limits of the powers granted them by the law and government decisions). Their independence and possibilities depend primarily on the local tax and financial resources at their disposal for implementing the decisions and programs adopted by the state and the government. The formation of self-government bodies—the appointment of community heads and elders—by means of closed, direct, and secret balloting guarantees the independence

¹³ See: *Collection of Current Laws of the Republic of Armenia (1995-1999)*, Book 1, Erevan, 1999, pp. 51-73 (in Armenian).

¹⁴ *The Marzes of the Armenian Republic in Figures, 1998-2001*, Erevan, 2002, pp. 14-15 (in Armenian).

¹⁵ See: *National Human Development Report. Armenia*, 2001, p. 59 (in Armenian).

¹⁶ *Ibidem*.

¹⁷ See: *Official Bulletin of the Republic of Armenia*, Vol. 11, 20 May, 1997, pp. 21-42 (in Armenian).

¹⁸ See: *Collection of Government Decisions of the Republic of Armenia*, Vols. 7-8, June-August 1996, pp. 38, 39; *Official Bulletin of the Republic of Armenia*, Vol. 6, 31 March, 1997, pp. 78-90 (in Armenian).

of the community authorities and their right to act independently, at their personal discretion, as well as their right to independently manage the community's property and conduct rational personnel policy. But further development of the local self-government system is retarded by the absence of a corresponding legal and economic base.

One of the constitutional shortcomings of the local self-government system is that it has no guarantees for establishing and maintaining the communities' activity. What is more, the powers of the authorities and the minimum of financial resources for executing them are not designated clearly enough. The establishment of communities is also obstructed by the constitutional provision stating that the government (on the initiative of the governor) can declare its lack of confidence in a community head. In reality this means that a governor appointed by the government may remove a community head elected by the people from his post. This significantly limits the scope of activity of community heads and makes them dependent on the governor.

What is more, certain constitutional provisions are not only invalid, they even contradict some of the laws. By way of example we can give the law adopted in November 2001 On Purchases,¹⁹ pursuant to which a special agency is being created to maintain an organized and efficient system for purchasing products for the needs of the state and the communities. But this law violates the right of the communities to independently manage their own property. What is more, this right, as well as the right to manage their own financial resources, is frequently violated by the state administration and the treasury. The efficient activity of the local self-government bodies is directly tied to their financial prosperity. From the 20 billion drams (the republic's monetary unit) envisaged by the plan for 2000, the community budget was essentially chopped back to 13.9 billion drams (due to tax payments and a reduction in subsidies). The situation in this area has not changed much in the past few years. By way of comparison, it is enough to note that in European countries this index is higher than 30%. Two-thirds of the budget funds in the communities are their own revenue, which they receive from taxes, contributions, and non-tax payments. In order to ensure the independence and economic self-sufficiency of the communities, first and foremost their own revenue must be raised. This can be done by assigning certain allocations from other types of taxes to the communities. This practice is followed in European states, including in Russia: a certain portion of income tax and value added tax goes into the local budget. The percentage of local taxes and payments can be increased (in many European countries, it is more than 25%). In order to increase tax allocations to the budget it is expedient to intensify tax control, on the one hand, and to decentralize the tax collection process, on the other, granting the local community self-government bodies the right to collect these allocations to the budget.

An extremely important prerequisite for establishing the local self-government system is creating the necessary economic base, the axis of which is community property. All the same, a certain discrepancy is noted between the number of powers and the possibility of executing them using the funds allotted to the communities. Consequently, we need to expand the property base of the communities and intensify the decentralization process. On 7 May, 2001, a new Law on Local Self-Government was adopted, which envisages expanding the elders' control over the community head, as well as assigning some of the tax allocations from economic activity to the community budget and granting the communities the right to exercise control over construction and the assignment of land plots.²⁰ In so doing, along with an expansion in the powers of the local self-government bodies, the communities' financial possibilities will also increase to a certain extent.

The republic's highest legislative body—the Supreme Soviet—was renamed the National Assembly in July 1995, which is a one-house parliament. The first Supreme Soviet was formed in 1990. At that time, Armenia was a Soviet republic, and elections were held (20 May and 3 June) in compliance with the Constitutions of the U.S.S.R. and the Armenian S.S.R. and the Law on Elections to the Supreme Soviet of the Armenian S.S.R. But they were organized according to the majority system, in two

¹⁹ See: *Collection of Current Laws of the Republic of Armenia*, Book D, Erevan, 2001, p. 967 (in Armenian).

²⁰ See: *Official Reference of the Republic of Armenia*. "Republic of Armenia Law on Local Self-Government," No. 21 (196), 21 January, 2002, pp. 5, 7, 8, 27 (in Armenian).

rounds, and differed drastically from the previous elections held during Soviet times. The national movement that began with the liberation struggle over Artsakh, set the task of creating an independent state, resolving the Artsakh problem, and establishing democracy. In this way, the elections held under the conditions of a national upswing resulted in the formation of a new parliament, the composition and essence of which expressed the moods uppermost in society. But it also had Soviet features, since Armenia was still a part of the U.S.S.R., where, of course, Soviet legislation was in effect. The parliament, which consisted of 260 delegates, began working on 20 July. Over a span of five years, five factions, 12 parliamentary groups, and 16 standing commissions with more than 100 deputies were formed in it.²¹ What is more, it began working permanently, which made it possible to carry out the functions of a higher legislative power body set forth by the Constitution. On 24 August, 1990, the parliament (according to its Declaration) made a decision to call the 12th Supreme Soviet of the Armenian S.S.R. the 1st Supreme Soviet of the Armenian Republic.²² It was supposed to carry out the great historical mission of building the Armenian state. Despite several mistakes, the parliament was able, on the basis of the decisions and laws adopted, to gradually introduce the necessary changes into all spheres of public life, as well as create structures that had not previously existed. Throughout this time, it was continuously engaged in radical socioeconomic changes, including the establishment of market relations. Corresponding state structures were created, and the economy, finances, judicial system, army, foreign policy, ecology, customs service, and so on were restructured. During its 10 sessions, the Supreme Soviet held 459 meetings, 37 of which were extraordinary ones, adopted 188 laws and 1,211 decisions, and ratified 151 international agreements.

After the parliamentary elections on 5 July, 1995, the first National Assembly was formed, which consisted of 190 deputies, 150 of which were elected according to one-mandate majority districts, and 40 from political parties. Pursuant to the Constitution, the parliament was elected for four years. The National Assembly began working on 27 July, 1995, it had six standing commissions, and the same number of factions and deputy groups. Five of them passed the five-percent barrier set for political organizations. Among them, the deputy mandates were distributed as follows: the Anrapetutiu Association received 20 seats, the Shamiram Women's Association eight, the Communist Party six, the National Democratic Union three, and the National Self-Determination Association three. Babken Ararktsian was elected chairman of the National Assembly. The parliament focused its main attention on reforming the judicial system and regulating the tax sphere, and also ratified numerous international agreements. Approximately 300 laws aimed at developing market relations were adopted.

On 4 February, 1998 (after the country's first president Levon Ter-Petrossian resigned), the leadership of the National Assembly also handed in its resignation. Its new chairman was Khosrov Arutiunian. As a result of the parliamentary elections held on 30 May, 1999, the second National Assembly was formed. It was made up of 131 deputies, 75 of which were elected according to one-mandate majority districts and 56 from political parties.²³ The National Assembly began work on 10 June, 1999, six standing commissions were formed, the same number of factions, and three deputy groups. Six political parties and associations passed the five-percent barrier, and the deputy mandates were distributed as follows: the Edinstvo (Unity) Association received 29 seats, the Communist Party eight, the Pravoporiadok i edinenie six, ARF Dashnaktsutiu five, the Orinats erkir Party four, and the National Democratic Union four.²⁴

The next parliamentary elections were held on 25 May, 2003. Fifty-six deputies were elected according to one-mandate majority districts and 75 from political parties. But virulent violations of voters' rights were noted at these elections. Six of the twenty-one parties and associations passed the 5% barrier, among which the deputy mandates were distributed as follows: 23 deputies obtained seats from the Republican Party, 14 from the Spravedlivost (Justice) Association, 12 from the Orinats erkir Party, 11 from

²¹ *Republic of Armenia Supreme Soviet 1990-1995*, Erevan, 1995, p. 115 (in Armenian).

²² *Ibid.*, p. 6.

²³ See: *Constitution of the Republic of Armenia*, Erevan, 1995, p. 30.

²⁴ See: *National Assembly of the Republic of Armenia, 1999*, Erevan, 1999, pp. 28-29 (in Armenian).

ARF Dashnaksutiun, 9 from the National Consent Party, and six from the United Labor Party.²⁵ The parliament of this convocation held its first session on 12 June, 2003.

Artur Bagdasarian, head of the Orinats erkir Party, was elected chairman of the National Assembly, and Tigran Torosian from the Republican Party and Vaan Ovanesian from ARF Dashnaksutiun were elected deputies. Six standing commissions were formed. As already noted, the session approved the idea of creating a coalition government.

Thus, after the republic declared its independence, elections to the National Assembly were held three times (in 1995, 1999, and 2003). In 1995, for the first time in Armenian history, numerous groups of foreign observers were present at the elections. But only representatives from the OSCE and the Human Rights Commission met the international requirements made of this kind of mission. And they qualified these elections as free, but not fair: this is when the voting results began to be falsified in our country. For example, as early as December 1994, referring to the contradictions between the provisions of ARF Dashnaksutiun's Charter and current legislation, the republic's president Levon Ter-Petrosian signed a decree which put a halt to the activity of this organization for six months. Nevertheless, as one of the old, mass, and authoritative parties, which enjoys trust both in Armenia and in the Armenian diaspora, it has its own stable electorate. It was in opposition to the ruling Armenian national movement and its leader Levon Ter-Petrosian. The country's Supreme Court ratified the president's decree. This was followed by arrests of the leading party members. They were accused of creating illegal military formations and the newspapers and magazines belonging to Dashnaksutiun were closed. And since it could not revive its activity again until the middle of July, Dashnaksutiun was artificially excluded from the election race, that is, on the eve of the voting, the party was essentially deprived of the opportunity to participate in propagandizing its ideas among the voters.

Violation of one of the basic principles of democracy—the right to universal, equal, and direct voting—became a tradition in Armenia. Despite the more positive responses by international observers to the parliamentary elections of 1999 and 2003, there was neither transparency, nor legitimacy at these elections either. Here the decisive role was played not only by the power structures, but also by financial levers. For example, in 1999, due to inaccuracies in the voter lists, one to two hundred thousand people were deprived of the right to vote. Nor did the attempts to restore their rights in court yield the desired result, since it was impossible to review such a huge number of appeals in such a short time. Various types of social, economic, political, and even physical means of pressure were used to scare off or encourage the electorate. What is more, during all the parliamentary elections, wide use was made of bribing the electorate. Candidates for deputy posts were offered food and money, their electricity and utility bills were paid, and roads were paved. And the voters, recognizing the unfairness of the elections and alienated from the authorities, saw their vote as a commodity that could (and should) be sold for as much money as possible. More often than not the ordinary people couldn't have cared less who became deputy. Such moods were manifested most blatantly during the parliamentary elections of 2003. As during the previous election campaigns, the authorities provided protection for some candidates. With the connivance of law-enforcement employees, and often with their direct assistance, the chairmen of the election commissions (and occasionally also criminal bosses) prevented observers from the opposition from doing their job properly. Ballot-sheets filled out in advance (sometimes in whole stacks) were put in the ballot boxes, and at some of the polling stations, ballot boxes were even stolen in order to more conveniently fill them with the necessary number of ballot-sheets with "votes" in favor of their candidates. Servicemen frequently voted under the direct control of their commander. A certain amount of pressure was put on voters in the villages, where the local elder, as chairman of the district election commission, often controlled how the people in his village voted, which was just about the same as the way servicemen voted. Often names of people appeared on the voting lists who had long left the country or died. It is no accident that the results of a population census held in 2001 have still not been officially published. According to local observers, this was done in order to make falsification of the 2003 elections all the easier. Violations were also permitted during tallying up of the votes.

²⁵ See: *The Republic of Armenia*, 3 June, 2003.

All of this was proven by the multitude of complaints submitted to the Constitutional Court by citizens, parties, and political associations, as well as by the repeat elections according to majority lists in four polling stations, and so on.

As for the new judicial system envisaged by the Constitution, it was completed in 1999. Important steps in this direction were the formation of first instance, revision, cassation, constitutional, economic, and military courts, as well as other judicial departments, and changes in the public prosecutor's office.²⁶ The adoption of the necessary laws and codes helped to build the judicial system.²⁷ The judicial-legal reforms were called upon to establish full-fledged relations between state power and society and create an independent judicial system that ensures the protection of human rights. It is difficult to overestimate the role of the Constitutional Court, which was formed on 6 February, 1996. G. Arutiunian was elected chairman.²⁸ The Constitutional Court is authorized to verify that the laws, decisions of the National Assembly, presidential decrees, government resolutions, and obligations under international agreements correlate with the Constitution of the Republic of Armenia, and it is competent to decide questions regarding referendums and disputes relating to the results of presidential and parliamentary elections, and also the prohibition or cessation of the activity of a particular party. The right to contend normative acts of the Constitutional Court can only be granted by the republic's president and at least 1/3 of the deputies of the National Assembly.

But even today the judicial authorities are clearly not independent, since judges, public prosecutors, and five of the nine members of the Constitutional Court are appointed by the parliament, and four by the president, while proposals for personnel appointments are reviewed by the Council for Justice, which is again headed by the president.²⁹ In democratic countries, judges and public prosecutors are usually elected or appointed by the corresponding institutions of representative power, and judges are ensured their indispensability. But in our republic the president's powers reign supreme even in regulating interrelations between the National Assembly and the government. The Basic Law sets forth the domination of the executive power branch over the legislative and judicial branches, which is one of the main shortcomings of the Constitution. Of the three main functions of the judicial branch: executing justice, judicial control, and judicial control with respect to laws, only the first two "work," and not fully at that. What is more, the executive branch plays a predominant part in nominating candidates for judges, appointing and dismissing them, which significantly interferes with the independence of the judges. This has resulted, in particular, in a drop in the productivity of resolving economic disputes. The unnecessary fuss and red tape is having an unfavorable effect on the development of the country's economy and is indirectly obstructing investments. In order to find a solution to this situation, a two-step judicial system was formed in 2001 in addition to the three-step judicial system in effect for reviewing economic disputes. This two-step system consists of an economic court of the first instance and a cassation court. A necessary prerequisite for making the entire judicial sphere independent is raising its social protection.

Deprived of its statehood for centuries, Armenia inherited the traditions and mindset of a non-state legal judicial system, which it has been unable to eradicate during the 12 years of its independence. This mindset has become firmly established not only in the power circles, but also in the public consciousness. The task is to legislatively, that is, by means of governing mechanisms and by raising the juridical literacy of the entire population, bring about changes in the public consciousness and promote the real building of an independent judicial power branch.

The necessary changes have also been carried out in the security bodies and the police force. This was mainly assisted by two laws adopted by the National Assembly: On National Security Bodies (28 Decem-

²⁶ For more detail, see: *The Law on Judicial-legal Reform*, Erevan, 1998, pp. 43-134 (in Armenian).

²⁷ For more detail, see: *Official Reference of the Republic of Armenia. Laws of the Republic of Armenia: "Code of Civil Laws of the Republic of Armenia,"* No. 17 (50), 10 August, 1998; "Code of Judicial-Civil Laws of the Republic of Armenia," No. 20 (53), 9 September, 1998; "Code of Criminal Laws of the Republic of Armenia," No. 22 (55), 21 September, 1998; "On the Status of Judges," On the Mandatory Execution of Judicial Acts" (in Armenian).

²⁸ See: M. Khachatryan, *Pervaia Konstitutsiia Respubliki Armeniia*, Erevan, 1997, p. 283.

²⁹ See: *Constitution of the Republic of Armenia*, p. 47.

ber, 2001) and On the Police Force (3 July, 2002).³⁰ In December 2002, the National Security Ministry and Interior Ministry were transformed into the National Security Service under the Republic of Armenia Government³¹ and the republic's police force by a presidential decree On Making Changes to the Structure of the Republic of Armenia Government. What is more, according to the demands of the Constitution, a Law on Public Organizations was adopted in December 2001, and a Law on Parties in August 2002.³²

The Constitution ratified the three-color flag (red-blue-orange) and coat-of-arms of the Republic of Armenia, in the center it has an eagle and a lion holding a shield depicting Mount Ararat with Noah's Ark, as well as the coats-of arms of the four Armenian kingdoms. Beneath the shield is a sword, a bough, a sheaf of wheat, a chain and a ribbon.³³

³⁰ See: *Official Reference of the Republic of Armenia*, No. 6 (181), 5 February, 2002, pp. 3-18; No. 32 (207), 8 August, 2002, pp. 5-34 (in Armenian).

³¹ *Ibid.*, No. 55 (230), 17 December, 2002, p. 25.

³² *Ibid.*, No. 34 (209), 15 August, 2002, pp. 3-17.

³³ *Constitution of the Republic of Armenia*, p. 11.

THE BUREAUCRATIC-PATRIMONIAL STATE IN GEORGIA: HAS THE "ROSES REVOLUTION" GIVEN IT A NEW LEASE OF LIFE?

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I n t r o d u c t i o n

The post-socialist transformation phase that began late in the 1980s was a very special period in the context of the third wave of democratization that started in the 1970s. This was when the eastern military-political bloc headed by the Soviet Union fell apart.¹ The post-socialist and

especially the post-Soviet phases were marked by systemic transformations when the political system was undergoing the transition from authoritarianism to democracy and when the economic system was experiencing radical changes.² The

¹ Many authors prefer to regard the post-socialist phase as a separate fourth wave. See: M. McFaul, "The Fourth Wave of Democracy and Dictatorship," *World Politics*, Vol. 54, January 2002, pp. 212-244. About the third wave see: Samuel P.

Huntington, *The Third Wave of Democratization in the Late Twentieth Century*, Oklahoma, 1991.

² See: C. Offe, *Der Tunell am Ende des Lichts. Erkundungen der politischen Transformation im Neuen Osten*, Frankfurt a. M., New York, 1994.

totalitarian institutions were not merely removed or reformed during the post-Soviet phase: new institutions were created. More important still, the social structures were involved in the process of complex transformation. As distinct from the post-socialist phase, the post-Soviet stage saw state development everywhere except the Balkans. Since 1990, the former Eastern bloc has acquired 22 new states. While Czechoslovakia fell apart peacefully, Yugoslavia and the Soviet Union disintegrated amid bloody conflicts, the aftermaths of which can still be felt. These countries are developing under increasing pressure on the phenomenon of state as such from both the internal and external processes of globalization and fragmentation.³ It is generally recognized today that the state as an institution designed to regulate social processes is either “too small” and does “not have enough resources” to resolve contemporary problems, or is “too big” and “too clumsy”⁴ to deal with such global or universal challenges as international security, ecology, demography, etc. No state can handle these problems single-handedly. At the same time, the state institutions functioning in the radically changing social milieu cannot offer efficient mechanisms to deal with these issues. In these cases state (formal) institutions recede into the background to make way for informal institutions in the form of civil society or other informal public associations.

The Soviet Union was a totalitarian state in which the political system controlled social life. In turn the state institutions functioned under strict party control. This explains why many believed that the post-Soviet state should have “contracted its sphere of influence” and “retreated” from certain social spheres in order to move closer to the classical liberal state. The academic community eagerly discussed these ideas about state development across the post-Soviet expanse.⁵

One cannot ignore the fact that similar comments were made about postcolonial developments. In the 1960s, experts favored “the strong state” as a moving force of social modernization

³ See: U. Menzel, *Globalisierung versus Fragmentierung*, Frankfurt a. M., 1998.

⁴ M. Zürn, *Regieren jenseits des Nationalstaates*, Frankfurt a. M., 1998.

⁵ See: A. Grzymala-Busse, P.J. Loung, *The Ignored Transition. Post-Communist State Development*, Harvard University, March 2002, pp. 1-3.

and economic development. This model collapsed ignominiously in Africa and elsewhere—today international financial structures and other donors are favoring the “flexible state” model.⁶ With civil society not developed enough in these countries, the space vacated by the state is taken by informal institutions and actors. In many cases they actually promote disintegration rather than development.

I have set myself the task of analyzing the role of the state development factor in post-Soviet transformations. Until recently this process was discussed with the help of Western development models. I shall prove below that they do not provide adequate political instruments to objectively describe the phenomenon of the post-Soviet state whose model (where its processes and structures are concerned) is much closer to post-colonial state developments. With this consideration in view one can create an analytical model to describe and study the post-Soviet state based on the postcolonial model. Georgia can serve as a testing ground.

I shall start with a concise theoretical discussion of the phenomenon of state and state development in the West and shall try to demonstrate why the corresponding conceptions cannot be applied to the post-Soviet state. This approach presents the state as a dynamic organism functioning together with other social institutions, not separate from them. The “neo-patrimonial” conception that the academic community willingly applies to the postcolonial states can serve as a model of such a state. This conception can be adequately applied to the post-Soviet state and its analysis. We have to identify the indicators to be applied to the Georgian state to empirically verify our theoretical constructs. The role of the informal, patrimonial structures in state development in Georgia can be discussed using the National Guard, its creation and the first stage of its functioning, as an example. It was one of the elements of security, the state’s key function. The latest events call for more forecasts of the republic’s future development and have made it possible to verify my model.

⁶ K. Schlichte, B. Wilke, “Der Staat und eigene seiner Zeitgenossen,” *Zeitschrift für Internationale Beziehungen*, 7. Jg, 2/2000, pp. 359-384.

What is the State?

The theory of the state abounds in definitions. I shall not quote all of them here; I shall limit myself to offering the concept of the state as a sum-total of political institutions which has a monopoly on coercion (*Gewaltmonopol*) within a certain territory and is functioning as legitimate rule by the people. This description is based on Max Weber's concept.⁷ I have to say here that the idea of a "modern nation-state ruled by law" is a Western product. At the first stage, feudal political units formed territorial ones and, later, nation-states. In the 20th century, they gradually developed into democratic states, while in the post World War II period they came to symbolize the social state model. The following factors played the key role in this evolution: security and prosperity (the political and economic systems). Later the state legitimacy and self-identification of nations as belonging to a particular state (the legal and ethnic-cultural factors) came to the fore in the same context.⁸ The states developed into the most effective institutions used to deal with the issues enumerated above in mobilizing corresponding resources and their efficient use. All other political institutions (free cities and feudal units) proved unable to develop the domination structure that gave the Western-type states qualitative advantages. Here I have in mind efficient bureaucracy.⁹ Beginning in the late 17th century, the states emerged in the West as supreme rulers on their territories and the de jure equal entities of international relations.

This short description illustrates that the modern state as a political and social institution is the outcome of a historical process. In other words, the contemporary Western state is not the only institution ruling over any given territory. This poses the question: can and should we consider such states a historical regularity elsewhere, outside the Western world?

It has been empirically confirmed that when imported into postcolonial countries the rational-bureaucratic model of the state failed to produce the desired effect. All sorts of social institutions continue functioning in these states together with the formal ones. The state is not an autonomous unit; it has to compete day-by-day with other forms of political administration.¹⁰ Informal institutions (for example, personal links of the horizontal and vertical type) also carry out the state's main functions described above (security being the key one).¹¹ This not only results in the parallel existence of formal and informal institutions: these institutions and forms of political domination blend together to remove the barriers between the personal and public, the formal and informal, and between politics and economics.¹²

The Post-Soviet State as Patrimonial Bureaucracy

The state in the West emerged as a result of social modernization—something that the developing countries have not yet experienced. Time will show how they will progress. External factors (political, economic and cultural globalization) promote Western ideals and political rule models in the form of the Western rational-bureaucratic state. The new states borrow formal institutions such as constitutions, division of power (in the center and regions as well), symbols, etc. This creates the façade of contemporary

⁷ See: K. Schubert, *Das Politiklexikon*, Bonn, 1997, p. 274.

⁸ M. Zürn, op. cit.

⁹ See: N. Elias, *Über den Prozeß der Zivilisation. Soziogenetische und psychogenetische Untersuchungen. Zweiter Band: Wandlungen der Gesellschaft. Entwurf zu einer Theorie der Zivilisation*, Frankfurt a. M., 1997; *The Formation of National States in Western Europe*, ed. by Ch. Tilly, Princeton, 1975.

¹⁰ See: J.S. Migdal, *Strong Societies and Weak States. State-society Relations and State Capabilities in the Third World*, Princeton, 1988, pp. 207-226.

¹¹ See C.H. Landé, "Introduction: The Dyadic Basis of Clientelism," *Friends, Followers, and Factions. A Reader in Political Clientelism*, ed. by S.W. Schmidt et. al., pp. XIII-XXXIX.

¹² See: K. Schlichte, B. Wilke, op. cit.; G. Erdmann, "Neopatrimonialer Herrschaft—oder, Warum es in Afrika so viele Hybridregime gibt," *Demokratie und Staatlichkeit*. Petra Bendel u. a. (Hrsg/). Opladen, 2003, pp. 323-342.

statehood, yet a careful analysis of what is going on behind it reveals that society is ruled along the traditional, informal channels. This is a new type of state—the hybrid state.

The formal institutions are strictly limited, regimented and frequently codified forms of social interaction. They are the constitution, laws, state structures and the rules according to which they function. As distinct from them the informal institutions are based on spontaneous relations and are rooted in traditions.¹³ It is their task to monitor how the basic and other laws are observed in any specific society, as well as whether the public trusts the formal state structures and whether people rely on them to resolve their problems. Here is a specific example: if the owner of a stolen car goes to the police he obviously trusts the state institutions. If he prefers to deal with a criminal boss because this is absolutely acceptable in his society as the most efficient way to deal with problems this means that this person and the society he lives in prefer informal structures. The second alternative is a rational one because people know that frequently there is no dividing line between the police and the criminal world and that the police themselves cooperate with lawbreakers. This shows that the formal and informal institutions blend to form a hybrid.

Such states differ considerably from the countries of the Western type, but this should not be taken to mean that they lack political institutions. The idea about the “disintegration of the state” that is very common in some of the postcolonial and post-Soviet countries is wrong. In fact, they manifest a failure of the Western-type state. A new type of state is being born in such countries: it does not distinguish between the formal and informal institutions and blend them. Max Weber’s sociology called such states bureaucratic-patrimonial.¹⁴ Political power in them is informal while political rule is based on personal contacts and loyalty. The feudal state was a classical example of patrimonial rule. As distinct from such states rational bureaucracy (*Anstaltsstaat*) grew out of social modernization. Political rule there is based on strictly regimented formal procedures. Informal channels are still in place, yet they do not undermine the performance of the formal structures. In rational-bureaucratic countries the formal and informal, as well as the political and economic spheres are strictly delineated. This fully corresponds to the Western model of statehood.¹⁵

The subject of patrimonial rule came to the fore along with political studies of nation-building in Africa. The problem of compatibility between traditional tribalism and Western bureaucratic structures proved very acute there. The African “hybrid” of the traditional and modern structures of political rule in postcolonial states was called “neo-patrimonial.”¹⁶ I prefer to use the term “bureaucratic-patrimonial” state to describe the post-Soviet state. During the years of Soviet power the post-Soviet states (the South Caucasian republics among them) covered part of the journey to social modernization and acquired state bureaucracy. As distinct from the postcolonial states these countries accumulated vast experience; they have more material and human resources in the bureaucratic sphere. This explains why the word “bureaucratic” comes first in my definition, while “patrimonial” is used as a necessary specification. In post-Soviet writings, “patrimonial” is described as a product of the Soviet totalitarian state.¹⁷ This form, often clumsy and always highly ineffective, forced people to rationalize the traditional methods based on personal contacts within the bureaucracy. The term “bureaucratic-patrimonial” state points to a very developed form of bureaucracy in the post-Soviet countries and to the presence of traditional forms of state administration. Patrimonial relations were developing inside the bureaucratic structure.

I shall use the processes unfolding in the security sphere in post-Soviet Georgia to discuss the functioning of this type of state. I shall look at the first development stage of the Republican National Guard that began during the civil war and ended when Eduard Shevardnadze finally consolidated his power. This period is very typical of the post-Soviet bureaucratic-patrimonial state.

¹³ See: W. Merkel, A. Croissant, “Formale und Informale Institutionen in defekten Demokratien,” *Politische Vierteljahresschrift*, Vol. 41, No. 1, 2000, pp. 3-31.

¹⁴ I have to thank Stephan Hensell from the Hamburg Institution of Peace and Security for this term.

¹⁵ See: G. Erdmann, op. cit., pp. 329-334.

¹⁶ K. Schlichte, *Krieg und Vergesellschaftung in Afrika. Ein Beitrag zur Theorie des Krieges*, Münster, 1996; K. Schlichte, B. Wilke, op. cit.; G. Erdmann, op. cit.

¹⁷ See: Ch.H. Fairbanks Jr., “Clientelism and the Roots of Post-Soviet Disorder,” *Transcaucasia, Nationalism, and Social Change*, ed. by R.G. Suny, Michigan, 1983, pp. 341-374.

The National Guard Development and Consolidation of Shevardnadze's Power (1991-1995)

Perestroika in the Soviet Union revived the national-liberation movement in Georgia. The elections to the republican Supreme Soviet brought to power Zviad Gamsakhurdia and his group. After becoming Georgia's first president, he steered the country toward independence. While formally remaining within the U.S.S.R., the republic started building up armed forces of its own. On 20 December, 1990 the Supreme Soviet voted for setting up the National Guard, internal troops of a sort, with the aim of maintaining law and order inside the republic. The Guard was designed as a quasi-police force. Intensified ethnic conflicts made it necessary for the newly created guard to protect Georgia's territorial integrity.¹⁸ The National Guard was seen as the first step toward a regular republican army.¹⁹

At first, there were no legal commanding structures: on the one hand, the Guard was part of the Ministry of the Interior that acquired a special structure under one of the deputy ministers. On the other, it was partly commanded by the Defense Commission of the republic's Council of Ministers. In the beginning, it was the Supreme Soviet's responsibility to appoint its commander; later when the post of president was instituted that right was transferred to the head of state.

In fact, the question of control over this organization was never completely clarified—this allowed informal structures to increase their pressure on the Guard. The new political forces (mainly informal) extended their patronage to quasi-military structures that recognized no other authority except their direct commanders. President Gamsakhurdia set up the National Guard to establish his control over all quasi-military structures, which either had to disarm or join the Guard. Many did precisely this: the Imedi (Hope) detachment of the Popular Front of Georgia joined the National Guard. Members of this and other similar detachments still took orders from their direct commanders, who enjoyed great authority among the fighters. There were structures that flatly refused to obey. Jaba Ioseliani, the Mkhedrioni commander, had personal scores to settle with the president, who preferred personally loyal people. Artist Tenghiz Kitovani, the president's schoolmate and close ally, was appointed National Guard commander.²⁰ He was also appointed Chairman of the Defense Commission under the Council of Ministers. It was said that his main merit was good contacts with Russian military and the criminal community, which made it possible for him to procure everything he needed for the Guard with "no sweat."

Former Soviet officers, who were ethnic Georgians, formed the officer corps together with the commanders of groups that later joined the Guard. Its commanders, however, were unable to blend the groups into a single whole. Kitovani himself described regionalism as one of the gravest problems his Guard faced.²¹ Its battalions were scattered across the country and were usually staffed with local people serving under local criminal bosses. In Zugdidi, for example, the battalion commanded by Vakhtang Kobalia was virtually independent of the central structures.

Kitovani himself also preferred informal methods; he selected loyal officers, but the events of August 1991 split the Guard. The majority refused to obey the president and confirmed their loyalty to Kitovani; nearly all the battalions sided with him. He had earlier established friendly relations with their commanders. For example, commander of the Kareli battalion was Kitovani's close friend.²² Gamsakhurdia had part of the Guard, in particular, the Zugdidi battalion, on his side.

In the course of the so-called Christmas putsch, Kitovani's National Guard together with Ioseliani's Mkhedrioni deposed the president; the split in the National Guard developed into a civil war. It went on with ebbs and flows until 1995. The story confirms that security, a key issue for any state, was dominated

¹⁸ *Sakartvelos Respublika*, 21 December, 1990, p. 1.

¹⁹ For more detail, see: D. Darchiashvili, *Politikosebi, djarikatsebi, mokalakeni*, Tbilisi, 2000 (in Georgian).

²⁰ See: S.F. Jones, "Adventures or Commanders: Civil-Military Relations in Georgia," *Civil-Military Relations in the Soviet and Yugoslav Successor States*, ed. by C. Danopoulos, D. Ziker, Westview Press, 1996, pp. 35-42.

²¹ Interview with Tenghiz Kitovani, *Droni*, 14 June, 1990, p. 5.

²² D. Darchiashvili, op. cit., p. 227.

by patrimonial methods. The president and the guard commander, together with the battalion commanders, deliberately ignored formal norms. Even the most important of their decisions were made on the basis of personal contacts and loyalty. In his book D. Darchiashvili pointed out: "Clans played an important role not only in the battalions, but also higher up, among the military-political leaders, therefore no professional morals and corporate sentiments could be promoted among the officers."²³ Both parts of the split National Guard described themselves as the "legitimate representatives" of Georgia's armed forces. This meant that both wanted to remain within the state's formal institutions.

In March 1992, Eduard Shevardnadze returned to his native land; he managed to establish control over some of the paramilitary formations; others were dissolved. Kitovani and Ioseliani lost power. It was not through strengthening the formal institutions of power that Shevardnadze consolidated Georgia's statehood. While gradually setting up one state institution after another he relied on the patrimonial structures inherited from Soviet times. His efforts created another hybrid. The formal state institutions—the constitution and structures of state power and self-government—created a façade for his state. Georgia needed them to be internationally accepted. The real stability factor was functioning behind the façade. This was Shevardnadze's personal ties with the old nomenklatura and the system of corruption and patronage associated with it.²⁴ S.F. Jones deemed it necessary to point out that personification of power under Shevardnadze meant that the state institutions did not work.²⁵ Under these conditions the main principles of stability in the security sphere remained the same: "The security system is personified to the extent that no one can predict how it will work and which side it will take under new leaders."²⁶ This system could not remain stable for any more or less prolonged period.

The Roses Revolution: Radical Changes or Shifts at the Top?

I had planned to end my article here, but the latest events in Georgia forced me to ponder the future of its statehood, which would put my model to test.

The developments that have been unfolding since the parliamentary elections of 2 November, 2003 confirmed that the bureaucratic-patrimonial state was not a stable structure. Personal ties that were stronger than the formal institutions of power acted as a slow-fuse bomb. As the state gradually exhausted its resources, the units of power within the system became increasingly dissatisfied; personal contacts no longer counted, while autonomous groups formed. At one time, in an attempt to prevent the system from disintegrating, African leaders deliberately refused to strengthen the state institutions: they set up new structures to oppose the old ones, reshuffled key politicians, etc.²⁷ The same can be said about Georgia: reforms were abandoned in mid-stream; the armed forces were underpaid; new structures were added to the security sphere; and corruption was encouraged, while various institutions performed the one and the same functions. The latest events have shown that the state system was following the logic of the early 1990s. In the context of the new foreign and domestic factors (the U.S.'s growing impact on democratization and the first steps toward building a civil society), Shevardnadze's patrimonial bureaucracy was nothing more than an anachronism doomed to collapse under the pressure of the new conditions.

So we ask ourselves whether the Roses Revolution (the events of November-December 2003) will usher in a new stage in development? Those who gathered in front of the parliament were supported by policemen from the local precinct, because one of their former bosses (who had parted ways with the authorities and sided with the opposition) was among the protestors. Postcolonial experience has demon-

²³ Ibidem.

²⁴ See: G. Tevzadze, *Sakartvelo: dzalauplebis simulatsia*, Tbilisi, 1999; *Sakartvelo: dzalauplebis dabruneba*, Tbilisi, 2003; R. Gotsiridze, O. Kandelaki, *Gavleniani djgubebi da koruptsia sakartveloshi*, Tbilisi, 2001 (all in Georgian).

²⁵ S.F. Jones, op. cit., p. 46.

²⁶ D. Darchiashvili, op. cit., p. 326.

²⁷ See: J.S. Migdal, op. cit., pp. 214-236.

strated that democracy (or stronger statehood in the case of Georgia) does not arrive just because the worst tyrants were deposed. Old structures and traditions are not wiped out instantaneously: more likely than not new actors have to socialize in the old conditions and according to the old rules of the game. Changes invariably create a “reform” or “power” dilemma.²⁸ In the developing countries continuity of power presupposes that the old social structures should remain in place to receive a new layer of paint.

The first steps of the new rulers breed hope and are disappointing at one and the same time. The appointment of a close relative of one of the revolutionary leaders as public prosecutor of Tbilisi and the promotion of a friend of another leader give reason for disappointment.²⁹ These and other appointments and promotions (in the security sphere, among other structures) bring to mind the sweeping purges in the developing countries’ state structures that took place every time power changed hands there. In the final analysis these changes did nothing but switch the people at the helm.³⁰

On the other hand, the public’s negative response to the appointments and the fact that for the first time in Georgian history the people at the top heeded public opinion (the newly appointed prosecutor declined the offer) are encouraging. What is more, a civilian was appointed minister of the interior for the first time. He said that the ministry was ruled according to the patrimonial style and vowed to wipe it away.³¹ The new faces in the executive structures and the first signs of a real civil society give rise to the hope that this social capital will strengthen the state institutions and the people’s confidence in them. This will undermine the patrimonial traditions in Georgia.

Time will show whether the Roses Revolution ushers in a new stage of state development. Under the conditions of incomplete social modernization it is hard to create a rational-bureaucratic state system. The Shevardnadze regime was rooted in the patrimonial nature of its bureaucracy. What will the new regime select as its social basis? It would be nice to think that Georgia will produce a pattern for its neighbors and the post-Soviet world to follow.

²⁸ See: G. Erdmann, op. cit., pp. 334-337.

²⁹ Rustavi-2 TV channel, 26 November, 2003.

³⁰ In Albania the socialists who came to power in 1997 changed the entire staff of the security service and nearly three-quarters of the police (see: S. Hensell, “Aspekte der staatlichen Gewaltordnung in Albanien,” DVPW ad hoc-Gruppe “Ordnung der Gewalt,” 25 September, 2003).

³¹ Rustavi-2 TV channel, 27 November, 2003.

NATION-BUILDING IN TAJIKISTAN

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The statehood of the Tajiks is rooted in hoary antiquity. It stems from the very specific local states (Bactria, Sogdiana and Khorezm) with the state-political tradition of their own. Its principles and values were reflected and further developed in the state of the Akhemenids. The society, its civili-

zation and ideas about state administration survived under the pressure of Islam the influence of which upon society was huge. Active and complex interaction between the old and new institutions and values created a much more mature and integral social model of the state of the Samanids (875-999). It was at that time that the political culture of the Tajiks became characterized by such element as legal foundation and strengthening of the statehood. It was based on a very high level of social ties, dynamic and multi-functional urban culture and developed trade infrastructure.

The principles and ethics of labor, the institutions of social cooperation, of male and female associations and professional alliances were developing within the framework of traditional social relations.

On the whole, the pre-Soviet state administration structure included the political-legal relationships, ethical, social and moral values through which the nation expressed itself. In the course of time the Tajiks formulated stable social principles and norms, created institutions of political power and administration, and acquired sociocultural and spiritual values still preserved by the nation's genetic memory.

The communist system radically altered the course of social evolution and administration; the type of statehood changed a lot. A new type was officially formulated in 1929 in the course of national-territorial delimitation in Central Asia. The new administrative-territorial pattern completely discarded the old statehood. The middle class accepted the new values: the process was wide but barely deep-cutting. The lower strata of the population hardly recognized the process of Sovietization.

This explains why the problem of creating an independent country with a new type of state administration and its smooth functioning was one of the key problems of independent Tajikistan. During the years of Soviet power the local society transformed considerably, yet it was the traditional institutions, their principles, norms and values that played a leading and consolidating role in overcoming the domestic conflict. Today, during the transition period, they have retained their efficiency as well. In order to overcome the postwar economic, social and cultural devastation the country should acquire a qualitatively new type of state administration that will maximally mobilize the constructive and socially oriented paradigms of social and ethnic self-expression.

According to the Constitution Tajikistan is a sovereign, democratic, law-based, secular and unitary state. Arts 1-13 of the Constitution describe its legal basis: the rule of law (Art 10) and the division of power. The state is obliged to ensure and protect human rights and freedoms as well as the foundations of the country's political and economic diversity. The Constitution was enacted in 1994; in 1997 and 2003 after the referendums it received important amendments related to the system of state administration.

Under the Constitution the President is the head of state and of executive power, the latter consists of two branches: the central government and the local structures. The President acts as the guarantor of the Constitution and laws, human rights and freedoms, national independence, unity and territorial integrity, continuity and stability of power, coordinated functioning of and cooperation among state structures and observation of the international agreements signed by the republic. The president is elected for seven years by the general, equal and direct secret ballot. Any citizen of 35 years and over who speaks the state language and has been residing in the republic for no less than 10 previous years may be nominated presidential candidate. A person may not fill the post for more than two successive terms.

Legislative (elected) power is represented by a pyramid of the majlisis. The highest of them is Majlisi Oli (the parliament) that comprises two chambers: the Majlisi milli and the Majlisi namoiandagon. It is functioning according to the Constitution and the constitutional law On the Majlisi Oli of the Republic of Tajikistan. Their term is five years—between the last day of the previous parliament to the first day of the next parliament.

The Majlisi namoiandagon is elected by the general, equal and direct secret ballot; it is a permanently functioning professional structure. Any citizen over 25 with higher education can be elected deputy. Seventy-five percent of Majlisi milli is elected indirectly through secret ballot at joint meetings of people's deputies of the Gorno-Badakhshan Autonomous Region (GBAR), of its cities and districts as well as people's deputies of other regions, their cities and districts, the capital Dushanbe and its districts, cities and districts of republican subordination (the latter sit together and elect one deputy). The GBAR, other

regions, the city of Dushanbe, cities and districts of republican subordination are equally represented in Majlisi milli. The president appoints the remaining 25 percent of its members. Majlisi milli regularly meets for sittings. Any citizen over 35 with higher education can be elected or appointed Majlisi milli deputy. All former presidents become Majlisi milli deputies for life unless they decline the right.

Under the constitutional law the cabinet members, judges, law enforcement officers, the military and certain other categories may not be Majlisi milli members. Nobody may be a deputy of both chambers; a Majlisi milli member may not sit in more than two representative structures.

A Majlisi namoiandagon deputy may not sit in any other representative structure but may continue his research, creative or teaching career.

Judicial power in the republic belongs to the Constitutional Court, the Supreme Court, the Supreme Economic Court, the Military Tribunal, the GBAR Court, the courts of other regions, the city of Dushanbe, other cities and districts, the GBAR Economic Court, the economic courts of other regions and the city of Dushanbe. The judges are appointed for a ten-year term; trained lawyers between 30 and 65 years of age with the previous record of a judge not less than 5 years may be appointed judges of the Supreme Court, the Supreme Economic Court, the GBAR Court, the courts of other regions and of the city of Dushanbe. The posts of judges of city and district courts, the Military Tribunal, the GBAR Economic Court, the economic courts of other regions and the city of Dushanbe are given to people between 25 and 65 with the previous professional record of not less than 3 years.

Administrative division of the republic's territory is determined by the Constitution and the constitutional law *On the Procedure of Dealing with the Issues of Administrative-Territorial Division of the Republic of Tajikistan*. The republic is divided into the GBAR, other regions, the city of Dushanbe, cities, districts, settlements and villages; each of the regions, cities and districts has legislative and executive structures of power; the settlements and villages have bodies of local self-government.

The districts, cities and towns form part of the GBAR, the Khatlon and Sogd regions; some of the districts belong to the city of Dushanbe. Certain districts and cities (in the Rasht and Gissar valleys around the capital) are administered directly from the center.

Local state power has two levels: the regional and the city or district ones. The lowest level is made up of local self-government (the settlement and village jamoats that are independent and equal).

There is no local self-government in industrial cities and districts—there are councils of the makhalla formed by people's associations at their places of residence.

The Gorno-Badakhshan Autonomous Region and the city of Dushanbe, the republic's capital, have their own administrative structures. The GBAR was formed because of its special features: the natural and climatic conditions (the region is situated high up in the mountains and is far removed from the republic's center) that created a specific social and economic system; linguistic, everyday life and certain other local ethnic features. The Constitution describes the region in a special chapter and establishes that its special status is envisaged by the constitutional law *On the Gorno-Badakhshan Autonomous Region*.

The city of Dushanbe has mostly the same rights as the regions. As the republic's capital it enjoys a special status described by the law *On the Status of the Capital of the Republic of Tajikistan*.

One can describe the present administrative-territorial system as a product of history. Before the Russian revolution of 1917 Tajikistan had the same administrative division (gubernia, uyezd, and volost) as the rest of the Russian Empire of which it was a part. After the 1917 revolution the system was abolished. In the late 1920s and early 1930s, the republic, together with the rest of the Soviet Union, received a new administrative-territorial system comprising regions, territories, cities, districts, settlements and villages. The two latter levels had no self-governance and were ruled by the bodies of state power (settlement and village soviets and their executive structures). In 1994, the newly adopted Constitution provided for election of local self-governments at the settlement and village level.

Today, the district is the key element of the local structure that addresses all the major issues of local administration, economic and sociocultural development. The district is the lowest element of state power below which local self-governments (jamoats) operate.

The region is the middle administrative link that connects the republican government with the districts and cities. In practical terms, the region is responsible for the territorial administration in general as

well as all the structures, enterprises, and organizations situated in it. From this it follows that state power in Tajikistan is executed at the regional, city and district levels while local self-government belongs to the settlement and village levels.

Executive structures also represent local state power; they interact and cooperate among themselves and with other levels (regions) and represent state power across the republic.

The Majlis of the regional, city and district deputies elected for the term of five years are representative bodies. The constitutional law On the Elections to the Local Majlis of People's Deputies established the number of deputies to be elected to the regional and Dushanbe Majlis (not more than 70) and for the district and city Majlis (not more than 40). In less populated administrative units the number of deputies can be fewer.

The local Majlis must express the interests of local people and deal with the following issues: approve local budgets and their execution reports; approve long-term social and economic development programs, general plans and rules of territorial development, sizes of local taxes and fees; approve candidacies for the chairman of the region (city, district), his deputies, heads of local administration branches; discuss their reports; issue and place local loans, bonds, lotteries, etc.

The deputies of local Majlis are not professional deputies: they meet for their sessions not less than twice a year; the Majlis are headed by the chairman of the region (district, city) appointed by the President for the term of five years from among the deputies. In other words, the Majlis chairmen represent the president and also head the executive and representative bodies of power on the relevant territory.

The local executive bodies of power are headed by the GBAR chairman or heads of other regions, the city of Dushanbe, districts and cities. All chairmen have first deputies and deputies, their own administrative structures. The chairman heads all structural elements of the local executive bodies of power as well as of all other bodies, enterprises, departments and organizations located on his territory.

Under current legislation, there are three types of local bodies, enterprises, departments and organizations: based on communal property; local structural elements of the republican executive bodies; local bodies, departments, enterprises and organizations in the republican ownership.

Enterprises, institutions and organizations in communal ownership are administered by local executive structures; the chairman who signs contracts with them also appoints their heads.

The local structural elements of the republican executive bodies are described by governmental resolution No. 216 of 17 March, 1995. They include all relevant regional, district and city structures working in the field of education, health care, culture, environment, economy and external economic relations, justice, finance, agriculture, etc. subordinated to both the local chairman and the heads of corresponding ministries and agencies. The relevant local chairmen in agreement with the ministers and heads of republican agencies appoint heads of such structural elements.

The structures left outside the first and second groups comprise the third group. They belong to the republic and, therefore, their heads are appointed (or removed from their posts) by ministers and agency heads with the local chairmen's agreement. At the same time, all bodies and organizations functioning on any given territory have to obey the decisions made by local Majlis and chairmen within their jurisdiction.

Chairmen of the regions, the city of Dushanbe, cities and districts have to deal mainly with the organizational and administrative issues within their territories. The chairman convenes sessions of the local Majlis; chairs them, controls the local executive structures; supervises the management of communal property; coordinates operation of enterprises, organizations and institutions in republican ownership; regulates land relations; supervises the execution of local budget, etc. He has real power and is completely responsible for the state of affairs on his territory.

The relationships between the chairman as the head of local executive power and organizations and other structures found within the scope of his responsibility are organized in the following way: he directly heads communally owned enterprises, agencies and organizations; coordinates activities of republican organizations on his territory, controls activities of all structures on his territory in terms of land use and the use of other natural resources, environmental protection, construction, communications, trade, social-

cultural services, social protection, the rule of law, law enforcement and security, human rights and freedoms.

Communal enterprises designed to meet the social-economic needs of local people form the economic and financial basis of local administrations; the latter may also use local budgets and extra-budgetary and special purpose funds, credits and republican subventions and donations.

According to the 1994 Constitution, local self-government is operating in settlements and villages; its functioning is regulated by the law On Bodies of Self-government in Settlements and Villages. They are set up in settlements and *dekhots* and function within their territories. The jamoats are expected to promote people's rights to take part in administering social life and the state; to bring people together to address social, economic and other problems related to the local people's interests and to help bodies of state power to observe the Constitution and other laws.

The jamoat as a local self-government structure is composed of elected delegates sent by streets, makhallias and villages. They meet at least twice a year and elect chairman, deputies and secretaries for the period of five years. The chairman has a small body of public employees the number of whom is established by the chairmen of districts (cities) or by the majlisis of people's deputies of districts (cities).

The local state power and self-governments were established by the 1994 Constitution. Time has shown that they work efficiently yet their performance should be improved. First, the powers of the local majlisis and their chairmen should be clearly outlined. Second, the relations between the local elected bodies and chairmen and other local executive structures, public organizations and individuals should be envisaged by law on the comprehensive basis. Third, time has come to strengthen the economic and financial basis of the structures of local power and local self-governments. For this purpose the financial sources of local budgets should be expanded and specified. Fourth, the legal framework of the structures of local power and local self-governments should be improved; we need a law to clearly outline the scope of responsibility of the local self-government structures and to give them legal protection.

On 11 July, 2002 the President issued a resolution on setting up a work group to draft laws on local power and local self-government. The group is now working on the laws related to this sphere of state administration.

REGIONAL SECURITY

U.S. MILITARY ENGAGEMENT IN CENTRAL ASIA: “GREAT GAME” OR “GREAT GAIN”?

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The region of Central Asia has acquired a new strategic importance in recent years. Comprised of five states, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, Central Asia has emerged as a region of strategic importance given its vast energy resources, its regional threats of narcotics production and trafficking, and by virtue of its geographic location. It is the geography of Central Asia, however, that has contributed most to making the region both a short-term and a longer-term security priority to U.S. national interests. Its proximity to Afghanistan was crucial in planning the operations against the Taliban in neighboring Afghanistan, endowing the Central Asian region with elevated strategic importance in the new security paradigm of post-11 September.

Although the U.S. military presence in the region was well established long before 11 September, the region became an important platform for the projection of U.S. military power in Operation Enduring Freedom.

The Central Asian states also play an important role as “security sentry” for the ongoing stabilization effort in Afghanistan and in better positioning U.S. forces in the medium-term safeguarding of stability in Pakistan. Over the longer-term, Central Asia’s strategic importance stems from several other factors, ranging from trans-national threats posed by Islamic extremism, drug production and trafficking, to the geopolitical threats inherent in the region’s location as a crossroads between Russia, Southwest Asia and China.

But the region also faces more fundamental internal challenges, ranging from an overall deficit of democracy, and the related predominance of “strongmen over statesmen,” to economic mismanagement and widespread corruption. These factors significantly impede the reform efforts of these states in transition, further contributing to a significant loss in state power. It is this set of internal factors that presents the most daunting challenge, however, as the core fragility of these states cannot be effectively overcome simply through policies relying on enhancing their security or military capabilities.

The core focus of Western policies in the region over the past decade has largely been driven by considerations related to the development of their

energy reserves and the challenges of securing export routes amid the competing interests of the regional powers. This long-standing energy focus has now been superseded by a pursuit of security and stability, within the prism of the global fight against terrorism. There has been a fundamental and sweeping change in U.S. policy in the region underway for some time, however. The foundation for current U.S. policy in the region rests with the new strategic partnership between the United States and Russia. But as Russia reasserts its position in Central Asia, the region, as well as the Caucasus, may very well emerge as the next arena in this mounting competition between Moscow and Washington, making the quest for stability and self-sufficiency among the infant states in the region even more important.

The Course of U.S. Engagement in Central Asia

Pre-11 September

In the period immediately following the collapse of the Soviet Union and the subsequent emergence of the newly independent states in 1991, U.S. policy toward Central Asia centered on a security relationship with Kazakhstan. This initial focus on Kazakhstan stemmed in large part from the need to secure the Kazakh nuclear arsenal and, in December 1993, resulted in the signing of a Cooperative Threat Reduction (CTR) agreement to dismantle and destroy the country's over 100 SS-18 missiles.

By 1994, the U.S. cemented its bilateral security cooperation with Kazakhstan through a defense cooperation agreement that forged new cooperation in defense doctrine and training. The neighboring states of Kyrgyzstan, Turkmenistan and Uzbekistan also joined Kazakhstan in entering NATO's Partnership for Peace Program (PfP). Central Asian membership in the NATO PfP served as the main avenue for Western security engagement and a number of officers from these states, as well as from Tajikistan, participated in PfP exercises by 1995. The U.S.-Kazakh defense relationship was expanded in 1995 to include deeper cooperation in nuclear security and defense conversion efforts.

The U.S. approach to Central Asia was also driven by overarching geopolitical considerations, with an underlying goal of containing the influence of China, Iran and Russia. The promotion of Turkey as a key U.S. proxy force in the region was also designed to bolster U.S. geopolitical objectives, although widespread disappointment and frustration among the Central Asian states over Turkey's failure to meet their early expectations significantly limited Turkish appeal and influence in the region.

Another core element in U.S. policy throughout the 1990s was the danger of proliferation, as well as the need for regional security. As with Kazakhstan, the U.S. entered into a bilateral security relationship with Uzbekistan in 1998. Uzbekistan also became the first recipient of a sizeable transfer of military equipment under the Foreign Military Financing program in 2000. The nature of the security threats in Uzbekistan was also slightly different than in Kazakhstan, however, as the U.S. was also gravely concerned with the mounting power of an Islamic extremist network based in Uzbekistan. And although the U.S. also reached a CTR agreement with Uzbekistan based on the Kazakh CTR, the immediate threat was from the mounting Islamic insurgency in the country.

Officially, U.S. policy was even more ambitious, with longer-term goals of democratization and marketization, a consolidation of regional security and cooperation, and an open and unfettered environment to allow the development of the regional energy resources. This last goal effectively translated into an effort to bolster the territorial integrity and security of the Central Asian states mainly as a counterweight to Russian interference or manipulation.

By 1999, the U.S. expanded military engagement into Central Asia, aiming to bolster the economic and political independence of both Central Asia and the Southern Caucasus. There was an important stress on military-to-military cooperation, both to Westernize and professionalize the regional militaries but also to entrench the U.S. presence in this increasingly geopolitically important region. The U.S. also articulated a desire for greater regional integration and cooperation, with assistance in border control and security to combat drug trafficking, in nonproliferation, and other trans-national criminal activities. Counter-insurgency and rudimentary counter-terrorism also emerged as key focal points in the wake of armed incursions by elements of the Islamic Movement of Uzbekistan (IMU) into Kyrgyzstan in the summer of 1999.

Following the need to contain these emerging security threats, the U.S. formulated an extensive new Central Asian Border Security Initiative (CASI) in April 2000, with \$3 million in additional security assistance to each of the five Central Asian states. As the IMU's military operations escalated in Uzbekistan in August 2000, with several Americans even taken hostage, the State Department formally added the IMU organization to the official U.S. roster of foreign terrorist groups. The IMU was also linked to the al-Qa'eda network of bin Laden in September 2000, adding an even greater significance to the regional security effort.

As U.S. engagement rapidly extended through the Central Asian region, the importance of stability in Tajikistan and its vulnerability to the nearby Islamic militancy also led to a new U.S. focus. With a symbolic visit to the country in May 2001, the then head of the U.S. Central Command (CENTCOM), General Tommy Franks, recognized Tajikistan as "a strategically important country" and pledged U.S. security assistance.¹ The Tajiks were then successfully persuaded to follow their Central Asian neighbors into membership in NATO's Partnership for Peace Program.

Central Asia and the NATO Partnership for Peace Program

As stated earlier, the NATO PfP served as a key channel for U.S. (and Western) military engagement in Central Asia. Through PfP, the newly independent, yet still vulnerable, Central Asian nations were able to gain significant experience and contacts with the U.S. military establishment. For the U.S. and NATO, the program also offered a unique venue for fostering a greater integration of these states into Western political and military institutions. Central Asian involvement also promoted important civil-military reforms designed to enhance internal stability and democratization, and served to generally institutionalize relations with the United States. A significant byproduct of this effort was its inherent deterrence of influence or interference from the potentially threatening regional powers of China, Iran and Russia.

As early as 1993, a number of military officers and civilian officials from Central Asia participated in training sessions of the George C. Marshall Center in Garmisch, Germany, and the contacts and experience derived from the broadening military-to-military programs began to lay a foundation for the modernization of the countries' fledgling armed forces. This investment was also important in initiating a concerted effort to overcome the legacy of decades of outdated and inappropriate Soviet military indoc-

¹ The five Central Asian states were formally transferred from the jurisdiction of the U.S. European Command to Central Command (CENTCOM) in October 1999.

trination and training. For the first time, the national Central Asian militaries were able to begin the formulation and development of their own national military doctrines, based on their unique national security needs rather than on external imposed Soviet determinants.²

Participation in NATO's PfP multinational military exercises also played an important role in fostering greater regional cooperation and reintegration. These exercises provided crucial training in peacekeeping activities and aimed at developing interoperability, both of which were seriously absent in these countries. In August 1995, forces from Kyrgyzstan and Uzbekistan participated in Fort Polk's Operation Nugget exercises in peacekeeping tactics for land forces, and were later joined by a Kazakh contingent in a follow-up round in July 1997. Forces from each of the three Central Asian states also completed an international amphibious exercise in North Carolina, along with forces from Canada, the Netherlands, and sixteen other Partnership for Peace member nations. Kyrgyzstan and Kazakhstan also joined with the U.S. and other NATO and Partnership for Peace countries in March 2001 for exercises in Nova Scotia.

In addition to such out-of-area training, the armed forces from Kazakhstan, Kyrgyzstan, and Uzbekistan formed a new joint peacekeeping unit in December 1995. Formed under the auspices of U.S. CENTCOM, this new unit, Centrazbat, was empowered to promote stability in the region and enable the three member states to share tactical information and experience in peacekeeping and limited security patrol maneuvers. Multinational exercises centering on this Centrazbat unit have been held annually with forces from the U.S. and NATO member states providing field and command training.

Much of the burden of training and interacting with the Central Asian militaries fell to the U.S. Special Forces.³ The development of the Special Forces was a natural and necessary product of the recognition of a new nature of military threat coming from unconventional, irregular and often covert, insurgent or terrorist groups. The Special Forces are composed of small, purpose-designed units tasked with a wide variety of missions and roles. These highly trained specialized units are able to assume a number of highly focused missions quite beyond the ordinary capabilities of the more conventional, general-purpose units.

Training Central Asian units was, therefore, an appropriate assignment and best utilized the specific talents and skills of the Special Operations Forces. Such training missions, officially known as Foreign Internal Defense (FID), have long been a standard SOF assignment. The very nature of the U.S. Special Forces as an unconventional and highly specialized adaptive force makes them suitable for training an infant military to counter threats of insurgency and terrorism.

Over the longer-term, such interaction also promotes two pillars of U.S. foreign policy objectives: democracy and the protection of human rights. As reflected in the very motto of the Special Forces, *De Oppresso Liber* (To Free the Oppressed), the Special Forces exude a model of military honor and professionalism that is sorely lacking in these infant former Soviet republics. Fortunately, the SOF was well positioned and experienced in Central Asia even before the region would take on an abrupt and drastic strategic importance for the United States after 11 September, 2001.

Post-11 September

The fundamental shift in the geopolitical landscape in the aftermath of 11 September cannot be stressed enough, as it abruptly recast and reordered U.S. strategic priorities in nearly all respects. This shift is marked by a new U.S. focus on regions and states that were traditionally regulated to the periphery

² The only exception of the five Central Asian states is Tajikistan, which formed its national armed forces from the core remnants of disparate armed groups actively engaged in the country's civil war. All other Central Asian states reconstituted their armed forces based on the units inherited from the Soviet Turkestan Military District.

³ The Special Forces, known officially as the U.S. Army Special Forces and unofficially as the "Green Berets," comprise a very small element in the overall U.S. military known as Special Operations Forces (SOF), codified by the Nunn-Cohen Amendment to the Goldwater-Nichols Defense Reform Act of 1986.

of U.S. strategy but that have now emerged as “partners” or “players” in the overarching U.S. global war on terrorism campaign.

Such regions and nations are roughly split within these two camps: “partners” or “players.” These states and, more broadly, these regions, are seen from Washington as either being partners in a cooperative effort to help in the U.S. campaign against terrorism or as players to be either pressured or coerced into a more compliant role in the campaign. It is in this sense that Pakistan, for example, has emerged as a “partner” endowed with enhanced strategic importance and greater tactical utility for the United States. Saudi Arabia, as a contrary example, is now seen as a “player,” with significantly less strategic clout or even reliability, and no longer a “partner.”

These regions and, more specifically, their constituent states are also now viewed through this partner-or-player prism. In terms of U.S. security policy, the traditionally marginal states of East and West Africa, for one glaring example, are now essential to the U.S. counter-terrorism effort against the al-Qa‘eda networks of Kenya and Djibouti, and the network’s penetration into the diamond markets of Sierra Leone. Even “failed” or “failing” states in generally conflict-prone regions are now enjoying U.S. attention of a grand scale.

The new security environments in Central Asia and the Southern Caucasus also demonstrate this shift in U.S. security policy, although both have different aspects and issues for U.S. strategy. Both regions also offer the U.S. important roles as platforms for power projection, from Central Asia into Afghanistan and, at least potentially, from the Caucasus into the northern Middle East (most notably into Iran). But it was Central Asia that benefited most, and first, from the shift in U.S. security. Uzbekistan, and to a lesser degree Kyrgyzstan, Tajikistan, and Kazakhstan abruptly emerged as key frontline partners in the U.S. war on terrorism and served as crucial platforms for Operation Enduring Freedom, the combat operations targeting the Taliban and the al-Qa‘eda network in Afghanistan.

The Central Asian role in Operation Enduring Freedom was both broad and extensive, with forward basing in Uzbekistan, Kyrgyzstan, and Tajikistan, unfettered access to airspace and the use of bases in Kazakhstan and Turkmenistan. Kyrgyzstan, Kazakhstan, and Turkmenistan also allowed more limited access by coalition aircraft. Most significantly, Uzbekistan provided the full use of its airbase at Karshi Khanabad and Tajikistan allowed the U.S. military to use its air space and territory, but was subsequently pressured by Russian coercion to tone down its logistical support. The Tajiks still provided the use of its Dushanbe airport, albeit on a contingency basis.

Russian pressure on Tajikistan is still potent, with the presence of roughly 7,000 troops from Russia’s 201st Motor Rifle Division (MRD) and an additional 11,000 Russian border guards stationed in the country. By November 2001, however, Tajikistan agreed to negotiate the U.S. utilization of three additional airbases, at Khujand, Kurgan-Tiube, and Kulob, the best equipped of the three. U.S. access to these airbases in southern Tajikistan was significant for the establishment of a land bridge into northern Afghanistan, as well as the obvious benefit of providing for additional sorties as missions would be only an hour from their target lists.

It was the role of Uzbekistan, however, as the country with, comparatively, the most capable and advanced military in the region, that was most significant. The U.S. and Uzbekistan concluded an agreement to expand military-to-military cooperation through joint seminars, training, and partnerships with U.S. units. This also provided the Uzbeks with an important external guarantee of security and, internally, endowed their military with much greater potential for combating and eventually defeating the Islamic extremist groups.

U.S. and Russian Interests: Converging or Clashing?

Equally serious and perhaps an even more immediate threat, is the potential for a clash between the competing interests of Russia and the United States in the region. Although this is tempered somewhat by

the overarching U.S.-Russian strategic partnership, Russian interests in the region and its continuing geopolitical ambition to maintain dominance in Central Asia present its own set of security challenges to the U.S. role in the region.

This potential clash of interests was demonstrated in late 2002, with the Russian Air Force's deployment of aircraft at the Kant airbase in Kyrgyzstan. The purpose of the deployment was ostensibly not to create a Russian base in Kyrgyzstan, but to develop a joint Russian-Kyrgyz military operational airbase to support the multinational Collective Rapid Deployment Forces (CRDF), established under the Collective Security Treaty (CST) and comprising one battalion from each CRDF member state—Russia, Kazakhstan, Kyrgyzstan and Tajikistan.⁴

Central Asia: The Threat of Islamic Insurgency

The threat to Central Asian security from the region's active and violent insurgent Islamic extremist groups has undergone a significant change since the overthrow of the Taliban and the reconstitution of a new Afghanistan. Recent attention to this security threat has shifted from a priority focus on the Islamic Movement of Uzbekistan, officially linked to the al-Qa'eda network, to the Hizb ut-Tahrir (HT).

Much of this new focus on the HT came after the demise of the Taliban regime in Afghanistan effectively ended the IMU's role as the dominant threat. The collapse of the IMU was also speeded by a gradual erosion of its ability to utilize logistical and operational bases in Tajikistan from 1997-2001. The IMU actually relocated to the Taliban Afghanistan, changing its name to the Islamic Party of Turkestan (IPT) and voluntarily assuming a subservient role to the Taliban. The U.S. victory over the Taliban, therefore, soundly defeated the IMU (or IPT) as well.

Although the end of the IMU removed a decade-long threat to regional security, the continued weakness of the Central Asian states, both in terms of limited capacities for sufficient border and even territorial control by the police and military, still fosters a security vacuum that may allow other like-minded Islamic extremist groups to emerge. This security vacuum is also exacerbated by continued security deficiencies in Afghanistan, by rising anti-Americanism in Pakistan and the potential for greater support among the disenfranchised populations of the impoverished Central Asian states. The U.S. military may also inadvertently encourage this, offering new targets of opportunity for these groups.

A related challenge is the perception, both real and exaggerated, of U.S. support for the generally repressive and autocratic Central Asian regimes. And with a focus on policies interpreted as being driven by obligations to reward the Central Asian states for their cooperation and by incentives aimed at ensuring continued security collaboration, there is a general feeling that the U.S. has mislaid its earlier agenda of economic and political reform. This is further exacerbated by the deepening socioeconomic disparities and mounting poverty in the region, as well as by the dominance of small, corrupt clan-based elites. It is also these very same elites that usually constitute the overwhelming majority of contacts with the West, and that tend to monopolize military-to-military cooperation.

Hizb ut-Tahrir-al-Islami

Hizb ut-Tahrir-al-Islami exploited the overall focus on the IMU and used the inattention to its own activities to garner influence in many parts of the region throughout the 1990s. Unlike the IMU, the HT

⁴ See: W. O'Malley, R. McDermott, "The Russian Air Force in Kyrgyzstan: The Security Dynamics," *The Analyst*, Central Asia-Caucasus Institute, The Johns Hopkins University, 9 April, 2003.

initiated a fairly impressive campaign of recruiting and influence-building based on a self-espoused “non-violent” approach, focusing more on securing grassroots support by exploiting widespread unemployment, economic disparity and political alienation. This approach also marks the distinction between its London-based spokespersons’ public platform of radical anti-Western (and rabid anti-American) rhetoric and its local approach stressing indigenous needs and concerns. This distinction also allows the HT to identify with the impoverished local population on a much deeper level than any pan-Islamic or anti-Western agenda could ever accomplish. This is most clearly evident in the HT’s local tactics of articulating such local concerns as the dangers of drug trafficking, prostitution and HIV/AIDS, poverty, and official corruption.

This localized strategy in the region also exploits the vulnerabilities of the Central Asian states. Specifically, the HT has become entrenched in two key areas: the political and religious. The HT has effectively exploited widespread alienation among a seriously disenfranchised and polarized population to present itself as the only true grassroots or populist organization seeking to represent (and advocate) the interests of the general population. In this regard, the HT portrays itself as a movement for economic and political justice, albeit stemming from an underlying Islamic foundation.

It has also significantly exploited the rather undeveloped nature of Islam in the region. With an already mounting hunger for information and exposure to Islam and Islamic traditions in the early years of the post-Soviet period, the HT was able to quickly offer religious instruction and non-threatening indoctrination. By establishing a network of informal Islamic teaching and semi-education, the HT emerged as the popular source for religious instruction. And by avoiding the more expensive (and more public) institutionalization of Islamic teaching through madrasahs, for example, the HT soon acquired a virtual monopoly on religion and matters of faith in the region. This also meant that they became the providers of preference for pseudo-civil duties, offering Islamic marriages, divorce and even informal family court services.

Given the rise in popular support and increasing authority of the HT organization, the secular governments of Central Asia recognize the HT as a serious threat to their rule and are now urging the U.S. to label the group as a terrorist organization (following the Russian and German decisions to outlaw the group). Although most analysts have warned of the dangers of such a move, contending that an identification of the group as “terrorist” would only radicalize an already popular grassroots organization, driving it underground and perhaps provoking a violent reaction, others argue against this self-fulfilling prophecy argument and stress the threat posed by the HT to the regimes of the region, although usually downplaying the serious shortcomings, widespread corruption and human rights violations of these regimes.

Although this debate is as yet unresolved, due consideration to more effective measures to prevent the HT from emerging as a truly terrorist group may be more productive to U.S. policy in the long run. The leverage of U.S. engagement in the region may actually offer two new sets of tools to more soundly combat the appeal and resort to violence by the more radical of the region’s extremist elements. Such tools would include first greater pressure for democratic reform in the autocratic states of the region, with a widening of the nation-building programs vital to conflict-prevention.

The U.S. may also gain from the inherent contrast with the Russian presence in the region. Both in terms of historical legacy and by virtue of the perception of a current Russian threat to the region, ranging from the reasonable, a threat from the Russian military, to the exaggerated, a threat from the sizable Russian minority population, the U.S. stands to benefit. Additionally, the positive approach of U.S. Special Forces in the region, with a successful civil affairs operation, only reinforces this contrast. In fact, the U.S. effort to combat drug trafficking actually expropriates one of the core elements of the HT platform. Once this contrast is promoted, the local population will not see the U.S. presence as much of a contradiction to the HT. The test here would be to contain any new rise in anti-Western rhetoric, although the rather undeveloped state of Islam in Central Asia has meant that it has not become as inherently defensive or confrontational as in other regions.

The second set of new tools relates to the nature of U.S. engagement. The counter-insurgency and strengthening of capacity of the region’s militaries, already well underway, can be presented as an effort

to build the infant states of the region. By focusing on capacity building that does not automatically arm or strengthen the regimes themselves, any potential fear or opposition to these programs by the HT may be countered with an appeal to nationalism. Such an appeal to national identity, whether it is Uzbek, Kazakh, or Kyrgyz pride and national feeling, is perhaps the most natural defense against religious-inspired extremism.

And by building stronger national armies and police, the resulting improvements in border security and the rule of law may become the most effective avenue toward meeting the very goals of justice and social order espoused by the Islamic groups like the Hizb ut-Tahrir. In fact, the debate over the nature of the HT, as agents of transition or advocates of terrorism, actually obscures the larger challenge of securing “regions at risk.”

Thus, the real challenge to dealing with the HT and other lesser groups is in linking U.S. security efforts to the important social and political needs of each of the Central Asian states. Central to this challenge, as recent experience in Afghanistan has revealed only too well, is the test of time: U.S. engagement must be based on the long-term, instituting sustainable policies to promote national and regional stability. Any abrupt departure or withdrawal from these regions would seriously impede the U.S. engagement and may result in the “blowback” that emerged in Afghanistan in the wake of the Soviet retreat.

This lesson also confirms the dangers posed by the “failed” and “failing” states that are now so prominent on the U.S. national security agenda. And with no real national capacity or regional security organizations able to assume the mantle of security and stability, the U.S. has firmly entered a region necessitating longer-term stamina and endurance.

Constraints and Considerations

While generally the performance of U.S. military forces in the global war on terrorism to date has been impressive, there are some troubling factors indicating a more difficult period in the next phase or next theater in this campaign. The transformation of the U.S. military sought by the Bush Administration and directed by Defense Secretary Donald Rumsfeld tends to favor the operational needs of the U.S. engagement in Central Asia and the Southern Caucasus. The stress on a future force defined less by size and more by mobility and swiftness, and that is easier to deploy and sustain, complements the force structure and operational characteristics of the U.S. effort in Central Asia and the Southern Caucasus. Much of this transformation is driven by the three primary risk areas set forth in the 2001 Quadrennial Defense Review (QDR): force management, operational, and institutional risk.

The Special Forces: A Special Role

The abrupt 11 September shift in security, as well as the subsequent campaigns in Afghanistan and Iraq, have only reinforced this effort and led to a new priority, in both policy and funding, for addressing asymmetric threats and for the Special Operations Forces (SOF) that are best poised to meet this threat. The SOF are now positioned with an enhanced role that, according to new Assistant Secretary of Defense for Special Operations and Low Intensity Conflict Thomas O’Connell, given its “unique capability to meet the complex new challenges of the global war on terrorism has increased their importance as a primary tool in the nation’s defense—as opposed to merely a tool for leveraging conventional forces or for smaller, specialized mission.”⁵

⁵ Testimony of Thomas O’Connell, Senate Armed Services Committee hearing on his nomination as Assistant Secretary of Defense for Special Operations and Low Intensity Conflict, 10 July, 2003.

The “Great Game” or the “Great Gain?”

The dangers posed by “failed” and “failing” states, with their inherent internal instability and the collapse of effective state authority, invite a rapid multiplication of challenges to U.S. engagement beyond the initial period of entry. Moreover, this scenario also reveals the risks inherent in the U.S. presence in such restive areas, as the fundamental threats to these states’ very sovereignty greatly complicate U.S. objectives and may make any future U.S. disentanglement from these weak states very costly indeed.

The Central Asian region also shares a landlocked dependency with the southern Caucasus, both in terms of relying on an external guarantee of security and in terms of economics and energy export routes. This dependency, combined with the internal weakness of these states, contributes to the challenges facing a sustained U.S. engagement in the region. Yet even given this shared dependency, the outlook for the U.S. engagement in Central Asia is generally more promising than with the case of the Caucasus.

The outlook for the Caspian remains conditional on the broader fate of the U.S.-Russian strategic relationship, however, with the weak states of the region increasingly subject to this larger dynamic. There is promise that the Caspian region may benefit from a new “Great Gain” stemming from the coordinated policies between Washington and Moscow and resulting in greater regional stability, development and conflict resolution. There is an equally strong likelihood, however, that the Caspian may well revert to the confrontational pattern of the “Great Game” marked by regional and global rivalries. The determining factor for the Caspian rests with the course of the U.S.-Russian partnership and its ability to overcome the internal challenges posed by the fragile states of the region. The stakes are high, however, as the security and fate of the entire region hangs in the balance.

Thus, the course of the U.S. engagement in Central Asia and the Southern Caucasus faces a wide array of challenges and constraints, although it is as evident that it is far too late, and too costly, for any real consideration of a withdrawal at this stage. As the U.S. military engagement deepens in the coming years, the stability and security of the region and its component states are now solidly dependent on the durability and stamina of the U.S. commitment. They will continue to seek further reassurance that the U.S. and its allies will complete the task of stabilizing Afghanistan. The course of post-war Iraq will also be a factor in this test of engagement endurance, as well as posing its own test of commitment. But the key to transforming the U.S. engagement from burdensome to bearable lies in leveraging, not limiting, a new “partnership for security.”

The best way to accomplish this is for the United States to bolster its commitment to the region through deeper NATO involvement, developing existing partnerships with each state and using the Partnership for Peace as a bridge to an enhanced partnership for security. The key challenges in a broadened NATO role in the region will relate to promoting the reform of the armed forces of these states, whilst avoiding feeding the rivalry between Kazakhstan and Uzbekistan, and encouraging democratization, civil-military reform, enhanced interoperability with Western forces and real regional cooperation. One can only hope that these expectations are adequately met in the medium- to long-term, especially given the looming threats of a Russian reassertion of, and a Chinese ambition for, geopolitical dominance in each strategic region.

ISRAEL, TURKEY: MILITARY-POLITICAL AND MILITARY-TECHNICAL COOPERATION *(regional security problems)*

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I n t r o d u c t i o n

In the evening of 28 August, 1958, after a meeting of the General Staff of the Israeli Armed Forces, David Ben Gurion, the first prime minister and founder of the Jewish state, changed into civilian clothes and left in an unknown direction. Rumor within his entourage had it that he had gone to the Negev Desert to test a new secret weapon. Before long, however, the Israeli prime minister's car turned and headed for a military airfield where an airplane was already waiting with its engines running. A little later it took off and became airborne, hovered over the sea, and then set course for the north. For many years Ben Gurion's flight remained a mystery. At the time he met with leaders of a certain country and signed a treaty of friendship and cooperation, which came as a final chord in the formation of "cordon sanitaire" around Israel, on the perimeter of its borders with Arab states—a whole network of secret treaties in the Near and Middle East that came to be known as "periphery pact."

The drastic changes that occurred in the Middle East in the late 1950s, related to the strengthen-

ing of Soviet influence in the region and the de facto collapse of the Baghdad Pact (following Iraq's withdrawal from it in the wake of a coup led by Col. Cassem), forced Ankara to accede to Tel Aviv's plans to build an anti-Arab alliance. It was for a secret meeting with Turkish leadership that David Ben Gurion flew on 28 August, 1958.

The event set the stage for the evolution of close contacts between the two countries, above all in the military-political sphere. Despite the ups and downs, sometimes even a cooling of relations, by the mid-1990s, their relationship began to acquire more substance and elements of a strategic partnership, giving many experts on Middle East security cause to talk about formation of a military-political alliance between Turkey and Israel. This has become a key factor in regional security at the contemporary stage.

The present article will consider only the contemporary status and prospects for their military-political and military-technical cooperation as well as its impact on regional security problems.

Military-Technical Cooperation, a Key Component

The end of the Cold War confronted the two countries, but especially Turkey, with an array of new threats and challenges in the security sphere. As former Turkish Foreign Minister Hikmet Çetin observed

in 1993, the breakup of the Soviet Union and the resultant vacuum of influence by extraregional “powerhouses” in the Middle East turned Turkey from “a ‘flank’ state to a ‘frontline state faced with multiple fronts.’”¹ Turkish generals played a main role in establishing and promoting new close contacts between Ankara and Tel Aviv. The masterminds behind the development of relations with Israel on the Turkish side were Deputy Foreign Minister Onur Öymen and former Deputy Chief of the General Staff Çevik Bir. In their view, strategic threats to Turkey’s national security today have a different character than in the Cold War era, which calls for new approaches to ensuring the country’s security, one of its key elements being military-political cooperation with Israel. After all is said and done, it is the only secular state in the Near East that holds pro-Western positions, adhering to Western values and democratic principles.²

The first agreement on military cooperation was signed, amid the utmost secrecy, on 23 February, 1996, in Tel Aviv by Deputy Chief of the General Staff Çevik Bir and the leadership of the Israeli Defense Ministry. For the first time in the history of relations between the two countries, it provided for interaction of their armed forces in implementing military training programs; joint land, naval, and air maneuvers; creation of a joint group on military-strategic studies; training flights by Turkish aircraft in the Israeli air space and Israeli aircraft in the Turkish air space; briefing of Turkish pilots; and intelligence sharing, especially in combating terrorism (in particular, joint monitoring on the borders with Syria, Iran, and Iraq). Furthermore, Israel pledged to help Turkey in modernizing and beefing up its borders with these three countries to protect it against Kurdish insurgents.

It was not until later on that information about the details of the document began to filter through.³ First of all, it turned out that technological cooperation between the two countries in combat employment of aviation was a very high priority (Turkey and Israel have the same types of U.S. made aircraft in service). The agreement envisioned training flights in Israeli and Turkish air space—initially without combat hardware, ammunition or electronic surveillance equipment.⁴ In addition, Israeli military aviation was given an opportunity to use Turkish bases and air space for combat training. In particular, Israeli F-16 aircraft periodically use Turkey’s Akinci air base. It is planned to expand cooperation between the countries’ navies while an agreement was reached to share intelligence and strategic assessment of the situation in the region. One example of cooperation in military information sharing is the technical data that Turkey received about MiG-29 fighters, the most modern combat aircraft whose various modifications are in service in the Air Force of Syria, Iran, and a number of other countries in the region with which Ankara has rather strained relations. The Israelis obtained this information after the FRG transferred to them three Soviet-made MiG-29s which in their time were in service with the East Germany military.⁵ The Israelis were also to provide assistance to Turkey in beefing up its borders with neighboring Arab countries as well as with Iran, including modernization of the electronics intelligence network in border areas.

Already on 28 August, 1996, Gen. David Irvi, a senior Israeli Defense Ministry official, arrived in Ankara to sign \$600 million worth of contracts to modernize 54 Turkish F-4 Phantom aircraft and organize military cooperation between state controlled aircraft factories.

Further advancement of these relations was not impeded even by the advent of Islamists in Ankara as Turkey’s top brass, which traditionally had considerable clout in the country’s political life, pressured the government into deepening cooperation with Tel Aviv. To demonstrate to the world public that the military persuaded the prime minister, in February 1997, Gen. Ismail Karadai, chief of the General

¹ D.B. Sezer, *Turkey’s Political and Security Interests in the New Geostrategic Environment of the Expanded Middle East*, Stimson Center, Occasional Paper, No. 19, Washington, July 1994, p. 25.

² See: M.R. Hickok, “Hegemon Rising: The Gap Between Turkish Strategy and Military Modernization. Parameters,” *The U.S. Army War College Quarterly*, Summer 2000, pp. 106-111.

³ See: *Force Projection in the Middle East. Strategic Survey 1998/99*, IISS, 1999, p. 164.

⁴ See: N.G. Kireev, “Turtsia i Izrail—strategicheskie soiuzniki na Blizhnem Vostoke (khronika voyenno-politicheskogo sotrudnichestva v 1994-1997 gg.),” *Blizhniy Vostok i sovremennost*, No. 5, ed. by V.A. Isaev, A.O. Filonik, IIBV, Moscow, 1998, pp. 105-113.

⁵ For more detail, see: D. Pipes, “A New Axis: The Emerging Turkish-Israeli Entente,” *The National Interest*, No. 50, Winter 1997/1998.

Staff, went to Tel Aviv, where he reaffirmed Turkey's commitment to advance military cooperation with Israel. During the visit, the parties also discussed joint naval maneuvers with the participation of the Sixth U.S. Fleet. Commenting on prospects for this cooperation, I. Karadai said that Ankara would not share information provided by Tel Aviv with other countries or transfer Israeli military technology to them.⁶

In October 1997, yet another agreement was signed—on missiles. It came in the wake of a visit to Turkey by Gen. Amnon Lipkin-Shahak, chief of the Israeli General Staff, who met not only with military leadership but was also received by Turkish President Suleyman Demirel and Prime Minister Mesut Yilmaz. According to Turkish military sources, Turkey and Israel had for several months discussed plans for production of long-range missiles. In the course of A. Shahak's visit, the sides focused on production of Delilah missiles (with a range of 500 kilometers). The need was highlighted by growing concerns over the shipment of Soviet/Russian-made S-300 missiles to Cyprus and the serious threat of possible missile attacks by Iraq, Syria, and Iran as well as Tel Aviv and Ankara's aspiration to build a satellite based communication system to provide a reliable information channel. Also, the Israeli company Rafael expressed readiness to sell the Turkish Air Force its Python-2 air-to-air missiles.⁷

One major area of cooperation is co-production of anti-aircraft systems, which has to do with the two countries' concern over the fact that a number of states in the Middle East have acquired missile systems. Within the framework of the U.S. Strategic Defense Initiative (SDI), in 1988, Israel Aircraft Industries (IAI) landed a contract with the U.S. Defense Department to develop, produce, and flight-test the Arrow SAM capable of hitting tactical ballistic missiles. (In its specifications, this system is close to the Soviet/Russian-made S-300V SAM.) In the future, conditional on U.S. approval, Israel plans to ship these missiles (or their upgraded modification Arrow-2) also to Turkey.⁸ These missiles were first test-fired in June 2001, in the course of a joint U.S.-Israeli-Turkish exercise code-named Anatolian Eagle, in the southeast of Turkey.⁹

In early 1997, the Turkish president approved a \$670 million contract (factoring in interest on the loan, it is actually worth \$800 million) for modernization by IAI of 54 F-4E aircraft under the Phantom-2000 program. In addition to extending the aircraft service life for another 20 years, it was planned to replace obsolete onboard equipment, install new Israeli-made EL/M-2032 radars and EW equipment,¹⁰ and arm them with AGM-142 Popeye-1 air-to-surface missiles. To ensure successful implementation of this program, the Israeli parliament even decided to provide a \$430 million credit. Prior to that, in the spring of 1996, a group of Turkish pilots took a training course in Israel to operate new radars analogous to those installed on Israeli F-4-2000s.¹¹

Furthermore, it is planned to supply Guitard systems to protect helicopters that are used by the Turkish army in anti-Kurdish operations against SA-7 and Stinger missiles. Until recently these helicopters were merely equipped with night-vision devices. The decision was made after two combat helicopters, AH-1W Super Cobra and AS-532 Cougar, as well as an S-70A helicopter with 17 Turkish servicemen on board were shot down in Kurd populated areas.¹²

In addition, Israel is bidding for a contract to replace G-3 rifles currently in service with the Turkish army with modern 5.56-mm small arms and light weapons. Ankara has long been planning to buy air-

⁶ See: I.I. Ivanova, "Turetsko-izraïlskie otnosheniya i problemy regionalnoy bezopasnosti," in: *Blizhniy Vostok: problemy regional'noy bezopasnosti*, Compiled by M.R. Arunova, IIIVB, Moscow, 2000, pp. 86-90.

⁷ See: N.G. Kireev, op. cit., pp. 161-162.

⁸ See: V. Koziulin, "VTS: Rossiisko-izraïlskoe protivostoianie," *Yaderniy kontrol*, Vol. 9, No. 1, Spring 2003, pp. 33-34; L. Sariibrahioğlu, "Israel to Brief Turkey on Arrow-2," *Jane's Defense Weekly*, 16 January, 2002, p. 4.

⁹ See: "The Arrow Missile Interceptor Deployed In Israeli-Turkish-U.S. Air Exercise," *Middle East News Line*, 22 July, 2001.

¹⁰ See: "Osnovnye tekushchie programmy modernizatsii samoletov vooruzhennykh sil zarubezhnykh stran," *Zarubezhnoe voennoe obozrenie*, No. 5, 1999, p. 35.

¹¹ See: A. Alekseev, "Sotrudnichestvo Turtsii i Izraïlia v ukreplenii natsionalnykh VVS," *Zarubezhnoe voennoe obozrenie*, No. 4, 1997, pp. 30-32.

¹² See: L. Sariibrahioğlu, "Turkey Places Helicopter Electronic Warfare Contracts," *Jane's Defense Weekly*, 16 January, 2002, p. 15.

borne early-warning and control (AEW&C) aircraft with Tel Aviv offering to sell Falcon-equipped aircraft. About \$800 million is being provided to buy four such aircraft.

Joint military-strategic research programs have special priority for the two countries. The threat evaluation concept is a key component of bilateral cooperation. The programs in this sphere are implemented within the framework of what is known as Threat-2000 concept and are adjusted to ongoing changes in the situation in the Middle East. Incidentally, the main emphasis in the course of briefings organized on the subject in hand is placed on Syria and Iran while the sharing of information about them is maintained on the highest possible level. Furthermore, there are close contacts between the countries' leading think tanks on regional security and foreign policy issues.

Regional Security Impact

Government officials and experts in both states stress that relations between the two countries are not a military alliance in its traditional understanding. At the same time, they hold similar positions, coordinating basic security matters. According to Turkish and Israeli analysts, the relationship between Ankara and Tel Aviv is a strategic partnership, but it goes beyond the task of maintaining a balance of forces as each side has sufficient military capability to ensure its own regional security single-handedly. It is a relationship between two "status quo powers" that do not want to see drastic geopolitical changes in the region.¹³

In his time, Israeli Defense Minister Yitzhak Mordechai named potential opponents of an Israeli-Turkish alliance by name, saying in part: If countries such as Iran, Iraq and Syria think that they are able to use force against Turkey, they should bear in mind that standing behind Turkey are joint forces with whose support no one in the region is in a position to do anything against it; I discussed the strategic situation with U.S. Defense Secretary William Cohen; we also examined these strategic matters with Secretary of State Madeleine Albright and the U.S. Joint Chiefs of Staff chairman; we are well placed to pool our efforts in countering any threat in the region.¹⁴

Tel Aviv and Ankara note that militarily the principal goal of their strategic partnership is not to fight together against a common enemy but to ensure that their alliance can avert an outbreak of war against either of the two countries.

Virtually the whole Arab world was concerned by the formation of the Turkish-Israeli military-political alliance. The extent of this concern, however, varies depending on the level of tension between a particular Arab country, on the one hand, and Ankara and Tel Aviv, on the other. It is generally believed that Turkish-Israeli military-political cooperation is directed, above all, against Syria. Without going into the history of Turkish-Syrian relations, it will be noted that according to many analysts, it was in fact the alliance with Israel that became the principal argument in Turkey's intense, and successful, pressure on Syria in the course of the 1998 crisis. At the time the country's president, Hafiz al-Asad, had to keep troops, inferior to the Turkish troops as they were, on two fronts simultaneously, and ultimately yield to Ankara's demands: oust Kurdish leader Abdullah Ocalan and close the training camps and bases of his organization—the Kurdistan Workers' Party (PKK)—on Syrian territory.¹⁵ The crisis showed that the Syrian military (especially its air force) was no match for Israeli or Turkish armed forces, also giving the Turkish military cause to hope that it could go on resolving problems with Syria from the position of force.¹⁶

¹³ See: Ç. Bir, M. Sherman, "Formula for Stability: Turkey Plus Israel," *Middle East Quarterly*, Fall 2002, p. 29.

¹⁴ See: N.G. Kireev, *op. cit.*, pp. 150-151.

¹⁵ See: A. Makovsky, M. Eisenstadt, "Turkish-Syrian Relations: A Crisis Delayed?" WINEP, *Policywatch*, No. 345, 14 October, 1998 [www.washingtoninstitute.org].

¹⁶ For more detail, see: R.M. Bennett, "The Syrian Military: A Primer," *Middle East Intelligence Bulletin*, Vol. 3, No. 8, August/September 2001.

According to Arab experts, in the spring and summer of 2002, the General Staffs of the Israeli and Turkish armed forces worked out a plan of joint action against Syria in the course of the U.S.-led operation in Iraq (should Syria and Iran take action that could jeopardize Ankara and Tel Aviv's security). It should be noted here that Turkey's far more restrained position toward the war on Iraq compelled it to improve its relations with Syria somewhat. That was due to an event that, as it seemed, could amend the prospects for both regional security and Turkey's cooperation with Israel: On 19 June, 2002, Gen. Hassan al-Turkomani, chief of the Syrian General Staff, made the first official visit to Turkey¹⁷ while in November 2002, for the first time in the history of Arab-Turkish relations (not counting the 1955 Baghdad Pact), the two countries signed a treaty on military cooperation wherein the United States, interested to improve the relations between Syria and Turkey in the lead-up to the Washington-planned military operation in Iraq, apparently played an important role. Even so, the agreement does not envision serious military-technical cooperation and cannot affect the military-political balance or prospects for regional security although on the whole it is conducive to easing tensions between the signatories.¹⁸ At the same time, it is generally expected to impact on the level of relations between Ankara and Tel Aviv.

One key element in the influence produced by the Turkish-Israeli alliance on regional security problems is their common policy toward Tehran. This is directly to do with the problem of nuclear nonproliferation in the region as well as with the possibility of Israel's delivering a preemptive nuclear strike against Iran (when it acquires nuclear weapons production capability). Experts point out that in this event Israel is likely to use its Air Force, which is by far the most powerful in the Middle East, especially after new U.S.-made F-15I aircraft were adopted for service.

In this context, Israel's military-political cooperation with Turkey, including joint training flights in the Turkish and Israeli air space (up to one week long, four times a year), is especially important. Furthermore, recently such exercises in the Turkish air space have already become three-way, with the participation of USAF aviation. Thus, in the course of maneuvers code-named Anatolian Eagle, in the south-east of Turkey, in April, June, and September 2001, more than 90 combat aircraft were deployed.¹⁹ It is also essential to take into account the possibility of U.S. technical and information support for the Israelis should Tel Aviv use the Turkish air space to strike Iran.

The likelihood of this scenario being played out is evident from, among other things, the fact that in the course of the air operation against Iraq (1998), the Turkish ambassador to the United States said that Ankara had considered the possibility of granting Tel Aviv the use of Turkish air space to deliver a retaliatory strike should Iraqi missiles be launched against Israel. What could be involved in this case is not of course only retaliation but also preemption. At the same time, the Israelis can target not only Iran's nuclear infrastructure, which they believe is used in the WMD program, but also missile positions, etc. Furthermore, by using Turkish territory, Israel can ensure early warning about missile launches from Iranian territory, just as it had before, from Iraqi territory. It is also important for Tel Aviv that it can use the Turkish air space to search and rescue downed pilots, land its aircraft that were damaged on Turkish territory, and deploy special task forces in operations against Iran.²⁰

From Tehran's perspective, Israeli-Turkish strategic cooperation poses a threat to its stability, in particular in so far as it weakens the positions of Syria, Iran's only reliable partner in the region, and seriously upsets the balance of forces that has evolved in the Near East.²¹

According to Turkish Gen. Çevik Bir, one of the alliance's masterminds, along with the WMD proliferation problem, another priority for the alliance is counterterrorism, Ankara's code word for punitive

¹⁷ See: M. Mufti, "Turkish-Syrian Rapprochement: Causes and Consequences," WINEP, *Policywatch*, No. 630, 21 June, 2002 [www.washingtoninstitute.org].

¹⁸ See: I. Muradian, *Problemy bezopasnosti v blizhnevostochnoy politike SShA*, Erevan, 2003, pp. 128-130.

¹⁹ See: "Israel Center Stage: Country Briefing," *Jane's Defense Weekly*, 1 May, 2002, p. 25.

²⁰ See: E. Inbar, "Regional Implications of the Israeli-Turkish Strategic Partnership," *Middle East Review of International Affairs*, Vol. 5, No. 2, Summer 2001, p. 51.

²¹ See: B. Aras, "Turkish-Israeli-Iranian Relations in the Nineties: Impact on the Middle East," *Middle East Policy*, Vol. VII, No. 3, June 2000, pp. 152-155.

operations against the Kurds.²² At times, however, the sides' interests on the issue did not coincide as Israel had long supported the struggle by Kurds in North Iraq against Iraq's ruling authorities. Yet Tel Aviv's new security policy priorities forced it to review its position toward the Kurds, which manifested itself especially in the course of Israeli air strikes against the Kurdistan Workers' Party in Lebanon in the north of Bekaa Valley (Operation Grapes of Wrath) as well as in that Israeli intelligence helped establish the whereabouts of and capture the Kurdish leader A. Ocalan.²³

It is also essential to note the growing role that Israel and Turkey are playing in the post-Soviet area, where their interests overlap, including their opposition to Iran's rising influence, especially on such issues as energy transit, the spread of Islamic fundamentalism in the Central Asian republics, and so forth. In addition, Tel Aviv and Ankara's security goals largely coincide with Washington's position in the region.

Yet whereas earlier it was believed that Israel used Turkish territory to advance its interests in Central Asia and Azerbaijan, the last few years have seen an invigoration of independent Israeli policy, including in the military-political sphere. The alliance's key importance in the region is also due to the fact that Tel Aviv strongly supported Baku in the war in Nagorno-Karabakh, reinforcing its intelligence and special services and supplying weapons to the Azerbaijani army.²⁴ For its part, Ankara closely cooperates with Azerbaijan in various spheres, from training programs to joint maneuvers to arms and military equipment supplies. Baku is the by far most reliable partner for Ankara and Tel Aviv in the post-Soviet area. Thus, there is conclusive evidence of their joint shipments of Stinger SAMs and other weapons to Azerbaijan.²⁵

Azerbaijani analysts point out that the idea of creating a tripartite military-political alliance (Ankara, Tel Aviv, Baku), lurking behind which is "Washington's shadow," enjoys considerable support among the Azerbaijani public. Thus, in December 1999, Baku was visited by Israeli Deputy Defense Minister Gen. Efraim Sneh, co-chairman of the U.S.-Azerbaijani-Israeli interparliamentary friendship group, which was created back in 1998, in the course of Ilkham Aliev's visit to the United States. At the time, Efraim Sneh had a number of meetings with republic officials (including its then-President Heydar Aliev), discussing bilateral cooperation and regional problems. That was followed up by other visits, meetings, and consultations between Israeli and Azerbaijani officials.

True, the likelihood of a tripartite strategic military-political alliance being formed in the foreseeable future arouses doubts even among its most enthusiastic supporters in Azerbaijan itself. A major factor here is the position not only of neighboring Russia and Iran but also of the majority of Muslim countries. The latter have effective levers to influence Baku to prevent the creation of such a military-political alliance. Furthermore, the relationship between Israel and Azerbaijan in all spheres is incomparable with the level of contacts between Azerbaijan and Turkey, which, apart from other things, are linked by ethnic, linguistic, and religious proximity. Despite their active political contacts, Israel and Azerbaijan have rather weak economic relations. Say, in the 1996-1998 period, trade between them was a mere \$23.1 million (the bulk of it comprising oil shipments from Azerbaijan and telecoms equipment from Israel), as compared to more than \$832.2 million between Turkey and Azerbaijan (covering virtually all spheres).²⁶ All of the aforementioned gives little cause to talk about the feasibility of an Azerbaijani-Turkish-Israeli military-political alliance even if efforts to put it in place are approved and actively assisted by Washington.

True, none of this has substantial impact on Israeli and Turkish military-technical assistance to Azerbaijan, which is provided regardless of the level of economic and political contacts or their relations

²² See: Ç. Bir, "Turkey's Role in the New World Order: New Challenges," *Strategic Forum, INSS*, No.135, February 1998.

²³ See: V. Akhmedov, "Protivostoianie," *Azia i Afrika segodnia*, No. 1, 2000, p. 14.

²⁴ See: F.S. Larrabee, I.O. Lesser, *Turkish Foreign Policy in an Age of Uncertainty*, RAND, Santa-Monica, 2003, p. 119.

²⁵ See: A. Rezaï, "Izrail v Tsentral'noy Azii," *Amu Darya*, No. 1, 1999, pp. 103-104.

²⁶ See: A. Veliev, "The Israel-Turkey-Azerbaijan Triangle: Present and Future," *Central Asia and the Caucasus*, No. 2, 2000, pp. 79-85.

within the framework of the alliance or any other structures. According to different sources, Tel Aviv sent to Azerbaijan not only weapons but also communication facilities as well as approximately 140 military advisers on security problems. The regional significance of the Turkish-Israeli alliance consists also in that the Jewish lobby in the United States strongly supports energy transport routes via Turkey, primarily construction of the Baku-Tbilisi-Ceyhan oil pipeline.

Many experts point out that yet another sphere of interests of this lobby is countering Greek and Armenian influence groups, in particular over the recognition of Armenian genocide by the U.S. Congress. Israel, whose people lived through a holocaust and the memory of which lives in every Jew, nonetheless holds a sharply negative position on the issue of recognition of Armenian genocide in the Ottoman Empire since this is linked to one of the key elements of its national security—relations with Turkey. Thus, ahead of his official visit to Turkey, in April 2001, Israeli Foreign Minister Shimon Peres said: It is senseless to say that Armenians, like Jews, were subjected to genocide; on the issue of genocide, identification of Armenians with Jews is unacceptable.²⁷ Because, for a number of reasons, Armenia perceives Turkey as a real threat to its national security, until Erevan and Ankara have resolved their outstanding problems, the growing influence of both Turkey itself and its strategic partner, Israel, will definitely not be conducive to regional security in the South Caucasus.²⁸

Ankara has to a certain extent also become a conduit of Tel Aviv's policy in regions abutting Central Asia, in particular Afghanistan.²⁹ Shortly after the Taliban movement had emerged, Israel, not without directive from the United States, treated the Taliban as an anti-Iranian force that could weaken Tehran's positions and influence in Afghanistan while, through Pakistan and U.S. oil companies, interested in laying pipelines via Afghanistan, Mossad, the Israeli intelligence service, actually established contacts with the Taliban. And although Pakistan does not recognize the state of Israel and does not have diplomatic relations with it, during the Soviet military presence in Afghanistan, Pakistan's Inter Services Intelligence (ISI), through the CIA, established contacts with Mossad. Nonetheless, following the United States' revision of its position toward the Taliban, which has to do with a rise in Islamic fundamentalism, human rights violations in Afghanistan, drug trafficking, and the collapse of negotiations between the Taliban and U.S. oil companies, say Unocal, Israel also revised its position toward the Taliban. One factor in this was that Turkey openly supported Afghan Gen. R. Dostoum (an ethnic Uzbek) who was in opposition to the Taliban. Ahmed Rashid, a well regarded expert, writes: "As the Unocal project evaporated and Israel realized the aversion its Central Asian allies and Turkey had toward the Taliban, Mossad opened contacts with the anti-Taliban alliance."³⁰

One new line in Israel's foreign policy in the 1990s was its relations with India. After Delhi recognized the Jewish state (January 1992), the two countries quickly established close military-political contacts in such spheres as military technology, intelligence sharing, and counterterrorism. Nonetheless, lately regional security experts started talking about the possibility of an element of the so-called double periphery emerging in Tel Aviv's foreign policy in the region with the participation of Ankara and Delhi.

As to the prospects for relations within the India-Israel-Turkey triangle, it should be noted that they have a number of objective prerequisites going for them: counterterrorism and separatism (Kurds, Palestinians, Tamil and Kashmir separatists in India, etc.). True, this should not be seen as a new strategic tripartite alliance in the region. It is essential to take into account Ankara's close military-political contacts with Islamabad (Turkey's traditional support for Pakistan on the Kashmir problem, joint military personnel training programs, and information sharing)³¹ and the fairly warm relationship that

²⁷ See: A. Svarants, *Pantiurkizm v geostrategii Turtsii na Kavkaze*, Moscow, 2002, pp. 371-376.

²⁸ See: G.S. Asatryan, "Armenia and Security Issues in the South Caucasus," *Connections*, The Quarterly Journal, PFP Consortium of Defense Academies and Security Studies Institutes, Vol. 1, No. 3, 2002, pp. 24-27.

²⁹ See: M.R. Maleki, "Turetsko-izraillskie otnoshenia i ikh vliianie na Tsentral'nuiu Aziiu i Kavkaz," *Amu Darya*, No. 2, 1999, pp. 44-50.

³⁰ A. Rashid, "Taliban: Islam, Oil and the New Great Game in Central Asia," London, New York, 2002, p. 154.

³¹ For more detail, see: I. Berman, "Israel, India, and Turkey: Triple Entente?" *Middle East Quarterly*, Vol. 9, No. 4, Fall 2002; P.R. Kumaraswamy, "India and Israel: Evolving Partnership," *BESA Mideast Security and Policy Studies*, No. 40, September 1998.

exists between Delhi and Tehran (largely similar positions on the Afghan problem, policy in Central Asia, relations with the West, primarily the United States, also based on their aspiration to counterbalance Pakistan's power in the region).³² Even so, all the three sides are interested in mutually beneficial military-technical cooperation. As of 1992, Israel has moved to third (after Russia and France) and according to some sources, to second position in military sales on the Indian arms market. For its part, India has emerged as Israel's second largest (after the United States) foreign partner in the military business.³³

Along with military-technical cooperation, Tel Aviv's relations with Delhi are characterized also by a certain measure of geostrategic orientation in so far as they agreed on the Israeli military using Indian military bases for firing practice and missile tests. Thus, in May 2000, a cruise missile was launched from an Israeli Dolphin class submarine at a naval test range near the town of Balasore (the state of Orissa). The missile, which according to experts can be armed with a nuclear warhead, hit a target at a distance of 1,250 kilometers,³⁴ which substantially changed the military-strategic lineup of forces in the Middle East. Whereas earlier, Israel's nuclear weapons comprised mainly a ground component (Jericho-1/2 ballistic missiles, tube artillery and mines) as well as an air component (above all, nuclear arms carrying F-16 aircraft), with the adoption of these nuclear missile armed submarines for operational service, Tel Aviv will become the first new member of the nuclear club with its strategic forces constituting a classic air-land-sea triad.³⁵

C o n c l u s i o n s

The strengthening of Israeli-Turkish military-political cooperation will probably become one of the main results of the war on Iraq. Against the backdrop of a cooling in relations between Ankara and Washington (despite the objections of the part of the Turkish top brass), Turkey is expected to distance itself from the United States, but not to such an extent as to damage its NATO membership, while the U.S. role in ensuring the country's security will also be declining. At the same time, there is a growing likelihood of regional states getting involved in new armed conflicts, which provides extra incentives for a deepening of the Turkish-Israeli relationship.

This said, as the United States is absorbed in a post-war settlement in Iraq, Israel is likely to try resolving many of its problems with the Palestinians single-handedly.³⁶ This could in the future become a greater impediment to cooperation between Ankara and Tel Aviv (which, incidentally, was a major factor in the cooling of relations between them from the late 1970s until the early 1990s) than even opposition from Arab countries.³⁷ Thus, on 4 April, 2002, Turkish Prime Minister Bulent Ecevit described the Israeli action against Palestinians as genocide, sharply criticizing Israeli Prime Minister A. Sharon. The following day, however, he said that his comment was misinterpreted while some Turkish generals even supported Israel's policy toward Palestinians. The importance that the two states attach to their bilateral relations before long led them to consider the incident closed.³⁸

³² See: *The Iranian Journal of International Affairs*, Vol. XII, No. 1, Spring 2000, pp. 139-144.

³³ See: A.V. Prokofiev, "Indiisko-izraillskie otnoshenia: desiat let," *Blizhniy Vostok i sovremennost*, No. 14, ed. by M.R. Arunova, IIBV, Moscow, 2002, pp. 221-225.

³⁴ See: M.K. Said, "Missile Proliferation in the Middle East: a Regional Perspective," *Disarmament Forum*, UNIDIR, No. 2, 2001, p. 58.

³⁵ See: W.D. Farr, "The Third Temple's Holy of Holies: Israel's Nuclear Weapons," *Counterproliferation Paper No. 2*, USAF Counterproliferation Center, Air War College, Alabama, 1999, pp. 19-20.

³⁶ See: A.W. Terrill, *Strategic Effects of the Conflict with Iraq: The Middle East, North Africa, and Turkey*, U.S. Army War College, SSI, Carlisle, March 2003, pp. 11-13.

³⁷ See: F.S. Larrabee, I.O. Lesser, *op. cit.*, p. 144.

³⁸ See: C. Migdalovitz, *Turkey: Issues for U.S. Policy*, CRS, The Library of Congress, Washington, 22 May, 2002, pp. 16-17.

Despite all the difficulties and problems, the Israeli-Turkish alliance will be strengthening as security policy is the main imperative for the two countries.³⁹ At the same time, Israel and Turkey as well as the United States see this alliance as the core of a future regional security system. Their opponents, however, believe that it will set off a chain reaction in the formation of alternative blocs and a new spiral of tension and the arms race. As a result, this will erode security prospects in the whole of the Middle and Near East.

³⁹ See: A. Makovsky, *Israel-Turkey: Strategic Relationship or Temporary Alliance? The Middle East in 2015: The Impact of Regional Trends on U.S. Strategic Planning*, ed. by J.S. Yaphe, NDU, Washington, 2002, pp. 231-235.

RELIGION IN SOCIETY

**JIHAD IN THE ISLAMIC WORLD
AND THE NORTHERN CAUCASUS—THEORY
AND PRACTICE**

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According to Muslim theoreticians the world is divided into the “area of Islam” (*dar-al-islam*) and the “area of war” (*dar-al-harb*). The former comprises the countries ruled by the Muslims; the latter, the countries ruled by the unfaithful. Theoretically, “the area of Islam” should remain at a perpetual war with “*dar-al-harb*.” Truces may happen but should not last for more than 10 years. Some of the *faqih*s discern another area—the “area of peace” (*dar-al-sul’h*) that does not belong to the Muslims and is not ruled by them. The rulers of this area accept their subordination to Islamic states and pay tribute to them.

At the early stage jihad was interpreted as a struggle to protect the new religion of Islam and promote it over vast territories; it was also seen as hard work on the road of Allah to disseminate the faith in Allah everywhere. Involvement in jihad was seen as a direct road to heaven. Let’s have a look at what the Koran has to say on the issue: “O you who believe, shall I lead you to a bargain that will save you from a grievous chastisement?” “(It is) that you believe in Allah and His Apostle, and that you strive (your utmost) in the Cause of Allah, with your property and your persons. That will be best for you, if you but knew”; “He will forgive you your sins, and admit you to Gardens beneath which rivers flow, and to beautiful mansions in Gardens of Eternity; that is indeed the Supreme Achievement” (Surah As-Saff: 10-12).

Over time, even the Prophet Muhammad changed his ideas about jihad: during his stay in Mecca he said: “Let there be no compulsion in religion” (Surah Al-Baqarah: 256); suggested: “Therefore expound openly what you are commanded, and turn away from those who join false gods with Allah” (Surah Al-Hijr: 94), and continued: “Invite (all) to the Way of your Lord with wisdom and beautiful preaching and argue with them in ways that are best and most gracious, for your Lord knows best who have strayed from His Path, and who receive guidance” (Surah An-Nahl: 125). During the Medina period when the Mecca followers of “false gods” attacked Muslims the latter were allowed to fight. At first, defense against the

enemies of Islam was sanctioned; later it was permitted to attack the unfaithful outside the holy months; finally it was allowed to attack the unfaithful everywhere and at all times.¹

In other words, during the Mecca period jihad was regarded as an effort to save one's own soul rather than the struggle to convert others. At that time, there was no commonly shared opinion about whether jihad was obligatory for all. The Medina surahs impose on all the Muslims a duty to fight for their faith; it is regarded as a divine mission supported by the authority of Allah: "Let those fight in the cause of Allah who sell the life of this world for the Hereafter. To him who fights in the cause of Allah, whether he is slain or gets victory, soon shall We give him a reward of great (value)"; "And why should you not fight in the cause of Allah and of those who, being weak, are still ill-treated (and oppressed)?—Men, women, and children, whose cry is: 'Our Lord, rescue us from this town whose people are oppressors; and raise for us from You one who will protect; and raise for us from You one who will help;'" "Those who believe fight in the cause of Allah, and those who reject Faith fight in the cause of Evil: So fight you against the friends of Satan: feeble indeed is the cunning of Satan;" "Then fight in Allah's cause—you are held responsible only for yourself—and motivate the Believers..." (Surah An-Nisa: 74-76, 84).

Those of the religious preachers who are using Islam for political ends refer to the ayats that openly state that it is not enough to perform religious rites to reach heaven. Those of the believers who perform namaz, pay zakat, fast in the month of Ramadan, perform hajj but prefer to keep away from a war against the unfaithful and are afraid of fighting, are regarded as people who prefer their earthly existence to heaven. This is unworthy of any Muslim, therefore the Koran strongly affects the minds of the faithful: the Koran and the Sunnah threaten those reluctant to fight for Islam with tortures normally reserved for the unfaithful and the apostates: "Unless you go forth, He will punish you with a grievous Chastisement, and put others in your place..." (Surah Al-Tawba: 39).

While the early Muslims were waging a jihad against the Arab pagans and later against the apostates and "hypocrites," after Muhammad's death such wars were waged against the neighbors; under certain historical conditions they acquired exceptional importance in the world of Islam as the way to perform a holy "heavenly" mission.

Further on the conception of jihad acquired six variants: jihad against the enemies of Allah (against those who threatened the umma; those who persecuted the Muslims, and against the pagans); jihad against those who violated the *dar-al-islam* limits; jihad against the apostates (*munafiqun*); jihad against those who persecuted the Muslims (*al-bagi*); jihad against the robbers; jihad against the monotheist non-Muslims who refused to pay "djizia."²

Due to certain disunity inside the Islamic movement divided into all sorts of trends, ideologies and madhabs there is still no classical doctrine of jihad³ in the same way as there is no idea of faith obligatory for all Muslims. Islam as an ideology was taking shape and is functioning amid the struggle of ideas and opinions of all sorts; it is still looking for one common road to follow. In each country there is any number of groups each with its own idea about the future and the remedies for the present afflictions. One can say with a great deal of certainty that there is no faith binding on all Muslims just as there is no common Islamic way while Muslim society concentrates on various or even contradictory models. The above fully applies to the Islamic conception of jihad: no Islamic authority can put an end to the discussion about what the holy war for the faith is and how it should be conducted.

Throughout the history of Islam the idea of jihad often performed different functions and underlay domestic and foreign policies of those involved in the political process. At all times the idea was filled with varied or contradictory interpretations: it was a battle for bringing in harvest; the battle against illiteracy; the battle between the new and the old; and even the class struggle.⁴

On the whole Muslim "theology" (in fact, there is no generally recognized one) applies the term to the fight for the true faith which assumed various forms: jihad by the heart meaning a fight against one's

¹ See: *Islam. Entsiklopedicheskiy slovar*, Moscow, 1991, p. 51.

² *Ibid.*, p. 67.

³ See, for example: N.V. Zhdanov, *Islamskaia kontsepsiia miroporiadka*, Moscow, 2003, p. 77.

⁴ See: *Ibid.*, p. 79.

own failures; jihad by the tongue meaning “commending good conduct and forbidding the wrong”; jihad by the hand meaning adequate measures against criminals and violators of the norms of morality; jihad by the sword meaning an armed struggle against the infidels. All slain in this fight will go straight to Paradise.⁵

“European public opinion, however, preserved the idea of jihad as the ‘jihad by the sword’ while according to the Koran and the Sunnah this idea has many meanings.”⁶ This is confirmed by the fact that orthodox Islam does not regard the idea of jihad as one of the five pillars of the faith (*ash-shahad*—faith; *as-salat*—prayer; *as-saum*—fasting; *az-zakat*—alms; *al-hajj*—pilgrimage). Different ideological trends (traditional, modern and fundamentalist Islam) interpret jihad in different ways.

Traditional Islam interprets jihad as an effort at self-perfection rather than violence in relation to others while the smaller jihad (jihad by the sword), as a defensive war against the oppressors. The neo-traditionalists (modern traditionalists) observe the principle “let there be no compulsion in religion” as applied to jihad as one of the key ideas of Islam. This explains why traditional Islam, as distinct from fundamentalism, looks at jihad as an effort at self-perfection rather than violence in relation to others while the smaller jihad (jihad by the sword), as a defensive war against the oppressors. At the same time, “a holy war” is recognized as a duty of any Muslim. It proceeds from the idea that mankind is divided into the faithful (Muslims) and unfaithful who should be converted by any means, including force.⁷ In times of serious social troubles traditionalists may close ranks with fundamentalists where interpretations of jihad are concerned.⁸

As distinct from the traditionalists and especially fundamentalists the reformers (modernists) insist that Islam is a religion of universal humanism (*insania*) that preaches brotherhood of all people. The modernists are opposing nationalism as an ideology that disunites mankind. This stand logically suggests that religious tolerance is one of the key Islamic ideas.⁹ Therefore, jihad is interpreted either as a purely defensive war, as struggle for economic prosperity or as struggle for spiritual rebirth.

Fundamentalists look at jihad as armed struggle, which is probably explained by their aims and tasks. While the traditionalists want to preserve Islam as it exists on a certain territory, and the modernists insist on its evolution, the fundamentalist “revolutionaries” want to take it back to the so-called “golden age” (the 7th century). One finds it hard to believe that people will willingly exchange their values and world perception for those of the early Middle Ages, therefore the use of force is not excluded (moderate fundamentalists) or even deliberately planned (radical fundamentalists).

The Islamic radicals (Islamists) are the most consistent supporters of the idea of jihad as armed struggle. They insist that a holy war (jihad) that uses force is the only possible response the Muslim world can give to the regimes in the Muslim countries where Western ideals predominate. The Islamic radicals look at jihad as the sixth pillar of the faith. It is this interpretation as well as an extended interpretation of the term “*taqfir*” (accusation of lack of faith) that separates the Islamists from the faithful Muslims. The moderate Islamists insist on jihad’s defensive nature while the ultra-radicals want to regard it as an offensive holy war.

Al-Maududi from Pakistan, one of the most respected in the Islamic world theoretician of the moderately radical wing, has written: “In the language of the Shari‘a the word ‘jihad’ is used to denote a war waged in the name of Allah against the enemies of Islam. If an Islamic state is attacked by non-Muslims each and everyone should join the jihad. ...If there is not enough force the neighboring Mus-

⁵ There are other classifications of jihad: “jihad an-nafs” (struggle for spiritual self-perfection); “jihad ash-shaitan” (struggle against the Satan); “jihad al-kuffar” (struggle against the infidels) and “jihad al-munafiqin” (struggle against the hypocrites) (see: al-Jauzi Ibn al-Din Muhammad ibn Bakr, *Zaad al-mi ad fi had’a hair al-ibad*, Beirut, 1412/1991; Muhammad ibn Jamil Zinu, *Islamskaia Akida (verouchenie, ubezhdenie, vozzrenie) po sviashchennomu Koranu i dostovernym izrecheniam proroka Muhammada*, Baku, 1997, p. 54).

⁶ *Islam protiv terrorizma. Fetvy imamov po voprosam, kasaiushchimsia tiazhkikh bedstviy*, Moscow, 2003, p. 41.

⁷ See: M.T. Stepaniants, “Reformatorstvo kak antiteza traditsionnosti,” in: *Bog—chelovek—obshchestvo v traditsionnykh kul’turakh Vostoka*, ed. by M.T. Stepaniants, Moscow, 1993, p. 222.

⁸ See: I.P. Dobaev, *Islamskiy radikalizm: genesis, evolutsia, praktika*, Rostov on Don, 2003, p. 52.

⁹ See: W. Shepard, *The Faith of a Modern Muslim Intellectual. The Religious Aspects and Implications of the Writings of Ahmad Amin*, Delhi, 1982, p. 132.

lim states have to come to the rescue. This is their religious duty. If they fail the Muslims of the entire world have to fight their common enemy. Jihad is a duty in the same way as the daily prayer and fasting. He who tries to avoid this is a sinner."¹⁰ The same author, however, at all times objected to the use of force for the sake of building an Islamic state. In one of his lectures he called on the young people to abandon the practice of clandestine groups and the use of force and violence to reach the tasks Islamic society was facing and to change the state order. For him violence meant hate and promised little even if it looked like a shortcut to the desired aim. Al-Maududi regarded a peaceful revolution for the sake of a right aim completed through open and wide-scale propaganda addressed to the hearts and minds as the most acceptable solution for the Muslim umma and each of its members engaged in promoting the Islamic call.¹¹

A modern Turkish author Harun Yahya explains jihad in the full sense of the word as "any type of ideological struggle against anti-religious and atheist teachings and the teachings that reject God."¹² In addition to the above, he interprets jihad as a real war that "according to the Koran can be a defensive one and be waged in strict accordance with the Islamic moral principles. It is one of the greatest injustices and distortions of the truth to apply the idea of 'jihad' to any form of violence aimed against innocent people, that is, to terror."¹³

Al-Ashmawi, a moderate Egyptian Islamic theoretician, has written: "Jihad in Islam was described in full in one of the hadiths of the Prophet who addressed the faithful after the victorious battle of Badr: 'We have returned from Smaller Jihad back to Greater Jihad.' From the point of view of correct (Orthodox.—*I.D.*) Islam a war against enemies, in which people risk their lives and property, is a smaller, or Small Jihad. As for the true Greater Jihad—it means that the soul should be tested, that man should overcome the worst traits of his nature and conduct, that (human) nature should be elevated and the soul taught lavishness."¹⁴

However, not only Muslim theologians but also the majority of foreign and Russian Orientalists doubt the authenticity of the hadith al-Ashmawi quoted: its origins are very vague while it contradicts other, undoubtedly genuine, hadiths.¹⁵ The ultra-radicals prefer to completely ignore the doubtful hadith: they refuse to divide jihad into a "smaller" and "greater" ones and resolutely reject its defensive nature. Egyptian Sayyid Qutb, the most prominent among radical theoreticians, resolutely objected to this: "If we have to call the movement of Jihad in Islam a defensive movement then we have to inevitably change the meaning of the word 'defense' and interpret it as 'protection of man.' In its desire of peace Islam does not mean that cheap peace which boils down to safety of the Muslim-populated territory. Islam wants a peace of the sort under which all religion would belong to Allah, that is, that all people protected by that peace would worship Allah."¹⁶

A teaching created and realized in the 18th century by an Arabian religious reformer Muhammad ibn al-Wahhab from Nejd, known today as Wahhabism, is one of the forms of radical Islam.¹⁷

The Northern Caucasus too fell victim to Wahhabism; there, as elsewhere, its supporters are known as Wahhabis. The process went on (and goes on) especially actively in Chechnia where the separatist leaders headed by Djokhar Dudaev not only did nothing to prevent its proliferation—they deliberately supported the Islamic radicals. It was at that time that the Wahhabis opened a center to disseminate religious publications, carry out collective prayer and promote their teaching in the media. The local Wahhabis were encouraged by the statements that Dudaev and his cronies were building an Islamic state that needed a single ideology. Wahhabism was selected as such.

¹⁰ Al-Maududi, *Osnovy islama*, Moscow, 1993, pp. 100-101.

¹¹ See: Al-Maududi, *Islam segodnia*, Moscow, 1992, pp. 26-27.

¹² H. Yahya, *Islam proklinaet terror*, Astana, 2002, p. 35.

¹³ *Ibid.*, p. 36.

¹⁴ Muhammad Said al-Ashmawi, "Jihad v Islame," *Al-islam as-siyyasi* (Political Islam), 3rd edition, Cairo, 1992, p. 116.

¹⁵ See: A.A. Ignatenko, "Endogenny radikalizm v islame," *Rossia i musul'manskiy mir* (Moscow), No. 12, 2000, p. 99.

¹⁶ S. Qutb, *Vekhi na puti Allaha*, Badr Publishers, Makhachkala, pp. 245-246.

¹⁷ For more detail, see: I. Dobaev, "Radical Wahhabism as an Extremist Religious-Political Ideology," *Central Asia and the Caucasus*, No. 4 (16), 2002, pp. 128-138.

Certain foreign factors helped disseminate the ideology of this highly politicized Muslim trend: money that came from international Islamic fundamentalist organizations; brainwashing to which their emissaries subjected Chechen pilgrims and the students who studied in Islamic universities abroad; massive spread of Salafi books and activity of Muslim agents in the region. Domestic factors added attractiveness to a certain part of the local people, mainly deeply faithful youth that comprised a key segment of the movement's social basis.

Islamic fundamentalism in the Northern Caucasus became even more radical during the events of 1994-1996 in Chechnia and its "sovereignty" that followed. The measures at "restoring constitutional order" in the republic resulted in grave consequences for Russia and its statehood. Guided by the idea of Muslim unity the local society divided into teips and virds taken apart by numerous contradictions in peacetime closed ranks in front of the federal center. The idea of Muslim unity attracted hundreds of "warriors of jihad" from Pakistan, Afghanistan, Turkey, and several Arab countries who came to the Caucasus to fight in Chechnia.

During the same period, several large-scale terrorist acts carried out under command of well-known field commanders altered the situation and led the "restoration of the constitutional order" into an impasse. Here I have in mind the acts of 1995 in Budennovsk carried out by Shamil Basaev and of 1996 in Kizliar and Pervomaiskoe carried out by Salman Raduev. These unprecedented terrorist sorties accompanied by Islamic symbols and rhetoric led to the Khasaviurt and later Moscow agreements.

As soon as the 1994-1996 military actions had been completed the leaders of the Chechen separatists staked in Wahhabism, the fundamentalist teaching that was expected to unite the republic. Later Wahhabism was planted in Chechnia with the help of numerous foreign mojahedin who had come to the republic to fight in the first campaign. In spring 1995, a detachment of foreign mercenaries who called themselves Jamaat Islami was formed under command of a Chechen from Jordan Habib Abd al-Rakhman (Amir Khattab). This proved to be an event of signal importance. He formulated his aim in Russia as the need to take part in jihad and fight until a "black banner of victory of jihad would be hoisted over the Kremlin."¹⁸

In 1996, the Chechen community of Jordan helped set up a training center for Islamic terrorists at the village of Serzhen-Iurt (Shali District) called the Caucasian Institute of the Islamic Call (The Caucasian Institute—Da'wa); later it developed into a branch of Muslim Brotherhood, an international extremist organization.¹⁹

This was a specialized camp that made saboteurs and terrorists out of potential mojahedin of 17 and over. For two months while their minds were stuffed with radical Islamic ideology they were trained according to special programs. Some of them were sent to Muslim countries for further training. Khattab taught the future terrorists to hate Russians: "All patriotically minded Russians are fascists. Those wishing to join our ranks under the banner of the Prophet should be bound to it by spilt blood."²⁰ The so-called Institute opened their recruiting centers in Baku and Kiev and sent new mercenaries to Serzhen-Iurt for special training.²¹ Between 1996 and 1999 the training centers in Chechnia produced hundreds of terrorists.

The positions of the Chechen Wahhabis were further strengthened when in January 1998 the General Staff and the military infrastructure of the Wahhabi Jamaat (earlier based in Daghestan) moved to Chechnia together with its leader M. Bagautdin. The move followed the attack of 23 December, 1997 of Khattab's fighters at a Russian detachment stationed in Buynaksk (Daghestan).

It was a time when crime dominated Chechnia; illegal oil business was flourishing; people were kidnapped and sold into slavery. In December 1998, the criminal group of Wahhabi Arbi Baraev cruelly murdered three British and a New Zealander.

On 17 April, 1999 Grozny hosted another sitting of the Congress of the Peoples of Ichkeria and Daghestan that passed a decision to invade the neighboring republic. The April issue of the *Kavkazskaia*

¹⁸ *Al-Kaf*, April 1998.

¹⁹ See: A. Chelnokov, "Wahhabity v Tobol'ske," *Sovershenno sekretno*, No. 10, 1999.

²⁰ *Trud*, 7 April, 1999.

²¹ See: *Middle East International*, 2 September, 1995, p. 17.

konfederatsia newspaper published by Iandarbiev carried a call by “Amir of Urus-Martan” Ben-Ismaïl and “Amir of the Islamic Jamaat of Daghestan” M. Bagautdin to the young people “to take part in jihad” and join their newly created Islamic Army of the Caucasus. The young people were told that they “should fight for their precious religion and start a jihad.”²²

On 2 August, 1999, Wahhabi detachments invaded Daghestan and captured several settlements of the Tsumada and Botlikh districts. Shamil Basaev was in command as head of the so-called United Command of Mojahedin of Daghestan”; the main forces operated in three groups: The Islamic Caucasian Army under M. Bagautdin; The Daghestani Rebel Army of Imam under M. Tagaev, and The Peacekeeping Forces of the Majlis of the Peoples of Ichkeria and Daghestan under Khattab. The operation planned as the first stage of liberation of Daghestan had been code-named Imam Kazi-Magomed; the local supporters of pure Islam had been expected to close ranks with the invaders together with the Chechen Akkinty and certain other forces. This did not happen though: the invasion increased local intolerance of any signs of Islamic extremism. The negative response of the absolute majority of local population and international public was one of the reasons why the local Islamists remained passive. The people of Daghestan, especially those living close to the border with Chechnia regarded the fighters as bandits since the Wahhabis not only called to a jihad against the infidels; they also called on the local people to fight those of the Muslims who rejected their variant of Islam.

In October 1999, this aggression triggered an anti-terrorist operation directly in Chechnia in the course of which the Wahhabi enclaves were destroyed and jamaats dispersed. The agonizing criminals carried out large-scale terrorist actions in Moscow and Volgograd that shook the country and the world with their senseless cruelty.

Today the protest and separatist movement in Chechnia is no longer united. It consists of the following trends: nationalist (A. Maskhadov, R. Gelaev, etc.), Wahhabi (Abu al-Walid, Sh. Basaev, etc.); and criminal (numerous small groups each with a field commander of its own). Their ideological differences do not prevent them from exploiting the Islamic rhetoric and symbols to justify everything, terror included. They are constantly performing terrorist technologies by using on an increasing scale “suicide terrorists,” both men and women. At the same time, the Chechen separatist leadership is affected by deep-cutting contradictions born by the struggle for power and foreign and domestic resources. Life has shown that the ideas of “independence” and “Islamization” of the republic favored by some of the field commanders are not supported by the wide masses. The majority of the subversive and terrorist acts are carried out because they are paid for (in some cases, with money coming from abroad), and not for ideological reasons. Such acts were frequently falsified, money embezzled by top commanders such as Maskhadov, Gelaev, and others and field commanders under them. There is a lot of mutual mistrust and enmity among the armed groups: the Gelaev people find it hard to accept the Wahhabis and refuse to act together with them.

So far, the Wahhabis, though not closely united either, are the most battle-worthy force. They get more money from abroad than other fighting groups; there are many foreigners from the Middle East in their ranks. At the same time, according to experts, the Chechen followers of “pure” Islam (Basaev, Udugov, Iandarbiev, etc.) cannot be called Wahhabis. This is taken for an insult in the countries with the predominant Wahhabi ideology (Saudi Arabia, Kuwait, UAE, etc.) where the Wahhabi variant of Islam is a tradition. These people should be called separatists, nationalists or even criminals—this moves them closer to other criminal Chechen groups. D. Makarov, one of the students of North Caucasian radical Islam, described the developments in Chechnia as “Wahhabization of radical nationalists.”²³

This shows that more often than not the Islamic factor is exploited as an ideological and organizational wrapping of practical interests pursued by far from Islamic forces and entities of political and social action. We are dealing with fairly common separatists, nationalists, criminal structures and clans.

²² *Kavkazskaia konfederatsia*, April 1999.

²³ See: D.V. Makarov, “Radikal’niy islamizm na Severnom Kavkaze: Daghestan i Chechnia,” *Konflikt—Dialog—Sotrudnichestvo (Etnopoliticheskaia situatsia na Severnom Kavkaze)*, Moscow, No. 1, 1999, pp. 42-58.

“Islamic extremism” and “Islamic terrorism” frequently manifest itself as the archaic forms of the mountain dwellers’ social conduct: raids, social exclusion and blood feuds. Islamism is flourishing on this soil; its ideological skeleton can be used to justify political practices and mobilize the local people against the infidels.

The religious-political terrorism is frequently intertwined with ethnically tinged terrorism camouflaged as an Islamic movement. I believe that Russia is facing a type of modern terrorism everywhere (in Chechnia, in the first place) that brought together the ideology of radical Islam and religious, ethnic, and criminal terrorism supported by international extremist and terrorist structures.

In 2002, the U.S. Department of the Treasury listed quasi-Wahhabi Shamil Basaev as international terrorist while the Patterns of Global Terrorism 2002 report issued by the U.S. Department of State pointed out that at least three bandit groups operating in Chechnia were directly connected with international Islamic terrorists and were using terrorist methods. The following groups were listed as terrorists: the Riyadus-Salikhin Reconnaissance and Sabotage Battalion of Chechen Martyrs; the Special Purpose Islamic Regiment; and the Islamic International Brigade. They are headed by Basaev, Movsar Baraev, and Abu al-Walid, respectively. In all of them there are tens of foreign, mainly Arab, mojahedin who carry out terrorist acts against Russian troops and the republic’s civilian population and are paid by international terrorist organizations, al-Qae’da being one of them.

I think that terrorism in the Northern Caucasus cannot be viewed as a jihad in its traditional meaning. This is confirmed by those who represent “true” Islam and who say that the terrorists “are using the methods that contradict all Muslim injunctions.”²⁴ The terrorist organizations are following an ideology of their own; they are “pursuing an aim of removing the regimes and rulers they see as unjust and cruel and of creating a much happier and more just life for people. Meanwhile, this approach is totally wrong. The All-Mighty Allah warns those who follow it that they are completely wrong²⁵: ‘When it is said to them: “Make not mischief on the Earth,” they say: “Why, we only want to make peace.” Of a surety, they are the ones who make mischief, but they realize (it) not.’” (Surah Al-Baqarah: 11-12).

The absolute majority of the Muslim ulema, faqihs and official clergy condemn terrorism. In his fatwa dedicated to one of the terrorist acts (the explosion in July 1989 in Mecca) the former Grand mufti of Saudi Arabia Abd al-Aziz bin Abdullah Ibn Baz pointed out: “All Muslims regard this as an atrocious and disgusting crime because it was an attempt to scare the pilgrims who came to the sacred House of Allah... This is a revolting crime because it used explosives next to the sacred House of Allah. It should be regarded as one of the gravest crimes and one of the gravest sins.”²⁶ Sheikh Saleh bin Fauzan al-Fauzan answered the question: “Are such actions as assassinations and explosions of state structures in the non-Muslim countries necessary and can they be described as jihad?” with: “Assassinations and explosions are impermissible because they invite misfortunes to all Muslims and cause their murders and persecutions. As for the jihad on the way of Allah one can admit it, under certain conditions, as an open clash.”²⁷

Let us analyze how the Muslim countries treat the problem of global terrorism posing as Islam. Ten years before the tragic events of 9/11 in New York and Washington, in 1991 the Organization of Islamic Conference adopted the Dakar Declaration that resolutely condemned international terrorism: “We resolutely condemn once more the phenomenon of terrorism that contradicts the teaching of Islam, the values, norms and traditions of our countries where human lives are treated with respect and dignity. We confirm our resolution to sincerely cooperate with the world community in its fight against international terrorism in all forms and manifestations. We shall do this within the limits of law and respect for the international legal principles.”²⁸

²⁴ See: H. Yahya, op. cit., p. 59.

²⁵ See: Ibid., p. 62.

²⁶ *Islam protiv terrorizma*, pp. 24, 26.

²⁷ Ibid., p. 41.

²⁸ A.A. Nurullaev, “Islamskiy mir: otvety na vyzovy globalizatsii,” *Materialy serii seminarov, provedennykh v aprele-dekatre 2002*, Institute of Asian and African Countries at Moscow State University, Moscow, 2003, p. 12.

The antiterrorist position of another influential international organization, the League of Arab States, the members of which are mainly Muslim countries, is no less consistent. Back in 1998, the Arab countries concluded a joint agreement on antiterrorist struggle that confirmed, "united Arab position against global terrorism." The extraordinary meeting of the Council of the League of Arab States convened in the wake of the 9/11 events to express its solidarity with the American people confirmed once more its devotion to the above-mentioned antiterrorist declaration.²⁹

Leaders of the Muslim World League also issued a special statement to condemn the terrorist acts in the United States and called on the heads of Muslim countries and the Islamic spiritual leaders to consistently fight terrorism. They also recommended carrying out explanatory work in all mosques. This was done.³⁰

This shows that secular scholars, Islamic theologians, official clergy and the majority of rank and file Muslims do not recognize terrorism; they do not associate it with jihad, and condemn inadequate use of violence for political aims. One can say that the conception of jihad in its aggressive form is the ideological and practical product of extremists and terrorists who exploit and compromise Islam as a respected world monotheist religion.

²⁹ See: *Nezavisimaia gazeta*, 13 April, 2001.

³⁰ See: A.A. Nurullaev, *op. cit.*

ISLAM AND DEMOCRACY: DAGHESTAN'S PROGRESS TOWARD DEMOCRACY

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The elections to the State Duma of the Russian Federation that took place on 7 December, 2003 revived an interest in the nearly forgotten issues of the alignment of political forces in Daghestan and in what sort of democracy people would like to see there. One should bear in mind that United Russia, the so-called party of power, scored the most convincing victory in the republic (66.3

percent of those who came to the polls).¹ The Communists with 17.7 percent of the votes suffered a crushing defeat—it was nearly half of what they had won in 1999. It should be said that another striking result of the same elections is no less interesting.

¹ See: *Molodezh Daghestana* newspaper, 12 December, 2003.

We have in mind the spectacular 4 percent won by the Islamic Party of Russia (IPR) that went to the elections under a new name—True Patriots of Russia—the only one among the “new” parties to draw so many voters to its side. The Islamists performed a veritable breakthrough. In other words, the party justified the hopes of those who had set it up to rob the Communists and Liberal Democrats of some of their supporters.

This was not enough, though, to get to the State Duma—the result that could have been easi-

ly forecasted. One should bear in mind, however, that in the nearest future the republic will elect its People’s Assembly: the True Patriots of Russia, acting together with other forces loyal to the Islamists may count on two-thirds of the votes. This will allow them to act as they will see it fit and to amend the republic’s constitution. Such developments will inevitably revive discussions about democracy and whether the republic should embrace its Western traits, civil society in particular, or whether it should rely on the local “Islamic” traditions.

Pro et Contra

One should bear in mind that locally an opposition to the current reforms among the Communists and Islamists is mounting. While the situation in the Communist Party is more or less clear (its members are driven by nostalgia and revanchist sentiments) the situation in the Islamic political movements is not quite clear. During the elections to the People’s Assembly and the State Duma and in the course of knocking their party together the Islamists stepped up their propaganda efforts and involved, on a great scale, banking capital and the official Muslim clergy; all sorts of public movements were exploiting Islamic rhetoric not only to acquire identity—they did it under the pressure of clerics wishing to impose the Islamic social model on the republic. At a conference in Makhachkala those who represented the Islamic Party of Russia stated in so many words that the electoral system of Western “democracy” had proved pernicious for Daghestan and Russia as a whole. They insisted that the republic should at least try to build an Islamic republic patterned on Iran ran by “mullocracy,” which means another period of social experimenting. Those who believe that the republic should follow another road point to the countries with positive experience, high standards of living and protected constitutional rights. They have in mind European democracy and they refer to the well-known Churchill’s pronouncement: “Democracy is the worst form of government except for all those others that have been tried from time to time.”

This speaks volumes probably because the issues related to political reforms and transfer from semi-totalitarian to democratic systems are very much important not only for Daghestan but also for all other regions with the so-called “Islamic or any other authoritarian social model.”

Any discussion about democracy in the republic should be prefaced by a statement that different researchers understand the “democratic society” concept differently. Sometimes it seems that democracy is another utopia. This explains why communist (and Islamist) political scientists in an effort to transcend the vicious “individualism-collectivism” antimony are identifying democracy with a global commune or an umma. This belongs to the sphere of mythology. In fact, the discussion about Islam and democracy going on in periodicals and academic publications is not anything new.

It is the recent events in the Northern Caucasus that added urgency to the issue. As soon as the analysts pointed to conceptual contradictions between the principles and institutions of democracy and Islam in a sincere effort to find answers to these questions, they attracted critical fire of Muslim clerics. The latter are obviously unwilling to admit that there are antidemocratic elements in Islam. At the same time, this deprives society of a chance to fully and objectively analyze the current developments and to find solutions to the conflicts that are being fanned in the so-called “arc of instability.” It should be added that the most pragmatically minded among the Muslim clergy spend no time on insisting that Islam is the most democratic of all religions. They have admitted that the thesis does not hold water and that the flock should be urgently informed about Islam’s democratic nature.

The Missionary Parties

The hastily knocked together groups of religious propagandists sped to schools, higher educational establishments, ministries and settlements; they even visited kindergartens in an effort to convince people that Islam meant peace and that it was the only answer to the landslide of misfortunes.

These arguments look shop-soiled and bring to mind the leading and guiding role of a party, Islamic in this case. The wave has left unanswered certain very important questions: Why did the Northern Caucasus, including Daghestan, find itself part of the so-called arc of instability? Why do the geopolitical interests smack of religion there? And, finally, will the clerics' sincere statements stop a slide toward religious extremism obvious among part of the opposition?

It is not easy to answer these questions. We are convinced that the instability regions should be studied through the prism of the place of religion in politics and social life and the extent to which Western democratic values have been accepted there. When applied to the Northern Caucasus, and to Daghestan in particular, this approach reveals two rivaling dimensions. On the one hand, there is Islam and its deeply rooted ethnic and cultural traditions; on the other, there are actively imposed Western democratic principles that raise doubts among the local people or are even regarded as provocative.

More and more often the ideas of Western democracy are described as threatening Islam and its values. Official clerics and large religious-political organizations (the Islamic Democratic Party, the Islamic Party of Russia, the True Patriots of Russia, etc.) have accepted enmity to the West and its values as their major issue. These structures (that we shall call missionary parties here) are busy planting their ideas by gradually brainwashing the local people living in a secular state. They use all sorts of religious books and humanitarian aid; with the same aim in view they set up and support religious schools and all sorts of funds, build mosques, open prayer rooms in state offices; they have not left out of sight those of the clerics who prefer traditional Islam.

M. Radjabov, the IPR head, is convinced that time has come to unite all Islamic organizations into a single party able to address not only the problems of the Muslims of Russia but the country as a whole. One would like to know how the party is going to bring all Muslim movements together: they are numerous and are headed by people of different or even conflicting political convictions and ambitions. As far as we know, the IPR does not look at other Islamic movements as its rivals, yet neither the Union of Muslims of Russia, nor Refah, nor the Islamic Democratic Party, etc. are represented in its governing bodies. It is interesting to note that Maksud Sadikov is the Chairman of the Presidium of the party's general council while his brother is among the members of its auditing commission. The latter is known as an active founder of the Republican Branch of the Nur Islamic movement that preached Islamic-communist moral ideals. In 1998, after the murder of Mufti of Daghestan Abubakarov he was among the organizers and heads of the Congress of the Peoples of Daghestan that demanded immediate resignation of the republic's State Council and the cabinet. The presence of the brothers in the governing structures says that the party wants to create a political field of its own and is prepared to compete for power. The growing pressure of PR actions, an active involvement of banks and the official Muslim clergy might attract those of the politicians who have lost much of their influence; all together they may consolidate the party into a powerful political force able to address political problems. The IPR is determined to increase its membership: its structure presupposes membership of mosques of cities, towns and villages while the republican legislation directly forbids religious organizations to take part in political structures.

We think that the Islamic rhetoric the party is using is much more than a mere attempt at self-identification (a logical and never-ending process in Daghestani society)—it is prompted by active efforts of the clerical circles to desecularize social life in the republic. Politicians are doing their best to tap the clerics' potential by drawing them to their side to create an organization able to close the gap between the religious structures and the public; in the future—between religious structures and the state. One can offer a concise formula of the IPR's political stand: liberation of society from the still lingering ideological chi-

meras; abandonment by the state of its atheist nature; clericalization of politicians; state support of the Spiritual Administration of the Muslims of Daghestan and other Islamic organizations; restoration of Islamic specifics in the republic's state order.

This structure is obviously intended as an alternative to the Communist Party of Daghestan with its high organizational potential: The Communist Party is the only political organization with fixed membership (with cells in 44 cities and districts). Today it has over 10 thou members. Being aware of the communists' strong positions in the republic, the IPR's organizers hope to attract at least some of the rank-and-file communists under their green banners. The old conflict between the Muslims and the communists as well as some of the newly formed party's documents leave no doubts about its intention to hunt on the communists' territory. A special issue of *Nur-ul-Islam* dedicated to the IPR carries a contribution by one of the most respected sheikhs Said Afandi. He answered the question whether the republic needed the party as: "This question can be asked only by those who objected to the Islamic Party in general. The Communist Party's advent to power from the very beginning was aimed at the destruction of Islam. Being aware of the evil it has already caused, the Muslims should be able to create a party they want."

Obviously, the IPR is trying to bring Islamic elements into politics with the help of those religious leaders who support it; it is looking for weighty and unbeatable arguments in favor of its right to carry out its agitation among the Muslims. This is simple enough—the old formulas are all here: the Muslim culture of the local peoples; Islamic specifics and traditions, jihad, etc. They can be exploited by those who have resolved to rescue and revive not only Daghestan but the whole of Russia as well.

Islam and Democracy

There is a wide gap between Islam as a religion and liberal democracy as the foundation of modern civil society. Therefore, one is tempted to ask: What kind of society do the Islamic leaders have in view? An open confrontation is not inevitable—democracy is a multi-layered idea that includes Islamic norms together with others. The main Islamic texts do not speak of a specifically Islamic political form such as the Caliphate or an Islamic republic. Still, one has to bear in mind that the Muslims are better aware of their responsibility for the state of society; the roots of this responsibility go back to their religion: "You are the best of peoples, evolved for mankind, enjoining what is right, forbidding what is wrong" (Surah Al-i-Imran: 110). This is not only a religious or a mystical statement: it calls on the Muslims to implement the Koranic words in society—consequently none of the faithful can remain indifferent. Conceptually, the Muslim community's concern with social issues takes the form of constant attempts to impose Islamist programs on political parties, public movements, opposition and even on the powers that be. Their programs contradict the idea of civil society the main function of which is to extend (to a certain extent) the limits of freedom, to encourage all people to contribute to social changes, to extend social protection to all members of society irrespective of their ethnic and religious affiliations.

Our opponents may point out that the West is degrading and dying out; that it is steeped in prostitution, drugs and AIDS, that it is playing the role of international gendarme, etc. This is an oversimplification and looks like a propaganda bait. This can also be found in the Muslim regions. The West is successfully coping with these sores; Western society is more open, everything that happens in it becomes known to the public. In fact, other figures—infant mortality, life expectancy, the standard of living, real per capita incomes—speak eloquently about how society treats its members.

The problem lies elsewhere, though. There are developed countries in the Muslim East, too; the richest men in the world also live there. The fundamental distinction between Islam and Western democracy is manifested through the legislative competence issue. Islam contains no ideas about the sovereignty of people. The right to execute laws has been removed from the people's competence—it belongs to God (in the Koran and the Sunnah) and is exposed in fiqh. This explains why there are no autonomous legislative

bodies in the Muslim states; the main task of Islamic society is to apply the laws granted by the supreme authority. The Muslims can adopt legal norms outside the Shari'a (though there is practically no space for this outside it) and have by all means to adjust them to the Shari'a.

Such state concentrates on strengthening the fundamental Islamic values; welfare for all means protection of the religion, in the first place, while the highest values are Islam and the Islamic umma (as distinct from liberal democracy that concentrates on the citizen and his rights). In an Islamic state power does not always belong to an elected government: it can be a monarchy, theocracy or a dictatorship; supernatural features can be ascribed to the autocratic ruler (the king, sultan, caliph or sheikh). One cannot exclude that the ruler may also perform the supreme religious or spiritual functions (ayatollah, the supreme mufti). In the Islamic scale of values equality of an individual and his rights depend on how he treats Islam: this cannot co-exist with the principle of equal rights for all. At the level of individual religious ideas the Muslims declare complete freedom. The declaration is obviously dogmatic: their freedom is limited by the Shari'a.

As distinct from Muslim society in which the mosque is the central object, civil society stands on the idea of a "citizen"—the main subject that affects the state of affairs in society and brings about its changes. Its members reveal themselves through their direct involvement in public organizations, parties, movements, the media, etc. The development level of such society directly depends on the extent to which the NGOs and noncommercial structures are developed; on the distance between them and the state and their independence from the latter. By contrast, the political communities in which the Muslim organizations (even those loyal to the authorities) monopolize spiritual life are non-civil societies.

In the economic sphere the differences are as glaring. Any Islamic economic system takes account of two factors: the ban on usury—*riba* (stated in many ayats) and *zakat* (fixed social tax) imposed by the Koran. This ban interferes with functioning of market economy because it rules out bank interest—one of the main economic instruments channeling money (the capital) to the maximally profitable spheres. This can also be said about the fixed social tax.

The above fully proves that Islam and liberal democracy, Islam and civil society cannot exist side by side in one state.

Middle Eastern Parallels

Many countries have already embraced economic and political reforms. The Muslim world alone demonstrates certain traits that make it a vast territory rejecting the major trends of historical development. The Islamic order of things is better suited to quite different political and economic systems. In Jordan, for example, the dying king suddenly altered his last will in favor of his son Abdullah and pushed away his brother as the legal successor. In Syria the military wiped away the opposition and remained in power for 30 years ruling with the use of force. Egypt, where the pharaonic features are still alive, is ruled by Hosni Mubarak, a former military. The nation's main slogan says: "Mubarak is a president for life." In Africa Sudan is undoubtedly one of the seats of anti-democratic resistance; in 1989 the military with General Omar Bashir at the head came to power there and built an Islamic society cut according to their own patterns. They are building a system in which they try to bring together the Islamic rules and injunctions and their social tradition. They are convinced that democracy should be locally raised and that political pluralism in the country of about 40 tribes is unwelcome: the people will be divided into ethnic groups with adverse consequences.

The same applies to all other Mid-Eastern countries; they all are ruled by authoritarian or totalitarian regimes because the totalitarian dogmatic ideology has nothing else to offer. Protest assumes the form of extremism, since totalitarian ideology can only be defeated by a still more rigid ideological system. The conception of a political system formulated by Egyptian ideologist Sayyid Qutb, the founder of Islamic extremism, says that it is by force alone that the genuine Islamic state can be imposed on the fake Muslim societies.

In many countries growing extremism and an erosion of the political system are caused by inadequate democratic awareness, domination of conservative thinking among the functional elites (parties, public organizations, law enforcement bodies, etc.). The Muslims painfully respond to all attempts to alter the situation and transgress the dividing line. In many of the Muslim states anti-Western trends openly predominate; statistics and experts agree that the majority of the Muslims dislikes the West and mistrusts it, to say the least.

This explains why the TV picture of the collapsing Twin Towers aroused satisfaction among some of the Muslims: "Finally, somebody has taught them a lesson!" Bin Laden is popular among the Islamists because what he is doing is interpreted as a liberatory effort that cripples Western domination. More likely than not, the armed conflicts at the periphery of the Islamic world (in Central Asia and the Caucasus) are caused by a direct contact of the Western and Islamic models. In the political sphere, the Shari'a rule in the Kadar zone and the "Botlikh breakthrough" clearly demonstrated the opposition between Islamism and democracy on the territory of Russia.

Since Russia is busy building a democratic society and an open market economy, its regions with the predominant Muslim populations find themselves in the sphere of a never-ending conflict (the Volga area and the Northern Caucasus). In this sense, today Daghestan is not merely an area where the future of the Russian Federation and its territorial integrity is decided; it is an area where a real alignment of forces (for and against democratic reforms and for and against civil society) is evolving. In fact, this problem creates difficulties and the local specifics of the economic and political reforms in the Northern Caucasus.

C o n c l u s i o n s

In these conditions democracy should obviously stand opposed to the fairly powerful (legal and clandestine) confessional forces. The experience of countries that lived through religious Protestantism showed that democracy should rely on the following principles. First: it should effectively oppose the forces resolved to take power with the help of religious slogans. Second: opposition per se cannot produce desired results in the absence of an institutional system with a balance of varied secular political movements. In the final analysis, it alone makes it possible to push aside the religious movement, be it Islamic or Christian Orthodox, and neutralize its political ambitions. Third: it is necessary to organize a pluralistic political process far removed from religion and a multi-party system that are varied enough to make a civil society possible.

PROSELYTISM IN KYRGYZSTAN

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In independent Kyrgyzstan the rich and multisided spiritual life of its peoples, including religious confessions, is flourishing as never before. Having firmly resolved to build a democratic society our republic was one of the first in the CIS to pass the most democratic law on the freedom of conscience. It has no rivals in legislations of both newly independent and developed democratic states.

Its constitution registers the freedom of conscience and a secular state as its legal basis. Art 16.11 states: "Each person is guaranteed the freedom of conscience, religion, and religious or atheist activities. Each person has the right to freely profess any religion or do not profess any; to choose, have and disseminate his religious or atheistic convictions." Art 8.3 says: "Religion and the cults are separated from the state," while Art 15.2 registers: "None can be discriminated against, the rights and freedoms of no person can be infringed upon for the reasons of birth, sex, race, nationality, language, religion, political or religious convictions or for any other reasons of personal or public nature."

Social and political changes in the republic are unfolding at a fast pace; difficulties and contradictions apart they have already radically changed both the relations between the state and confessions and the religious situation in the country.

Today, new religious organizations (unheard of in the republic prior to 1991) are present on its religious scene along with the traditional confessions (Islam and Christian Orthodoxy, the latter having 44 churches and parishes of the Russian Orthodox Church, including a nunnery and two Christian Orthodox structures outside the ROC absent prior to 1991, too). Today there are 3 Catholic communities; 2 Jewish ones, 1 Buddhist community; 216 Protestant communities (including 20 missions of foreign confessions, 11 educational centers, 7 centers, foundations and associations); and also 12 Bahai communities. About one thousand foreign missionaries are working in the republic—there were none before 1991.

There is a Spiritual Administration of the Muslims of Kyrgyzstan (SAMK) in the republic with 9 kazyats (territorial structures), 1,600 mosques, 25 Muslim centers, foundations and associations; 3 missions of foreign Islamic confessions, 7 Islamic institutes, 41 madrasahs and 1 Koranic class.¹

All these organizations can be divided into the following groups:

1. Old religions, new for Kyrgyzstan and its population, more often than not without local ethnic and confessional routes. They came from abroad in the last decade and are coordinated from foreign religious centers. There are, for example, numerous protestant groups and movements of American, South Korean and other origins, and certain Islamic trends.
2. Religious movements of the last 100 years (the so-called "new century" religions) based on occultism and mysticism; they do not correlate with any of the known world religions (Falungung, Sun Myung Moon Unification Church, Sri Chinmoy Cult, International Society for Krishna Consciousness, Maharishi University of Management, Satanism, New Age Movement). Often headed by one leader they insist on their religious autonomy and formulate alternative programs of human and social development. They came from abroad and are administered by foreign religious centers.
3. The so-called "new religious movements" or groups that appeared or became structuralized in the former Soviet republics that are close to the above-mentioned religious groups: Great White Brotherhood and Blue Lotus.

Their presence has radically changed the old confessional picture; what is more, they have considerably complicated the confessional and ethnic relations in the republic.

There are several reasons behind these unwelcome developments. Here are a few of them. First, the collapse of the old Soviet ideological and axiological system and the resultant ideological vacuum. Second, increased national self-awareness, a quest for ethnic identity of which religion has been and remains the main element. Third, and probably most important, cardinal social, political and economic changes. The inevitable losses of the transition period, economic stratification into very rich and very poor urged part of the local people to return to the utopian, illusory equality, quasi-struggle against richness and excesses, to false egalitarianism that deprive people and society of any distinctive image. They did it very much in conformity with Soviet mentality rather than seeking spheres where they could apply their strength and knowledge for the sake of personal prosperity. Finally, fourth, Kyrgyzstan is

¹ See: O.Sh. Mamaiusupov, *Voprosy (problemy) religii na perekhodnom periode*, Bishkek, 2003, 353 pp.

part of a large, complex and varied world with a multitude of formal and informal movements. Some of them are exploiting people's religious feelings to stress that their confession is the only correct one and to reject all others; they also use their confession as an instrument of securing their own aims. Kyrgyzstan has concentrated the trends typical of all newly independent Central Asian states: the north is Christianizing while the south is becoming more Muslim. The freedom of speech and conscience in our republic allows all sorts of confessions to thrive on its territory: in the north Protestant missions are coming to the fore, while in the south, in the Ferghana Valley Mid-Eastern missions are operating.²

Proselytism figures prominently in the context in which thousands of religious organizations are functioning—in fact, rejection of new confessions and unpleasant incidents are unavoidable. Relatives and neighbors painfully respond to the readiness with which people they know embrace new faiths; society as a whole negatively responds to this as well. The media, analysts and experts agree that proselytism and the problems created by the illegal Hizb ut-Tahrir party are the main destabilizing political and social factors in Central Asia, including Kyrgyzstan.

Indeed, the conflicts in the village of Ak-Tiuz (Kemin District), the village of Tash-Tobo (Alamedin District), the village of Myrzak (Uzgen District), in the Archa-Beshik quarter of Bishkek and elsewhere caused ethnic and religious strife that potentially could have destabilized the country. It is very dangerous to oppose one religion to another and to poison the minds of young people with an aggressive rejection of the faiths of their forefathers.³

Sociological studies conducted by the Independent Institute of Social and National Problems (Russia) demonstrated that religious resurrection in the Russian Federation intensifies religious contradictions (between Islam and Christianity, in particular) and religious intolerance is mounting. In fact, it is much more prominent among the 16-18 year olds than among older groups.⁴

The *Glossary.ru Social Sciences Dictionary* describes proselytism as a blind dedication to the recently acquired teaching, conviction, faith or dogma, while the *Brokhause & Efron Smaller Encyclopedic Dictionary* interprets the term as an ardent desire to convert all to one's newly acquired faith; The *Dahl's Interpreting Dictionary of the Living Great Russian Language* offers a similar interpretation.

If somebody is forced to embrace Christianity under the threat of death like this happened under Charlemagne this could be called proselytism. The same term applies to a situation when starving people are encouraged to adopt Christianity at the price of a free meal—this is proselytism. In the 19th century, there were “rice Christians” in China; starving people flocked in their thousands to Christian missionaries who baptized them in exchange for a bowl of rice. The newly converted then disappeared never to return, yet in the missionaries' reports they were described as proselytes. When subordinates are forced to adopt a new religion to please their superiors this smacks of proselytism. This was what happened under Kievan Prince Vladimir: chronicles say that many people adopted Christianity to please their sovereign. When followers of other than the dominating religions are deprived of their rights so that to force them to adopt Christianity this can be called proselytism prominent in many “Christian” states in the 19th century. In Germany, Karl Marx's parents adopted Christianity because the career of a lawyer was opened only to Christians; in Russia, Jews adopted Christianity to avoid conscription and be free to live outside the Pale. Thousands of Yakuts in the north of Siberia adopted Christianity to please their superiors.⁵

The very natural desire of all confessions to acquire the largest possible number of followers is the driving force of proselytism; religious organizations compete for domination. This rivalry frequently develops into an opposition among the followers and adds urgency to the already acute religious contradictions.

² See: A. Tabyshalieva, “Vzgliad na religioznuuiu situatsiu v Kyrgyzstane,” *Tsentral'naia Azia*, No. 11, 1997.

³ See: D. Soodanbek, “Ostorozhno: religiozniy raskol,” *Respublika*, No. 32, 26 November, 2002.

⁴ See: A.A. Nurullaev, *Problemy harmonizatsii khristiansko-musul'manskikh otnosheniy v SNG* [<http://www.freenet.bishkek.su/jornal/n4/JRNAL411.htm>].

⁵ See: Ia. Krotov, *Dnevnik literatora 1997 goda. Prizrak prozelitizma* [<http://www.krotov.org/yakov/dnevnik/1997/19970620.html>].

More likely than not the so-called missionaries preach in a very aggressive manner; they try to convince potential followers of their cultural, political and economic superiority and even offer false information about their religions. They tear people away from their own religions and cultural traditions while it is only genuine religion that enriches national culture. This has been obvious throughout entire human history.

Proselytism unscrupulously uses all means and methods to reach its goals: it imposes its faith through the media; organizes concerts at concert halls and stadiums; disseminates its literature; sets up publishing houses and newspapers; opens churches and prayer houses; pays for young people's education; offers wide-scale humanitarian aid, etc. There are latent forms of proselytism as well that take a form of professional training, foreign language lessons and medical treatment.

The ethnic makeup, way of life, traditions and mentality of over 80 nations and nationalities of Kyrgyzstan have been shaped by their religions (Islam among the Kyrgyz, Uzbeks, Uighurs, Dungans, Tajiks, Tartars, Kazakhs and others, and Christian Orthodoxy among the Russians, Ukrainians, and Belorussians). Religious contradictions negatively affect ethnic relationships and aggravate them.

The majority of the local population professes either Sunni Islam or Christian Orthodoxy, yet they know next to nothing about other world confessions, their philosophies, international laws and normative acts related to the freedom of conscience. Some of them treat those who follow other confessions and their missionaries with intolerance. The latter however sometimes are even aggressive to the extent that creates problems with the freedom of conscience.

Some of the missionaries go as far as abusing the tolerance demonstrated by the state and the nation as a whole. They violate people's constitutional rights and freedoms, try to lure new members by means of material aid, apply morally wrong methods to people in distress and even recur to psychological and neuro-linguistic pressure. This is done in a subtle and hard to detect manner.

In the everyday context clashes between Kyrgyz Muslims and Kyrgyz Protestants are gaining momentum: in the villages Muslims try to deprive Protestants of land to till, water for their kitchen gardens and electricity. Burial of those who belong to other than Muslim confessions triggers more conflicts: they cannot be buried in Muslim cemeteries. Even if they are buried imams refuse to perform the necessary burial rites. This has become a common feature of everyday life.⁶ In the village of Ak-Tiuz (Kemin District) one of the two opposing groups was resolved to drive the village Protestants, a new confession in Kyrgyzstan, away.⁷

Analysts are concerned with ethnic and religious conflicts and rightly so. Recently, leaders of a Protestant organization with a mixed ethnic membership tried to impose their problems on state structures; they interfered with what the SAMK was doing even though the law said: "religion and all its cults are separated from the state." They flooded all state instances, including the local OSCE office and the president, with complaints about the mufti whom they accused of having banned burials of the dead of other confessions in Muslim cemeteries.

The leaders of the same organization acting in the name of its members demanded that the president of Kyrgyzstan grant them asylum in the United States, Canada or in one of the members of the Council of Europe. They insisted that their freedom of conscience was regularly violated. It was a political move designed to raise the leaders' personal rating among the flock and to exploit religious feelings for their own personal gains.

Christian proselytes stir up enmity among the autochthonous ethnic groups. The situation is a complex one: on the one hand, there is freedom of conscience; on the other, the need to legally regulate what the religious organizations and missionaries are doing.

History of religion knows of many cases when society failed to correctly assess the situation thus causing tragedies. Today, we need new forms and mechanisms of an interaction between the state, society and new religious organizations designed to avert potential religious conflicts. We need new laws similar

⁶ See: Z.I. Galieva, "Kyrgyzstan: mesto i rol' religii v sovremennom obshchestve," *Materialy kruglogo stola "Dialog kul'tur i religii—garantia mira i stabil'nosti*, Bishkek, 2002, pp. 14-20.

⁷ See: L. Saralaeva, "Pravdoy na pravdu, veroy na nadezhdu..." *Delo No.*, No. 13, 13 April, 2002.

to those applied in the developed European states to keep within limits those religious organizations that may change the traditional family and clan relations and traditional religious preferences, and upset the religious balance in the republic.

Much depends on the people themselves who, on the whole, prefer peace and agreement among ethnic groups and confessions. This should be encouraged in all ways.

Society should strengthen mutual understanding and develop a dialog with the followers of new religions so that to be able to accept them as a part of the local scene. The new structures should emulate this example and try to avoid confrontation for the sake of religious and ethnic harmony.

ENERGY POLICY

**CASPIAN OIL:
ITS EXPORT ROUTES
AND TRANSPORTATION PROBLEMS**

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Gaining access to the world market will place the new oil- and gas-producing states of the Caspian region in intense competition with the Near and Middle East and Russia, the largest oil and gas exporters. The country that can offer reliable delivery of these commodities at the lowest production and transportation costs will come out on top. After all, the problems encountered in this area are having a direct effect on the economic efficiency of oil-producing projects, since developing even low-capacity fields might be highly profitable if they are conveniently located, making it possible to deliver hydrocarbons to the markets at minimal cost. Whereas the economic efficiency of a field is significantly reduced if an expensive transportation infrastructure has to be built to deliver its oil to the consumers. Doing a cost appraisal requires looking at the key factors that influence a decision in favor of a particular route (or several). Here we should keep in mind the total and annual export volume, production costs, particular legislation features and rights in the

producing and transit countries, whether the oil's quality can be preserved during shipment by diversified routes and with other types of transportation, natural geographic and export limitations, the special features of the transportation infrastructure, supply forecasts, demand prospects, and so on.

The author of this article is interested not so much in the prospective oil supplies in the region, the development of which might begin in the future, as in the estimated economic potential of the surveyed fields. This will make it possible to make at least an approximate estimate of how much it will cost to deliver oil to the world market within the framework of the international consortiums actually in operation. In order to do this, we chose four large consortiums created on the basis of production sharing agreements (PSA) and already engaged in production or about to begin it in the next few years (see Table 1). One of them is the Azerbaijan International Operating Company (AIOC), which is developing the Azeri-Chirag-Gunashli field. And there are three consortiums operating in Kazakh-

stan: TengizChevrOil (TCO, developing the Tengiz and Korolevskoe fields), the Karachaganak Integrated Organization (KIO, working the Karacha-

ganak field), and the Kazakhstan North-Caspian Operating Company (Agip KCO, developing the Kashagan field).

Table 1

**Individual Oil Projects
in Azerbaijan and Kazakhstan**

International Consortiums	Supplies, mill. tons	Investments, bill. dollars	Production, mill. tons/year				Transportation Infrastructure
			2002	2005	2010	2015	
AIOC	730	12.7	6.5	20	50	50	Baku-Supsa/ Novorossiisk BTC
TCO	1,200	20	12.5	14	25	25	CPC
KIO	400	5	5	12	20	20	CPC
Agip KCO	1,700	9*	—	6.5	20	60	BTC
Total	4,030		24	52.5	115	155	

*—first stage.

Source: oil companies, MEDIA-PRESS, CNA, RusEnergy, and others.

Special Features and Restrictions of the Transportation Infrastructure

When choosing prospective routes for exporting Caspian oil, present and future demand (and supply) should be kept in mind, along with the natural geographic limitations of its transportation to the world markets. From this standpoint, oil delivery depends not only on the amount, but also on the location—the region lies between the main present and future sales markets (Europe and Asia), on the one hand, and between the main suppliers (the Near and Middle East and Russia) to the world markets, on the other.

This market has already been divided up among the main suppliers, and the main transportation routes to the main consumers have already been established (see Table 2). For example, in 2002 total production exceeded 3.5 billion tons, and export 1.9 billion tons.¹ The largest exporters are the countries of the Near and Middle East, Africa, the former U.S.S.R., and Latin America (44%, 15%, 13%, and 12% of total export, respectively).

A well-developed infrastructure, particularly sea transportation and a terminal network, is minimizing the transit risks in keeping with the coordinated rules of the game, which is played on the principles of fair competition, non-discrimination, mutual complementarity, and mutual advantage. In 2002, essentially all of the world's exported oil was transported by tanker—approximately 1.9 billion tons (55% of the production volume). The “narrowest places” of oil traffic in the world are² the Hormuz (750 million

¹ See: *The BP Statistical Review of World Energy*, June 2003, pp. 7-10.

² See: Dr. Jean-Paul Rodrigue, *International Oil Transportation*, Dept. of Economics & Geography, Hofstra University, New York, U.S.A., 1998.

Table 2

**Structure of Deliveries,
Consumption and Production
of Oil in the World in 2002
(mill. tons)**

Deliveries	TO							Consumption	Production Domestic
	U.S.A. and Canada	Latin Amer.	Europe	Japan	China	Asia-Australia	Total		
FROM									
U.S.A., Canada	0	16	11	4	1	6	38	984	486
Latin America	202	0	23	1	1	8	235	296	514
Europe	82	4	0	1	4	10	101	771	326
Former U.S.S.R.	10	7	215	1	8	23	264	154	458
Near and Middle East	122	15	161	195	39	327	859	207	1,015
Africa	75	16	123	9	16	47	286	119	376
Japan	0	0	0	0	2	2	4	243	0
China	1	1	0	4	0	11	17	259	169
Asia-Australia	21	0	54	35	30	0	140	491	212
Total	513	59	587	250	101	434	1,944	3,524	3,556

Estimated according to: The BP Statistical Review of World Energy, June 2003.

tons of oil a year), Malacca (500 million tons), Bab al Mandab (150 million tons) and Turkish straits (80 million tons), and the Suez (150 million tons) and Panama canals (50 million tons). Interruptions in their operation lead to sharp fluctuations in price for this commodity and to the potential threat of a breakdown in oil delivery. Direct export of oil via pipelines is extremely limited—there are only isolated cases in the world where it is pumped “dry land-dry land” (for example, the Druzhba pipeline that runs from Russia to Europe), although oil pipelines play a major role in transportation within countries and in delivering oil from field to port.

It is obvious that since its resources and annual supply level of oil for export are lower than 10% of the world indices, the Caspian region is unlikely to become the “second Persian Gulf.” Nevertheless, it is of world significance and its role will be extremely important, since a steady rise in demand is forecast, which corresponds to the growth in the world economy. The greatest demand for Caspian oil is anticipated in the West European countries. In particular, a significant percentage of Europe’s and North America’s demand is satisfied by Norway and Great Britain (in 2002, their net export amounted to approxi-

mately 275 million tons), which have an R/P ratio (reserve/production) for 5-8 years. This means that by the end of the decade, production is expected to drop at the North Sea fields and, as their supplies are exhausted, demand for Caspian oil to replace it will increase in these regions. Caspian oil has its sights set on the U.S. market (where the demand in 2002 was approximately 540 million tons), which will also feel the pinch from the reduction in deliveries of North Sea oil, and on the Chinese market, where a significant increase in oil demand is expected over the next decade.

Today oil from the region goes to the ports of the Black and Baltic seas and to Eastern Europe via pipeline. A relatively small amount also goes by rail (see Table 3). In 2001-2002, total export amounted to 46 and 36 million tons, respectively, whereby most of it was transited through Russia. One of the most important factors restricting a further increase in the region's export potential and satisfaction of the aforementioned demand is the absence of efficient transportation systems to the world market. Geographic location (distance from the main sales markets and no direct access to the sea) gives rise to the need to build major oil pipelines and transit routes through at least one, and frequently two, three, and more countries. Since the mid-1990s, two conceptions for the export of Caspian energy resources are vying with each other—in the horizontal and vertical direction—that is, to the West and East or to the North and South. The first relies on projects to build the Baku-Supsa, Baku-Tbilisi-Ceyhan (BTC), and Kazakhstan-China oil pipelines, and the Baku-Tbilisi-Erzurum and Turkmenistan-Afghanistan-Pakistan-India gas pipelines. The second is based on increasing the throughput capacity of the pipelines running through Russia—the Caspian Pipeline Consortium (CPC), the Atyrau-Samara pipeline and its connection with new Russian ports on the Baltic Sea,

Table 3

**Structure of Oil Export
from the Caspian Sea Countries in 2001 and 2002
(mill. tons)**

Deliveries	VIA							Total
	Russian Ports			Ukraine, Belarus		Georgia	Others*	
FROM	Novoros- siisk, Tuapse	CPC	Pri- morsk	Odessa	Druzhba	Supsa		
Kazakhstan	3.3	1.5	0	8.1	2.5		7.1	22.5
	3.6	12.5	0.8	6.6	3.6		3.4	30.5
Azerbaijan	2.5					5.8	0	8.3
	2.5					6.2	0	8.7
Turkmenistan							5.6	5.6
							6.4	6.4
Total								
2001	5.8	1.5	0	8.1	2.5	5.8	12.7	36.4
2002	6.1	12.5	0.8	6.6	3.6	6.2	9.8	5.6

*—export deliveries without the use of pipeline transportation.

Sources: *Neftegazovaia vertikal*, No. 2, 2003; Transportation Ministry of Georgia [www.mtc.gov.ge].

as well as on building the Kazakhstan-Turkmenistan-Iran (KTI) pipeline. The main characteristics, transportation conditions, and several features of some of the projects in operation or soon to be in operation are presented in Table 4.

Table 4

**Main Export Oil Pipelines
of the Caspian Region Countries**

Oil Pipelines	Length, km	Investments, bill. dollars	Capacity, ¹ mill. ton/year	Tariff, ² doll. per 100 tons/km	Tariff for entire length of route, doll./ton
Baku-Supsa	830	0.565	7.5 (10)	0.39	3.2 (1.9; 1.3) ⁵
Baku-Novorossiisk	1,410	0.4-2	5 (15)	1.11	15.67
CPC	1,510	3.2	28.2 (67)	1.72	26
Atyrau-Novorossiisk	2,160		15 (25)	1.5; 0.73	19
Atyrau-Primorsk	2,660		same	1.5; 0.73	22.5
Atyrau-Odessa	2,380		same	1.5; 0.73; 0.75	20.5
Atyrau-Poland	2,360		same	1.5; 0.73; 0.5	20
BTC ³	1,750	2.95	50 (60)	1.08	19 ⁶
Aktau-BTC ⁴	375-500	—	>20	—	—

1—in brackets possible increase in capacity;
2—tariffs in the transit countries (if there is no standard tariff);
3—under construction;
4—at the negotiation stage;
5—only transit payments in favor of transit countries;
6—Black Sea Energy Survey, OECD/IEA, 2000, p. 28.

Sources: Transneft, MEDIA-PRESS, RusEnergy, and so on.

The Russian Direction

The main export routes (with the exception of Baku-Supsa and BTC under construction) pass through Russia. This lop-sidedness has led (and is leading) to significant difficulties for the producing countries. These difficulties include legislative problems and losses incurred from a complete halt (or reduction) in transit volume and mixing different grades of oil in these pipelines.

Mixing grades of Caspian oil gives rise to major losses for exporters. Until recently only Russian oil was in demand on the world market—Urals and Siberian Light—and oil from Azerbaijan and Kazakhstan was mixed with Russian oil when it was pumped through the pipelines of the Transneft transportation monopoly and sold on the market as a Urals mixture. Since Caspian oil is higher in quality than Russian, its exporters incurred perceptible losses, and Russian companies received unjustified profits. When Caspian oil began to be exported directly, bypassing the Transneft pipelines (via Supsa and the CPC), quotations for new grades (Azeri Light and Tengiz) appeared on the world market. The difference in price between these grades and Russian Urals between October 2001 and December 2002 amounted on average to 1.81 and 1.15 dollars a barrel.³ And in 2002 alone, Azerbaijan lost approximately 33 million dollars from the deterioration in oil during its pumping via the Transneft system (2.5 million tons), whereby Urals exporters received the same amount in additional bonuses. In this respect, the interest of the Russian side (in addition to the transit revenue) in delivering Caspian oil via its own pipelines is understandable. According to specialists, after the CPC goes into operation, Russian oil companies will sustain annual losses of approximately 200 million dollars from the decline in quality of the exported oil.⁴

Whereas this problem is essentially surmountable and depends on the goodwill of the Russian structures, the natural geographic restrictions on transportation, along with present and future demand and supply, pose a significant obstacle to increasing the export of Caspian oil using Russian routes. The closest Russian access points to the world market are the Black Sea ports, to which approximately 19 million tons of Caspian oil were shipped by pipeline and exported in 2002. What is more, this index is expected to increase to 35 million tons soon, in particular by making full use of the CPC's capacities, since the Caspian countries will be able to deliver oil to the Mediterranean countries of Europe via this route. In this respect, the southern direction (through Novorossiisk) has the highest volume, particular after the Sukhodolnaia- Rodionovskaia pipeline went into operation in 2001, which allows oil to be delivered to Novorossiisk without going through Ukraine. But it will be difficult to step up export even more, since this port often has to shut down due to poor weather conditions. For example, in 2002 it was closed for 85 days (an average of almost two days a week), which is causing the oil companies major losses due to the reduction in export volumes.

Another even more significant obstacle to increasing export volumes through the Black Sea ports is the low throughput capacity of the Turkish straits. Due to the intensive traffic through these straits and the high environmental pollution this is causing to the straits themselves and the nearby territories, it would be a good idea to at least partially review the Montreux convention on improving safety measures for shipping vessels. This will make it possible to draw up a more efficient and rational transportation-trade policy. But despite these measures, it is obvious that shipment through these straits cannot be increased indefinitely. What is more, it is becoming increasingly expensive, particularly due to the safety measures undertaken.

The second direction for the export of Caspian oil is the Druzhba pipeline, via which Russian and Kazakhstan oil is delivered to Eastern Europe: through Belarus to Poland and Germany, and through Ukraine to the Czech Republic and Hungary. This route, by means of which 3.6 million tons of Kazakhstan oil were pumped in 2002, has a significant shortcoming, in addition to the special features mentioned above (the mixing of different grades of oil and so on)—oil is delivered to a market where the consumers have a wide range of choices for diversifying delivery sources and the suppliers have a sales network that is limited to the pipeline transportation infrastructure. In this situation, the balance between demand and supply for oil is established at a price lower than when all other things are equal. For example, the price of Urals grade oil delivered to the countries of Eastern Europe via the Druzhba pipeline is on average one dollar less per barrel than the price of this oil in Novorossiisk, and \$1.4 less than in Northeast Europe or in the Mediterranean states,⁵ which will incur great losses for the Caspian exporters at the proposed delivery volumes.

³ See: *Petroleum Argus, Nefte Transport*, Vol. I, 11 December, 2002, p. 27.

⁴ See: *Vedomosti*, 1 June, 2001.

⁵ See: *Petroleum Argus, Former SU Energy*, Vol. VIII, No. 3, 24 January, 2003, p. 13.

A significant increase in capacity is expected in the next few years in the Baltic direction (as a possible alternative for exporting Caspian oil). This is because the first section of the Baltic pipeline system (BPS) will go into operation, making it possible to export 12 million tons of oil a year from the Russian port of Primorsk (with the prospect of increasing it to 42 million tons). But in 2002, less than one million tons of Kazakhstan oil was shipped via BPS, so to ensure maximum loading of this port, Transneft is planning to increase the transit of Caspian oil and reorient export from the Baltic ports.

Such actions by the Russian state structures (decisions on the loading of pipelines are made by a special governmental commission) are causing oil companies direct economic losses due to the deterioration in oil transportation conditions from Primorsk to Western Europe compared with shipment via the port of Ventspils. For example, the cost of shipping oil by tanker to Rotterdam is \$6-9 more expensive per ton.⁶ What is more, during the winter there are difficult navigation conditions in the Primorsk region: although the Finnish Gulf only gets completely iced over once every ten years, its eastern part is ice-bound every year. This means that ice breakers must be used to escort tankers into the port and out again, which causes tankers to stand idle, as well as other losses, estimated at a total of 1.5 billion dollars a year.⁷

In this way, all the routes in the Baltic and Black Sea export directions (via Primorsk, Ventspils, Novorossiisk, and others) have one shortcoming in common—the shallowness of the Great Belt, Öresund (Sund) and Bosphorus straits (approximately 12, 8, and 20 m, respectively) restricts shipping, which means that tankers with a dead weight of no more than 80-100,000 tons can pass through the Baltic Sea, and with no more than 150,000 tons through the Black Sea. This significantly raises transportation costs and also restricts the potential oil sales market to the northwest and Mediterranean regions of Europe.

What is more, the Russian structures, which are pursuing the energy and economic interests of their own state, are implementing a strict policy. And Russia, in our opinion, has different priorities at different stages in the development of the Caspian Sea's resources. In the beginning, it was mainly interested in restricting access of Caspian oil to the world market as much as possible, thus allowing it to retain its own oil sales markets and ensure involvement of Russian companies in the Caspian projects, for which every possible mechanism was used. At present, Russia is placing top priority in shipping Caspian oil for export through its own pipelines, which will ensure its control over this activity in order to obtain economic profit (from transit and the difference in the quality of oil), as well as political dividends both from the producing countries and from the oil consumers.

Southern and Eastern Directions

The southern direction for exporting Caspian oil has certain prospects. The northern provinces of Iran are experiencing a significant energy shortage, which resulted in the need to ship oil from fields in the country's south and in high transportation costs due to the difficult geographical conditions in the area. In 2002, Astana revived the oil swap transactions interrupted in 1998 with Tehran (when in exchange for its oil delivered to the northern regions of Iran Kazakhstan received an equivalent amount of oil in the Persian Gulf) and by the end of the year exported approximately 1 million tons. Oil is shipped in tankers through the Caspian Sea to the Iranian port of Neka, from where it is pumped by pipeline to Tehran and Tebriz. The KTI pipeline project has been drawn, which is up 1,710 km in length, has a capacity of 25 million tons a year, and costs 2 billion dollars (to Tehran).

But if the delivery volumes exceed the demand of the North Iranian oil refineries (estimated at 7 million tons a year) and the oil is shipped on south of Tehran, not only the technical, but also the

⁶ See: *Petroleum Argus, Nefte Transport*, Vol. I, p. 28.

⁷ See: *Izvestia*, 14 April, 2003.

political and economic aspects of the transit will change, since on the way to the Persian Gulf the pipeline will pass through extensive mountainous regions, which will increase Tehran's transportation costs. To compensate them, the transit fees for foreign suppliers will have to be raised, and this will lower the route's commercial profitability. What is more, Iran itself is a major oil exporter, and if it is interested in replacing several million tons of its oil, it is unlikely to be interested in selling several tens of millions of tons of someone else's crude oil. If the price of oil drops, Iran, as a member of OPEC, on the one hand, will have to carry out this organization's decisions on cutting back production, and as a transit state, on the other, ensure uninterrupted delivery from the rival countries. The appearance of this oil on Tehran's "native" markets will create unnecessary competition, which may prompt Iran to cut back transit volumes to a certain level or set transportation fees that include compensation for possible losses due to the increase in competition. This will make the economic efficiency of Iranian transit dubious.

The eastern direction is extremely promising for exporting Caspian oil since a steady rise in demand is noted in China: in 2001, net import of this raw material amounted to 76 million tons, and in 2002, to 90 million tons.⁸ At present, Kazakhstan is delivering oil to the PRC (100,000 tons a month) by rail (via the Druzhba-Alashankou crossing). A pipeline project has been drawn up for pumping oil in this direction. Its construction would mean the creation of a new export corridor, access of Kazakhstan oil to the dynamically developing Chinese sales market, and, if a branch of this route is built to the south, also assimilation of India. Astana would not be so dependent on sales to Europe, where it currently sells almost all of its oil, and would also reduce its transit dependence on Russia, via which this raw material is transported. China would have an alternative to importing oil from the Persian Gulf, where the PRC gets almost 40% of all the oil it purchases. But implementation of these projects is being obstructed for several objective reasons, in particular, the demand for oil is mainly in China's eastern regions where it is not economically advantageous to lay a pipeline. But if there is a sufficiently large and steady demand for oil in the XUAR and, what is more, if the pipeline can be "broken down" into several smaller, economically independent sections of the entire Chinese "pipe," the route from Kazakhstan to the PRC will be economically efficient. The Atyrau-Kenkiyak oil pipeline, which opened in 2003 (with a capacity of 6 million tons a year), belongs to this link, as well as the project for the Kenkiyak-Aralsk-Kumkol route, which is now at the feasibility report stage (this work should be finished by 2005). At the first stages, these pipelines will pump oil to the West, but after reconstruction and construction of the branch from Central Kazakhstan to the Chinese border, they can be used in reverse. The prospects for this direction will significantly increase in the event Chinese companies increase the corresponding resource base in Kazakhstan. Such prospects arose at the beginning of 2003, when the British Company BG, one of the participants in the Agip KCO consortium, which is developing the offshore Kashagan field (the Kazakh sector of the Caspian Sea), announced its withdrawal from the project and sale of its share (16.66%). Two leading Chinese companies expressed the desire to buy this share for more than 1.2 billion dollars—the Chinese National Offshore Oil Corporation (CNOOC) and Sinopec. But other members of the consortium (Agip, Royal Dutch/Shell, and others), taking advantage of their privileged right to purchase, bought the BG share and divided it proportionally among them. This (as well as Russia's decision to build a pipeline from Siberia to Eastern China) was evaluated as a serious failure of the above-mentioned project, undermining the prospects for exporting Caspian oil in the easterly direction.

Western Direction

We have singled out two routes in this direction, which pass through Georgia: the Baku-Supsa and the BTC pipelines. The first of them is partially free of the shortcomings characteristic of routes to the

⁸ See: *The BP Statistical Review of World Energy*, June 2003, pp. 7, 10.

Russian ports on the Black Sea: the mixing of different grades of oil, as well as problems of ownership and state regulation of the activity of these pipelines (such as the CPC). Based on agreements that have international status, the right to possession and use (but not alienation) of the Baku-Supsa pipeline belongs to AIOC (for 30 years), and the fee for pumping oil along its entire length is 3.2 dollars a ton, which is essentially the same as the tax payments to the transit countries (see Table 4). Nevertheless, the main shortcoming of this route lies in the limited throughput capacity of the Turkish straits and the impossibility of using large tankers (with a dead weight of 300,000 and 500,000 tons).

The main export route in the western direction, the Baku-Tbilisi-Ceyhan (BTC) pipeline, does not have these shortcomings. This pipeline has a throughout put capacity of 50 million tons a year and will go into operation in 2005. But despite the obvious virtues of this route, its implementation is meeting with tough resistance. An immense number of opinions, facts, or simply disinformation have been expressed, mainly of a political nature, that are not reinforced by the economic calculations. We will only take a look at the arguments of those against BTC that relate to the economic aspects of the project. The main one is the route's unprofitability, which BTC's opponents have tried to explain by the insufficient amount of oil in Azerbaijan to load it to full capacity. But this argument proved unjustified and was rejected after it was confirmed that recoverable reserves amounted to a minimum of approximately 700 million tons. This amount of oil ensures the economic viability of a separate infrastructure transportation project. What is more, a positive facture (with respect to attracting the necessary amounts of transportable oil) is that the ENI, Total, Philips, and Inpex companies have joined this project, which did not participate in AIOC, but belong to the Agip KCO consortium, which is developing Kashagan, the largest field in Kazakhstan. By purchasing 15% of the shares (with a planned throughput capacity of the BTC pipeline of 50 million tons a year), they dramatically increased their chances of pumping 7.5 million tons of Kazakh oil into this pipeline every year.

The next argument by the opponents of BTC is the high cost of constructing it, which means high prices are being set for pumping oil. The problem is that the tariff should be sufficiently high to bring in profit, on the one hand, thus ensuring that exploitation costs and payments to transit countries are covered and corresponding profit for the invested capital is received. While on the other hand, the tariffs for pumping oil should be sufficiently low to be of interest to the companies who own the oil. During detailed engineering of the project, its operation costs were determined at 2.95 billion dollars. Taking these expenses into account, an optimal tariff was set, which was fully acceptable to the oil companies and also made it possible to receive enough profit on the invested capital. Our calculations showed that the project's Internal Rate of Return (IRR) amounts to approximately 19% and it will be redeemed in no more than ten years of operation even at a discount rate of 10% and with annual operational and transit costs amounting to 5% of the capital investments. And at a rate of 24 dollars a ton, which the founders are also considering, the BTC pipeline will be recouped in six years, and the project's IRR will increase to 21.5%.

The BTC pipeline is criticized with particular severity by nongovernmental environmental protection organizations, which demand not only more transparency and environmental friendliness in the project (which cannot be disputed), but are also complaining about its economic aspect. In so doing, they are referring in particular to studies conducted by the James A. Baker III Institute for Public Policy, which, based on corresponding estimates, ascertain that the transportation of Caspian oil to Italian ports via the Baku-Supsa pipeline will be twice as cheap as via the Baku-Tbilisi-Ceyhan route.⁹ A critical analysis of this undoubtedly in-depth and competent study is beyond the scope of this article. But it should be noted that significant changes occurred after it was published, which are not related to the publication itself. In particular, this work envisages that the throughput capacity of BTC does not exceed 40 million tons/year, and investments amount to 4.14 billion dollars. But at present, the projected capacity is calculated at 50 million tons/year, whereby investments need not exceed 2.95 billion dollars. The tariff proposed in

⁹ See: "Predlozhenia NPO otnositel'no zaimov ili garantiynykh obiazatel'stv MFI po proektu BDT" (Proposals by NGOs regarding loans or guarantee obligations of the IMF for the BTC project), *Ekologia i prava cheloveka*, No. 791, 29 July, 2002.

the study for pumping oil via the Baku-Supsa pipeline (\$3.65 per ton, with a capacity of 75 million tons/year and an operational cost of 1.6 billion dollars) also arouses skepticism. For transit payments to Azerbaijan and Georgia alone (not counting the cost of capital and operational expenses) are currently \$3.2 per ton (see Table 4). Taking into account the aforesaid, it is obvious that the criticism of BTC by nongovernmental organizations, referring to these studies, is unjustified.

Nevertheless, the negative position taken by these NGOs was one of the reasons international financial institutions delayed opening a credit line for BTC. If they invest in this project using "free public funds," it will be possible to increase the quantity and improve the quality of public and social programs to be implemented during construction of the BTC pipeline. Otherwise, these programs will be the first to suffer since BTC will be built without the help of international financial institutions, and commercial banks, which rarely finance social programs, will naturally provide the necessary investments under market conditions. This will raise the interest rate on credit to a certain extent and will have a negative effect on the BTC's profitability. This will primarily affect Azerbaijan, in particular since it will need the appropriate guarantees in order to obtain foreign financing, which require high servicing costs that can most likely only be covered by profit on oil from the Baku share after the pipeline goes into operation. This could reduce the republic's overall revenue from operating the BTC pipeline, the benefits from which may be even higher if large-capacity tankers are used to ship the oil to consumers in different regions of the world.

Table 5

**Transportation Costs when Exporting Caspian Oil
to Different Regions of the World**

<i>doll./ton</i> <i>Export to</i>	Mediterranean	Northwest Europe	U.S.A. East	U.S.A. Gulf
Route				
Baku-Supsa* + Suez	8.0	13.0	13.7	15.5
Baku-Novorossiisk + Afra	22.5	29.8	30.9	33.5
CPC + Suez	30.8	35.8	36.5	38.3
Atyrau-Novorossiisk + Afra	25.9	33.1	34.2	36.4
Atyrau-Primorsk + Afra	—	29.7	35.0	37.5
Atyrau -Odessa + Afra	27.4	34.6	35.7	38.3
BTC + Vlcc	21.0	22.4	23.9	24.9
Aktau-BTC** + Vlcc	26.0	27.4	28.9	29.9

*—not including the cost of capital and operational expenses.
**—cost of delivering oil from Aktau to Baku is 5 doll./ton

An analysis of the data presented shows that the BTC pipeline along with Vlcc tankers is the cheapest way to ship oil to Europe and the U.S. (apart from the Baku-Supsa route, the tariffs for which do not include capital cost outlays and the pipeline's operational expenses and are used for exporting "early" oil from Azerbaijan). Whereas the minimum profit on exporting oil to South European countries (compared with other routes) amounts to 1.5 doll./ton, more than 7 dollars a ton are saved when shipping oil to Northwest Europe and the U.S. The next route (in order of preference) for delivering oil

to the South European countries is via Novorossiisk, whereby both for Azeri oil (via the Baku-Novorossiisk route) and Kazakhstan oil (Atyrau-Novorossiisk). But this direction is significantly inferior to other routes when shipping oil to more distant regions: export to Northwest Europe via the Aktau-BTC and Atyrau-Primorsk pipelines, and export to the U.S. via the Aktau-BTC pipeline. Taking into account the aforesaid, the expediency of using the BTC pipeline is obvious not only for exporting Azeri oil, but also for extending this transportation system to the port of Aktau, that is, for delivering Kazakhstan oil to the foreign markets.

Astana declared its interest in the BTC pipeline as early as 1999 at the OSCE Istanbul Summit, and since the end of 2002 negotiations have been underway between SOCAR and KazMunayGaz, state companies of Azerbaijan and Kazakhstan, with the participation of potential investors on the development of a legal base for creating the Aktau-BTC oil transportation system. There are plans to draw up an intergovernmental agreement soon which should help to bring the legislation of the two countries into harmony with international agreements, ensure favorable conditions for attracting investments, as well as their safety, and create conditions for including companies working in Kazakhstan in the project.

The next stage will be drawing up a corresponding agreement between the transit country and investors. This document, which will be based on the conditions of an intergovernmental agreement, will set forth the obligations and rights of the sides, taxation questions, and access of exporting companies to the corresponding infrastructure of the two countries. In order to manage the Aktau-Baku transportation system, a Trans-Caspian Company could be created to include the four foreign companies in Kazakhstan that are already participating in building the BTC pipeline. What is more, there are reports that another two or three foreign oil companies, as well as KazMunayGaz, may join this project. Under the project to create the Trans-Caspian Company and form an Aktau-Baku corridor efforts are being made to determine the potential of the infrastructure in Kazakhstan and Azerbaijan.

It should be noted that the stages in development of the new transportation system are closely tied to the phases of developing the Kashagan field, where "early" oil is to be produced beginning in 2005 (5-7 million tons a year). It is expedient to use sea transport for shipping this amount since a corresponding infrastructure has already been created in the Caspian. But for volumes higher than 20 million tons, it would be expedient to lay a pipeline that will link Baku with Aktau along the seabed. There were also reports that the Agip KCO consortium, developing the Kashagan field, intends to increase investments and produce approximately 22 million tons of oil a year at the first stage, which is a significant argument in favor of building the underwater pipeline. Russia is traditionally against such a decision, basing its objections on environmental considerations and lobbying for the transit of "big" oil from the Kazakhstan shelf through its territory using export routes that pass through the ports in the Black and Baltic seas. Other alternatives are also being considered, including use of the Baku-Novorossiisk pipeline (partially) under reverse conditions or building a new one from Novorossiisk to the port of Supsa, with its subsequent extension to Ceyhan. But the prospects for implementing these projects have not yet been determined, although it can be noted that they are not only in Russia's but also in Georgia's interests, particularly if they help to settle the conflict in Abkhazia. On the whole, attracting Kazakhstan oil to the BTC pipeline would undoubtedly raise its economic efficiency, but this project is commercially viable even without this. What is more, it is of immense socioeconomic and political significance for the countries participating in it.

Economic Advantages of Implementing the BTC Project

The system of criteria, which reflects the economic advantages of the Baku-Tbilisi-Ceyhan oil pipeline, can be reduced to two aggregate indices that characterize the project's economy at the micro- and macroeconomic levels. The maximum net profit index (the difference between profit and expenses) re-

flects the direct economic effect for the state and companies at the microeconomic level, and the “economic investment multiplier” index is the size of the indirect (supplementary) economic effect for the country’s socioeconomic development at the macro level.

The direct economic effect of the BTC pipeline for the state budgets forms throughout the entire time the pipeline is in operation from oil sales revenue (for Azerbaijan this amounts to 21-58 billion dollars, depending on the price of oil) and from transit (for Azerbaijan, Georgia, and Turkey, this constitutes 0.65, 0.75 and 1.5 billion dollars, respectively). At the same time, after the pipeline has been in operation for twenty years, SOCAR will receive 1.8 billion dollars as the company with a 25% share in the BTC pipeline, and the Botas Company will receive an average of 70 million dollars annually for operating its Turkish section.¹⁰ If an alternative project is implemented, Azerbaijan will still have the mentioned benefits, but Georgia and Turkey will not.

Additional direct benefits from the Baku-Tbilisi-Ceyhan route will be created by reducing the transportation costs, whereby companies that participate in the BTC and AIOC, as well as state budgets, will be the beneficiaries. By reducing these expenses, AIOC will lower operational costs on the production and sale of oil, and correspondingly also the volume of oil required to reimburse them. This will increase the overall amount of profitable oil and, naturally, Azerbaijan’s revenue from selling its share. What is more, the revenue of the AIOC and SOCAR members will grow (the latter has 10% of the shares in this consortium). On the whole, by reducing transportation costs, additional direct benefits from operating the BTC will amount on average to 200 to 600 million dollars a year, depending on comparable alternative routes and sales markets. In this way, since it is more attractive to investors, the BTC pipeline is also more efficient for the states participating in the project.

The indirect economic effect from implementing this project is characterized by the economic investment multiplier index, the mechanism for which consists of the following. The circulation of financial resources (investment and operational expenses) gives rise to solvent demand beyond the BTC for additional goods and services, that is essentially for new enterprises and industries, and this means new jobs will appear, as a result of which, the gross production output of attendant industries will increase. The people involved in this process will spend their wages on purchasing goods and services, thus stimulating the manufacture of consumer goods. Since the revenue of enterprises and the population is taxed, the state’s tax revenue will also grow. The state in turn will spend the additional funds it receives, giving rise to new circulation of finances, goods, and services. Each cycle of incoming revenue makes an additional contribution to the overall economic and social effect of the project, and each increase in revenue spreads this effect throughout the economy.

The studies carried out for CPC and BTC showed that the value of the investment multiplier in the building and operation of oil transportation systems fluctuates from \$1.5 to a little more than \$3 (that is, each dollar of investment in these projects not only increases the country’s GDP by the same amount, but also ensures 0.5-2 dollars of additional growth). The employment multiplier significantly (sometimes by ten-folds) exceeds the size of the GDP multiplier.¹¹ The effect of the employment multiplier is explained by the extremely low wages in the industries of indirect economic activity in the transit countries. As a result, the great expenses involved in implementing oil transportation projects can help to create a large number of relatively “cheap” jobs in industries of indirect (with respect to these projects) economic activity, and this means the employment of additional tens of thousands of people. In this way, the following conclusion can be drawn: as an effective source for attracting investments in the transportation infrastructure, as well as a tool for redistributing them in favor of attendant industries, the BTC project is initiating powerful multiplying effects and ensuring positive results for the entire economy, which is having an effect on the main socioeconomic indices of the member states.

¹⁰ BTC Project, Summary of Project Benefits, Oil and Gas Revenues, Supplementary Lenders Information Pack, April 2003 [www.caspianddevelopmentandexport.com.]

¹¹ See: A. Tvalchrelidze, *International Economic Projects in the Southern Caucasus and Trends of Sustainable Economic Development*, The Center for New Institutional Social Sciences, The International Research Workshop, 28 May-1 June, 2003, Washington University in St. Louis, St. Louis, Missouri, U.S.A.; A. Konoplianiuk, “Analiz efekta ot realizatsii neftegazovykh proektov SRP v Rossii dlia biudzhetrov raznykh urovnei,” *Neftianoe khoziaistvo*, No. 10, 2000.

Between January-June 2003, the increase in the GDP in Georgia amounted to 8.6% (5.4% for 2002), and the indices in construction increased to 46% (in annual terms). High growth rates in this industry are largely ensured by work on the BTC pipeline, although active implementation of the project did not begin until April. Since the percentage of the construction industry in Georgia's GDP structure is 5%, its contribution to an increase in the GDP amounts to 2.3%. A similar situation is also developing in investments—the percentage of investments in implementing this project in Georgia for the same period amounted to 45% of the volume of all investments in the country's non-financial assets. In the next two years, large investments will continue within the framework of capital spending on this pipeline, there are plans to spend approximately 520 million dollars on its Georgian section, including 225 million dollars on construction work, 120 million dollars on compensation to land owners, 90 million dollars to purchase pipes, and 85 million dollars on other capital costs,¹² which should maintain the positive trend in the growth of the country's main macroeconomic indices in the short term.

The indirect economic effect is largely temporary, since when construction is finished and the pipeline goes into operation, only the multiplication effect of annual operational costs will apply, which are much lower than the capital costs. A decrease in the indirect effects of implementing the BTC pipeline is particularly important for Georgia, where the direct effects for the state budget constitute an average of only 38 million dollars a year. And this is forcing the government to draw up corresponding measures for preventing a drop in the growth rate level achieved. In Azerbaijan, in contrast to Georgia, the negative effect of the decrease in indirect effects will be counterbalanced by intensifying the direct effects—high revenues for the oil industry and state budget from the sale of oil.

But Baku has another problem: how to avoid the consequences of the so-called “Dutch disease,” when a successful raw material industry can disrupt the macroeconomic balance, and distort the national currency exchange rate, which will prevent investments from being attracted to other branches of the economy. The methods and ways to resolve this problem are well known from world practice, and Azerbaijan has already begun implementing them. In particular, in 1999, the State Oil Foundation was founded (along the lines of Norway), in which currency assignments are accumulated from all kinds of oil company activity: revenue from the sale of oil and gas, bonuses obtained from implementing production sharing agreements, taxes, and payments for oil transit through the republic's territory. Approximately 800 million dollars have already been accumulated in this foundation, part of which has been allotted to financing some of SOCAR's share in the pipeline.

Along with the states participating in the project, Western countries are also receiving significant economic benefits. The appearance of large amounts of Caspian oil in the Mediterranean Basin will cause an overall reduction in its price in South Europe and partially oust lower quality North and West African, and well as Russian crude oil, from the market. What is more, the U.S.'s dependence on the import of Middle Eastern oil will decline, since deliveries to the American continent of the West African grades displaced from Europe will increase, where some of the Caspian crude oil will also go that is not assimilated by the oil refineries in the Mediterranean states. The countries of Northwest Europe will also receive economic benefits, where some Russian and North African oil displaced from the Mediterranean Basin will be sent.

In this way, implementation of the BTC pipeline will help to form diversified and mutually replaceable sources of production, consumption, and transportation routes for Caspian energy resources. This will allow:

- producing countries (Azerbaijan and Kazakhstan) to ensure reliable and cheap export of their product, as well as gain access to alternative foreign consumption markets;
- major energy resource consumers (the countries of Europe and North America) to maintain a steady supply of oil on the world market, diversify the sources of its delivery, and decrease their dependence on individual countries or regions;

¹² See: *Georgian Economic Trends*, GEPLAC, No. 3, 2002, p. 10.

- transit states (Georgia and Turkey) to become the necessary link between the countries producing and consuming energy resources and to have an important international economic function, which will give them the opportunity for even greater integration into the world economy.

UKRAINE, RUSSIA, AND THE CENTRAL ASIAN STATES: COOPERATION PROBLEMS IN THE GAS SECTOR

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Ukraine is a country that does not have enough oil and gas resources, its raw hydrocarbon consumption level is much higher than its production level, and the country must look for ways to compensate for this difference in a situation where it clearly does not have the funds to do so. On the bright side, the republic is in an advantageous geographic location between the oil- and natural gas-rich Russian Federation (this country links it by transit with Kazakhstan, and through it with Uzbekistan and Turkmenistan) and the large consumers of these resources in the West—the countries of East, Central, and West Europe, the Balkan states, and even Turkey. Together with the significant extractable resources of oil and gas available in Ukraine as early as the middle of the last century, its position was conducive to building large oil and gas pipelines for delivering Ukrainian raw material to other republics of the U.S.S.R. (Belarus, Lithuania, Latvia, Estonia, and Russia) at the end of the 1940s, and then (after the most accessible resources were extracted) they were used to export the Russian Federation's hydrocarbons in the western and southwestern directions.

After the collapse of the U.S.S.R., suppliers began to pay for transportation (transit) services either in money or in resources Ukraine does not have. For example, Moscow currently gives Kiev approximately 25 billion cubic meters of gas a year by way of transit payment, which constitutes more than a third of Ukraine's yearly consumption. Nevertheless, our republic has still untapped transit potential, which is sending it in search of new countries, which will pump gas through it, or at least sellers of gas, which (taking into account its own production and the payment in kind exacted from Gazprom) it clearly does not have enough of. But, without common borders with the Central Asian countries, Ukraine and its potential suppliers of blue fuel have to come to terms with Russia, which is now a transit state. In this respect, it is worth taking a more in-depth look at the situation developing around Ukraine's gas transportation system, the efficient use of which should not only promote the development of its economy, but also realize Kiev's important geopolitical and geostrategic interests.

At present, the republic's gas transportation system (GTS) occupies second place in Europe after the Russian Federation. At the beginning of 2002, the total length of the system exceeded 37,100 km, 23,000 of which consisted of main pipelines. By this time, it also included 72 compressor stations (CS), which comprised 112 compressor shops with a total capacity of 5,600 megawatts, 13 underground storage reservoirs (USR) and 1,332 gas distribution stations (GDS), 229,000 km of distribution network, and 14,800 network stations. The system's throughput capacity at the entrance was determined at 290 billion cubic meters a year and at the exit at 175 billion cubic meters. The current capacities make it possible to transport up to 140 billion cubic meters of gas a year in the westerly direction (today this means 18 European countries). The USRs (which have a total planned storage volume of 34.5 billion cubic meters) are located primarily in the west, forming a kind of gas accumulator and fluctuation damper of its inflow, which ensures the regular and guaranteed supply of blue fuel to consumers. The GTS is used to transport up to 75-80 billion cubic meters of gas to Ukraine's domestic consumers, including approximately 7 billion cubic meters for the operational needs of the network itself.

The cost of the entire system (taking into account foreign analogues) fluctuates between 22 billion and 28.7 billion dollars (depending on the calculation method used and the goals it serves). It is capable of bringing in up to 2.5 billion dollars of revenue a year by pumping Russian gas to European countries and approximately 1.3 billion hryvnas for transportation services rendered to Ukrainian consumers. But the main purpose of the system is to ensure the increasing deliveries from the east, as is required by the economy of the actively developing West.

For example, at present the EU countries are covering 60% of their requirements by means of their own production (on the whole). These states are buying gas from Russia—40.7% of foreign deliveries, Algeria—23.3%, and Norway—20.1%. According to forecasts, by 2020 the dependence of the European Union countries on these deliveries will increase to 67%, and taking into account the EU's extension to the East to 73%. It is presumed that the demand for gas will grow the fastest in Germany, since it does not want to use energy from nuclear power plants (Russia's share in its gas balance already amounts to 37%). In so doing, Algeria and Norway's prospects are limited, so in addition to the Russian Federation, the most important suppliers will obviously be the Central Asian republics: Turkmenistan, Uzbekistan, and Kazakhstan. They have access to the Russian gas transportation system and the opportunity to integrate into the Ukrainian GTS.

In this respect, the most important artery could be the Central Asia-Center pipeline system, which has the capacity to send up to 60 billion cubic meters of gas a year in the northwest direction.

But increasing the dependence of the EU countries on one supplier (the Central Asian countries do not have their own transportation arteries that do not pass through the Russian Federation) is forcing them (in order to ensure their national energy security) to look for alternative suppliers that transport gas along other routes. For example, in correspondence with the decisions made at the conference in Barcelona (March 2002), beginning in 2004, deliveries from the Russian Federation under long-term contracts are to be cut back, and beginning in 2005, the European gas market is to be liberalized, that is, this will give other producers access to it. In this respect Russia is expected to create an international organization along the lines of a gas OPEC. This idea is supported by several Central Asian stations, Algeria, and Iran. In addi-

tion to the North African countries, Iran and even Iraq are being considered by way of alternatives in the EU. These two countries have quite large supplies of natural gas. This may place the Ukrainian GTS in demand, the throughput capacity of which, as we have already noted, is not being used to its full capacity at present (approximately by 60-70%, the reserve capacity in the western direction is estimated at 50 billion cubic meters of gas a year, and the USSR capacity is being used at 55-60%) and could be increased. It is also obvious that Ukraine will have to compete with other transit states, Belarus, Poland, Turkey, and the Balkan countries, through which gas can also be pumped to Europe. Losing this fight could have a grievous effect on the Ukrainian GTS and gradually make it redundant with respect to delivering gas to Europe.

For the time being, however, Ukraine is raising the throughput capacity of its GTS. It is implementing programs to modernize and extend the network, which should make it possible to pump up to an additional 40 billion cubic meters of gas per year. The matter concerns building compressor stations on the linear part of the Torzhok-Dolina gas pipeline that has already been built, and creating conditions for fully implementing the planned capacities of the Ivantsevichi-Dolina and Khust-Satu-Mare gas pipelines. According to the data of the Neftegaz Ukrainy Company, in the 1990s, 5,000 km of main gas pipelines and branches were built and went into operation, as well as nine compressor shops with a total capacity of more than 400 megawatts. Later the Dolinskaia and Uzhgorodskaia reconstructed compressor stations went into operation, the Novopskov-Aksai-Mozdok, Dashava-Minsk-Shebelinka-Dnepropetrovsk-Odessa, Dolina-Uzhgorod-Gosgranitsa, and Ananiev-Tiraspol-Izmail main gas pipelines were modernized and reconstructed. What is more, other measures envisaged by the program for the reconstruction of compressor stations and the program for the reconstruction of the linear part of the gas transportation system drawn up under the national program called "Ukrainian Oil and Gas until 2010" have been carried out. All of this makes it possible to raise the efficiency of the work of the compressor stations, increase the pumping and selection volume of blue fuel in underground storage reservoirs located in the west of the republic, reduce the expenditure of fuel gas for technological needs, reduce the dumping of toxic wastes into the atmosphere, and bring these parameters into harmony with the European indices, which is extremely important on the eve of forming an International Consortium for Managing and Developing the Ukraine's Gas Transportation System (IGTC).

In 2002, 121.4 billion cubic meters of gas were transited via the Ukrainian GTS, including to 106.1 billion cubic meters to European countries (apart from the CIS) (see the table).

These data show that Ukraine's system of main gas pipelines is an important link in the export of Russian natural gas to Europe (currently up to 90%). This amount could be increased in the future since, as we have noted, Europe's gas demands are on the rise. Russian sources present the estimates of analysts from the U.S. Department of Energy, who claim that in 2010, the European economy will need a total of 640 billion cubic meters of gas, and according to other data, 610 billion cubic meters, compared with the current 450 billion cubic meters (according to some estimates, by 2002, Europe had consumed 516.6 billion cubic meters). In so doing, experts believe that Western Europe will be importing 205-220 billion cubic meters by 2010 and 270-300 billion cubic meters by 2020, while the Central European countries will be importing 84-94 and 114-130 billion cubic meters, respectively. Nevertheless, it is expected that in the next 7-10 years, production will decrease at the fields currently operating in the North Sea. According to the estimates of experts, Norway and Great Britain will be able (together) to ensure a maximum of 28% of the continent's needs (in 2002, they delivered 34%). The total gas production in Europe and percentage of the traditional exporters—Russia and Algeria—will amount to only 534 billion cubic meters (87.5% of the predicted demand). So Europe will need additional deliveries from other foreign sources—approximately 76-106 billion cubic meters of gas.¹ Russia and the Central Asian countries, including the Caspian states, will account for a significant amount of future import. Analysts from the Center for Global Energy Studies believe that 16% of the region's entire natural gas resources are concentrated in the Kazakhstan sector of the Caspian Sea, Uzbekistan also

¹ See: R. Ter-Sarkissov, S. Roginskiy, "Gazovyy rynek Yevropy 2010," *Neftegazovaia vertikal*, No. 6, 2003.

Table

**Amount of Gas Pumped Via
the Ukrainian GTS in 2000-2002
(bill. cubic meters)**

Index	2000	2001	2002
Transit	123.6	124.4	121.4
To European countries	112.3	105.3	106.1
To CIS countries	11.3	19.1	15.3
To Ukrainian consumers	65.7	63.4	62.2
Import deliveries to Ukraine, total	60.7	60.9	56.5
From Gazprom	27.9	26	25.3
From Itera (Turkmengaz + Itera)	2.8	34.9	31.2
Technological outlays	7.7	7	7.5
Own production			

S o u r c e: [<http://www.Energo.Net.Ua/novost/php?id=372>].

has this amount of resources, Turkmenistan accounts for another 25%, Russia for 27%, Azerbaijan for 13%, and Iran for 3%.²

Russia owns 42% of the total world resources and 34% of the explored reserves of natural gas. As early as 2000, it exported 208 billion cubic meters, now this amount is growing. In 2003, according to preliminary data, Moscow pumped 127.8 billion cubic meters of gas through Ukraine alone, and in the future, until 2013 (according to a long-term agreement between our countries), this amount will increase. As early as 2005, this amount will reach 143.8 billion cubic meters, and 36.7 billion cubic meters will go to the Balkan states. As for 2004, Russia's Gazprom will deliver 127.8 billion cubic meters of gas via Neftegaz Ukrainy's networks, 110 billion of which will go to European countries, and 17.8 billion to the CIS republics, including the Russian Federation. In accordance with its transit conditions, Kiev has the right to export 6 billion cubic meters of gas, 5 billion of which must be bought by Russia's Gazexport directly on the Ukrainian and Slovakian border.³

Neftegaz Ukrainy and Gazprom have also come to terms on payment conditions for Ukraine's transit services rendered to the Russian Federation: transit payment for 100 km is \$1.09375 for 1,000 cubic meters. To meet this payment, 24 billion cubic meters of gas will be delivered at \$50 per 1,000 cubic meters, and the rest will be paid in money. The agreement envisages conditions for Ukraine to reduce its import of Central Asian gas (36 billion cubic meters is planned), and sets forth compensation of it by the Russian side—\$50 per 1,000 cubic meters.

According to preliminary data, in 2003, Gazprom alone produced 540 billion cubic meters of gas (20 billion cubic meters more than in 2002 and 28 billion more than in 2001). What is more, if we take other Russian gas-producing companies as well, then Russia could produce as much as 600 billion cubic meters.⁴

² See: [<http://www.ngv.ru/magazin/fullview.hspl?id=1188>].

³ See: *Gazprom Will Buy Gas from Ukraine* [<http://www.riatec.ru/>].

⁴ See: *Zerkalo nedeli*, No. 37, 27 September-3 October, 2003.

It should be noted that Russia's active use of our country's gas transportation system for delivering its gas to Europe is ensured by the corresponding level of development of Russia's own integrated gas supply system (IGS), which is up to 150,000 km long. (In the Russian Federation, in contrast to other countries, the main gas pipelines are an integrated system both for exporting blue fuel and delivering it to domestic consumers, which includes 3,633 gas distribution stations of the local system, 253 compressor stations with a total capacity of 42.6 million kilowatts, and a productivity of more than 600 billion cubic meters a year, that is, approximately 1.75 billion cubic meters a day.)

World renowned Gazprom essentially holds a monopoly on the Russian gas market. Its long-term export contracts envisage delivering 2.3 trillion cubic meters of gas, whereby up to 195.9 billion cubic meters of Russian gas should be sent to Europe by 2010 (the amount was 156.5 billion cubic meters in 2002, which was more than a quarter of the consumption volume). In so doing, Russia, by retaining its leading position in this sphere, will be able to increase export by means of its own resources, by implementing several production-raising projects, and by re-exporting the gas it purchased in Central Asian countries. But the last alternative harbors several potential threats for Moscow with respect to performing its long-term obligations on gas deliveries. And these threats will grow as the percentage of gas of the Central Asian states increases in Russia's total export.

The technical state of Russia's IGS is also a cause for worry, since most of its main pipe system was built and put into operation in the 1970s-1980s and the average age of the pipelines is 23 years (only 30% have been in operation for up to 15 years, 37% for approximately 20 years, and 16% for more than 30 years). So they must be renovated, and by 2020 almost 27,000 km of new pipelines must be built, for which significant investments are required (it is believed that 1 km will cost approximately 1 million dollars). Among the new construction plans, the North European Gas Pipeline (NEG) is becoming increasingly popular and is gaining support from the European Union. This pipeline is to pass through Russia, along the bed of the Finnish Gulf and the Baltic Sea to the shores of Germany and have a throughput capacity (according to different estimates) of between 19.7 billion to 30-45 billion cubic meters a year. Other popular projects are reconstruction (second phase) of the Ananiev-Tiraspol-Izmail-Rumania-Bulgaria-Turkey pipeline (the Gaztransit project), the Kobrin-Velke Kapusany gas pipeline-branch with a throughput capacity of up to 30 billion cubic meters (bypassing Ukraine), the second branch of the Yamal-Europe main pipeline (via Poland to Germany), which also has a capacity of up to 30 billion cubic meters, and so on. Implementation of these projects is only possible if new, primarily difficult-to-reach fields go into operation. According to experts, the Gazprom Company alone will need to invest 32-35 billion dollars in work to increase production, as well as create and technically enhance the domestic gas transportation infrastructure before 2005, which is much more than its investment potential. For example, in 2000, it only had 2.7 billion dollars to spend on this, and its total credit debts on future (right up until 2020) gas deliveries are more than 14 billion dollars.

The shortage of finances and drop in production at the main fields (with insufficient exploration of new ones) could make it necessary for Russia to reconsider its priorities in developing its own production and transportation sectors with a view to routes that pass primarily through its own territory, thus saving on transit service fees to other states, primarily Ukraine. It goes without saying that official Kiev should pay attention to the current situation and take measures to bring the country up to the rank of independent player on the European gas market. Active negotiations should be held both with potential gas suppliers in the republic's GTS and with its consumers in Europe, primarily with EU states. This may be assisted primarily by the fact that the Ukrainian GTS is in close cooperation (in addition with the Russian) with the systems of its neighboring European countries: Poland, Belarus, Rumania, Moldova, Hungary, and Slovakia, and via them is integrated into the European gas transportation networks. These advantages can be used in delivering Russian, Central Asian, and possibly also Caspian gas to Europe, as well as be taken into account when drawing up documents relating to the formation and functioning of a future international gas consortium.

In this context, it is worth taking a closer look at the state and prospects for cooperation between Ukraine and the Central Asian republics, keeping in mind that our country does not have any common borders with them, and relations in this area can only be established via third countries.

Turkmenistan is one of the largest Central Asian producers of natural gas, which for several objective reasons is in no rush to gain independent access to the European market, but is selling blue fuel to Ukraine and Russia (with the right to re-export). For example, in accordance with a bilateral agreement with Moscow of 10 April, 2003 (the so-called "gas contract" in effect until 2028, which Kiev is being asked to join), Russian gas purchases will increase. By 2007, they will amount to approximately 50 billion cubic meters (the buyer is Gazprom), by 2010, to 80 billion cubic meters, and for the entire period they will amount to approximately 2 trillion cubic meters (in the first three years at \$44 per 1,000 cubic meters). Russia will use some of this gas to supply its own consumers, and it will export the rest (under replacement conditions). It can be presumed that Gazprom's purchase of such a large amount of gas in Turkmenistan, as well as under other contracts with Central Asian and Caspian states will make it imperative for this company to look for ways to increase the throughput capacities of its IGS in the westerly (primarily through Ukraine) direction. This directly corresponds with the need to realize national interests within the international gas consortium to be created with Kiev. The proposals made by Russia and essentially coordinated with the Ukrainian side to build a new branch of the main Novopskov-Uzhgorod pipeline with a throughput capacity of up to 28 billion cubic meters a year (estimated cost 2-2.5 billion dollars) should be reviewed in precisely this context.

As already noted, the potential of the Ukrainian GTS for transiting gas in the westerly direction is not being used to its fullest extent. So there are other motives for this new construction, one of which is obviously Moscow's desire to become co-owner of the property of part of our republic's system by the time the IGTC is ultimately formed. It is possible that in this situation Kiev did not have any reason to ignore Russia's offers, since Ukraine has long been making use of Gazprom's transit services to purchase gas in Turkmenistan and intends to purchase it in other Central Asian states and then maybe in Iran. It is likely that Ashkhabad's interests have also been taken into account in this decision.

As for Kiev's interests, they have been set forth in a contract on gas delivery to Ukraine in 2002-2006 (250 billion cubic meters) signed in May 2001 with Turkmenistan.⁵ Implementing the contract will make it possible for Ashkhabad to resolve several problems: bringing hard currency into its budget, using gas deliveries to carry out important construction work, which it does not have the money for today, and forming the image of a reliable supplier of energy resources in the European consumer. This contract is also advantageous to Ukraine, since because it does not have enough hard currency to purchase all the gas it needs, it will be able to compensate part of these deliveries by building or modernizing industrial and transportation facilities, municipal housing projects, and infrastructure of the fuel and energy complex in Turkmenistan, and so on. For example, an agreement between the Neftegaz Ukrainy and Turkmenneftegaz companies envisages the possibility of selling 31.5 billion cubic meters of gas to Kiev in 2004, and 4.5 billion cubic meters should be sent by way of Ashkhabad's payment for the work carried out by Ukrainian enterprises at investment facilities in Turkmenistan. Moscow can also see some benefit for itself in these agreements, therefore it signed a special trilateral agreement in September 2003 for transporting Turkmen gas to Ukraine.

Turkmenistan accounts for approximately 2% of the explored world reserves of natural gas (2.86 trillion cubic meters). The potential of the Turkmen shelf in the Caspian is estimated, according to the latest data, at another 11 trillion cubic meters, although the total forecasts vary between 15.53 and 23 trillion cubic meters. As of today, 144 fields have been opened in the republic and future areas amount to approximately 80% of its territory. In 2001, 47.9 billion cubic meters were produced in the country, 37.2 billion cubic meters of which were sent to Russia, Ukraine, and Iran. The percentage of natural gas in Turkmenistan's export structure is 56%. In so doing, approximately 11 billion cubic meters a year are used for its own consumption.

According to preliminary data confirmed by the Turkmen leadership, the republic produced approximately 80 billion cubic meters of gas in 2003 (according to other sources⁶—67.6 billion cubic meters),

⁵ See: *Governmental Courier*, 15 April, 2003 (in Ukrainian).

⁶ See: I. Tomberg, "Energy Policy in the Countries of Central Asia and the Caucasus," *Central Asia and the Caucasus*, No. 4 (22), 2003, p. 75.

and by 2010, this index could increase to 120 billion cubic meters. In compliance with the prospective plans, 75 billion cubic meters are to be exported by 2005, and 100 billion cubic meters a year by 2010. But the country's potential in this area is severely restricted by the throughput capacity of the pipelines.⁷ Therefore, it must urgently find routes for delivering its natural gas to the foreign markets (provided all the contracts signed in the CIS are implemented). In this respect, we should remember that at present, Turkmenistan's gas transportation system includes two main gas pipelines which are at a significant distance from each other. The northern route ensures pumping from the eastern gas-producing regions to the Central Asia-Center pipeline system via Uzbekistan and Kazakhstan to Russia, and on to Ukraine (with possible delivery to Europe). And the Korpeje-Kurtkui pipeline runs in the southern direction, which is currently used to export gas from the western gas-producing regions to Iran, and also to pump gas to Turkey and on to Europe. This route will also make it possible to gain access to the Asian market.

As Russian experts claim, the Turkmen section of the Central Asia-Center pipeline requires significant investments, since its original throughput capacity of 50 billion cubic meters a year dropped to 35-36 billion cubic meters, and wear and tear on the basic equipment amounts to 72-87%. There is also a similar situation in other sections of this system, which pass through Kazakhstan (836 km in length) and Uzbekistan. It is likely that Gazprom is primarily interested in modernizing the main gas pipeline, which, according to Russian sources, is considering allotting up to 2 billion dollars for this purpose, 600 million dollars of which are to go to the Turkmen section alone.⁸ It is obvious that these funds can also be obtained from the difference between the purchase price of gas in the republics of Central Asia and its sale in the West. Therefore, the sellers of blue fuel, at least Turkmenistan, are not rendering Gazprom active support at present. Admittedly, Turkmenistan and Uzbekistan have still not found a common approach to this question since they are competitors to a certain extent.

Ashkhabad has been trying for many years now to resolve the problem of exporting gas in the southern direction, where at least two alternatives are being considered: the Trans-Caspian (Caspian) and Trans-Afghan gas pipeline projects. Pakistan and Afghanistan are also interested in the latter. At the first stage (March 1995), Turkmenistan and Pakistan signed a bilateral agreement on the construction of a gas pipeline, which was later supported by Afghanistan and Uzbekistan, which later hoped to export its own gas via this pipeline. The possibility is being considered of extending the route to India. The U.S. is also supporting the project. What is more, in October 1997, the American Unocal Company (California) founded a corresponding consortium, the Central Asia Gas Pipeline.

Reference: *the consortium is to include the Turkmenistan government, 17%, Unocal Central Asia Ltd., 36.5% (at present this share is free), the Delta Gas Pipeline Company Ltd. (Saudi Arabia), 15%, Cieco Transasia Gas Ltd./Itochu Corporation/Indonesia Petroleum Ltd./Inpex Company, 13%, Hyundai Engineering and Construction Company Ltd. (South Korea), 5%, and the Crescent Group (Pakistan), 3.5%. According to analysts, Turkmenistan has left another 10% available to new investors, primarily the Russian Federation. The total length of the route—from the Turkmen gas field Dauletabad-Donmez via Afghan Kandahar to the Pakistani town of Multan, where the pipeline is to join up with the local gas transportation system, and on to the port of Gwadar on the coast of the Arabian Sea—is more than 1,500 km. The throughput capacity is 15-25 billion cubic meters a year. The estimated cost is 2 billion dollars (not counting the section to India, estimated at 600 million dollars).*

Admittedly, in August 1998, the Unocal Company halted work on the project and left Turkmenistan without resolving the question of financing the gas pipeline. Today the project is being revived, but the route of the pipeline has still not been determined, guarantees for its financing have not been

⁷ See: Ye. Ogibenin, P. Grafov, "Zavetnaia mechta Turkmenbashi," *Mirovaia ekonomika i politika*, No. 8, 29 October, 2002.

⁸ [http://www.gundogar.org/?topic_id=12&id=146].

ensured, and questions of political stability in the region have not fully been resolved. The new trilateral agreement signed in December 2002 by Turkmenistan, Afghanistan, and Pakistan nevertheless inspires hope, which Ukraine was also asked to join (but no particular response to this offer was forthcoming).

As for the Trans-Caspian Gas Pipeline (TCG), which envisages the possibility of several Caspian states exporting 30-32 billion cubic meters of gas a year via a route that passes from the Turkmen gas field of Shatlyk through the Caspian Sea, Azerbaijan, and Georgia to Turkey, a corresponding agreement supported by the U.S. (due to Washington's desire to weaken Moscow's influence in the region) was signed in 1999 by the presidents of Turkmenistan, Turkey, Azerbaijan, and Georgia. What is more, Ashkhabad and the Turkish Botas Company signed an agreement on deliveries (beginning in 2002) of 16 billion cubic meters of gas to Turkey each. (Implementation of the TCG will have a significant effect on Russia's position in Turkey, where the Blue Stream gas pipeline goes, which is still not operating under the projected conditions, as well as on Iran's ability to increase gas deliveries both to Turkish consumers and by transit to Europe.) Significant environmental problems may also arise. For example, in a joint statement between Russia and Iran of 12 March, 2001, it is noted that laying any pipelines along the bed of the Caspian Sea will be an "environmental threat due to the extremely active geodynamics" in this area. Taking this into account, it can be presumed that until the status of the Caspian Sea is determined, it is inexpedient to talk about practical implementation of the TCG. This is probably why Turkmenistan is currently working on other ambitious projects for exporting natural gas, including to Armenia via Iran bypassing the Caspian, as well as liquefied natural gas, the use of which is growing rapidly in world practice and, according to some data,⁹ as early as 2001 amounted to 30% (147 billion cubic meters) of the world trade volume of this type of fuel.

Taking into account Ukraine's economic interests in this region, Kiev should step up its cooperation with Ashkhabad on developing its gas fields on the right-hand bank of the Amu Darya River and its participation in the negotiation process among Turkmenistan, Iran, Afghanistan, and Pakistan (in particular, it should submit a proposal on the formation of a new integrated gas delivery route from the Central Asian countries to the European markets). This would not only increase the energy transit potential of our republic, but also ensure reinforcement of its own and Europe's energy security. Passivity may lead to Ukraine's irrevocable ousting from the market of transportation services in the region, and its replacement by other players headed by the U.S., which should support its own companies working in the Caspian, or by Azerbaijan, which is concerned about transporting its natural gas from the Shakh Deniz field to Erzurum (Turkey).

Reference: at present Azerbaijan is buying natural gas in Russia (2,119 billion cubic meters during the first half of 2003), which is pumped via the Mozdok-Kazi-Magomed route. This is done to economize on oil, which Azerbaijan delivers under its obligations to Russia via the Baku-Novorossiisk oil pipeline. As for the Shakh Deniz field, in the summer of 2003, the French petroleum company Technip-Coflexip SA (TCR) received a contract (300 million dollars) for its development. The company will cooperate with BP PLC, which owns 25.5% of the shares, Statoil ASA (25.5%), the State Oil Company of the Republic of Azerbaijan, LukAgip, Total SA (all with 10% each), and TPAO (9%).

One of Ukraine's important partners may be Kazakhstan, which is gaining in "energy weight." Its position will allow it to raise its production of blue fuel to 50-70 billion cubic meters as early as 2010. A significant increase in production is expected at the Karachaganak (up to 26.8 billion cubic meters), Tengiz (up to 14.1 billion cubic meters) and Kashagan fields (up to 8 billion cubic meters). Astana is placing particular hopes on developing the Caspian shelf, which is reflected in a special

⁹ See: Ye. Ogibenin, P. Grafov, "Popadet li turkmenskiy gaz v Evropu?" *Mirovaia ekonomika i politika*, No. 8, 29 October, 2002.

state program approved by the country's president on 16 May, 2003. Negotiations are continuing with Russian companies on joint development of the Khvalyn field, on carrying out exploration at the Central field, and on implementing projects at the Nursultan, Ulytau, Rakushechnoe-sea, and Darkhan structures.

By means of Russia's Gazprom, Ukraine will be able to step up its cooperation in the gas industry with Uzbekistan. As Russian sources note,¹⁰ in terms of explored reserves of natural gas, Uzbekistan occupies third, and in terms of liquid hydrocarbons, second place among the CIS and Eastern European countries. Gas confirmed potential resources amount to almost 5.1 trillion cubic meters. Gas is currently produced at 27 fields, primarily in the southeastern parts of the country, where Shurtan and Kokdumalak are among the largest fields (which have been around for a long time and are to a great extent exhausted), as well as prospective structures being developed at Kandym and Garbi.

Development of this industry in Uzbekistan is being held back by the insufficient capacities for delivering gas even to its own consumers (in the south of republic until recently the network passed partially through Turkmenistan; now the Shurtan-Sherabad pipeline has been built with a throughput capacity of up to 1 billion cubic meters, which makes it possible not only to manage without Ashkhabad's services, but also deliver gas to Tajikistan and other countries. (Although only via the Bukhara-Ural route. Therefore Tashkent is interested in expanding the throughput capacity of the operating route, as well as in building new ones in both the northern and southern directions.)

Uzbekistan has recently been taking more active part in raising production (primarily at the Kandym field with supplies of more than 100 billion cubic meters), local gas supply, and export in cooperation with the Russian Federation. As of today it is already selling blue fuel to Gazprom. According to preliminary data, it delivered 5 billion cubic meters in 2003, and plans to deliver 7 billion cubic meters in 2004, with an increase to 10 billion cubic meters beginning in 2005. As for Kiev, in 2003 the Neftgaz Ukrainy Company purchased 2 billion cubic meters in Uzbekistan from Eastern Distribution Limited (with a favorable market situation, deliveries could be increased to 3 billion cubic meters).

In the future, it will be possible to step up cooperation between Kiev and Tehran (with respect to pumping its natural gas to Europe through Ukraine). The U.S. sanctions against Iran are making this alternative particularly urgent. The reality of this cooperation is confirmed by the free transit capacities of the Ukrainian GTS. But official negotiations with Iran on this issue, which began a few years ago, must be adjusted based on the new realities relating to the upcoming formation of an international gas consortium. What is more, the problem of building a gas pipeline from Iran to Ukraine (the most likely route is through the Southern Caucasus along the bed of the Black Sea and out onto the Crimean Peninsula) is associated primarily with the need to find investors and creating a special international consortium. The participants of this consortium would make a corresponding decision about financing the construction in a situation where the U.S. and other states supporting Washington's policy in the region still have a negative attitude toward Iran.

Ukraine's experience with the U.S.'s actions in 1998, when it had to renege on cooperating with Iran, justifies its fear of being obstructed by the above-mentioned influential players. The matter concerned the participation of the Kharkov Turboatom Company in delivering equipment for the Iranian nuclear power plant in Bushehr. According to some data, the cost of the contract amounted to approximately 130 million dollars. The profit Ukraine lost has still not been compensated.

Iran is also actively working on other natural gas and oil export projects, primarily of its supplies in the Caspian region. The most realistic is the Iran-Armenia gas pipeline project. At the end of December 2001, these countries signed an agreement on its construction (the first version of the agreement was signed as early as 1992). The sides confirmed their intention to finish drawing up the project documents as quickly as possible and begin construction work (100 km in Iranian territory, and 41 km in Armenia, the Megri-Kadjaran section). There were plans to create an international consortium involving Russia's Gazprom, the Gaz de France Company, the National Gas Company of Iran, and the Armenian Energy Ministry. The estimated cost of construction (with a gas pipeline capacity of up to

¹⁰ See: *Nezavisimaia gazeta*, 11 July, 2000.

1 billion cubic meters a year) was 120 million dollars. Kiev could participate in this consortium, or at least in future tenders on construction work, as well as in the delivery and installation of special equipment made in Ukraine.

OIL PIPELINE IN THE FAR EAST: ECONOMICS AND GEOPOLITICS

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Export pipelines in the east of Russia are developing into a major issue that in the wake of 9/11 has acquired a geo-economic dimension. Having realized the risk of being dependent on the Middle Eastern oil the oil importers started looking for (or creating) alternative sources of

energy fuels. This increased an interest in the promising hydrocarbon reserves of Eastern Siberia. Today Russia is seeking an answer to a tricky question: How can the country play its “oil pipeline card” with the best economic and geopolitical results?

Selection of Routes

It was since the mid-1990s that YUKOS, one of the Russian oil companies, has been lobbying an idea of the strategic importance of an East Siberian export oil pipeline. China had been dead set against the original plan of laying the line across Mongolia. The plan was readjusted in favor of the so-called southern route from Angarsk to Daqing. Under the YUKOS variant the Russian stretch was expected to go along the southern tip of Lake Baikal, across Buriatia and the Chita Region, parallel to the Trans-Siberian Mainline and turn to Daqing at the city of Zabaikalsk. Today, this is the most developed project; there is even a Russian-Chinese agreement on feasibility studies. It was planned to start construction late in 2003 to complete the whole project in 2005. The route was expected to be 2,247 km long; with an annual carrying capacity of 20 million tons of oil by 2010 and 30 million tons of oil by 2030. Total construction cost was estimated at \$2.5-2.8 billion.¹

Confirmed demand is the project's main advantage. In spring 2003, the Chinese National Petroleum Corporation (CNPC) and YUKOS signed in Moscow a contract for buying 700 million tons of oil in the period between 2005 and 2030. The Russian side was expected to gain \$150 billion, \$60 billion of which were to be channeled to the state coffers. These amounts had been entered into China's na-

¹ See: *AK&M*, 8 September, 2003.

tional economic plans. The project's main fault, however, was limited export variants—in fact, it made China the only user of Russian oil. Indeed, if realized the project would make Moscow potentially dependent on the importer that would be able to impose its prices and volumes of imports. This threat has become even more real after more or less similar developments around the Blue Stream gas pipeline. Typically enough, the Chinese behaved like monopolists while the project was being discussed: for several years the project stalled because of their reluctance to negotiate mutually acceptable oil prices.

While the sides continued haggling another Russian firm Transneft came forward with a project much better suited to geopolitical realities. The route was to begin in Angarsk and finish at the Pacific port of Nakhodka. The line was expected to run to the north of Baikal along the BAM Mainline. Its estimated cost was over \$5 billion with the planned annual carrying load of 50 million tons of oil exported to the Asian-Pacific countries and the United States. Japan was very much in favor of the variant from the very beginning.

The variants were competing until in 2003 when the government of Russia opted for the Angarsk-Nakhodka pipeline with a branch to Daqing. Under the Transneft variant the line was to go along the Angarsk-Kazachinskoe-Tynda-Skovorodino (Amur Region) route with a branch to Daqing. Later, as extraction of oil in Eastern Siberia would increase a branch between Skovorodino and Nakhodka (the Perevoznaia Bay) would be added to the pipeline. No official decision has been passed. Even if the line first goes to China it is still unclear whether the southern variant (suggested by YUKOS) or the northern one (Transneft) will be realized. If turned to Daqing at Tynda the line will go slightly over 2,000 km across Russia while the Chinese stretch will be about 1,000 km. The project's estimated cost was \$3.5 billion.

The line to Nakhodka answers Russia's state interest to a greater extent than the other variant both from the point of view of socioeconomic development of the Far Eastern regions (the branch to Nakhodka will cross six subjects of the Russian Federation; under the Chinese variant only three subjects will be involved) and from the point of view of Russia's new strategic position in the energy fuels trade. This is true, first and foremost, of the Asian Pacific markets where Russia has not yet tapped its potential to the full.

We cannot ignore the already achieved agreements with China: any changes of Russia's export plans will mean that Russia refuses to start building the pipeline immediately, which will undoubtedly cripple our relations with China. The pipeline was expected to be commissioned during China's current five-year plan (2000-2005). China will hardly agree to revise the plan and it will surely resort to certain economic measures.

Moscow is aware of this; it cites a sort of arguments in favor of continued work on the project and of adjusting its ecological aspects to the demands formulated by the Ministry of Nature Protection in September 2003. Analysts agree that this is nothing more than a pretext needed to postpone route selection. According to Grigori Vygon, Head of the Department of Corporate Finances, Institute of Financial Studies: "There are ecological problems that can be settled. Environmental issues have nothing to do with stalled construction. Bureaucrats cannot decide on the route for numerous political and economic reasons."²

The compromise variant (Angarsk-Nakhodka and a branch to Daqing) could have resolved all political, but not economic, problems: not enough oil is extracted to make the line profitable. To repay itself the line should move annually 50 million tons to Nakhodka and 20-30 million tons to Daqing. Today, these amounts are forecasted but not yet extracted. In other words, the main problem is a technical rather than an environmental one: is there enough oil in Eastern Siberia and the Far East to export it by the planned pipelines and to meet the demands of the oil refineries in Siberia and the Far East. Today, they are operating at 50 percent of their capacity—the result is a chronic energy crisis in the region.

The draft Energy Strategy of the Russian Federation endorsed on the whole at the cabinet sitting on 22 May, 2003 testifies that the East Siberian oil can fill only one export pipeline. The same was

² *Nezavisimaia gazeta*, 10 September, 2003.

confirmed by the Program of Developing Hydrocarbon Resources of Eastern Siberia and the Republic of Sakha (Yakutia) elaborated early in 2003 by the Siberian Research Institute of Geology, Geophysics and Mineral Resources. Says Aleksandr Gert, one of the Institute's research associates: "Our calculations have shown that the East Siberian resource potential allows us to bring oil extraction to the annual level of 30 million tons (on the basis of the already prospected reserves) and to 50 million tons (on the basis of reliably forecasted reserves). This will require large capital investments in geological prospecting. A joint realization of both export projects that will require up to 80 million tons annually is so far remains unsupported by East Siberian resources."³

China is aware of this. Those who represent its oil companies say that the route to the Pacific will bury the Chinese variant. To heighten Russia's interest in the Daqing branch the Chinese side is prepared to credit the Russian section of the line project with \$658 million. Vice Chairman of the State Development Planning Commission of the People's Republic of China Zhang Guobao came to Moscow in February 2003 with the following suggestion: Beijing would repay ahead of time part of the earlier Russian loan extended in 1996 for the construction of the Tianwan atomic power station so that Russia could use the money to build the pipeline to China.

Japanese Interests

I have already said that the choice of the route developed into a bitter rivalry among interested oil importers. Russia's relations with China related to oil exports were aggravated by strategic considerations and because Japan had joined the race. In January 2003, the Japanese premier personally promised Moscow his country's financial support in the form of an untied credit and cooperation in building the Angarsk-Nakhodka pipeline. He had in mind \$6 billion to pay for the line (that could be better described as an energy corridor comprising oil and gas lines) and \$1 billion to build a marine terminal in the Maritime Territory. Nakhodka will offer access to many countries none of which will be able to monopolize oil imports.

Translated into the figures of promised assistance and direct cooperation in building the lines and developing hydrocarbon reserves in Eastern Siberia Japanese interest is extraordinary. At the APEC summit in Bangkok in October 2003 Sergei Dar'kin, Governor of the Maritime Territory, mentioned the figure of \$15 billion.

Experts believe that Tokyo's extraordinary interest is aroused by Beijing's obvious desire to monopolize all oil pipelines from Russia and other CIS countries with the aim of re-exporting fuel to the Asian Pacific countries to obtain economic and political advantages as a monopolist exporter.

Japan's interest in Russian oil is another weighty argument in favor of the Pacific route. It is a graphic manifestation of the changed approaches among the Northeast Asian countries to the fuel problem as a key to the region's sustainable development. It is very important, therefore, to assess the present and future requirements of these countries (China, in the first place). On the one hand, China is regarded as a locomotive of the APR economic development; on the other, it may prove less promising as a potential energy market than it looks today.

Orientation toward the APR and Chinese Markets: Pro et Contra

By 2010 oil consumption in the APR countries may grow by about 18 percent (against the 2000 level); by 2020 an increase will be 43 percent; the figures for China are larger still: 31 and 102 percent, respec-

³ *RusEnergy*, 26 May, 2003.

tively. Japan and South Korea have no oil of their own while China will not increase extraction (it may even drop by the end of the 2010s). This shows that the region will buy increasing amounts of oil from Russia.⁴

The Bangkok summit of APEC concentrated on Energy for Economic Growth issue. It was pointed out, in particular, that by 2030 the demand for oil in the APR would grow by two-thirds and that the sphere would require up to \$3 trillions of investments. Today, the Asian part of the APR imports 60 percent of gas and oil it needs, by 2030 the figure will be 80 percent.⁵

By 2010 oil deficit in the APR countries will reach 540-550 million tons; the forecasted deficit in Japan by 2015 will be 350 million tons. I have already described the future needs of China and South Korea, yet I deem it necessary to add that, according to the International Energy Agency, the breathtaking economic growth in China is rapidly changing the world map of oil demands.⁶

China's economic growth in the last 20 years increased demand for energy resources, which the country's domestic resources cannot meet. This explains why since 1993 China has been importing oil; in 1996, it became the world's third oil consumer after the United States and Japan. In 2001, China imported about 70 million tons of oil; according to expert assessments, by 2005 oil imports will reach the figure of 100 million tons; by 2030 the share of imported oil will grow from the present 30 to 80 percent. According to preliminary estimates, in 2003 China consumed about 230 million tons of oil (80 million tons were imported). According to the International Energy Agency, by 2008 China will outstrip Japan where oil demand is concerned and become the world's second largest consumer after the United States.

Long-term Forecasts of China's Oil Demand and Supply (<i>mill. tons</i>)*						
2001	2005	2010	2015	2020	2025	2030
Extraction						
164.9	170-178.5	174.3-180.0	163.8-180.0	155.5-182.0	150.3-170.0	150.1
Consumption						
241.4	250.0-308.0	323.5-399.0	385.0-487.0	470.0-571.0	545.0-613.0	635.0
Net imports						
76.5	80.0-129.5	145.0-224.7	210.0-323.2	295.0-415.5	375.0-462.7	484.9
Increase of net imports as against 2001						
	3.5-53.0	68.5-148.2	133.5-246.7	218.5-339.0	298.5-386.2	408.4
* The table is based on the forecasts supplied by:						
1. The PRC State Committee for Economics and Trade, 2000.						
2. The Institute of the Oil and Gas Geology, Siberian Branch, RAS, 2002.						
3. The U.S. Energy Information Administration, 2003.						
Source: <i>Neftegazovaia vertikal</i> , No. 11, 2003.						

⁴ See: *Mirovaia energeticheskaia politika*, No. 7, 2003.

⁵ RIA Novosti, 20 October, 2003.

⁶ See: Reuter, 13 November, 2003.

Today over half of Chinese oil imports come from the Middle East whose instability that has been obvious for many years now as well as oil price fluctuations affect China's energy security and its economy. In January 2003, for the first time in the last six years Beijing failed to achieve a positive foreign trade balance (import surplus being \$1.25 billion). This happened because the country had to pay \$1.11 billion more for the oil it imports (not so much because it did import more oil but because the oil prices had risen).

Diversification of sources of oil produced certain shifts in the geography of Chinese imports: for the first time in its history Angola became China's largest crude oil supplier. According to the data of oil exchange, in July 2003 China imported 2.18 million tons of oil from Africa, an increase of over 60 percent as against the previous month. Angola pushed away Saudi Arabia and Oman, China's largest oil partners.⁷

At the same time, China's efforts to join all sorts of oil extraction projects in all corners of the world produce an impression of "excessive aggressiveness." Partly this is explained by the fact that the hopes of finding big oil in the Tarim basin (western Xinjiang) failed. The largest and the oldest oilfields at Daqing that have been exploited since 1960 are rapidly depleting. The state Chinese firms are obviously working toward the maximally possible range of oil and gas sources: with this aim in view they are looking at Russia, Indonesia, Australia, Sudan, the Central Asian republics and Azerbaijan.

When talking about China's oil requirements one should bear in mind that it intends to re-export part of the imported oil to other APR states. This is a natural desire to optimize transport expenditures—much will depend on the growth of oil demands in the APR countries themselves.

At the same time, numerous forecasts of an increased oil demand in China in the next decade on which Russian oil exporters rely today are based on current figures and fail to account for economic instability in China. A social-economic or a political crisis in China (like the crisis that shook Russia) will cripple all energy export schemes and alter the entire pattern of oil consumption on the world market. This will undermine the eastbound oil pipeline projects as well.

One-sided orientation toward China creates other problems. Indeed, successful reforms, orientation toward export and developed domestic market, as well as improved infrastructure coexist with certain negative factors described as risk factors. Here are some of them: doubtful statistics; disproportions and "bubbles" in the financial sphere; regions' uneven development coupled with social tension; inflated public sector that slows down economic development; suppressed ethnic contradictions. The hypothetical economic risks apart, one cannot ignore the fact that today coal dominates the sphere of consumption of energy resources while the latest strategic schemes describe hydropower stations as a priority. One should add that the potential number of cars in private use in the country has its limits, which means that it will also limit the amounts of oil the country will need.

An objective assessment of oil consumption in China requires a wider and multi-factor analysis that will take account of the risks enumerated above rather than a straightforward extrapolation of the current economic development rates.

Kazakhstan: A Rival or a Partner?

Recently, China has turned its attention to Kazakhstan as a possible source of oil. A new player adds intrigue to the game, which should not be regarded as a negative factor.

In the next decade Astana plans to become one of the largest oil producers: by 2010 it intends to reach an annual level of 100 million tons of oil extraction; by 2015, up to 150 million tons. (In 2003, according to preliminary estimation, the country increased oil and gas condensate extraction

⁷ See: *Finansovye izvestia*, 21 August, 2003.

and reached the figure of 54,672 million tons.⁸) These ambitious plans rest on the country's high oil potential: the aggregate hydrocarbon reserves have been officially estimated at 25 billion tons of oil equivalent of which 8 billion tons can be described as recoverable reserves while 3.6 billion tons, as proven reserves.⁹

During his talks with Chairman of the PRC Hu Jintao in Astana early in June 2003 President of Kazakhstan Nazarbaev suggested that construction of the oil pipeline between Atyrau (western Kazakhstan) and Alashankou (China) be resumed. A preliminary agreement about the pipeline 3 thousand km long had been reached more than five years before. The Kazakh side added that Russia could also use the line to export its oil to China (today Kazakhstan exports not more than 1.2 million tons of oil a year to China).

In March 2003, Kazakhstan commissioned the Kenkiyak-Atyrau line used by the CNPC. So far the line which is 448.8 km long with the carrying capacity of 6 million tons (that can be brought up to 12 million tons in case of need) is moving oil in the opposite direction: it brings oil to Atyrau where part of it goes to the pipes of the Caspian Pipeline Consortium, the rest is moved along the Atyrau-Samara pipeline. Two more stretches (Kenkiyak-Aralsk-Kumkol and Atasu-Alashankou) will connect the western and the eastern parts of Kazakhstan and will make it possible to move oil to China. In the future, the line's carrying capacity can be increased to 50 million tons a year; Astana plans to offer Moscow an annual quota of 30 million tons.

Significantly, at first KazMunayGaz, an extracting company, was prepared to fund the third stage of construction, namely, the Atasu-Alashankou stretch. Today, China is prepared to pay for it (\$800 million). Construction is scheduled to mid-2004; by 2006 China hopes to get the first tons of oil.

To be profitable the oil pipeline to China should carry no less than 20 million tons a year (so far the new stretch can carry 6 million tons). Chinese companies are actively prospecting for oil in Kazakhstan. If expert forecasts about oil reserves in the Kazakhstani part of the Caspian prove correct this oil can be sent to China; at the same time, the line's carrying capacity can be increased.¹⁰

Experts believe that Beijing's readiness to fund the project means its desire to demonstrate Russia that there are alternatives to the Russian projects.

The Russian media were jealous of Kazakhstan's involvement in the Chinese schemes, yet the titles like "Nazarbaev Pushes Moscow Away from the Chinese Line"¹¹ are one-sided at least.

An export oil pipeline between Kazakhstan and China does not mean that China will never need Russian oil. Much depends on several factors such as: how fast oil demand will grow in China and how fast Astana is prepared to develop offshore oil extraction. On top of this, oil demand in other APR countries will be important because of China's plans to re-export oil through the Chinese ports. In fact, China plans to sell its oil to Japan and Korea; if domestic oil demand in the two latter countries develops at a fast pace China will need both Kazakhstani and Russian oil. It looks as if in the mid- and long-term the Kazakh and Russian projects will be mutually complementing; rivalry at the initial stage cannot be excluded since China's oil consumption remains limited so far. The country that will manage to build the pipeline first will dominate the market and enjoy all advantages.

Any discussion of a Russia-Kazakhstan rivalry inevitably raises the question: Will Astana have enough oil to fill the Chinese route to its carrying capacity because of its involvement in other pipeline projects (CPC, Atyrau-Samara, negotiations on Kazakhstan's involvement in the Baku-Ceyhan line)? An analysis of the republic export potential and its domestic demand (that will remain within 10 million tons a year in the next decade) provides a conclusion that by 2010 Kazakhstan will be able to export not more than 100 million tons. There is the opinion that this is not enough to fill the existing line to say nothing of those under construction. In the next decade the republic will not need more transportation capacities since by 2010 they will exceed the demand by about 10 million tons a year. From this it follows that Astana's

⁸ See: Prime-TASS Agency of Economic Information, 10 September, 2003.

⁹ See: *Mirovaia energeticheskaia politika*, No. 5, 2002.

¹⁰ See: *Kommersant*, 3 September, 2003.

¹¹ *Nezavisimaia gazeta*, 14 October, 2003.

political ambitions apart, the country has no economic potential to compete with Russia where the Chinese route is concerned. What is more, it does not need such rivalry. In fact, cooperation between Astana and Moscow in the energy field can be translated into strategic cooperation. Recently, the Kaztransoil Company invited several Russian companies to cooperate in moving their oil to China along the future Atasu-Alashankou line.

The republic's desire to guarantee the line's complete loading is understandable while the Russian oil firms may find this invitation attractive in the context of increased oil extraction in Russia. The Chinese branch may create a new variant of transporting oil to China—first along the now idling Omsk-Pavlodar-Chimkent line and then by the future Kazakhstan-China line.

C o n c l u s i o n s

The Russian leaders have adequately responded to the changed geopolitical context. At the Bangkok summit President Putin spoke of Russia as the main guarantor of energy security of the entire APR. Since Russia is already dominating on the European energy market and since it has established contacts with the U.S. in the energy sphere this statement should be interpreted as a desire to widen "the possibilities window" born by the oil importers' concern over possible disruptions of oil supplies from the traditional sources (the Middle East and Africa). Russia is obviously working toward converting its energy potential into stronger geopolitical influence.

Russia's energy potential is large and fast-growing. In October 2003, the International Energy Agency registered another Russia's achievement: monthly oil extraction exceeded that of Saudi Arabia: 8.5 million barrels and 8.47 million barrels a day, respectively. This is not the limit: experts believe that in the next two to three years Russia may bring its daily extraction up to 9 million barrels since in the last two years the branch boosted its efficiency. There is the opinion that external conditions are conducive to Moscow's new strategic designs.

In the wake of 9/11 the revised worldwide oil priorities moved Russia, at a fast pace, to the first place among the world's energy-exporting countries. First, the oil and gas reserves of the OECD countries are steadily declining; second, according to the European Commission's forecasts in the next 20 years the European countries will increase their oil demand by 40 percent. These figures are behind the changed attitude of the OECD members, the U.S. in the first place, to Russia. The recent rating issued by the U.S. Geological Survey gave Russia the first place as the most perspective country where oil and gas extraction are concerned; Saudi Arabia comes second; Iran is third; Turkmenistan is tenth followed by Kazakhstan. An assessment of Russia's proven recoverable oil reserves has also changed: in the last 30 years Western sources were talking about 6 to 7 billion tons, in 2003, the figure was 20 billion tons.¹²

In this context Russia's first place where daily oil extraction is concerned is not merely a line in an information flow: it is an event of independent geopolitical importance that speaks of Moscow's changed role on the international scene. In this context the already made strategic decision about the eastern oil pipelines becomes part of the country's energy and social-economic strategy for the next 20 years. Such strategy should not only formulate the goals but also indicate the means with the help of which these goals can be achieved.

Russia is increasing oil extraction while its domestic demand remains more or less the same: obviously, the country needs new markets in the U.S. or the APR. As soon as Moscow reaches these markets through an increased volume of trade and the consumers' energy dependence it will further increase the oil importers' dependence on itself. This will further promote bilateral and multilateral relations. Russian economy will profit from an increased volume of mutual trade, which means that a positive political effect will create a positive economic effect.

¹² See: *Rossiiskaia gazeta*, 17 November, 2003.

The above raises a question: To which extent do Russia's domestic realities correspond to the brilliant geopolitical context and its serious strategic plans? This can be translated into the oil-export language as: To which extent is the oil branch's infrastructure self-sufficient and how many pipelines do we need? The Russian's Energy Strategy up to the Year 2020 plans an increase of oil extraction to 445-490 million tons in 2010 and up to 450-520 million tons in 2020 (the 2002 figure is 379 million tons).

Today, the main oil pipelines move 300 million tons of oil from Western Siberia westward and up to 100 million tons to the south and the east. Combined annual carrying capacity of Russia's export pipelines is 200 million tons. The oil branch is facing a danger of an overproduction crisis as detrimental to any industry as stagnation. According to specialists, the country needs more carrying capacities to move about 40 million tons of oil a year; according to President of LUKoil Vagit Alekperov, by 2010 the gap will reach 120 million tons.

At the background of increased oil extraction the gap is slowing down the oil companies' development rates; the same can be said about the country's economies as a whole. In 2002, YUKOS estimated its short-received incomes caused by lack of optimal transportation routes at \$1 billion. Private oil companies are prepared to invest much more than the above-cited sum in export pipelines.¹³ This readiness is understandable: shortage of transportation capacities negatively affects capitalization of the Russian vertically integrated oil companies. When substantiating the need to extend export possibilities Semyon Kukes, the then head of the Tiumen Oil Company (TOC), pointed out that two export lines, to Murmansk and the Far East, would increase capitalization of the Russian oil companies by \$30 billion.¹⁴

From this it follows that Siberia needs a pipeline for political as well as for purely economic and technological reasons. President of Transneft Semyon Vainstok believes that so far the pipelines' capacities are more or less adequate. He has to admit that they are loaded to 100 percent (with the norm of 80 percent), which means that the system's resource is gradually diminishing. This is not the case of an eternal disagreement between those who extract and those who move oil. Time has come to realize the development strategy for Eastern Siberia and the Far East: we have been talking about it long enough. The country's continued economic unity is at stake; vast territories have to become a single economic and production complex. Such integration requires: a single system of communication, transmission lines, railways, highways and pipelines. In Russia the latter are absent: this undermines the unity and stability of the entire system of infrastructure support of territorial integrity. Any unstable part of such system may become an undeveloped enclave.

Obviously, instead of complaining about the "threat to Russia's territorial integrity" (presented, for example, by China) it would be much wiser to develop the load-carrying structure of economic identity. One should bear in mind that undeveloped hydrocarbon reserves of Russia's eastern territories threaten its energy security.

Everybody knows that production and export of high technologies is much more prestigious and ecologically much safer. So far, we are mainly exporting liquid fuels. Today we should think about how to decrease Russia's dependence on fuel exports and the concurring risks within an adequate system of coordinates. The answer is simple enough: even if we are doomed to fuel exports as the key to the country's competitiveness in the foreseeable future we should at least minimize the risk of turning the country into the world economy's raw-material appendage. Diversification of markets is the only remedy; this will also keep the prices at an acceptable level. In turn, diversification cannot be achieved without creating reliable accesses to the Far Eastern borders (the Chinese border or the Pacific ports). Main oil (and gas) pipelines will make it possible to address the task of domestic economic integration, to boost Russia's export competitiveness and to meet the interests of the fuel-energy complex by linking it with much more promising and cheaper fuel sources. A newly created and denser system of infrastructure (made up of pipelines, highways and transmission lines) will help deal with the integration issues and will add to the country's export potential.

¹³ See: *Mirovaia energeticheskaia politika*, No. 7, 2003.

¹⁴ See: *Vremia novosti*, 28 May, 2003.

There is another side of the same issue: to which extent will new capacities correspond to the dynamics of their loading (current and predicted extraction) and worldwide oil demand? There is the opinion that China seeks control over oil exports to Japan and Korea for the sake of political advantages, therefore it is trying to concentrate a larger part of energy exports from Russia and Central Asia.

Still, when discussing a route one should think, first and foremost, about its future loading. Today the prevailing opinion is: if the Angarsk-Daqing project is rejected the companies working in Eastern Siberia (who would like to see it realized) will be satisfied with supplying their oil from the Iurubchansk-Takhom zone to the Achinsk and Angarsk oil refineries while the surplus of oil from Western Siberia will be exported to the United States. There is a reluctance to discuss a possibility of channeling part of West Siberian oil eastward; this reluctance is probably caused by an active lobbying of the oil terminal at Murmansk.

Since the Russian government so far has not selected the oil route to China oil companies have to use railways to move part of the promised oil to China. YUKOS has recognized that because of the continued vagueness the company will have to move even more oil along railways. By 2004-2006, 5.5 million tons of oil will be moved along railways every year (the present figures are 3.5-4 million tons); in the future, the annual amount will be up to 15 million tons. Oil companies have calculated that an adequate infrastructure will require from \$400 million to \$1 billion and about two years to be completed. It should be said in all justice that 15 million tons a year are not quite real: in 2002, all Russian oil companies exported not more than 22 million tons along railways.¹⁵

This temporary variant will allow the government and YUKOS that has the contract with the Chinese National Petroleum Company to save their faces by fulfilling their obligations under the present contract and to take time to choose the route. This decision should rely on real oil reserves in Siberia, the requirements of China and the region as a whole and on Russia's geopolitical and geo-economic interests.

Today no one can assess the damage done to Russian-Chinese relations by the actual disruption of an oil pipeline agreement. In the best eastern manner Beijing avoided any comments, yet it bought 300 civil aircraft in the United States, not in Russia. At the official level, the choice is explained by a desire to improve the trade balance with the U.S., yet this was obviously China's response to the oil problems.

It is unwise to ignore and refuse to use China's investment potentials—they can be used to create an industrial upsurge in Russia's eastern regions. According to the Chinese government, China's investments in 160 countries were estimated at \$10 billion late in July 2003. They created over seven thousand jobs while construction contracts realized abroad are estimated at \$123.8 billion. The following state oil companies are actively investing abroad: Sinopec, PetroChina, and the Chinese National Offshore Oil Corporation.¹⁶ They can obviously be useful in developing Russia's oil industry.

There is another aspect of Russia's strategy designed to extend its positions on the APR energy markets: the relationships among the former Soviet republics in the oil sphere. The CIS role on the world oil market is rapidly growing. Under favorable conditions by 2010 the CIS leading oil producers will account for 25 to 27 percent of the market's needs. By that time the CIS-based oil bloc should have acquired allies among independent oil exporters to become one of the three regulators of the world's oil market together with OPEC and OECD/IEA. To achieve this, the former Union republics have to harmonize their diverse interests and formulate a single energy policy of the future energy alliance. The CIS infrastructures, especially, its transportation element, should be upgraded. It seems that something is being done—one can expect first results in two or three years' time.

¹⁵ See: *Vedomosti*, 17 September, 2003.

¹⁶ See: *K2K*, 15 September, 2003.

JAPAN AND THE CASPIAN OIL

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In recent years Tokyo has shown a considerable interest in the Caspian oil reserves. This is partly due to a prolonged rise in world energy prices, leading to a growth of return on energy production and encouraging investments, including Japanese, in energy production and transportation. Also, in 2003 the Japanese economy has shown definite signs of recovery from its prolonged recession, with a renewed interest in the new energy sources, in order to ensure a stable growth for the Japanese economy in the 21st century. On the political front, the Japanese ruling elite is convinced that the role of the Caspian states in the country's foreign policy will grow, as indicated in the "Eurasian diplomacy" concept voiced by Prime Minister Hashimoto in 1997.

Japan is alarmed by continued instability in the Middle East. Fifty-five percent of the country's energy resources are accounted for by the imports from the Middle East, whereas 85 percent of oil used in Japan is of Middle Eastern origin,¹ mainly from the UAE, Saudi Arabia, Iran, Qatar and Kuwait. Following the events of 9/11, the subsequent complications in the relations between the West and the oil monarchies of the Gulf; the U.S. military operations in Afghanistan and Iraq, which received a mixed reaction in the Arab world; the claims that America (the senior partner of Japan on the world scene) lays to Iran's nuclear program, and the continued Israeli-Palestinian conflict—prompted Tokyo to seek new energy imports, particularly oil.

It seems that, on the whole, Tokyo's interest in the Caspian oil is prompted by an interest displayed by the Western countries and transnational corporations. Caspian energy resources development is viewed as the most reliable way of including the region in free market and preventing political and economic upheavals, which the West would like to avoid. Energy export revenues should be used to develop the economy of the Caspian states, to ease the transition to a market economy and sustainable economic growth. With regard to international relations, oil revenues should encourage the ruling elites of the Caspian states to provide political stability. In other words, their desire to keep the revenues and their fear to lose them, should help prevent religious and ethnic strife and separatist movements, as plentiful in the Caspian as energy reserves. One of the goals here is to limit Islamic radicalism, in particular, to prevent Iran from solving the Caspian issues, which is seen as one of the pressure points for the Muslim world.

Tokyo is aware that while developing oil and gas reserves in the Caspian, the U.S. is playing "the Caspian Gambit," to build on Brzezinski's "grand chess board" image. This in turn will affect the Caspian countries-Russia relations, while the balance of power in Central Asia and the Caucasus is drifting away from Moscow toward the West. At the same time, it seems that Tokyo's interest in the Caspian is less political than that of the U.S. and Great Britain, whose influence in the region has grown since the

¹ *Financial Statistics of Japan 2001*, Institute of Fiscal & Monetary Policy, Ministry of Finance, Tokyo, Japan.

collapse of the Soviet Union. Japan is less interested in the political games than in promoting its business interests, looking at expected economic gains from energy production projects. For historic reasons, the Caspian is one of the few oil-rich regions outside concession activities of the largest transnational corporations. In fact, their interests are closely connected with those of the oil-importing countries. Apart from the Caspian, new concession zones could be created in Iran, Iraq and the Sahara Desert (in Algeria and Libya) with relatively low operational risks. However, here political barriers remain awesome. As to the Caspian energy reserves, they may in the longer run affect supply and demand for oil on the world markets. In an effort to limit influence of the producer states, Western countries use economic factors to manipulate the situation. Japan, being one of the largest energy importers, is naturally interested in controlling, together with the other players, oil supply and distribution in this resource-rich region.

The Japanese assessments of oil and gas reserves on the Caspian shelf broadly confirm the State Department description of the Caspian as "the second Middle East." According to the analysts of the Japanese National Oil Company (JNOC), the official U.S. estimates of the confirmed oil and gas reserves in the Caspian, as well as possible gas reserves, are broadly objective and correct. However, the JNOC experts believe that hypothetical and, therefore, total reserves, estimated at 200 billion barrels, are exaggerated. Tokyo analysts base their assessments on the latest confirmed reserves data, as well as on the reasonable averages of all the minimal and the maximal forecasts. Using these methods, they have arrived at the following figures for the Caspian reserves: 78 to 100 billion barrels of oil and about seven trillion cubic meters of gas. From this it follows that the potential Caspian shelf reserves are the third or the fourth largest in the world, which implies that their development will greatly influence energy markets in Asia and throughout the world.

Japanese companies are most active in the Azeri sector of the Caspian, the hub of production activities in the region. Baku attracts Japan with its considerable scientific potential and its solid traditions of oil production. Azerbaijan produces drilling and production equipment, as well as equipment for geological surveys, it also has considerable numbers of qualified oil industry workers. The Azeri sector contains a quarter to a third of the proven Caspian shelf reserves, whereas the Russian sector, for instance, accounts for only 1.5 percent. Moreover, Azerbaijan boasts of comparatively developed infrastructure facilities, while transportation is aided by proximity to the Black Sea ports and potential access to the Mediterranean via Turkey. Japanese experts also note ex-President Aliiev's role in the history of the Azeri oil industry. Heydar Aliiev presided over the national policy of oil production and helped create a stable structural and legal investment environment, where "the rules of the game," once set, were regularly observed.

Today the Japanese capital plays the third, and sometimes, the second role in the Western exploration projects on the Caspian shelf. The Japanese transnational corporations have managed to take part in four out of fifteen production sharing agreements operating off the Azeri coast. The first production sharing agreement in the Azeri sector signed 20 September, 1994 and covering Azeri, Chirag, and Gunashli deposits is one of the best examples of their success in the region. This agreement was signed by the twelve companies, members of the Azerbaijan International Oil Consortium (AIOC). The Itochu Oil Corporation, a Japanese firm, is the ninth member with a 3,9205 percent stake. The controlling stake at over 34 percent belongs to the British Petroleum-Amoco group.

The results of the consortium's activities have exceeded all expectations. Commercial oil extraction began as early as November 1997, while proven reserves reached the figure of 278 million tons.² Daily production volumes from twelve producing wells have reached 137 thousand barrels of oil and 2.5 million cubic meters of petroleum gas.³ Following these developments, Japanese companies widened their participation. On 20 December, 2002, Inpex Southwest Caspian Sea Ltd, a daughter company of the JNOC and Inpex, paid \$1,354 billion for LUKoil's 10 percent share in the consortium.⁴

² See: *Vedomosti*, 5 June, 2003.

³ See: *Interfax. Novosti*, 28 April, 2003.

⁴ *ITAR-TASS. Novosti*, 28 April, 2003.

Originally the consortium transported its Caspian oil via the northern route, through the Russian port of Novorossiisk. However, this route was abandoned in February 1999 after a failed negotiation between the Russian company Transneft and the Chechen authorities on transit tariffs. To save the project, consortium decided to build a new pipeline, Baku-Tbilisi-Ceyhan. One of the Japanese members of the consortium, Itochu Corporation, considered this decision necessary, "taking into account all the factors."

The new pipeline will be 1,760 km long with an annual throughput flow capacity of 50 million tons. Its completion was expected by the end of 2004, at the total cost of \$2.95 billion.⁵ Itochu has a 3.4 percent stake in the pipeline.⁶ However, the pipeline construction was somewhat delayed, according to the project officials, for environmental considerations.

Tokyo's participation in another production sharing agreement signed 14 December, 1996 and covering Dan Ulduzu and Ashrafi deposits, is considered less successful. These are exploited by the North Apsheron Operating Company (NAOC), in which a Japanese company Itochu Oil Exploration holds a 20 percent stake. Between the end of 1997 and the beginning of 1999 three exploratory wells were built, which showed that commercial oil production is unviable due to low deposits. Exploration was stopped, and the Baku company office was closed, however, the company retained its license to work in the area.

Other Azeri projects with Japanese participation have delivered a similar result. In 1998, Japanese companies signed two more production sharing agreements. Mitsui Company acquired a 15 percent stake for Kurdashi deposit with hypothetical reserves of 500-600 million barrels. The other production sharing agreement was signed between Japan and Azerbaijan and covered the Yanan Tava, Mugan Deniz and Atashgah blocks of deposits. The latter agreement was split into two equal shares. The 50 percent Azeri stake is held by the State Oil Company (SOCAR), while the Japanese stake is split among Japex Corporation with 22.5 percent, Inpex with 12.5 percent and Teykoku Oil and Itochu Oil with 7.5 percent each. The hypothetical oil reserves are estimated at 75 to 90 million tons, with the total project cost of \$2.3 billion.

Reportedly, the two exploratory wells drilled in the Yanan Tava and the Atashgah structures at the cost of \$100 million, showed no oil or gas deposits.⁷ Mr Norihito Sawara, President of the Japan Azerbaijan Operating Company (JAOC), which acts as the project developer, decided to scale down exploration drilling and to review the future of the project in October 2003 when exploration period comes to an end.⁸

Japan has no business interests in the natural reserves of the Turkmen sector monopolized by Western companies. However, two Japanese companies, Itochu Oil Exploration and Inpex have a share in the international Central Asia Gas Pipeline Consortium, linking Yashlar and Keimir gas deposits in Turkmenistan through Afghanistan with Pakistan and possibly India. The pipeline's planned length is 1,492 km, with an annual throughput flow capacity of up to 20 billion of cubic meters. The two Japanese stakes in the project add up to 13 percent. This is just one, and possibly, the least likely, of the five existing or planned options of transporting Turkmen gas. From the start the project was on hold due to the war in Afghanistan. When the U.S. and later international sanctions were introduced against the Taliban regime, Unocal, a U.S. company, which had formed and controlled the consortium with its 54 percent stake, lost interest and left the project. Additionally, several promising gas deposits were found in Pakistan between 1995 and 2000. In this context, and taking into account Pakistan's economic problems, its estimates of demands for Turkmen gas imports are likely to be scaled down. Also, the Japanese are beginning to feel that the project becomes unviable due to the political complications between Iran, on the one hand, and Afghanistan, Pakistan and India, on the other, caused by Tehran's nuclear tests and joining the Comprehensive Nuclear Test Ban Treaty, as well as to a low payment potential of the countries involved.

The oil deposits on the northern part of the Caspian shelf where Kazakhstan sector is located, has seen foreign involvement since 1993. Inpex, a Japanese oil company, joined the Offshore Kazakhstan

⁵ See: *Rossiiskaia bizness-gazeta*, 1 April, 2003.

⁶ See: *Interfax. Novosti*, 28 April, 2003.

⁷ See: *Vremia MN*, 21 March, 2003.

⁸ See: *Interfax. Novosti*, 20 June, 2003.

International Oil Consortium (OKIOC) in September 1998. It bought its 7.15 percent share from the Kazakh government, which was going through budget problems due to the financial crisis in Russia and the CIS. At present, there are six foreign companies in OKIOC, and since December 1997 the consortium has been conducting exploratory drilling in the Kashagan and Kerogly deposits with a total area of 6,000 sq km on the basis of a production sharing agreement. With regard to Kazakhstan's oil deposits, the conditions of the Caspian shelf in this sector are different to those of the on land Tengiz deposit. The Japanese experts point out that the northern part of the Caspian is shallow, not exceeding five meters in depth, and exploration here is limited by strict environmental consideration as sturgeon come here for spawning. And unlike in Azerbaijan, local infrastructure does not allow for commercial development of the deposits, which leads to extra costs.

However, the total oil deposits here are estimated at a very high level of 38 billion barrels, with recoverable reserves of 9 billion barrels. Kashagan could become one of the world's largest deposits.⁹ If commercial production begins in 2006, it should reach its maximum volume of 1.2 million barrels a day by 2016.¹⁰ The project will probably receive up to \$10 billion.

In December 2001, two Japanese firms, Marubeni Trade and Investment Corporation and Nikki Engineering Company, signed a contract with Kazakhoil to redesign the Atyrau oil refinery at the total cost of \$250 million, of which \$208 million will be provided by the Japan Bank for International Cooperation (JBIC) as a preferential loan. The project was started in 2002 and will be completed by the end of 2005. The aim is to provide equipment for refining oil to produce high-octane gasoline and kerosene. It is also planned to improve the systems for diesel fuel cleaning.¹¹

Although Japanese firms take part in the production sharing agreements, the Caspian oil does not actually reach Japan, due to large distances. Instead, the Japanese are using a swap agreement with Indonesia, which supplies them with the equivalent amount of oil.

* * *

The Caspian investment agreements have many parallels in the relations between Russia and Japan. Politically, the main problem of the Caspian is its undefined legal status, while the relations between Russia and Japan are marred by the lack of the peace agreement and the territorial disputes. The Caspian states are aiming to sign agreements on production sharing, shelf development and the construction of Baku-Tbilisi-Ceyhan pipeline, which would bypass Russia. The business relations between Russia and Japan focus on production sharing agreements Sakhalin-1 and Sakhalin-2, as well as joint exploration of the East Siberia oil deposits and the construction of the Angarsk-Nakhodka pipeline, with a diversion to the Chinese city of Daqin. As in the case of the Baku-Tbilisi-Ceyhan pipeline, the Siberian pipeline project is also complicated by environmental issues. In practical terms, the Caspian states need to cooperate in order to fight sturgeon poaching, while Moscow and Tokyo focus on cooperation to stop poaching and illegal sales of the sea products, which harm the bioresources of the Pacific. In 2002, Russia, for the first time in many years, conducted military exercises in the Caspian, in order to fight poachers and to prevent terrorist activities. In 2003, the Pacific Fleet conducted similar exercises, although on a larger scale in the Far East.

These parallels are not random. They show that, in order to protect its interest in the Caspian, as well as in the Far East, Russia needs a clear state policy and a political will for its implementation.

⁹ See: *Vedomosti*, 9 September, 2003.

¹⁰ See: *Interfax. Novosti*, 4 September, 2003.

¹¹ See: *Nihon Keizai Shimbun*, 5 December, 2001.

TRANSPORTATION CORRIDORS

**THE NORTH-SOUTH INTERNATIONAL
TRANSPORTATION CORRIDOR:
PROBLEMS AND PROSPECTS****Alexander MUKHIN**

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The idea of linking Europe and Asia along the Volga and across the Caspian Sea is an old one. Back in the 17th century Peter the Great never lost sight of the Volga while making his thrust toward Europe: the river route started at St. Petersburg and went all the way to the Caspian. It was his ambition to turn Russia into a great naval power; the Caspian had an important role to play in his plans: through it he hoped to establish trade contacts with India.

The Astrakhan Local Lore Museum provides information on Caspian navigation and fishing; Iranian and Indian merchants crossed the sea to settle in Astrakhan. Their houses can still be seen in the city's center. The isolationism that came with Soviet power in 1917 closed the route to Europe across the sea and along the Volga. Until the early 1990s about 2 million tons of international freight did cross the sea and reach Baku from Iran.¹ In the wake of the Soviet Union's disintegration land transit along the formerly safe routes became hazardous because of the geopolitical changes that crippled Russia's interests in the region, the long-drawn-out attempts to settle the Caspian's legal status, and the political instability and conflicts raging in the Northern and Southern Caucasus.

¹ See: V. Arsenov, "Mezhdunarodniy transportniy koridor 'Sever-Iug'," *Iran segodnia*, No. 2, 2003, p. 8.

The rapid economic development of the East and Southeast Asian countries in the last quarter of the 20th century increased trade turnover with Europe and required new faster and cheaper trade routes. Early in the 1990s trade turnover between the two continents accounted for over a third of the world's total. This coincided with the radical political changes in Eastern Europe, Russia, Central Asia, and the Caucasus, which produced new independent states and new markets.

In view of this, the ESCAP, aided by the U.N., drew up several projects for possible transportation corridors to Europe across the Russian Federation, Central Asia, the Caspian, Northern Iran, the Caucasus, the Black Sea ports, Turkey, and Bulgaria. Some of the routes are now in use while freight turnover along them is still much lower than along the traditional routes across the Indian Ocean, the Persian Gulf, and the Mediterranean.

In the mid-1990s, Governor of the Astrakhan Region Anatoli Guzhvin and then Ambassador of Iran to Moscow Mehdi Safari formulated an idea regarding a transportation corridor from India via Iran (from the Gulf ports to the Caspian) up the Volga and along its banks by railway to St. Petersburg and on to Europe.

They managed to sell the project to their own and several other governments. On 12 September, 2000 in Petersburg, the ministers of transport of Russia, the Islamic Republic of Iran, and India signed an agreement on an international transportation corridor (ITC) known as the North-South Corridor. Early in 2002, the three countries ratified the agreement, which then came into force. Tehran and Moscow, the two most interested sides, focused greater attention on the transport infrastructure along the North-South route and concentrated on improving their Caspian ports. The project was developed by the NOSTRAC International Consortium and the Russian Transkontinental'nye linii company.²

The agreement describes the corridor as the sum total of the already functioning and newly created communication lines in the Caspian area. In Russia the routes start at the Transcaspian sea route, go along the Caspian-Volga-Baltic system, branch off to the Volga-Don canal, and include highways and railways. The corridor will be used for freight traffic from India, Pakistan, and the Persian Gulf area via Iran (to its Caspian ports) and on either by ferries to Russian railways or by river-sea boats along Russian water routes to Central and Eastern Europe and Scandinavia. The Volga regions of Russia can also be used as transit and transshipment territories for moving cargoes to the Urals and Siberia and to handle freights arriving from these areas.³ Containers moved along this route from Bombay to Moscow will cover the whole distance in 30 days, whereas it takes 45 days on average to cross the Suez Canal, bypass Europe, and reach St. Petersburg. There is the opinion that if delivery time is reduced by 15 days, the price will also go down by \$1,000 per ton. Potentially, the ITC will be able to handle about 15-16 million tons, thus cutting transport expenses by \$1.5-2 billion a year. It will make it possible to exploit the economic advantages in the Caspian area created by oil production and the mining of other mineral resources. The new economic trends and the new market conditions will be thus tapped. This is true of this area and the Gulf countries.

Belarus, Kazakhstan, and Armenia have already expressed a desire to join the agreement; Turkmenistan, Saudi Arabia, Kuwait, the UAE, Indonesia, Malaysia, Sri Lanka, and several European countries are potential members. To realize all the possibilities offered by the corridor, Russia and Iran should develop their infrastructure and create appropriate conditions at the railway, highway, and marine terminals.

In Russia, the corridor is considered an important Eurasian geopolitical project.⁴ Iurtaev regarded the cross-Iranian route as Russia's only chance to reach the southern seas. If extended to Singapore it will offer a more expedient route linking the APR and Southeast Asia with Europe. Today, the freight flow from Singapore, the key transshipment point for Southeast Asia and APR, reaches Europe via the Suez Canal bypassing Russia. "Once Russia acquires the 'Iran-Singapore' sea route it will become not only a

² S.B. Druzhilovskiy, V.V. Khutorskaia, "Politika Irana i Turtsii v Tsentral'noy Azii i Zakavkaz'e," in: *Iran i SNG*, Moscow, 2003, p. 63.

³ See: V.V. Blizniuk, "Aspekty regional'nogo sotrudnichestva Saratovskoy oblasti i Islamskoy Respubliki Iran," in: *Iran i SNG*, p. 121.

⁴ See: V.I. Iurtaev, "Shans Rossii: liderstvo v evraziiskoi integratsii," *Vostok-Oreins*, No. 3, 2003, p. 122.

transit country for the APR, Southeast Asia, and Europe. It will also be actively involved in international trade.”⁵ V. Maksimenko is convinced that the North-South transportation corridor will add to Central Asia’s importance ten years after the Soviet Union fell apart. This route “promises the largest revolution in world trade since the Age of Geographic Discoveries by connecting Northern Europe and the Persian Gulf across European Russia, the Caspian, and Iran, and the countries of South and East Asia across Afghanistan.”⁶

Not everybody agrees with this: Belokrinskiy doubts that Iran can tap all the potential of the transportation corridor. He believes that so far no positive developments can be seen and says that the route “from the Varangians to the Greeks” offers no attractions and will not play any special role in Eurasian geopolitics.⁷

Meanwhile, in the past two or three years the Astrakhan transport junction, one of the key points, has been attracting particular attention. The rapidly developing Olia port acquired two new berths and the first of the planned terminals for handling up to 400 thousand tons in freight containers. This is the third year it has been connected to the Iranian port of Anzali and the Kazakhstani port of Aktau by the Caspian Tracker Line. Four Ro-Ro container carriers carry trailers, containers, cars, and packaged cargoes. Trade turnover is obviously increasing: by 2003 the annual volume of freight flow handled by the Astrakhan consolidated port topped 3 million tons compared to about 1 million tons in 2000. Construction of a railway designed to connect the Olia port with Russia’s railway network started in October 2003. As soon as the port reaches its planned capacity, it will be able to handle about 8 million tons of dry cargo, while the volume of container traffic via Astrakhan could reach 15 million tons in the next 2 to 3 years.

Makhachkala in Daghestan is another strategically important Caspian port of the North-South corridor; it is currently being modernized to handle up to 8.5 million tons of oil and dry cargo by 2005; in 2002, the port obtained a train ferry crossing.

It is commonly believed in the Astrakhan regional administration that the infrastructure of the Russian stretch of the North-South corridor lags behind the region’s growing requirements: today, the Russian Caspian ports have some catching up to do in terms of carrying capacity. If they do not, they will inevitably fail to cope with the freight flow and will lose business to the ports of neighboring states. In fact, stiff competition is unfolding in the area, therefore Russia will have to pour a lot of money into its Caspian ports. In the last few years, all Russian ports on the Caspian (Astrakhan, Olia, Makhachkala) received up to \$29 million, while the Iranian ports on the North-South route got over \$150 million.

Iran has already surpassed Russia in terms of equipping its part of the international corridor; the country is eager to use all the advantages offered by a smoothly functioning corridor and by the foreign investments it may attract. In fact, the city of Anzali, the port’s neighbor, received the status of a special economic zone with large international trade and commercial centers and enterprises. In September 2003, it became a free economic zone with corresponding customs and tax privileges. It was in September 2003 that a delegation of the Astrakhan Region met for talks with the heads of the IRISL and Hazar Shipping companies. They set up a working group that included members of the Astrakhan regional administration, the consulate general of Iran in Astrakhan, and shipping companies to look into the Caspian transit problems. Ali Afkhami, IRISL general director, informed everyone that late in September the first of the company’s container ships able to carry up to 140 twenty-foot containers would go into operation on the Amirabad-Olia line. IRISL’s general director reported on the construction of a container terminal now underway in the Iranian port of Bandar Abbas (designed to handle 2.5 million tons of container cargo a year), the most important event of recent times. Together with its German partners the company will invest \$150 million in the project supported by the Ministry of Transport of Iran.⁸ Iranian companies and those based in the Astrakhan Region are ready to cooperate in realizing the North-South

⁵ Ibid., p. 123.

⁶ See: V.I. Maksimenko, “Rasshirennye tezisy k diskussii,” *Vostok-Oriens*, No. 3, 2003, p. 65.

⁷ See: V.Ia. Belokrinskiy, “Kakie korrekтивы nuzhny vneshney politike Rossii,” *Vostok-Oriens*, No. 3, 2003, p. 115.

⁸ See: *Astrakhanskije izvestia*, 18 September, 2003.

corridor project. Hazar Shipping, an IRISL subsidiary enterprise, drew up an investment plan for the ports of the Astrakhan Region. According to Hazar Shipping Executive Director Mohammed Kamal, initial investments will amount to \$6 million. In 2004, Hazar Shipping plans to start moving 1 million tons of cargo in this sector.⁹

Kazakhstan is closely following the developments; it has radically modernized the port of Aktau, which now has state-of-the-art terminals.

It is also possible that transit from Pakistan, India, and other Asian countries may reach Europe along the so-called latitudinal routes (such as TRACECA), bypassing Russia. This explains why the highly mobile Astrakhan governor, who is brimming with initiatives, is somewhat concerned. His administration regularly organizes international meetings to discuss Caspian problems and regional economic developments and insistently demands that the federal government mobilize all resources so that the corridor could be used to restore Russia's domination in the Caspian and attract more freight flows. The local ports' carrying capacity should be boosted, and technological systems for moving ship crews, other transportation means, people, and cargos across the RF border should be improved.

These problems were discussed at the Third International Eurasian Transportation Conference held early in the fall of 2003 in St. Petersburg; much was said about the North-South corridor's successful development; the conference recommended actively developing the ports' infrastructure, bringing national transport-related laws into closer harmony with each other, and simplifying customs procedures. RF Transport Minister Sergei Frank called the development of the ferry Caspian system and bringing the port of Olia up to its designed capacity the two key Eurasian projects. He said that by 2005 a fleet of hi-tech ferries would be created to connect Astrakhan and Makhachkala with the ports of Kazakhstan, Turkmenistan, and Iran. It was officially announced at the conference that Belarus and Kazakhstan had decided to join the North-South corridor project.¹⁰

Customs privileges should be granted to make the project commercially more attractive to freight handling companies, ship owners, and other interested companies of the Gulf and Southeast Asian countries, India, Russia, and Europe; competitive railway tariffs are needed, as well as streamlined interaction among all transportation means; all relevant documents should be standardized, etc.

Finally, in 2003 the RF government responded to the local initiative by putting Astrakhan on the list of future free economic zones, which means that the corridor project is being supported. Today, Astrakhan is one of the major regional centers of Russia's relations with Iran. In fact, the interests of both countries are almost identical, while the Caspian is the only connecting link between them.¹¹ An international conference, *The Caspian in the 21st Century: From Politics to Business Relationships*, held in Astrakhan in May 2002 confirmed that this city has an important role to play in the Russian-Iranian economic dialog. Several dozen Iranian firms have opened their offices in Astrakhan, and in 2001, the Islamic Republic of Iran opened its consulate general there. Since 2001, the local university has been offering courses in Oriental studies and the Persian language. Tehran has been actively involved in supplying the newly established department with literature and software. Recently the Astrakhan Region and the coastal provinces of Gilyan and Mazandaran have been actively cooperating. Gilyan, in particular, organized an exhibition on the Astrakhan Region.¹² During the 2003/2004 academic year, a group of Russian students from Astrakhan has been studying at Gilyan University. The two regions are exchanging delegations and are extending their contacts to other spheres.

⁹ See: *Astrakhanskije izvestia*, 18 September, 2003.

¹⁰ See: *Ibid.*, 11 September, 2003.

¹¹ For more detail, see, for example: E.V. Dunaeva, "Kaspiiskiy region i Iran," in: *Islamskaia revoliutsia v Irane: proshloe, nastoiashchee, budushchee*, Moscow, 1999, pp. 129-137.

¹² See: N.M. Mamedova, "Rossiisko-Iranskije ekonomicheskie otnoshenia," in: *Rossia i Iran. Iranistika v Tatarstane*, Moscow, 2001, p. 141.

RAILROADS IN THE CENTRAL ASIAN COUNTRIES: PROBLEMS AND PROSPECTS

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The young states of Central Asia inherited a working and generally quite developed railroad network from the disintegrated Soviet Union. At the end of 1990, it consisted of 20,890 km of operational lines.¹ And although the railroad density was not very high, in Uzbekistan and Kazakhstan it was higher than the same index for Russia (7.8 and 5.3 km per 1,000 sq. km, respectively, and 5.1 in Russia).²

What is more, railroad transportation was relatively well equipped. For example, as early as 1931, diesel locomotives were regularly used on certain sections of the Central Asian railroad (for the first time in world practice), and in 1974, this route (the first in the Soviet Union) shifted over completely to diesel locomotive traction. In 1971, electrification began on the Tashkent mainline. By the beginning of the 1990s, the Alma-Ata railroad was characterized by the following indices: 2,967 km (with a total operational length of 4,595 km) were equipped with an automated block system and more than 900 km were semi-automated, diesel locomotives were used along almost the entire length, 749 km were electrified, and non-welded lines on reinforced concrete sleepers were installed on 1,044 km. Locomotive and carriage repair enterprises operated in the region.

The formation of the independent states in Central Asia turned a new page in the development of the region's railroads. Of course, the railroad network in each of these countries has its own special features and specific characteristics, but due to their common historical past, similar economic development, and close economic ties in recent decades relating to railroad functioning and development, today they are faced with resolving several problems that are not only very similar, but also identical for the entire region.

The first years of independence in the former Soviet republics were accompanied by such negative phenomena in their economic life as a breakdown in inter-economic ties, rise in inflation, drop in production, financial-credit instability, and deterioration in the population's standard of living. For example, in 1991-1994 in Kazakhstan, the GDP fell by 43% and in Tajikistan by 49%; during the same time industrial production in Kazakhstan dropped by 48%, and investments by 71%.³ This could not help but affect the operation of the railroads, where the volume of freight shipments was on the constant decline. In 1995 (compared with 1991) this volume dropped by almost half in Kazakhstan and Uzbekistan, three-fold in Turkmenistan, and seven-fold in Kyrgyzstan and Tajikistan. And only during the second half of the 1990s was some improvement noted. But in most of the countries these results still lag far behind the indices of the Soviet period.

As for passenger traffic, the drop in the standard of living, as well as the political instability have led to a severe decline in the population's mobility. The indices have decreased, although not as dramatically as in freight shipments. Nor is a clear-cut temporal trend observed. This shows that the decrease in passenger traffic is primarily for internal and not regional reasons. For example, as a result of the 25% in-

¹ See: *Transport i sviaz' Rossiiskoi Federatsii 1992. Kratkiy statisticheskiy sbornik*, Moscow, 1992, p. 45.

² See: *Transport i sviaz' stran SNG*, Moscow, 1996, p. 13.

³ See: *Kazakhstan: realii i perspektivy nezavisimogo razvitiia*, Moscow, 1995, p. 47.

crease in the cost of rail tickets in Tajikistan in 1998, the number of passengers traveling by rail dropped by almost half in 1999.

During the first years of their existence, the young independent states, faced with the severe drop in the volume of rail travel, did not have to worry about building new railways. This was particularly true since at the end of the 1980s, the region had rather high reserves of unused potential. Its total network density of freight traffic was approximately half of that throughout the Soviet Union as a whole.

The formation of the new independent states in Central Asia revealed another characteristic feature of its railroad network. It was orientated toward Russia and had absolutely no access to the railroads of other neighboring countries. This set them on a course toward diversifying political and economic relations, which also required them to establish transportation communication with the rest of the world, primarily with neighboring states. For example, at the end of the 1997 Kazakhstan entered about 60 bilateral and multilateral agreements on international transportation, and the republic made efforts to join international conventions and agreements in the transportation sphere. The same picture was also seen in other republics of the region. This made it possible to lay a contractual and legal foundation for the rapid development of their transportation relations in an extremely short time.

It should be noted that in addition to establishing cooperation on a bilateral or multilateral basis (for example, in 1996 Uzbekistan, Turkmenistan, Azerbaijan, and Georgia signed an agreement in Serakhs on coordinating railroad transportation and on cooperation in transit shipments), the Central Asian republics are trying to step up their participation in corresponding regional organizations. This is partially due to the fact that there were a lot of "dead ends" leading to the borders of neighboring countries in the railroad network of the former Soviet republics. What is more, during these years, specific projects were not only discussed, but also drawn up for joining them up to foreign mainlines.

A clear case in point is the construction of the transcontinental Asia-Europe railroad. "The second Eurasian transcontinental bridge," as it is often called in China, begins on the Pacific coast, at the port of Lianyungang, crosses the PRC latitudinally, joins up with Kazakhstan's railroad network at the Alashankou-Druzhba (Dostyk) border crossing, and continues on to Europe via the Russian and CIS railroads (the total length of the Lianyungang-Rotterdam route is 10,800 km, 4,100 km of which pass through Chinese territory).

In 1954, the Soviet Union and China signed an agreement on laying a mainline that would link these states via Xinjiang. The section in Soviet territory, from Aktogay to the Druzhba station on the Soviet-Chinese border, was extended in 1960. And as this agreement envisaged, the construction work in Chinese territory was carried out by the Chinese side (with technical assistance from the Soviet Union). In 1963, the branch was extended as far as Urumqi. But due to the deterioration in Soviet-Chinese relations, construction had to be stopped. China did not revive it until 1985. In 1990, the Chinese and Soviet sections of the mainline joined up, a year later, freight shipments began, and in 1992, regular passenger traffic opened up (at first once a week, and now twice a week) along the Urumqi-Alma-Ata route. At the end of 1992, this route was extended to Tashkent.⁴

Of particular significance for the entire region was construction of the Tedzhen-Serakhs-Mashhad branch, which joined the Central Asian railroad to Iran's rail network. Although this idea was discussed for several decades, and project documents were even drawn up, it did not become a reality until the 1990s. In May 1992, a ceremony was held to launch the construction project, and in May 1996 to mark the joining of the Turkmen and Iranian sections. In 1997, freight trains began moving along this branch route, which is 295 km in length (132 km of which pass through Turkmenistan territory). By the way, the governments of Uzbekistan, Kazakhstan, and Kirghizia participated in financing the construction along with Turkmenistan. The significance of this railroad lies in the fact that it not only expands the region's communication lines with Iran, but also opens up a relatively convenient alternative route to the world markets, through the Iranian ports in the Persian Gulf and Turkey, to the coasts of the Mediterranean and

⁴ For more detail on this and other transportation projects, see: I. Azovskiy, "Shelkoviy put nakanune XXI veka," *Tsentral'naia Azia i Kavkaz*, No. 2 (3), 1999; *Tsentral'noaziatskie respubliki v poiskakh transportnoi problemy*, Moscow, 1999.

Black Seas. Great hopes were also placed on transit shipments via this route from the APR countries to Europe and back. These hopes were also strengthened by the desire of the young republics to hook up their transportation networks to the project put forward in 1993 and supported in every way by the European Union on the Europe-Caucasus-Asia (TRACECA) transportation corridor.

But these hopes have not been justified so far. For example, between December 1992 and November 1994, only 1.8 million tons of cargo and 46,000 passengers passed through the control points on the Chinese-Iranian border, in 1995, 1.2 million tons, and in 1996, 2 million tons in the Chinese direction, 1.4 million tons of which came from Kazakhstan, 0.5 million tons from Uzbekistan, and 0.095 million tons from Russia. In the other direction, 0.195 million tons were shipped from China through the Druzhba station, 0.04 million tons of which went to Kazakhstan, 0.13 million tons to Uzbekistan, and the rest to Turkmenistan, Kyrgyzstan, Russia, and other countries. Container shipments amounted to 0.136 million tons, most of them from Korea to Uzbekistan.⁵ Subsequently, according to the Chinese side, the volumes remained in general small, although a slight increase in trans-border shipments was noticed of 2 million tons in 1997, 2.4 million tons in 1998, and 3.5 million tons in 1999.⁶

The freight volumes shipped across the Turkmen-Iranian border remain small too. On the one hand, this is obviously caused by the fact that the Central Asian countries have overestimated not only their export potential, but also the capacity of the market in neighboring states.

On the other hand, an analysis of the data at the Alashankou-Druzhba control point makes it possible to draw the conclusion that the percentage of goods coming from China and other APR countries, all the more so from Europe, is very low in the total amount of freight that crosses the border. This all proves that the route has still not become a bridge between Asia and Europe. After all, the appearance of new routes in no way means that foreign shippers will automatically recognize them and immediately begin using them. Specialists and the region's leaders understand this and are undertaking measures to bring their railroads into harmony with international standards and make them competitive.

For example, China is doing a great deal of railroad repair. As a result, it has become 90% double-track, and the length of its electrified sections has increased, which makes it possible to increase the train speed (now it takes 48 hours to get from Beijing to Urumqi, instead of 72). Kazakhstan has installed new equipment at the Druzhba station and is carrying out repairs of the lines between the Druzhba and Aktogay stations. It has also modernized an important section of the trans-Asian mainline, the Almaty-Astana line. In Uzbekistan, the main focus was on technical refurbishing of the railways, in particular their electrification. These and other examples show that the leadership of these countries is not giving up on the idea of an international Asia-Europe railroad corridor passing through Central Asia.

There are several more projects called upon to connect the region's railroad network with international transportation communication lines and gradually turn Central Asia into a recognized conveyer of transit freight. In particular, Kyrgyzstan and Uzbekistan have long been making frequent statements about their intention to build a railroad in the direction of China, which supported this idea. But these plans were obstructed by a disagreement between the partners on the route of the future mainline. Uzbekistan insisted on the Andizhan-Osh-Kashgar route, motivating this by the fact that it is shorter (by 70-80 km) than the "northern" alternative (Dzhalal-Abad-Torugart-Kashgar) proposed by Kyrgyzstan. After working for several years, the trilateral commission reached a final agreement in 2001 and adopted Kyrgyzstan's alternative. In this way, the railroad will pass through some of its unassimilated territory, where there are deposits of gold, coal, and other minerals, which will promote the economic development of these areas.

What is more, Kyrgyzstan is planning to build a Balykchi-Kochkorka-Kara-Keche-Dzhalal-Abad branch, which will link the country's north and south and make it unnecessary to use the railroads of neighboring countries for domestic shipments. Bishkek is interested in this route because it will turn the country's network into an active link of the Trans-Asian Mainline. Since this route is 1,200 km shorter than the old one, which passes through the Druzhba station and Kazakhstan, the initiators are counting on it competing with the Trans-Siberian Railroad. China is also showing great interest in it, which is com-

⁵ See: *Kazakhstanskaia pravda*, 13 May, 1996; *Panorama*, 27 March, 1998, *Biulleten OSZhD*, No. 32, 1997, p. 10.

⁶ See: *Biulleten OSZhD*, No. 2, 2000, p. 7.

pleting construction of a branch from Kashgar to the border. What is more, it also agreed to participate in construction work in Kyrgyzstan (on a 256-km-long section). In addition, this route will pass through difficult high-mountainous terrain, and Chinese builders have great experience in this kind of work.⁷ Beijing's attitude toward the project is defined by China's desire to reinforce its foothold in the region. And this desire is also behind the PRC's plans in the current five-year plan (2000-2005) to build yet one more branch, which will join the XUAR and Kazakhstan (Inin-Khorgos-Almaty).

The Turkmenistan leaders have also stated their intention on more than one occasion to turn the country into an international transportation junction. In addition to expanding the capacities of the railroad crossing in Serakhs, a governmental program is envisaging the construction of another two lines to the border with Iran, the Kazandzhik-Kyzyl-Artek line (220 km) and a route which will pass along the eastern coast of the Caspian, Eraliev (connected by rail with Astrakhan)-Bekdash-Turkmenbashi-Kazandzhik, and continue on to Iran. The latter will make it possible to join up the network of Russia, Kazakhstan, Turkmenistan, and Iran, and form the shortest routes from Western Europe, Scandinavia, and the European part of Russia. This route is 760 km shorter than the route through Beineu-Chardzhou-Serakhs and will cut back freight delivery times to Iran by at least two days. The presidents of Iran, Kazakhstan, and Turkmenistan signed the first document on construction of this route in 1996. Russia has now joined the negotiations, and a project called "North-South" is beginning to take specific shape. Turkmenistan will bear the main responsibility for implementing it. According to some reports in the local press, it has already begun working on specific sections. Nevertheless, Ashkhabad is trying to draw Japanese capital into this construction.

Another project in the southern direction, in which Ashkhabad is very interested, is the Turkmenistan (Kushka)-Afghanistan-Pakistan route. This is the shortest route from Central Asia to South Asia. But this route has a serious competitor, Uzbekistan, which would like this railroad to pass through Termez. However the situation in Afghanistan is still not conducive to carrying out such projects (although Afghanistan itself is very interested in them). What is more, Ashkhabad is giving all kinds of support to expanding communication in the western direction too, primarily it is in favor of the TRACECA project, which envisages creating integrated Central Asia-Southern Caucasus-Europe transportation corridor. Turkmenistan is also exerting efforts to improve the operation of the Turkmenbashi-Baku ferry, which will make it possible to ensure continuous running of the railroads along both shores of the Caspian Sea. China's support of this route will give Ashkhabad hopes of transit freight from the PRC, as well as from other Asian countries, traveling along its railroads. According to the Turkmen side, if this corridor can be joined up with the future North-South route, it will make both projects even more attractive.

But in order for the current and planned transit routes to arouse the interest of foreign shippers, the governments of the Central Asian states will have to establish closer and more efficient cooperation in customs and tariff policy. Speaking at a meeting of the heads of state and government of the OEC member states (Ashkhabad, May 1997), Kazakhstan President Nursultan Nazarbaev called for concentrating on a solution to the main problems of transportation construction in the region. Among them he named "drawing up a legislative base for a mutually consented tariff policy, without which use of the current and planned transportation routes could lose its economic significance."⁸

This question was discussed more than once, more than one decision was made on it, and numerous declarations and other documents were signed. But the absence of a common approach to the problem and the desire to be guided by national interests alone have a negative effect on the development of international transportation in the region. For example, in 1996, the trans-Caucasian corridor went into operation (Central Asia-Caucasus-Europe). Azerbaijan, Georgia, Turkmenistan, and Uzbekistan signed an agreement on coordinating the activity of railroad transportation and an agreement on cooperation in regulating transit shipments. What is more, a legal foundation was created for regulating travel along this route, in particular, all the sides were granted the right to a 50% discount during the transit of freight. As

⁷ For example, a third of the total length (899 km) of the Nanning-Kunming railroad that went into operation in 1998 was tunnels, viaducts and bridges.

⁸ *Rossia i musul'manskiy mir*, No. 10, 1997, p. 73.

early as 1998, Uzbekistan exported more than 90,000 tons of cotton along this route. But in 1999, these shipments dropped by half. Tashkent began negotiations with Astana on transit through Kazakhstan. The reason is that Turkmenistan set up a very complicated visa system and established high transit tariffs (it did not adhere to the agreement on the 50% discount on transit and levied 20% VAT on freight from Uzbekistan). All of this, in combination with the 20% VAT levied by Azerbaijan, hiked up the cost of Uzbek goods by one quarter.⁹

Another example is Kazakhstan-Iranian trade. Sheet metal and grain are among Kazakhstan's main export commodities. But the high rail tariffs set by Uzbekistan and Turkmenistan made these commodities uncompetitive on the Iranian market, so Astana has to use other ways to export its goods.¹⁰

The following fact is also worth noting. At the beginning of 2001, an assembly of the heads of transportation departments and customs services of Belarus, Germany, Kazakhstan, China, Poland, and Russia was held in Almaty. Most of the participants noted that China was creating a serious obstacle to the active use of the Eurasian corridor by not observing the international transportation and transit convention. It is guided exclusively by its own laws.¹¹

In recent years, another problem inherited from the past has become common for most countries of the region. In czarist Russia, as well as in Soviet times, many factors were taken into account when choosing the route for a new railroad (political, economic, military, the terrain, and so on), but as a rule no heed was paid to the local administrative borders. The situation dramatically changed when these borders became state borders, as a result of which one of the Turkmenistan's main routes has been broken up since several of its sections pass through Uzbekistan territory. This is causing great inconvenience, that is why the prospective railroad development program envisages straightening out this route by building separate sections in Turkmenistan.

The same picture can be seen in Kazakhstan. In order to ship freight from Pavlodar to Semipalatinsk, for example, a detour had to be made through Russia. However, when the Konechnaia-Aksu branch was built in 2001 (184 km in length), a direct route opened between these cities, which shortened passenger and freight travel between North and East Kazakhstan by 600 km.

Kyrgyzstan is also in a difficult position. Now, in order to ship freight by rail from the capital to the south of the republic, it must travel through three states, which of course increases transportation costs. Therefore Bishkek made a decision to build a new route.

During recent years, essentially all the railroad workers in the region have been forced to pay special attention to the technical state of the lines and the rolling stock—the locomotives and carriages. According to the Institute of Strategic and Interregional Studies under the President of Uzbekistan, during the second half of 1990s approximately 40% of the country's railway bed and approximately 40% of the locomotive fleet were in need of restoration.¹² The situation in Kazakhstan is even worse. In February 2001, its railroad directors addressed the republic's parliament, stating that the lines are depreciated by 60%, and in terms of the carriages and locomotives "wear and tear is also very high."¹³ According to the country's minister of transportation and communication, as early as 1999, the locomotive fleet was depreciated by 68%, the freight car fleet by 70%, and the passenger carriages by 73%.¹⁴ As a result, in recent years, the number of carriages in disrepair has drastically increased, in May 2001, 28% were in this state, and approximately 10% of them could not be repaired at all.

Approximately the same situation is developing in other countries of the region. In Soviet times, material and technical support of Central Asia's railroads came from the Center. The breakdown in economic ties after declaring their independence placed these republics in different circumstances. All the factories for producing and repairing locomotives, carriages, railroad technology, rails, and sleepers end-

⁹ See: T. Abdullaeva, "Transport Infrastructure in Central Asia: Status and Prospects," *Central Asia and the Caucasus*, No. 3 (9), 2001, p. 149.

¹⁰ See: *Panorama*, 10 March, 2000.

¹¹ See: *Ibid.*, 27 March, 2001.

¹² See: *Uzbekistan: obretenie novogo oblika*, Vol. 1, RISI, Moscow, 1998, p. 167.

¹³ *Panorama*, 16 February, 2001.

¹⁴ See: *Ibid.*, 19 November, 1999.

ed up in Russia and Ukraine. For example, industrial enterprises in Kazakhstan could meet only 4% of the railroads demands. The rest had to be procured abroad, which requires large amounts of money. Since rail transportation drastically fell off during the first years of independence, the country has a certain amount of surplus rolling stock and the problem of its aging was not so urgent. Although the countries of the region undertook measures to provide a repair base for their railroads, the task proved quite complicated, and not one of the republics has been able to fully carry it out. In recent years, with rail travel on the rise again and aging becoming increasingly obvious, the technical state of the railroads is also having a negative effect on travel safety.

These problems are acquiring particularly urgency in light of the desire of the region's countries to participate in international transportation projects. But during their ten years of independence, the length of the railroads in the Central Asian states has essentially remained unchanged. An exception are the Tedzhen-Serakhs (132 km) and Turkmenabat (former Chardzhou)-Kerki (215 km) sections built in Turkmenistan and the Aksu-Konechnaia (184 km) section in Kazakhstan.

The future development of the region's republics will depend largely on how the railroad transportation problems are solved. And although they have a lot in common in this area, each country has its own special characteristics. For example, in Kazakhstan great attention is currently being focused on reforming the railroad industry. The low development rates and unprofitability of the railroads are forcing the government to begin reforms which, according to the leadership, should not only resolve the current problems, but also ensure a flow of investments in the industry for its further development. Uzbekistan, which has begun reforms, preferred to use slightly different methods and rates for advancing them. Tajikistan has its own problems, almost half of the railroads are narrow gauge and not able to handle the growing transportation load. So when defining each country's priorities in the railroad industry, all the current problems must be taken into account and decisions made based on its financial potential.

REGIONAL POLITICS

**ON THE EVOLUTION
OF IRANIAN POLICIES
IN THE SOUTHERN CAUCASUS**

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It is a well-known fact that the events of 9/11 and the subsequent antiterrorist operation in Afghanistan, as well as the situation in Iraq have influenced Iranian foreign policy strategies. They produced, in particular, a gradual transformation of the foreign policy concepts Tehran was applying in the region. The ambitious concept of the regional leadership, which has been developed since the time of the Shahs, has undergone a profound change. At present, when the U.S. is successfully establishing their presence in Afghanistan and Iraq, and penetrating into the Southern Caucasus and Central Asia, Iranian leadership does not declare any longer that it aims for military superiority over the neighboring countries. Instead, Tehran is adopting a stance of “positive neutrality” with its neighbors.¹ On the other hand, Mr. A. Shamkhani, the Iranian Defense Minister, keeps emphasizing that Iranian military capacity is “sufficient to rebuff any military aggression.”² At the same time, Iranian leaders pay utmost attention to the increase of their political role and influence in the region. In particular, they are keen to take part in the reconstruction of Iraq and Afghanistan, while at the same time boosting up their own economy for the sake of a stronger role in the Middle East. Another dimension of Tehran’s new foreign policy is presenting itself as “an Islamic democracy,” a synthesis of Islamic and democratic traditions, and distancing itself from terrorist organizations, such as al-Qa’eda and the Taliban.

The Southern Caucasus has always been in the sphere of Iran’s foreign policy interests, taking into account their historical links and geographic proximity. Since the collapse of the U.S.S.R. Tehran has been trying to establish equal relations based on trust with the three South Caucasian countries, despite the disagreements among them. Iranian analysts believe that this constructive approach brought positive results in the early 1990s. In this way Iran’s policy was different from that of Turkey’s, which adopted an anti-Armenian stance on the Karabakh issue. As a result, it cannot establish normal relationships with Erevan to this day, which limits Ankara’s opportunities in the region.³

¹ Speech by the leader of the Islamic Republic of Iran A. Khamenei at the Friday service in Tehran, 31 October, 2003.

² Interview of Defense Minister A. Shamkhani to an Iranian newspaper *Khamshakhri*, 21 May, 2003.

³ See: *International Developments Review* (collection of analytical materials published by Tehran International Studies and Research Institute), Issue 15, 2001.

After 9/11 Tehran's foreign policy strategy in the Southern Caucasus acquired two new aspects. First, Tehran views with growing alarm the increasing presence of extra-regional powers, mainly the U.S. wielding antiterrorist slogans. Tehran is worried about Western plans to include the region in the Euroatlantic security zone. In this context, it is alarmed by the developments around the Baku-Tbilisi-Ceyhan pipeline, which, as Tehran suspects, can be used to form a regional block between Turkey, Azerbaijan and Georgia.⁴ The 2002 agreement on fighting terrorism, signed during the Trabzon summit between the three countries, can be seen as an indirect confirmation of these suspicions. Second, Iran is trying to increase its economic presence in the region, in particular, by establishing its presence in the financial and the trade markets of the three countries.

In order to achieve these aims, Tehran is hoping to help these countries establish institutional structures to counter pressure from abroad, promote integration of the regional players and coordinate their trade and economic cooperation. Admittedly, these goals are hard to achieve in middle-term perspective, under the present conditions. However, Tehran's current strategy should not be ignored.

It follows that Tehran's priority is to promote cooperation in the spheres of security and foreign policy on a permanent basis. Iran would like to establish closer and more constructive cooperation with Russia in the Southern Caucasus. It is possible that other regional powers, mainly Turkey, can be invited to join in this dialog. Tehran has been promoting the idea of a permanent regional forum. The first step would be to arrange a meeting of the heads of the Security Councils of all interested states.

In this context Iran would accept a structure of any format, as long as Tehran is viewed as equal partner within it. As to the participating countries, Iran would be most interested in the 3+2 format (the three South Caucasian states, plus Russia and Iran), or the 3+3 format (the three South Caucasian states, plus Russia, Iran and Turkey). It would be possible, although less agreeable, to have the 4+1 format (the three South Caucasian states and Russia, that form the so-called the Caucasian Four, plus Iran).

Having repeatedly failed to establish a structure of the 3+2 format, Iran has been actively promoting a regional security system, of the 3+3 format, that would include Turkey. Tehran hopes that Turkey's presence will make the project more realistic, it will create a power balance and stimulate Georgia and Azerbaijan to join in. Recently Iranian officials have been publicly discussing this idea, and Mr. K. Kharrazi, the Iranian foreign minister, is its most loyal supporter. On 29 April, 2003, during his tour of the Southern Caucasus, he even suggested regional security forces should be set up. So far the South Caucasian governments offered no official reaction.

Iranian political elite is totally opposed to the idea of including extra-regional powers, such as the U.S. and the European Union, in the South Caucasian security system. This position is to a large extent identical to the point of view of the Russian leadership. Tehran has been repeatedly stating its serious concerns regarding the growing U.S. influence in Georgia and Azerbaijan, in particular. Tehran is insisting that the three countries should be developing their foreign and domestic policies without any external pressure. Iranian diplomats believe that the lack of real cooperation between Iran and Russia allows the Americans to "feel at home" in the region.⁵

However, any objective observer should note that it was neither Iran nor the South Caucasian states themselves that were the first to promote the idea of the regional security system after the collapse of the Soviet Union. It was the United States that proclaimed the idea in 1995, hoping to secure its positions and promote its national interests in this key region. Russia took up this initiative in 1996, and proceeded to establish a permanent regional structure of the four states (Russia and the three South Caucasian states). The Caucasian Four Organization held its first summit in Kislovodsk in 1996.

The idea of a new security system had a mixed reception in the South Caucasian states. Georgia was the most positive, as it developed a doctrine of the "common Caucasian home," later transformed into the "peaceful Caucasus" concept (Shevardnadze, 1996). The concept implied integration of the three Caucasian states into European architecture. Tbilisi changed its position lately and is now actively establishing

⁴ See article by A. Ansari in *Aftab-e Yazd*, 18 June, 2003.

⁵ See: Weekly press conferences of Foreign Ministry spokesman Hamid Reza Asefi.

itself as the conduit for the U.S. policies in the region. The joint NATO-Georgian military exercises, and the Georgian attempts to join the North Atlantic Treaty Organization at the first opportunity can be viewed in this light.

Azerbaijan was initially against any cooperation with Armenia within a regional organization, insisting that the solution to the conflict around Karabakh should take priority. However, its position changed at a later stage, which allowed the Caucasian Four to appear and to develop rapidly. At the same time, during the OSCE summit in Istanbul in November 1999, Heydar Aliev, the then president of Azerbaijan, suggested that the Treaty on Security and Cooperation in the Southern Caucasus should be signed.

Azerbaijan is also aiming at an integration into the Euroatlantic structures; this allows NATO members to participate in security measures on its territory, and therefore, in the region. This is unacceptable for Iran, which is against any extra-regional powers helping to set up a security system in the Southern Caucasus. Armenia's response to the idea was more restrained than that of Georgia's. On the whole, however, Erevan welcomed and still welcomes the idea of a permanent mechanism for regional cooperation. At the same time, Erevan emphasizes cooperation in the socioeconomic spheres, such as transport, energy supply, and drug trafficking issues. Erevan, as much as Tehran, is dead set against any involvement of extra-regional structures and powers, such as NATO and the U.S., in regional developments. Armenian President Robert Kocharian voiced a practical initiative at the OSCE summit in Istanbul. It involved a regional security system based on the 3+3+2 formula (Azerbaijan, Armenia and Georgia, plus Russia, Iran and Turkey, plus the U.S. and the EU). Later Armenia agreed to the Russian suggestion to change the formula to 4+2+2, to allow the Caucasian Four to play the central role.

Iranian foreign policy pays special attention to trade and economic relations with the South Caucasian countries. Tehran favors fast economic development in these countries, which would allow Iran to expand its economic and cultural links with the region. It is in this context that one should regard the Iranian initiative of 2002 of calling a meeting of the economy ministers of the six regional states (the South Caucasian countries plus Russia, Iran and Turkey).

Economic cooperation between Iran and the Southern Caucasus remains limited. Trade and economic links with Georgia are weak, though cooperation with Armenia is more productive. But even here, many important joint projects remain unrealized. These are, for instance, transportation of Iranian gas to Armenia, construction of Kajaran automobile tunnel, Tehran's participation in construction of hydroelectric power stations in Armenia, and others. The last years have seen an active political lobbying of the most promising projects, a constructive dialog on the high and the highest levels is going ahead. These developments make one look forward to more active economic cooperation. As far as economic relations between Iran and Azerbaijan are concerned, the favorable geographical and geo-economic conditions are counterbalanced by the complications in the political relations between the two countries. Among these complicating issues are: the legal status of the Caspian Sea, the position of Azeris living in Iran, and the Islamic factor. These were partly cleared during Heydar Aliev's visit to Iran in May 2002. The future of the Azeri-Iranian relations depends on the relationship between the new Azeri president, Ilkham Aliev, and the Iranian leadership. It is worth noting that Iranian President Khatami congratulated Ilkham Aliev on his victory in the presidential elections.

In general, the situation is complicated by a number of factors. First, there is a definite leaning in the Georgian and Azeri foreign policy toward the U.S., which helps strengthening American business interests in these countries. As a result, their weak financial and economic structures have fallen under the influence of Washington. Second, there are a number of unresolved conflicts in the region, such as Nagorno-Karabakh, Abkhazia and South Ossetia, and these have an adverse effect on the economy and the well-being of the local people. Third, after the collapse of the Soviet Union the established economic links between the local states were ruptured, transport and communications infrastructure fell into decay, and the fixed assets were eroded.

Iran does not actively seek a possible role of a mediator in the regional conflicts, including those in Nagorno-Karabakh, South Ossetia or Abkhazia. It is prepared to take part in conflict negotiations only

with the agreement of all interested parties. It means that Iranian representatives, if invited, can serve as intermediaries or observers during negotiations. Iran has some experience of this kind, as, together with Russia, it has helped resolving conflicts in Tajikistan and Afghanistan.

To conclude, following 9/11 and the subsequent changes on the international arena, Iran's foreign policy in relation to the three South Caucasian countries became more measured and pragmatic. Iranian leaders are aware of their political, economic and financial limitations and instead of exaggerated ambitions, concentrate on their geopolitical and geo-economic potential. As a result, Tehran does not see itself as a "big brother" to its South Caucasian neighbors. On the contrary, it aims at joining the regional security and economic systems as an "equal partner," together with the other regional powers, such as Russia. President Khatami is actively promoting "the dialog of civilizations" as his foreign policy principle, and Iran is pursuing its national interests in the Caucasus by trying to stay involved in the multilateral regional mechanisms. This will help the country to overcome its international isolation, which in the recent years has become the priority for Iranian diplomats and politicians. At the same time, their main goal, which is to bar the U.S. and the European influence from the Southern Caucasus, remains remote for a number of reasons; consequently in the middle-term perspective Tehran will obviously have to find some points of contact with the U.S. and the EU in the region. On the other hand, Iran's active involvement, along with Russia, Turkey and other neighboring countries, in the South Caucasian developments will help to counterbalance the growing Western influence in Azerbaijan, Armenia and Georgia.

AZERBAIJAN: THE NEW PRESIDENT TAKES HIS FIRST STEPS

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In the mid-1980s, as newcomer to the U.S.S.R. Foreign Ministry, I took part in the talks between Heydar Aliev, member of the Politburo of the C.P.S.U. Central Committee, First Deputy Chairman of the Council of Ministers of the U.S.S.R., and the Italian premier at that time.

I was immediately struck by Aliev's obvious charisma, which I was further witness to during bilateral talks and contacts within the Caucasian Four. It was the time of his "political Renaissance" as president of independent Azerbaijan.

I should say that nearly all of the almost 80 percent of the votes his son won at the presidential

elections on 15 October, 2003 (a truly Caucasian result) were cast for Heydar Aliev himself, the man who dominated the political scene in Azerbaijan for nearly three and a half decades since 1969. The only time of troubles, which was marked by economic degradation, bloodshed in Nagorny Karabakh, and political chaos, was a very short period between the late 1980s and early 1990s when other people ruled the republic. In fact, there is every reason to call Heydar Aliev the architect of modern Azerbaijan.

The newly elected president described his political course as a policy of continuity.

Old Problems of the New President

The economic, domestic and foreign policy context in which the new power has found itself are far from unambiguous. In the last decade the oil sector rapidly developed, while other economic sectors (primarily industry) continued to decline. The country's fairly balanced foreign policy is offset by the heavy burden inherited from the ongoing Nagorny Karabakh problem, and domestic stability by an acute social crisis and aggressive opposition.

Hence the new president is faced today with the major tasks of ensuring dynamic growth in oil production and export, reviving the other economic branches, promoting peaceful settlement of the Karabakh conflict, resolving social problems, ensuring the democratic maintenance of domestic stability, and continuing a non-confrontational and balanced foreign policy.

No matter how strong the new power's desire to continue previous policies, it will inevitably introduce something new into the country's domestic and foreign policies.

The Team

Ilkham Aliev has stated: "I am not going to change the team: it has already demonstrated its ability to work for benefit of Azerbaijan."¹ The new cabinet was the first continuity test: Premier A. Raszade, Foreign Minister V. Guliev, all the heads of the so-called power ministries, and practically all the other ministers retained their posts. So far, no more or less prominent political figures have lost their posts, yet the team is far from homogeneous and is fairly old. Changes must be made, but this process will probably be gradual. There is the opinion that it remains to be seen whether Ilkham Aliev will be able to control the ruling clan.² Much depends on how soon the new president gains political weight and prestige.

Speaking at the first cabinet sitting after the elections, Ilkham Aliev pointed out that he respected the old merits of the top state bureaucrats, but would never tolerate sluggishness and lack of initiative. The future of all of them, he added, depended on their service.³

Economic Horizons

Assessments of the Azerbaijanian economy vary greatly. Nevertheless, the years of political stability and the reforms carried out by Heydar Aliev added sustainability and dynamics. The sharp decline in 1991-1995 was followed by gradual economic growth: 5.8 percent in 1997; 10.0 percent in 1998; 7.4 percent in 1999; 11.1 percent in 2000; 9.6 percent in 2001, and 10.6 percent in 2002. According to Ilkham Aliev, the country received, from all sources, \$15 billion in investments over a span of 12 years, \$10 billion of which went to the oil industry.⁴ A three-percent inflation rate and a positive foreign trade balance (about \$400 million in 2002) are among the other achievements. At the same time, the number of unemployed is still high. Wages are still very modest, therefore part of the population is destitute. At the cabinet sitting of 25 November, 2003, the new president pointed out that 600,000 new jobs in the next five years was one of his key tasks.⁵

¹ *Rossiiskaia gazeta*, 21 October, 2003.

² See: Site BBC, 16 October, 2003.

³ See: *Izvestia*, 26 November, 2003.

⁴ See: *Bakinskiy rabochiy*, 1 November, 2003.

⁵ See: *Izvestia*, 26 November, 2003.

In the first nine months of 2003, the country's GDP increased by 10.5 percent (on an annual basis); industrial production rose by 5.8 percent; the republic produced 11.5 million tons of oil (an increase of 0.8 percent) (the figures for Kazakhstan and Russia are 37.4 million tons, or an 8 percent increase, and 311 million tons, or an 11 percent increase, respectively); 3.8 billion c m of gas (Kazakhstan and Russia produced 11.5 billion and 453 billion c m, respectively); agricultural production increased; and housing construction grew by 38 percent. Inflation was 2 percent, the minimum pension, 70,000 manats (or about \$15), and retail trade turnover grew by 12.8 percent.⁶ Investment activity increased by 64 percent, mainly due to foreign investments in the Baku-Tbilisi-Ceyhan oil pipeline (BTC), and gold-value reserves amounted to about \$750 million, which is a good figure.

Yet the republic's economy depends almost entirely on the oil factor; about 50 percent of population are still living below the poverty level, while average wages barely reach \$80, and the average pension is \$30, with a subsistence minimum of \$105. The same can be said of many other CIS countries.

It is interesting to note that immediately after his election, Ilkham Aliev asked the parliament to cut back his salary five-fold. (In 2004, it should have been about \$85,000 a year.) In the United States the president gets \$400,000 a year; in France, about \$85,000; in Russia, \$30,000; in Ukraine, \$5,000, and in Georgia, \$2,500 a year. All comments aside, this was a sensible step.

On 14 August, 2003, in his interview with *Izvestia* Ilkham Aliev described his economic plans as follows: "The oil sector will undoubtedly remain our priority. We are aware of the economic forecasts in this sector and know what to expect. Money-wise this means a billion dollars annually: the money will be used to improve people's well-being, raise wages, and invest considerable sums in the oil sector, industry, and agriculture. This will create more jobs—so far, I regret to say, there are still unemployed in the republic. But if we use our rich natural resources wisely, we will be able to improve people's welfare within a very short time. This is our main goal."

There is another, no less important goal, to develop the republic's fringes and implement corresponding programs as quickly as possible. Today, two-thirds of the country's economic potential is concentrated in Baku and the Apsheron Peninsula. The Oil Fund set up by Heydar Aliev, which boasts considerable hard-currency reserves, can and should play an important role in social developments.

According to the World Bank, the country's GDP based on the purchasing power parity was \$3,090 per capita in 2001, which is more than in Azerbaijan's neighbors (\$2,560 in Georgia and \$2,650 in Armenia), but less than in Turkey (\$5,890).⁷ It should be noted that when it reaches the \$5,000 level, the republic will ascend to a group of more developed countries.

Oil Dictatorship

Today oil brings in 70 percent of the export revenue and about 50 percent of the budget income.⁸ On 20 September, 1994 Azerbaijan signed the first oil contract in Baku; since that time it has been working hard to attract foreign investments to its oil industry. Ilkham Aliev will undoubtedly follow the same course, though it is clear that the Caspian oil fields will never become the second Persian Gulf. Nevertheless, oil revenue will be important for the relatively small country. In his book *Kaspiiskaia neft Azerbajana* (Azerbaijan's Caspian Oil) Ilkham Aliev analyzed in detail the past, present and future of the Caspian Shelf.⁹ It should be said that in the past Baku really was a world and national oil center; it has been producing oil since 1848. The Nobel brothers and great Russian scientist Mendeleev contributed to the region's development. In the early 20th century the area yielded 10 million tons of oil a year (nearly the same amount is produced today), which accounted for 95 percent of Russia's oil production and 50 percent of the world oil production.

⁶ See: *Ekspress-doklad Statkomiteta SNG*, October 2003.

⁷ See: *Vedomosti*, 11 August, 2003.

⁸ See: *Ekspert*, 11 August, 2003.

⁹ See: I. Aliev, *Kaspiiskaia neft Azerbajana*, Izvestia Publishers, Moscow, 2003.

Azerbaijani oil workers did a lot to develop Siberia's oil fields, the largest in the Soviet Union (known as the Second Baku, Third Baku, etc.). Many of them are still in operation.

According to Ilkham Aliev's book, the region has over 25 billion tons of oil resources (there are about 15 billion tons of oil in the Caspian sections of Azerbaijan and Kazakhstan; 8 billion tons in Russia's; and about 2 billion tons in Turkmenistan's and Iran's). Ten Persian Gulf countries possess nearly 100 billion tons of oil reserves. According to British Petroleum's figures, the republic has 1.1 billion tons of oil reserves.¹⁰ However, Iran and Turkmenistan claim some of the Azerbaijani oil fields as their own. This shows that the assessments vary greatly.

Some people say that in 10 years' time Baku will be able to produce up to 100-120 million tons of oil a year, while others cite a figure of no more than 40 million. According to the AIOC (Azerbaijani International Operating Company), by 2010 it will produce about 40 to 50 million tons of oil annually; it should be said that the republic planned to extract 15 to 16 million tons in 2003 (much more than in the 1990s when it produced 8-9 million tons and about the same amount as in the 1980s.) Gas production dropped from 10 billion c m in 1990 to about 5 billion c m in recent times. Hopes are pinned on the Shah Deniz oil field.

The Caspian and its oil have aroused the strategic interests of many countries. Russia is one of them, yet its participation in the Azerbaijani projects is limited to LUKoil. Economic reasons are responsible for this: Russia's oil companies are busy in Russia, which has much more oil and where the leaders of the oil industry are enjoying extraordinary profits of up to 70 percent, a figure unheard of elsewhere in the world. The currently discussed amendments to the payment system for using mineral resources in the Russian Federation may change the Russian companies' attitude toward Azerbaijan's oil scene, and they may start investing on a bigger scale.

Western companies need Russia's presence in the Azerbaijani oil sector as a factor of greater stability, the most important one after all. This is in keeping with what Ilkham Aliev said about his country having to become a cooperation zone for all kinds of interests.¹¹

Oil Pipelines—Economics and Politics

The situation in oil transportation is different: for 10 years now the Baku-Tbilisi-Ceyhan oil pipeline project has been actively promoted for political reasons. Today, there is no certainty about its implementation; doubts about its workload and profitability are still lingering. The problem will not go away even when the project is completed.

Today, early Azerbaijani oil is transported along two pipelines: the Baku-Supsa (Georgia) line receives about 6 million tons annually, that is, its near total capacity. Today, work is underway to increase its throughput capacity. Two to 2.8 million tons are transported annually along the Baku-Tikhoretsk-Novorossiisk (Russia) pipeline (its present throughput capacity of 5 million tons can be increased to 18 million tons). In other words, after some reconstruction the two pipelines will be able to receive the entire amount of oil extracted by Azerbaijan in the foreseeable future.

Those who oppose the idea of new oil pipelines argue that the throughput capacity of the Black Sea Straits is limited. This argument contradicts, to say the least, the Montreux Convention of 1936, which established free passage through the Straits. To avoid the Straits altogether oil can be transported through the Burgas (Bulgaria)—Alexandroupolis (Greece) pipeline, which is being planned; the integrated Druzhba and Adria pipelines, which will reach the Croatian port of Omišalj; via the Constanța (Romania)—Triest (Italy), Burgas (Bulgaria)—Vlorë (Albania) routes and also through the finished (yet idle for want of oil) Odessa—Brody pipeline with a possible extension to Gdansk.

All the projects are much more profitable than the planned Baku-Tbilisi-Ceyhan line¹² (see Table).

¹⁰ See: *Ekspert*, 11 August, 2003.

¹¹ See: I. Aliev, *op. cit.*

¹² See: *Ibidem*.

Transportation Costs of 1 Ton of Oil (\$\$)

Routes	When moving 5m tons	When moving 30m tons
Baku-Novorossiisk-Genoa (via Grozny)	24.7	30.6
Baku-Tikhoretsk-Novorossiisk-Genoa	37	31
Baku-Supsa-Genoa	46	32
Baku-Supsa-Burgas-Alexandroupolis-Genoa	58	42
Baku-Ceyhan-Genoa	112	52

This shows that over the next 7 to 10 years the cost of oil transportation from Baku via Ceyhan to Genoa will be four-fold higher than the cost of transporting oil via the Baku-Novorossiisk-Genoa route; when the former reaches full capacity, the cost will still be twice as much.

The reason for the Baku-Tbilisi-Ceyhan route is political: it is intended as an alternative to the Russian routes. Analysts agree that the main aim is to ensure the permanent presence of the United States in this part of the world. In his book Ilkham Aliev said that apart from the mineral wealth of the Caspian, the United States is driven by its desire to destroy Russia's economic and political influence; the U.S. is pursuing a "new containment" policy, which came into being after the Cold War period.¹³ He added that the political aspect predominated very much in line with the "geopolitical games" of Zbigniew Brzezinski. Washington is pursuing yet another goal—its lesser dependence on the Gulf oil producers.

The BTC pipeline will be completed and commissioned in 2006; nobody knows so far to what extent it will be loaded. There is another important aspect: how much of its oil Kazakhstan will send to it, if any. Otherwise the line will be underloaded and will be unable to compete with the existing and developing routes of Caspian oil (the Caspian Pipeline Consortium, the Atyrau-Samara Line, etc.). It is hard to forecast developments in highly unstable Georgia, which offers its territory for oil transit, as well as the events on the Turkish section, which will pass through territory in which the Kurdish separatists are active. The pipeline zone is seismically hazardous; the pipeline could cause damage to the Borzhomi Valley in Georgia; and environmentalists are not happy about the situation either.

The Caspian, as a huge geopolitical magnet, will continue attracting regional and extra-regional forces. If the exporters pursue economic rather than political goals, the region may become an area of civilized cooperation.

The above indicates that the role of Azerbaijan as the world's second oil-richest area should not be overestimated: today it occupies 26th place in terms of oil extraction and 13th in terms of known resources.

The Caspian "Five"

Russia and Azerbaijan are allies when it comes to resolving the Caspian's problems: in September 2002 they signed an agreement on dividing the sea bed in the sea's northern and central parts; in May 2003 three countries (Russia, Azerbaijan and Kazakhstan) signed an agreement on the point at which the dividing lines intercepted. It appears an agreement between Kazakhstan and Turkmenistan on dividing the sea bed should follow.

Today, the Caspian "five" (Russia, Azerbaijan, Iran, Kazakhstan, and Turkmenistan) are drawing up a convention on the Caspian's legal status aimed at deciding how to divide the sea bed and water area.

¹³ See: I. Aliev, op. cit.

The agreements should not be limited to oil, they should concentrate on multilateral cooperation in individual fields: fishing, environmental protection, shipping, etc. It is important to keep the sea open to all the coastal states outside the convention zones.

Recently, Azerbaijan has been insisting on demilitarizing the Caspian, yet the present international situation and terrorist threats are hardly conducive to this. At the same time, the coastal states are unlikely to profit from the military presence of extra-regional forces. On the whole the Caspian will remain highly prominent in the republic's foreign policy; and the new team will continue Heydar Aliev's course.

The second Caspian summit is on the agenda, which is to discuss a wide range of questions. The Caspian "five" will become an important instrument of regional interaction.

So far, the prospects for an agreement among Azerbaijan, Turkmenistan, and Iran are vague since their starting positions are divergent. Iran wants to divide the Caspian into five equal sectors (20 percent to each of the countries). According to this principle, Kazakhstan should acquire 29 percent of the coast line; Azerbaijan, 21 percent; Russia, 19 percent; Turkmenistan, 17 percent, and Iran, 14 percent.

In recent years the fact that the sea border with Iran has still not been regulated resulted in several serious incidents. In June 2001 Iranian patrol boats drove back a BP research vessel engaged in geological exploration at the Araz-Alov oil field in agreement with Baku; this field, together with the Azeri-Chirag-Gunashli field, contains up to 90 percent of Azerbaijan's total oil reserves. Tehran is concerned about Washington's rising influence in Baku, while Azerbaijan is worried about the rapidly developing cooperation between Iran and Armenia.

Settlement of the Nagorny Karabakh Conflict

The still unsettled conflict in Nagorny Karabakh is the most complicated and grievous of the problems Ilkham Aliev inherited from his father. Today, Nagorny Karabakh and seven districts of Azerbaijan are still controlled by Armenia. In his inauguration speech, on 31 October, 2003 Ilkham Aliev announced: "Everybody should know that even though we want peace, even though we do not want resumed hostilities and prefer a peaceful settlement, our patience has its limits."¹⁴

The conflict over Nagorny Karabakh that began in 1988 is the oldest one in the CIS and its results are the most ruinous. The large-scale war of 1991-1994 claimed about 30,000 lives; hundreds of thousands had to flee. The problem is an extremely complicated one; its ethnic and religious overtones make it even harder to resolve; and it is further aggravated by the sides' mutual suspicions.

In May 1994 a cease-fire regime was introduced with Russia's direct participation; the settlement process has already passed through several stages: from the efforts of the OSCE Minsk Group set up in 1992 to formulate an alternative for its settlement acceptable to all the sides (1992-1997) and the "shuttle diplomacy" carried out by the co-chairmen of the Minsk Group (Russia, the U.S. and France), which formulated a "joint state" conception, to the direct dialog at the highest level between Baku and Erevan encouraged by the Minsk "three" launched in late 1998. During the following five years presidents Aliev and Kocharian met more than 20 times. They managed to smooth out their disagreements somewhat to come close to certain compromises in Key West (U.S., 2002). Later, however, old disagreements returned.

In 2003, when Armenia held its presidential and parliamentary elections in February-March and May, while Azerbaijan elected its new president in October, the sides were satisfied with a "neither war nor peace" stalemate. In addition, each of the countries was convinced that time was on its side. During the election campaign Erevan and Baku avoided sharp statements and talked about peace settlement.

Today, the dialog can be resumed; the conflict should be settled, and this gives rise to the hope that the presidents will demonstrate responsible approaches. It is very important for them to realize as promptly as possible that mutual concessions are inevitable and that they should demonstrate mutual restraint in the

¹⁴ *Bakinskiy rabochiy*, 1 November, 2003.

information war which has been going on for twenty years now, otherwise it will be hard to expect public support of the inevitable compromises. It is unlikely that positive solutions will be reached in the near future, while suggestions from outside will not have a productive influence on the conflict participants either.

It seems that the formula “peace without winners or losers” is the best answer to the problem. The two long-suffering nations can regain peace and avert the threat of turning the region into an arena of political and military rivalry between the world leaders. To reach a historic settlement and compromises both presidents should have the support and respect of their nations. It is also possible that the new leaders in Baku might exercise a selective approach to what they have inherited from Heydar Aliev and start the talks with Erevan from scratch. In any case it is important for a dialog to be resumed as soon as possible and for positive dynamics to be demonstrated from the very first day.

It should be mentioned that during and after the elections, Ilkham Aliev avoided belligerent statements and stressed the need to seek a peaceful solution, although he could not resist criticizing the OSCE Minsk Group and reiterating statements about “Azerbaijan not retreating an inch from its land.” He also pointed out that the old format had not been exhausted. Time alone will show whether the sides will adopt a “step-by-step” or “package” alternative, or whether they will devise another formula acceptable to both.

Foreign Policy

Before the elections and immediately after them Ilkham Aliev did not say much about his foreign policy priorities. It was only clear that he intended to continue his father’s balanced approach.

There is the desire to continue developing all contacts, yet Azerbaijan’s wider cooperation with Russia, the United States, Turkey, the EU, and international structures able to extend political, economic, financial and other support, together with settlement of the Karabakh conflict, are seen as absolute priorities. According to the newly elected president, “Azerbaijan should not become an arena of rivalry—it should become a launching pad of regional and worldwide cooperation.”¹⁵

The wide geopolitical support that became obvious during the elections confirmed that the key players did not want destabilization in the country, or an abrupt change in its foreign policy course. The logic is simple: Ilkham Aliev is a fairly predictable and responsible partner; his clan ensures stability and political continuity; cooperation with the new leaders can be counted on; and they are not devising any rash actions in Karabakh. The country is unlikely to make any abrupt changes in its foreign policy course, since the old one suits all those concerned.

Baku is of the opinion that Moscow should become one of the centers of a multipolar world. The official visit of President Putin to Baku in January 2001, President Heydar Aliev’s state visit to Moscow in January 2002 and his working visits to Russia in June and September 2002 initiated a radical shift in the two countries’ bilateral relations. They entered a new stage of their strategic partnership. During his presidential campaign and at the CIS meeting in Yalta on 28-30 September, 2003, Ilkham Aliev clearly stated that this policy would continue unchanged. This stand was reconfirmed by Foreign Minister of Azerbaijan V. Guliev during his visit to Moscow in November 2003. The relations between the two countries will also depend on whether Ilkham Aliev continues the efforts to curb extremist elements in his republic, including those siding with the Chechen separatists.

Moscow’s influence in the Caucasus will increase together with Russia’s continued economic growth and stability. The process will be enhanced by even greater penetration of Russian capital into the region. Baku needs these investments and wants them to be more balanced. Azerbaijan is home to 140,000 ethnic Russians and about 170,000 Lezghians, as well as to Talyshes, Avars, Tartars, and other ethnic groups; and about 2 million Azeris live in Russia. The Russian community in Azerbaijan supported Ilkham Aliev.

¹⁵ *Rossiiskaia gazeta*, 21 October, 2003.

It goes without saying that Azerbaijan will obviously develop its relations with the United States, which accounts for over half of the oil investments in the republic. In September 2001, the 907th amendment to the Freedom Act that banned any state support of Azerbaijan was suspended; today cooperation in the military sphere has become possible.

It should be noted that Washington encourages interstate organizations and sub-regional associations that exclude Russia. This raises the question of whether Ilkham Aliev will continue to build up GUUAM, an organization for which Moscow has no warm feelings.

It is interesting to note that what Russia usually calls "Sredniy Vostok" (the Middle East), consisting of Iran and Afghanistan, is described as Greater Western Asia in the West and includes Iran, Turkey, Azerbaijan, Armenia, and "Georgia [that] is so far suspended because of unresolved territorial issues."¹⁶

Baku obviously intends to further develop its relations with Ankara. Turkey is viewed as the model of a secular state with market economy and as Azerbaijan's closest ally, which is expected to help it integrate into the Euro-Atlantic structures. Both capitals describe their relationship as strategic partnership within the "one nation—two states" formula. It should be added that Ankara's economic and political potential is fairly limited.

Drawing closer to NATO has been and remains one of the key aspects of Azerbaijan's military-political doctrine. In an effort to demonstrate its loyalty to the North Atlantic Alliance, Baku completely endorsed its actions in Kosovo (despite Baku's own ambiguous position in Karabakh). Baku sided with Washington on Afghanistan and Iraq issues; it is seeking wider partnership with NATO structures within the Partnership for Peace Program in the hope of gaining access to the modern models of army reorganization and military training. On 18 April, 2003, when talking to Bruce Jackson, executive director of the U.S. Committee on NATO, in Baku Heydar Aliev stated that his country had decided to "gradually join NATO."

I think that all the above-mentioned questions are gaining importance as America's policy of the use of force is acquiring an Asian bias as NATO moves eastward. If this organization encompasses some of the South Caucasian countries, it will become a potential threat to Russia's national security. This contradicts the logic of the relationship between Moscow and the alliance.

It looks as if the Azerbaijan new leaders will adequately assess the importance of the CIS and will continue objecting to setting up supra-state structures within it; to a great extent this is explained by the present state of the relations between Azerbaijan and Armenia.

C o n c l u s i o n

The new president is expected to strengthen his authority in the republic and concentrate on domestic social and economic issues. At the same time, he will continue maneuvering between Russia, the United States, EU, and the regional powers (Turkey and Iran) in order to gain the most profitable conditions for its energy projects and settlement of the Karabakh conflict.

The new president will have to readjust economic and social policy in order to step up efforts to remove poverty, unemployment, and corruption, diversify the economy, and revive industry. The political system he has inherited will be transformed, while stability, the main trump card that helped him win the election, will lose its importance. To retain power he will need to make significant social and economic achievements.

Stability and development—the key election slogan of both father and son—will remain the political cornerstone. Time will show whether the new leaders will be able to realize it.

¹⁶ *Nezavisimaia gazeta*, 12 November, 2003.

REGIONAL ECONOMIES

**GEORGIA:
CONFLICT REGIONS
AND THE ECONOMY**

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I n t r o d u c t i o n

The conflicts in Abkhazia and South Ossetia have been of considerable detriment to Georgia and perceptibly reduced its economic potential. The current situation has directly or indirectly given rise to the following problems: the economic borders of the state and domestic market are unprotected, smuggling and criminalization of business are growing, there is a high level of shadow transactions in the economy and corruption, there is a severe financial and budget crisis caused by low tax collection and a growing balance of trade deficit, there is drop in investments and leak in capital, the foreign debt is increasing, production has undergone a severe slump, and financial and material resources are being allocated from the

state budget, which is limping anyway, to resolve the social problems of refugees and forced migrants. To these problems should also be added the extreme poverty of the refugees, their homelessness, the unbearable living conditions in temporary shelters and the threat of political destabilization caused by this threat, the decline in the size of the population (depopulation) due to emigration and the sharp drop in the fertility rate, and the rise in crime (including among refugees, most of whom are unemployed).

These conflicts are particularly prevalent in the border regions. The main land routes connecting Georgia with Russia and other European countries pass through their territory.

**1. Smuggling or Who
is Reaping Benefits from the Conflicts**

Smuggling has reached dimensions that are threatening the country's economic security. Goods are shipped by many routes without the proper registration. The conflict regions have a large part to

play in this, since in addition to the central routes, where customs services and control check points are in operation, they can offer a wealth of alternative, roundabout ways that can be used to transport goods illegally.

Keeping in mind that Moscow adopted a unilateral decision to introduce a visa system for Georgian citizens, and South Ossetia and Abkhazia have been granted certain privileges, we can expect an increase in shipments of unregistered and untaxed merchandise from Russia into the conflict zones. These territories have essentially already become "free trade zones" for the country, from where the flow of smuggled goods, as mentioned above, is spreading throughout its entire territory, disrupting the domestic market, creating competition for organized import, and is becoming a serious problem for the county's economic security.

Despite the decision by the CIS Heads of State Council (19 January, 1996) on reducing economic cooperation with the separatist authorities of Abkhazia, Russian governmental and nongovernmental structures, as well as the leaders of the regions bordering on Abkhazia, are actively cooperating with the separatists. However, this decision clearly states that without the consent of the Georgian government, the CIS republics shall not carry out economic trade, financial, transportation, and other transactions with the authorities of Abkhazia, shall not establish official contacts with representatives of the official structures existing on its territory, or with members of the military formations they have created, shall not support the separatist regime, shall not create political, economic, and other types of alliances with it, and shall not render it economic, financial, and military assistance.

Moscow's violation of these demands is of course aggravating Russian-Georgian relations. For example, in July 1998, the State Duma adopted a resolution obligating the Russian president to unilaterally change the border and customs conditions on the Abkhazian section of the Georgian-Russian border. This resolution can be assessed as an attempt to abolish the economic sanctions established for the Abkhazian separatist regime under the auspices of the CIS and in compliance with U.N. documents, particularly since Moscow has essentially begun executing this document.

After abolishing the economic sanctions (without political settlement of the conflict), Russian investments in Abkhazia significantly increased, which in turn may pique those financial and material interests of Russian state or private structures that could create a serious obstacle to restoring Georgia's territorial integrity.

Tbilisi is trying to use the levers it has to counteract Moscow's legal aggression. In particular, on 5 December, 2002, the Georgian parliament adopted a resolution whereby the country's government would not support Russia's possible membership in the World Trade Organization, if Moscow continued to violate the norms of international agreements.

Georgia, as a full-fledged member of the WTO, is holding negotiations with the Russian Federation in order to overcome the economic problems between the two countries, as well as create corresponding conditions for giving Georgian goods (and services) access to the Russian market.

One of the most recent instances of unfriendly conduct on the part of Russia was restoring traffic on the Sukhumi-Sochi railroad without the consent of the Georgian authorities, which gave illegal goods circulation a shot in the arm.

1.1. Smuggling Through South Ossetia (the Ergneti Market)

There are numerous facts testifying to the dimensions of illegal goods movement between Georgia and Russia through South Ossetia. A large amount of smuggled goods comes to our country from Ergneti, close to Tskhinvali, which is having a very negative effect on the country's economy. The petroleum products and other goods transported through the Rokskiy Tunnel are unloaded at special terminals not far from Tskhinvali, and from there are sent to the spontaneous Ergneti market, where the merchandise is purchased by legal and private entities, who sell it throughout the country without customs clearance.

A strange situation is developing. Goods are being brought into Georgia that are not properly registered by its customs services, and taxes are not paid on them, that is, by law such goods should not be released into free circulation. But the end consumer of this commodity did not bring it in from another state, but purchased it in Georgia, in the Tskhinvali Region, and shipped it from one part of the country to another. Pursuant to current legislation, he is not obligated to register it as import.

At the same time, customs and tax services, as well as the law enforcement structures, cannot (and frequently do not want to) detain and duly register these smuggled goods. Representatives of both the Ossetian and the Georgian sides (including criminal spheres) participate in corruptive transactions.

According to the Emergency Legion of the Georgian Tax Revenue Ministry, up to 150 trucks of smuggled goods (in particular, Russian-made tobacco products) amounting to more than half a million lari (the monetary unit of Georgia) make their way to Tbilisi from the Ergneti market every day. This means that this "offshore" business alone brings smuggled goods worth almost 200 million lari to the capital every year. This amount does not include the gasoline and diesel fuel delivered by gasoline tankers to different regions of the country. The cash that comes into the Tskhinvali Region by way of payment for the purchased goods can be considered nothing less than a leak of capital from Georgia. According to the Georgian Finance Ministry, the largest flow of smuggled goods comes from South Ossetia (via the Ergneti market), mainly fuel, tobacco products, flour, grain, and foodstuffs, as a result of which the state budget loses approximately 5-6 million lari every month. Fuel and non-excised cigarettes account for three million of this amount. Incidentally, illegal commodities are also shipped through this market in the opposite direction, from Georgia to Russia.

For many years, heroin also has been coming from the conflict zone. Its quality and price are very low. Admittedly, according to some sources, the amount of drugs coming through the Ergneti market was half as much as those supplied from Azerbaijan.

1.2. Clan Control of Smuggling in Abkhazia

Recently, illegal economic activity has become more dynamic in the area that divides Abkhazia from the rest of Georgia, that is along the entire length of the Inguri River, from the Black Sea to the village of Jvari. Goods are smuggled in both directions along the Central Bridge across this river and via passages "hidden from prying eyes." Large amounts of non-ferrous scrap metal and non-excised cigarettes, which come to Sukhumi on foreign shipping vessels (mainly Turkish and Russian), are shipped from Abkhazia and Zugdidi throughout Georgia, and foodstuffs are delivered in the opposite direction, to Abkhazia. According to data from the Emergency Legion of the Tax Revenue Ministry, approximately 4.5 million packs of smuggled cigarettes come from Abkhazia every month (9,000 cases, or approximately 108,000 cases a year).¹ Taking into account that the purchase price of one such case in Abkhazia amounts to approximately 159 dollars, this means the insurgent republic gets a windfall of 17.2 million dollars from other regions of Georgia every year.

Uncontrolled trade along the Inguri River is becoming increasingly dangerous, since drugs coming mainly from Turkey are assuming an increasingly greater percentage of the goods coming from Abkhazia. This is also having a negative effect on the Georgian-Abkhazian negotiations, since the Abkhazian side and the Georgian criminal elements are interested in retaining the current situation and are cooperating in complete harmony with each other.

The Gali Security Service, which is subordinate to Sukhumi, also fulfills police functions. In this region there are five control points located in the villages of Dikhazurga, Saberio, Samakvalo, Tagiloni, and on the main bridge across the Inguri. What is more, in the Gali Region there are also two customs-control points, in the village of Tagiloni and on the bridge across the Inguri. They are also under the ju-

¹ See: Report on the draft of Georgia's State Budget for 2001. Budget Office of the Georgian Parliament (in Georgian).

risdiction of the regional security service and accept payments from citizens delivering goods across the border. Fees are also collected from the local population.

In Abkhazia this business is mainly controlled by the clan of the insurgent republic's president, Vladislav Ardzinba. According to the data of the Georgian Ministry of Security, for example, his relatives are engaged in the smuggling of timber, exporting its valuable species (20-30,000 cubic meters costing 4-6 million dollars) on Turkish ships. They control the Sukhumi port, through which petroleum products are smuggled. They are brought from Russia on ships, then delivered on trucks belonging to the same clan members to the Gali Region, where this commodity is distributed throughout Georgia (approximately 10 cisterns of gasoline a week). The VICEROY tobacco factory in Gudauta is controlled by the Ardzinba clan, from where non-excised cigarettes go not only to Georgia, but also to Russia. What is more, red wine, citrus fruit and other products are illegally sent from Abkhazia to Russia. On the Georgian side, the smuggling business is lobbied by high-ranking police officials of the Megrel Region and members of the Abkhazian government in exile. According to experts, Georgian partisans and Abkhazian criminal structures also participate in this business.

1.3. Smuggling of Petroleum Products

The smuggling of petroleum products is one of the factors causing the deficit in the Georgian state budget. During recent years, the high level of corruption and low collection of revenue in this sector of the economy have turned into excruciating fiscal problems. For example, if the government organized proper control in this area, the state's tax revenue from the petroleum products coming into the country would increase by 30%.

According to the parliament's Budget Office, monthly consumption of gasoline in the country amounts to 50,000 tons and of diesel fuel to 30,000 tons. If these deliveries were fully legalized, the state budget would receive 327 million lari (163 million dollars) in tax a year (including 204 million lari from gasoline, and 123.6 million lari from diesel fuel), that is, almost three times higher than it currently receives from all petroleum products together (gasoline, diesel fuel, kerosene, oil fuel, lubricants).

According to the Finance Ministry, petroleum products are mainly smuggled from South Ossetia (Ergneti), Abkhazia, and Azerbaijan (from Krasniy Most, Lagodekhi, and Djandara). In neighboring countries, the prices for this commodity are lower than in Georgia, which encourages its illegal import.

Small importers mainly engage in the illegal delivery of fuel from the Ergneti market (according to the Finance Ministry, approximately 5,000 tons passes through their hands every month, 6% of consumption and 12% of the amount brought into the country illegally). Most of these goods are smuggled by rail.

Gasoline also comes to Abkhazia by ship, after which it is transported via the Inguri Central Bridge and roundabout routes to be sold throughout Georgia. According to the country's State Intelligence Department, groups working in Abkhazia import fuel from Russia in the gasoline tankers of its peacekeeping forces. It is usually reloaded into Abkhazian transportation vehicles in the area adjacent to the Gagra train station. What is more, gasoline and diesel fuel are brought from Russia by rail and boats through the ports of Sukhumi and Ochamchira. The total amount of petroleum products brought into Abkhazia from Russia reaches 8,000 tons a month. A small amount of them are used by Russian troops, the rest goes to the Abkhazian criminal structures for subsequent sale in Abkhazia and other regions of Georgia. The shipment of petroleum products from Turkey through the Abkhazian ports (approximately 1,000 tons a month) has become a regular thing.

Smuggling forces other importers to resort to falsification (in order to be competitive). In particular, they ship various admixtures (for example, pyrolyzed resin), which are taxed at lower rates, mix them with cheap gasoline, which not only artificially raises its octane value, but also its price. However, this fuel is hazardous to the health, particularly to that of adolescents.

Another form of smuggling is selling shipments registered as transit, but which are essentially sold duty free throughout the whole of Georgia. The percentage of this fuel in the total consumption is very high, particularly in the shipments supposedly transited from Azerbaijan.

1.4. Smuggling of Grain, Flour, and Sugar

Unaccounted for grain and flour mainly comes to Georgia from Russia and Turkey. According to experts, the consumption of sugar in our country amounts to approximately 180,000 tons a year. According to statistics, 40% of this amount is registered at customs. For example, in 1999, its employees registered only 75,800 tons (at 15.8 million dollars).²

1.5. Illegal Export of Timber

In 1999, approximately 50,000 cubic meters of timber were exported from Abkhazia (including valuable species, the felling of which is prohibited). According to the available data, the following amounts were shipped from the Gagra and Gudauta regions alone: 24,000 cubic meters in 1997, 30,000 cubic meters in 1998, 39,503 cubic meters in 1999, 50,000 cubic meters in 2000, 57,000 cubic meters in 2001, 63,430 cubic meters in 2002, and up to 80,000 cubic meters, according to preliminary data, in 2003.³ Of course, this data does not reflect all the illegal export of timber, and the cost of 1 cubic meter is approximately 100-125 dollars.

Turkish citizens are particularly active in this sphere. They are destroying such valuable species as chestnut and plane in increasingly large quantities. The timber produced is exported twice a week from the ports of Ochamchira and Sukhumi.

People from other countries also participate in the production of timber. In particular, a Spanish company is directing the felling of forests in the Bzyb Gorge. Spanish investments in this industry amounted to 4 million dollars. At present, five workshops at the Bzyb plant are manufacturing high-quality parquet (approximately 4,000 cubic meters a month), which is exported not only by the Spanish, but also by the Turks. Intensive forest felling has also been organized in the Gali and Tkvarcheli regions.

According to Georgian and foreign specialists, cutting down forests in Abkhazia is destroying the region's natural balance. During Soviet times, forest felling was prohibited here. Now smuggling in this area has become an everyday phenomenon and is an important source for replenishing the Abkhazian budget and of illegal revenue for several other structures.

1.6. Cigarette Smuggling

If the cigarette market were taxed in full, the Georgian budget should receive as much as 140 million lari (70 million dollars) a year.⁴ But in 1999, its cigarette revenue amounted to 31.1 million dollars, to 13.1 million in 2000, to 14.9 million in 2001, and to 16.9 million dollars in 2002. Essentially 75% of the cigarette business is not taxed.

The main reason for the existence of a black cigarette market is smuggling and uncontrolled territory. Most of the smuggled cigarettes consumed in Tbilisi come from the Ergneti market. What is more, they are brought in from Abkhazia and Ajaria. A very unfortunate situation has developed on the periphery, where almost 80% of the market is occupied by smuggled tobacco products.

² See: Opinion of the Provisional Parliamentary Commission for Studying the Reasons for the Financial-Budget Crisis. Georgian Parliament, Tbilisi, 2000 (in Georgian).

³ Data from the Georgian State Intelligence Department.

⁴ Resources and Use of Tobacco Products in Georgia. Georgian State Department of Statistics, Tbilisi, 2002 (in Georgian).

Abkhazian smugglers are in close cahoots with their Russian and Turkish “colleagues,” as well as with Georgian “businessmen” who operate in other regions. Imported and local tobacco products come to Gali, from where they are shipped in relatively small batches to the Zugdidi District (via the bridges and fords on the Inguri River), and then distributed in eastern Georgia (in the direction of Tbilisi) and in Ajaria.

1.7. Illegal Shipping of Goods by Sea

In Abkhazia, a significant percentage of the export-import transactions (approximately 60-70%) is carried out by sea and relates to smuggling.

As noted above, the Sukhumi, Ochamchira, Gagra, and Gudauta ports take an active part in this illegal business. In terms of potential, the most important is the Sukhumi port, since it can handle large-tonnage ships. Cargo, which is then distributed throughout the whole of Georgia in the form of contraband, mainly comes through this port. In contrast to other Georgian ports (for example, Poti, Batumi), in Soviet times it specialized in passenger traffic (in 1980, its annual passenger turnover amounted on average to 1.3 million people), because the region was an international resort. The port operated seasonally, since the resort season in Abkhazia lasted from the beginning of summer until the onset of winter, and 86% of the passenger flow came between May and October. As for cargo shipments, they did not exceed 190,000 tons a year, that is, 24-fold less cargo went by sea than by rail, and 79-fold less than by road. In terms of passenger movement, sea transport lagged 2.3-fold behind rail, and 8.3-fold behind road travel. Now the situation has changed and, as noted above, most of the cargo is transported by sea.

Today, the Sukhumi port mainly used to ship freight, although its depth fluctuates from 3.5 to 7 meters. What is more, it is poorly protected from the sea, only two tower cranes are in operation, it has no railroad connections, and there are no handling machines for containers. Two warehouses have been built taking into account the local commercial requirements.

There is another port at Ochamchira, a former navy port, which is better equipped.

The Abkhazians have established close contacts with commercial structures in Turkey, Russia, Rumania, Moldova, Ukraine, Italy, Spain, and other countries. Fish, ferrous and non-ferrous metal, coal, citrus fruit, and timber are exported by sea.

Gasoline, diesel fuel, industrial goods, grain, flour, and mineral fertilizers occupy a leading place in the import structure, whereby gasoline and diesel fuel play a particularly important role, which are mainly shipped from Russia, Turkey, and Rumania. Quite a high percentage of the cargo is intended for smuggling to other regions of Georgia.

In 1999-2003, Coast Guard subdivisions of the Georgian Border Defense Department detained more than 40 shipping vessels, due to illegal actions by their crews, and eleven were detained in 2002 alone for smuggling cargo to and from Abkhazia. Among the registered violations, there was one instance of timber smuggling, five of illegal fishing transactions, 2 of metal scrap smuggling, one instance of lubricant import, one of cigarette smuggling, one of coal export, and one instance of smuggling other products.

On 31 July, 2003, a Turkish ship, *Selim-1*, was sold at an auction in Tbilisi, for which the time had expired from making an appeal in court, as well as the deadline for paying the voluntary fine for illegally crossing the state border and heading for Abkhazia. And a month prior to this, a Turkish fishing seiner, *Shakir-Baba-3*, was auctioned for 13,500 lari. In 2003 alone, the Coast Guards of the Border Troops detained seven shipping vessels from various states for violations in Georgian territorial waters. What is more, eight vessels were issued warnings. As a result of the measures taken, during the first six months alone, 548,000 lari went into the budget and another 250,000 lari should go in, according to preliminary data.⁵

⁵ See: *Dilis gazeti*, 29 July, 2003, p. 2.

1.8. Uncontrolled Fishing

In the Abkhazian part of the Black Sea, seven Turkish fishing boats catch approximately 700-800 tons of fish a year. Including, 400 tons of whiting at 0.35 dollars a kg, 100-150 tons of mullet at 0.5 dollars a kg, 100-150 tons of anchovy at 0.2 dollars a kg, and 30-40 tons of plaice at 3 dollars a kg. These amounts are paid to the separatist authorities. The Turkish Konev Ltd. and Kiyak Kardes Liyar companies predominate in this business, which have registered corresponding agreements with the Ministry of the Economy of the self-declared republic.

Turkish seiners usually fish using prohibited methods, which causes immense damage to the Black Sea flora and fauna.

1.9. The Export of Scrap Metal

As the result of property privatization, state enterprises have largely fallen into the hands of their former directors and the people close to them. And they are usually not interested in reviving the plants and factories. On the contrary, their equipment is being dismantling and exported as scrap metal, and at minimum prices. This business, which entails mass embezzlement of non-ferrous metal items, has proven quite profitable for the exporters, despite the fact that abroad (mainly in Turkey) this scrap is sold at prices lower than those on the world market. Theft of transmission lines, idle gas pipelines, and irrigation pipes continues to this day, and sometimes memorials and sculptures are even removed from graves. In particular, the cost of exported scrap amounted to 2.4 million dollars in 1995, to 600,000 dollars in 1996, to 1.6 million dollars in 1997, and to 1.8 million dollars in 1998. In recent years, the volume of this export has dramatically increased, which is related to privatization and the cancellation of export tax. For example, the export of scrap metal amounted to 54.8 million dollars in 2000, and to more than 56 million dollars in 2001. Correspondingly, the percentage of scrap in the export structure has increased. This index was equal to 1.6% in 1995, to 0.3% in 1996, to 0.6% in 1997, to 0.9% in 1998, whereby it was already 10.7% in 1999, 16.6% in 2000, and 17.6% in 2001.

Despite the fact that the export of scrap, as well as remnants of ferrous and non-ferrous metal, is strictly regulated by the country's legislation, contraband export continues (mainly through the ports of Batumi and Poti).

Instances of enterprises being dismantled for scrap in the uncontrolled territory are particularly worth noting. An overwhelming number of factories and plants in Abkhazia have become depreciated, and most of them have been exported in the form of scrap. According to the Georgian State Intelligence Department, Abkhazia's ferrous and non-ferrous scrap metal mainly goes through the ports of Sukhumi and Ochamchira, and some is transported in trucks to western Georgia. With the self-seeking connivance of local official and criminal structures, it is shipped through other ports (Batumi, Poti). Ships transporting scrap metal make up to 100 trips a year.

2. Kidnapping of People and Trafficking

The growing instances of kidnapping are arousing particular concern, including a large number of girls who are kidnapped for the purpose of marriage (for example, they accounted for 28% of the total number of kidnappings in 2000, 44% in 2001, and 44% in 2002). These types of instances are usually exposed. At the same time, kidnapping for ransom is becoming more frequent, as well as to exchange the kidnapped persons for prisoners from the opposite side. This is mainly carried out by Georgian partisans, as well as by representatives of the Abkhazian "power" and criminal structures.

In the territory de facto controlled by the Abkhazian authorities, local criminal groups kidnapped 34 people in order to receive a ransom in 2000, 37 in 2001, and 28 in 2002, as well as taking 65 people hostage in 2000, 61 in 2001 and 48 in 2002.⁶

3. Trade in Stolen Cars

Stealing cars from Georgia (mainly from Tbilisi) to obtain a ransom is one of the most widespread forms of criminal business. Nearly all of these cars are transported to South Ossetia and Abkhazia. After the ransom is paid, most of them are returned to their owners, and the rest are shipped to Russia to be sold.

According to the Georgian Interior Ministry, in 2001, 206 cases of stolen cars were registered. One hundred and fifty-eight cars (76%) were returned to their owners. But the actual number of stolen cars is much higher since far from all cases are reported. The victims try to settle the problem by unofficial means. Criminal groups rake in several millions of dollars from this business.

4. Illegal Export of Coal

The development of coal fields in Abkhazia is mainly carried out by private Turkish companies that sell the raw material produced in Turkey. Ada Madencilik San Ltd. is one such company. In April 2000, it entered an agreement with the authorities of the unrecognized republic on the production of 100,000 tons of coal at the Khudzga and Tkvarcheli quarries.

Other Turkish companies are working at the Tkvarcheli fields, including Kara Elmas Ltd. At the end of 2001, it entered an agreement with the Abkhazian Ministry of the Economy. In Tkvarcheli, the company built a mini factory on the so-called "lower plateau," where the coal mined at the Khudzga quarry is dressed. This quarry is being developed by another Turkish company.

The Barashan Company, headed by Tushalian, a Turkish citizen, also made certain investments in the Tkvarcheli mine management. Since June 2002, the Tamsash company has been mining coal in the upper field of the Khodjal hill. It is also developing the Djigit field.

The representatives of the Turkish companies believe that the Abkhazian authorities will permit them to expand this activity. In their opinion, after the relevant preparatory work has been completed, they will be able to produce and export approximately 1,500 tons of coal a day.

5. Tourism in Abkhazia as a Form of Smuggling

The government of the self-declared republic believes the tourism industry to be one of the main areas in the development of its economy. In order to attract Russian citizens to come here on vacation, it opened the Rusaltur tourist agency in Moscow in 1999 (today there are ten of them in the Russian Federation) and began to renovate its resorts, in particular on Lake Ritsa, in Gagra, and at Pitsunda, for which budget funds were also used.

Nevertheless it should be noted that according to Sukhumi's official data, 25% of the assignments that go into the state treasury from this business are used for strengthening the country's defense capabilities. According to data published by the Abkhazian authorities, during the 2001 season, 20-25,000 people vacationed in Gagra. And since 2000, Russian circles interested in developing the tourist industry have been making big investments in Abkhazia. For example, the Gladiolus Company, the owner of a network of Moscow hotels, bought an Intourist Hotel in Sukhumi and is already renovating it. The son of former Russian prime minister Viktor Chernomyrdin intends to invest immense funds in Pitsunda.

⁶ See: Report of the Provisional Commission of the Georgian Parliament on the Problems of Abkhazia, 11 December, 2002 (in Georgian).

In order to achieve their political goals, the local authorities are making wide use of the tourist business, since many representatives of Russia's upper echelon take their vacations at Abkhazian resorts, which is subsequently having an effect on the state decisions they make.⁷

Based on the information above, it can be presumed that by developing the Abkhazian resorts, Russia is conducting economic expansion in the region and is essentially integrating Abkhazia into its economic space. When the time is right, it will be able to make use of the situation to carry out its strategic tasks in the region.

6. Illegal Privatization of Property in Abkhazia

Russian private structures are purchasing Abkhazia's assets essentially for a song, including not only land, resort facilities, enterprises, and so on, but also the property of the Georgian population exiled from Abkhazia, such as their estates, houses, and other property.

In 1995-1996, a privatization plan was drawn up in Abkhazia. At the first stage (1-2 years), there were plans to put commercial facilities and small enterprises up for sale, and at the second, large but unprofitable plants and factories would be sold, whereby profitable enterprises and resort facilities would remain in the hands of the state. For this purpose, a Committee for the Management of State Property was even created.

On 20 March, 2002, the Georgian parliament made a statement about privatization in Abkhazia. And prior to this, it adopted several resolutions (10 March, 1994, 17 April, 1996, and 1 April, 1998) on this issue. According to these documents, all legislative acts and by-laws that contradict Georgian legislation adopted by the Abkhazian authorities, as well as the structures in the alliance with them, including all decisions and civil legal transactions violating the rights of state property in Georgia, were deemed null and void. Nevertheless in 1997, illegal privatization of property began in Abkhazia, as a result of which by 2001 more than one thousand facilities, including hotels, resorts, and other facilities in Sukhumi, Gagra, Pitsunda, Novy Afon, Gudauta, Gulripsha, and Ochamchira had passed into the hands of physical and legal entities of different countries. The transfer of private property of refugees and Georgians forced to leave the insurgent republic assumed particularly mass proportions.

⁷ See: *Trud-7*, No. 110, 19-25 June, 2003.

RESTRUCTURING KYRGYZSTAN'S EXTERNAL DEBT: OPPORTUNITY ANALYSIS

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Under the republic's development strategy, by 2010 the annual rate of investment in its economy is to go up to 17% of GDP. This target is to be achieved with a significant reduction in public investment (by more than half) and a much greater influx of private funds. The need to address this com-

plicated task is due to the difficulties of servicing the republic's external debt, which impedes the solution of a number of domestic problems, including problems in the social sphere, since it narrows down the possibilities for state budget spending. So, matters of restructuring and servicing external debt are now among the main problems facing the country's economy.

In the first few years of independent statehood, the country resorted to foreign borrowing in view of the objective need to maintain its economic independence in the conditions of an acute shortage of financial resources caused by the cessation of transfers from the Union center.

The most burdensome commercial loans were received by the republic in the early 1990s from the European Commission, and also from Turkey, Pakistan and Russia. That was also when a part of the debts of state-owned enterprises on correspondent accounts (for 1992-1993) were posted to the country's external debt. It was only after Kyrgyzstan's accession to international financial institutions (1993-1994) that it was enabled to obtain loans from them on preferential terms. At that time, the republic also began to receive aid from donor countries (Japan, Germany, Switzerland and others) within the framework of bilateral cooperation.

In the late 1990s, the problem of servicing external debt took a sharper turn. Although most of the foreign loans and credits had been made available on easy terms, it was time to pay current maturities of principal, so that annual debt service payments, including interest payments, amounted to about 40% of total budget spending.

Most of the external public debt is direct debt, i.e., the republic's net liabilities on loans and credits obtained directly by its government (at the end of 2000, their share was over 95%). This direct debt (according to the breakdown given by the National Bank) has several components: liabilities on program credits (resources going into the government's Counterpart Fund); on project credits within the framework of program-related government investments (PRIs); and on loans and credits outside the PRI framework. The rest of the external public debt is indirect debt consisting of government guarantee obligations on private sector loans.

According to National Bank data (see Table 1), at the end of 2002 the republic's total external debt, including private debt and IMF loans, stood at \$1,732.3 million, including a public debt of \$1,532.6 million.

Some of the loans that require immediate debt servicing were received on non-concessional terms outside foreign aid programs. But concessional loans may also give rise to serious problems connected with the "resonance" effect: the grace period for many of them is to end within a few years.

Simple calculations based on average interest rates and maturities show that interest payments will reach at least \$25 million and principal payments at least \$60 million a year, that is, debt service payments will amount to 6-7% of GDP (compared with less than 2% of GDP in 2000).

In addressing this problem, which is to confront the country in the medium term, use should be made (except for a small part of the country's borrowings) of debt restructuring, a method used in recent years for short-term debt relief. Restructuring (rescheduling) means that the original terms of repayment are renegotiated for more favorable terms. However, with regard to loans and credits obtained by way of aid this may not yield any significant effect, because they were initially granted on the easiest possible terms. One should also bear in mind that a temporary softening of the terms of payment in the process of restructuring often leads to a mere deferral of payments until a later date (at an additional charge) instead of an actual reduction in the debt burden.

It is clear that such payments without serious damage to other state budget expenditure items will be possible only given rapid (around 6-8% a year) and steady growth of the country's economy, a radical improvement in tax compliance and a reduction in the scale of the shadow economy. Unless this is achieved, the only way to resolve the problem will be a write-off of debts by creditors. But such a decision depends not so much on Kyrgyzstan as on the creditors themselves.

From the standpoint of aid programs this means that in the structure of allocated funds the share of aid provided in the form of loans and credits should be considerably reduced with a simultaneous increase in the share of grants (grant element).

Another possible way of resolving the problem is to launch large-scale interstate projects in the territory of the republic. This will enable Kyrgyzstan to repay its debts in the form of reinvestment in joint

Table 1

Kyrgyzstan's External Debt

	1997	1998	1999	2000	2001	2002
Total external debt						
TED¹ at end of period (\$m)	1,356.1	1,480.3	1,647.4	1,703.8	1,677.7	1,732.3
TED at end of period² (% of GDP)	76.7	90.6	134.4	124.6	109.6	107.5
TED at end of period³ (% of exports)	200.7	247.6	312.3	297.5	299.2	276.1
Scheduled debt service on TED⁴ (\$m)	81.1	130.2	137.1	160.8	172.5	129.2 ⁶
Actual debt service on TED⁴ (\$m)	78.2	118.4	111.4	154.7	171.1	120.8
Debt service ratio for TED (% of exports)						
— scheduled	12.0	21.8	26.0	28.1	30.8	20.6 ⁶
— actual	11.6	19.8	21.1	27.0	30.5	19.3
Public external debt						
PED⁵ at end of period (\$m)	951.5	1,093.3	1,314.4	1,399.2	1,441.5	1,532.6
PED at end of period² (% of GDP)	53.8	66.9	107.2	102.3	94.2	95.1
PED at end of period³ (% of exports)	140.8	182.9	249.2	244.8	257.0	244.3
Scheduled debt service on PED⁴ (\$m)	43.4	55.8	53.4	77.6	71.7	84.0 ⁶
Actual debt service on PED (\$m)	41.2	51.4	30.4	48.1	71.7	74.0
Debt service ratio for PED (% of exports)						
— scheduled	6.4	9.3	10.1	13.5	12.8	13.7 ⁶
— actual	6.1	8.6	5.8	8.4	12.8	11.8
<p>¹ Total external debt (including private debt and IMF loans).</p> <p>² As a percentage of projected annual GDP.</p> <p>³ As a percentage of projected annual exports of goods and services.</p> <p>⁴ Includes principal and interest payments.</p> <p>⁵ Public external debt.</p> <p>⁶ Without regard for bilateral debt rescheduling within the Paris Club framework.</p>						
<p><i>Sources:</i> KR Ministry of Finance and KR National Bank.</p> <p><i>Note:</i> Debt is calculated based on the amounts received and/or repaid in foreign currencies at face value and converted into U.S. dollars at the IMF exchange rate in effect at the end of the reporting period.</p>						

projects, which will eventually become a source of foreign exchange earnings. Yet another and no less effective source of budget revenue for debt repayment could be successful privatization of large state-owned enterprises.

The amount of contracted foreign loans and credits should not exceed the amount of principal payments on the republic's external debt. In order to make efficient use of the funds obtained, they should not be spent on current consumption or budget deficit financing, but mostly on investment in production, including the construction of new enterprises. Income from investment in these areas is a source for repayment of the loans and credits received. The external debt is repaid from the budget either out of international reserves and property or out of new borrowings. Such borrowings should be made only for top-priority programs and projects serving to promote economic growth and to reduce poverty.

Repayment of external debt is made in foreign currency, whose main source is a trade surplus. So, economic resource flows should be altered in order to ensure an increase in exports. But the level of exports in relation to debt is very low. For example, in 1997 export earnings came to 44.5% of total debt, and in 2002 the figure was down to 28%. In other words, the republic's ability to service its external debt leaves much to be desired, since about 40% of export earnings are reserved for external debt service payments.

As regards the "quality" of external debt, the republic applies the following system of threshold values developed by the World Bank:

- (a) the ratio of the present (discounted) value of accumulated external debt to GDP—not higher than 80%. Present value is the principal amount of external debt with interest due on it for the entire maturity period minus actual repayments;
- (b) the ratio of the present value of external debt to annual exports—not higher than 200-220%;
- (c) the ratio of annual debt service payments on external debt to annual exports—18-25%.

Debt is regarded as moderate if the first indicator is within the limits of 18%-80% or the second indicator is between 132% and 220%. Higher figures are an indication of the country's low debt servicing capacity, which points to an unsustainable debt burden.

The ratio of the present value of external debt to annual exports (debt to exports ratio) gives a good idea of the state's ability to put into effect the classical scheme of external financing, when debt service payments are met out of foreign exchange earnings from national exports. In countries that have no difficulty in meeting such payments the debt to exports ratio is around 10-20%, whereas traditionally problem debtors have a ratio of over 500% (in Kyrgyzstan, the figure is 299.3%).

As noted above, the republic is now faced with certain problems in duly servicing its foreign liabilities. A special point to note here is that there are credits whose inefficient use is already putting great pressure on the state budget. These include credits received from the government of Turkey, the government of Pakistan and other credits, and also from CIS countries (Russia, Uzbekistan and others), with payments on these reaching a peak in 2000-2005. The main feature of these credits is that they were extended to the republic on non-concessional terms.

One should note that external debt adjustment (settlement) and external debt management are different concepts. The former is a matter of tactics and means a search for ways of resolving a concrete situation. The latter is of a strategic nature and is designed to normalize debt relations over the long term. Unfortunately, Kyrgyzstan's efforts have so far been concentrated exclusively on problems of settling its external debt. This task has to be addressed in the overall context of long-term external debt management, which is closely connected with further economic development, with efforts to enhance the republic's reputation in the world economic arena and, consequently, with its relations with Western investors and credit agencies.

As we saw above, effective opportunities for settling the external debt problem could be provided by large-scale interstate projects in the territory of the republic. Kyrgyzstan could meet its debt service payments by reinvestment in joint projects, which would not only enable it to solve this problem but would eventually become a source of foreign exchange earnings. Yet another and equally effective source of budget revenue for meeting debt service payments could be successful privatization of large strategic state-owned enterprises. The third way is to reduce the outflow of capital from the country by creating favorable conditions for direct and portfolio investments. In this context, the key question today is a further

improvement of the investment climate. This includes not only deregulation of the economy, but also a whole complex of general confidence-building measures aimed at balancing the budget, ensuring efficient operation of the banking sector and protecting investor rights.

In order to reduce the debt burden, it is necessary, in our view, to go over to multiyear restructuring agreements with Western creditors.

Today there are seven methods of debt conversion used at the international level:

1. "Debt for financial instruments" (debt for bonds, bills of exchange, etc.) swaps in the form of one-time deals or in tranches.
2. "Debt for legislative, economic or other reforms" swaps, under which debt is cancelled in exchange for the implementation (or alteration) of economic, social or other policies by the debtor government.
3. "Debt for local currency" swaps. In this case, debt is not purchased at a discount from face value, but is cancelled in exchange for the establishment by the debtor country of a fund in local currency, which is then used to allocate resources to local and international development agencies for carrying out socioeconomic projects approved in the debtor country. The governments of such countries may be faced with the problem of allocating already scarce local resources for the aforesaid fund, and the governments of the creditor countries, with legal problems in effecting such debt conversion. Another point to note is that the establishment and management of such funds is a delicate and lengthy process with the participation of representatives of the creditor and debtor governments, bilateral and multilateral organizations.
4. "Debt for development" swaps. These are usually aimed to finance projects in the field of education, health care, support of small and medium business, urban and rural development, and environmental protection.

Debt for development swaps are an instrument enabling the debtor country to achieve its long-term goals in traditionally underfunded areas. That is why the initiative here should be taken by the debtor. In a sense, the mechanism of this exchange is a form of project co-financing without external obligations for the country. A well-functioning project could attract additional support from sponsors not connected with the debts in question.

5. "Debt for equity" swaps. Such transactions (in their present form) were initially performed in the Latin American countries in the 1980s in response to the debt crisis that had broken out in the region. In debt for equity swaps, the investor acquires a part of the government debt in the secondary market and then exchanges it (at a discount) for the debtor country's currency, investing these funds in shares of enterprises undergoing privatization.
6. Debt buyback, which is a transaction in the debt market or, less frequently, with the creditors themselves. For this purpose, the debtor country usually has to negotiate a debt restructuring agreement with foreign commercial banks and get their approval. However, projects of this kind meet with particular resistance on the part of banks, since the buyback mechanism implies forgiveness (write-off) of a significant part of the debt and encourages financially unscrupulous governments. In other words, instead of servicing its foreign debt and paying interest on it, a state can declare a moratorium on debt service payments and then, taking advantage of the sharp drop in the price of the debt in the secondary market, buy back its own liabilities. Sometimes the fall in the market price of the debt is so great that the amount of interest due for two years is sufficient to buy back the entire debt. Moreover, the foreign investor does not acquire any equity positions in national assets, as in the case of debt for equity swaps.
7. "Debt for nature" swaps, which are aimed at promoting environmental protection projects. Although these swaps can be regarded as a variety of debt conversion, there is an essential distinction: they are not meant to make profit. Moreover, they do not provide for any transfer of ownership or repatriation of capital to the foreign investor.

In addition to the above-mentioned proposals, a necessary condition for successful repayment of external debt is the “transfer problem.” This problem has three key aspects. First, a fiscal aspect: state budget revenues must exceed expenditures, which will make it possible to accumulate resources for debt service payments. Second, a resource aspect: external debt is repaid in foreign currency, whose main source is a trade surplus, so that economic resource flows must be redirected in order to increase the mass of commodities designed for export. And third, a systemic aspect: an increase in the physical volume of exports must lead to a corresponding increase in their value.

There are different strategies for overcoming external indebtedness whose main purpose is to expand national exports. This can be done by taking measures to limit the capacity of the domestic market and to create a “surplus” of traditional export products for increasing sales in the foreign market, and also by stimulating the production of traditional export products through the attraction of domestic and foreign investments.

Kyrgyzstan’s current debt service policy is designed to reduce the debt burden by prepayment of non-concessional loans and a rescheduling of bilateral debt through the Paris Club. Clearly, without a rescheduling of its accumulated debt (in terms of maturities and payment amounts) the republic would have experienced serious difficulties in the economic and social sphere and in implementing many programs, including poverty reduction programs.

In 2001, the republic managed to reschedule its overdue debt owed to such creditors as Russia, Tureximbank (Turkey), Kazkommerzbank (Kazakhstan), Berliner Bank (Germany) and Hoechst Schering – Aventis Corporation (Germany), with the result that debt service was reduced to \$57.2m, including \$37.5m worth of principal and \$19.7m worth of interest.

In March 2002, Kyrgyzstan and the Paris Club held negotiations on rescheduling the republic’s external debt, which stood at around \$1.5 billion. As a result of these negotiations, the Paris Club decided to accord to our country the so-called Houston Terms of debt relief enhanced by a commitment to consider the question of a significant reduction in the stock of debt under what is known as a goodwill clause and capitalization of so-called moratorium interest.

The Houston Terms of debt rescheduling include two important points:

- (1) capitalization of moratorium interest falling due within the consolidation period, i.e., payment of this interest is deferred until a later date as follows: 50% of the interest amount in 2002, 60% in 2003, and 70% in 2004;
- (2) a goodwill clause, which means that upon the successful completion of the PRGF Program¹ (by December 2004) the republic will be entitled to even more favorable restructuring terms, with a significant reduction not only in debt service amounts, but also in the total debt stock. A precedent was created when a first-time applicant to the Paris Club secured a goodwill clause for its debt stock. This is a good incentive to continue rescheduling external debt and to obtain credits on favorable terms.

By 30 June, 2003, bilateral debt rescheduling agreements within the framework of the Paris Club had been concluded with France, Denmark, Germany, Japan, Russia, Turkey, Uzbekistan and Korea. Agreements with India and Pakistan were at the signature stage, and negotiations on the loan from the Kuwait Fund for Arab Economic Development (KFAED) were still in progress.

The rescheduling agreement signed with the Paris Club is expected to reduce debt service payments due to Paris Club creditor countries for 2002-2004 from \$101m to \$5.6m. And if all bilateral creditors, including non-members of the Club, agree to extend to the republic terms of rescheduling identical to the terms provided by the Club, the overall reduction in debt service payments due to all bilateral creditors for that period will amount to \$122.75m, including \$44.69m in 2002, \$37.52m in 2003 and \$40.54m in 2004 (see Table 2).

As noted above, talks are underway with non-members of the Paris Club: the KFAED, India, Pakistan, China, Uzbekistan and Korea.

¹ IMF program for reducing poverty and fostering economic growth.

Table 2

Debt Service in 2002-2004 (\$m)

	2002	2003	2004
Total debt service payable from the budget before Paris Club rescheduling (1)	58.55	59.66	59.32
including principal	31.69	33.42	36.64
interest	26.86	26.24	22.68
Total debt service payable from the budget after Paris Club rescheduling (2)	13.86	22.14	18.78
including principal	2.45	4.59	4.88
interest	11.41	17.55	13.9
Debt service reduction: (1) – (2)	44.69	37.52	40.54

In 2002, budget expenditures connected with payment of principal on public debt amounted to 1,138.9m soms (currency unit in Kyrgyzstan), or 89.8% of the scheduled figure. Of these, 80.8m soms went to repay external debt and 1,058.1m soms went to service domestic debt, including government treasury bills (642.4m soms), government restructured loan bonds (277.2m soms), government short-term obligations (96.6m soms), savings loan bonds (30.0m soms), and temporary borrowings (11.9m soms).

Table 3

2002 Budget Execution for Public Debt
(mill. soms)

Items	Scheduled	Actual	Deviation	%
1. Domestic debt stock	1,183.1	1,058.1	-125.0	89.4
2. External debt stock	84.7	80.8	-3.9	95.4
Total public debt	1,267.8	1,138.9	-128.9	89.8

Payments of principal on public debt in 2002 constituted 8.5% of the republic's total budget expenditures and 1.5% of GDP, whereas in the preceding year the figure was 28.5% of total expenditures. In view of the republic's application to the Paris Club and rescheduling of debts owed to bilateral creditors, the amount of external debt payments for the 12 months of 2002 was 3.8 times less than for the respective period of 2001.

Debts owed to other countries and foreign organizations should be seen not as some kind of mechanism limiting the country's economic potential, but as an external financial resource promoting national economic growth. But if these borrowings, which augment domestic resources, are to promote a further influx of investment, they should be used exclusively for investment purposes. If these resources are used to import consumer goods, the aforesaid function loses its significance and the aggregate external debt can then be regarded as "net external debt," i.e., its importance amounts to payment of interest.

The extent to which external borrowing has been used to finance real investment determines the possibility of economic growth. From the positions of the developing countries, external debt performs

the important function of covering the “foreign exchange deficit” and markedly restrains economic growth. By covering this “deficit” it gives an opportunity to acquire foreign machinery and equipment, raw materials and special products not produced in the country. From this it follows that such debt, on the one hand, stimulates the conversion of domestic resources into investment and, on the other, raises the technological level of the economy through imports of machinery that is not produced at home. So, a “foreign exchange shortage” has an even more negative effect on economic development than a shortage of domestic resources.

As mentioned above, the ratio of external debt to GDP is a major indicator of the impact of debt service obligations on the national economy. The republic’s debt for 2002 amounted to 108% of national income. If its economy is analyzed from the standpoint of external debt figures, Kyrgyzstan can be ranked among the problem countries, since it has been unable to increase its foreign exchange reserves in due time, which has created difficulties in debt service. In order to halt the growth of external debt and make this process manageable, we must concentrate on domestic capital formation and on investment in export-oriented industries. At the same time, it is necessary to establish proper control over the target use of funds from foreign sources so as to raise the republic’s repayment capacity, which will help to build a system for managing its external debt.

In conclusion, we would like to draw attention to the need for an adequate assessment of the effects of Kyrgyzstan’s external debt on its foreign economic orientation.

First, in order to resolve its debt servicing problems the republic has to expand its cooperation with Russia and other countries to which it is most heavily indebted. Russian businessmen will probably make more active efforts to penetrate into the republic’s business environment, including incorporation and acquisition of large industrial enterprises in settlement of debt.

Second, the question of how to raise foreign exchange for debt service payments could come to the fore in the very near future, which puts the problem of finding ways to expand exports among the top priorities. Its solution depends directly on an improvement of transit across the territories of neighboring countries, primarily Kazakhstan. Despite the understandings reached in this area, there are still many barriers to be surmounted. A solution of these problems, including the need to harmonize economic relations and identify interests, is undoubtedly one of the keys to the country’s future economic development.

SOCIOECONOMIC DEVELOPMENT OF GORNY BADAKHSHAN

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In January 2005, the Gorno-Badakhshan Autonomous Region (GBAO) will mark its 80th anniversary as part of the Republic of Tajikistan: in historical terms it is not much—measured by individual lives, however, it is a lot. In the distant past

the Western Pamir (Shugnan, Rushan, Wahan, Garan and Ishkashim) consisted of small independent possessions ruled by hereditary potentates until in the mid-19th century the geopolitical interests of the British and Russian empires clashed in Cen-

tral Asia. In 1873, they signed an agreement on the West Pamirian borders under which Shugnan, Rushan, and Wahan were excluded from the sphere of influence of the Afghan emirate. In 1883, Afghan Emir Abdurahman Khan captured the western regions in violation of the earlier treaty on the inviolability of the borders along the River Panj. Russia had to use force to recapture its control over the territory.

In 1895, Russia and Britain signed a special agreement on the delimitation of spheres of influence in the Pamir. To the mutual satisfaction the sides drew the dividing line from Zor-Kul Lake along the Eastern Pamir and the River Panj. It was at the same time that Russia started the process of including the area in the empire. From that time on and until November 1918 supreme power in the region belonged to the military; after a revolution performed by soldiers, workers and hired agricultural laborers power was transferred to the newly created Revolutionary Committee, the first body of Soviet power in Gorny Badakhshan.¹ The Pamir

¹ See: M. Shergaziev, S.A. Radjabov, "Sozdanie i razvitiye sovetskoy gosudarstvennosti v Gorno-Badakhshanskoy avtonomnoy oblasti," in: *Ocherki po istorii Sovetskogo Badakhshana*, Irfon Publishers, Dushanbe, 1981, p. 103.

was made part of the Turkestan Autonomous Republic as an independent region (okrug) administered directly by the government of the autonomous Soviet socialist republic. As a result of ethnic and territorial delineation in Central Asia Gorny Badakhshan was made an autonomous region within the newly formed Tajik Autonomous Soviet Socialist Republic. This was done in recognition of the local people's ethnic specifics. Today its ethnic groups are living in the area that has all features typical of a self-administering region: it is separated from the rest of the republic; its economy is highly specific; it has its own tongues, traditions of everyday life, religion (Shi'a Islam), etc. There is a certain number of Kyrgyz living there, too. According to the Pamir Languages Department of the Institute of the Humanities, Academy of Sciences of Tajikistan, there are nine languages and dialects in the Pamir all belonging to the old-Iranian linguistic groups.

It was in 1955 that the present administrative and territorial system took shape. Art 81 of the 1994 Constitution of the Republic of Tajikistan describes the Gorno-Badakhshan Autonomous Region as an inalienable part of the Republic of Tajikistan. This reconfirmed the area's autonomous status.

Local Economy Today

During its nearly 80 years of existence as an autonomous region Gorny Badakhshan has covered a long historical road: from a feudal-patriarchal society to an agrarian-industrial area with a relatively developed social infrastructure, a system of cultural, educational and research institutions. The same fully applies to the Republic of Tajikistan. These achievements are well known and there is no need to dwell on them here. It is much more important to identify the region's place in the country's social and economic development pattern and to describe the problems it will have to address in the foreseeable future.

The region occupies 44.9 percent of the country's total territory; it possesses 25 percent of the water resources and the same share of potentially usable hydropower resources; it also has 2.3 percent of the total cultivated area and is populated by 3.3 percent of the country's total population. At the same time, in 1996-2002 the region's share in the total volume of capital investments in the republic's national economy was 4.0 percent; in capital funds, 1.2 percent; in retail trade, 1.3 percent; in paid services, 0.9 percent; in industrial production in 2001, 0.55 percent; in the aggregate agricultural production, 1.8 percent; the share of gainfully employed population was 1.5 percent.² If we take into account the region's population size as related to the republic's total population we can see that the region produces 1.8 times less agricultural produce and nearly 6 times less industrial products.

² Calculations are based on: *Statisticheskiy ezhegodnik Respubliki Tajikistan za 2001 g. Goskomstatistiki Respubliki Tajikistan*, Dushanbe, 2002, pp. 23, 195, 220, 222, 239, 243, 300, 330; *Narodnaia gazeta*, 19 February, 2003.

It is lagging behind for objective and subjective reasons: it is far removed from the valleys; until quite recently it was practically isolated from the rest of the country for half a year. In the past the valleys were treated as a priority. So far, the natural resources of the mountainous areas that are very hard to achieve remain unknown and therefore, undeveloped. The natural conditions there are much harsher than in other mountainous areas—they can be described as extreme especially if compared with the valleys. This climate is much more demanding when it comes to labor expenditure, the local economy requires much more investments; production there is less efficient, therefore the region's development is slow; to successfully develop it should receive subsidies, tax and customs privileges while the local people should enjoy more social security, etc.

In the last 10 years the republic's government passed several decisions designed to stabilize the region's sociopolitical and socioeconomic development; it has offered favorable conditions to the international humanitarian programs active in the area such as the Aga Khan Foundation (AKF), the Eurasia Foundation, the Counterpart Consortium, the Ministry for Economic Development of Germany, etc.

Much is done to develop transport: the preliminary variant of the Kulob-Zigar highway ended the area's isolation from the country's southern parts that lasted six months every year; in the future as soon as the Murgab-the Kul'ma Pass is commissioned and joined with the international Karakorum highway the region and the republic will acquire access to the neighboring countries to further develop its economic and trade contacts.

In the 1990s, the countryside economy was reformed: unprofitable farms were liquidated while their cattle and lands were transferred for long-term lease to local peasants. This preserved agriculture in the area and made it possible to increase its productivity. The private farms are doing well: in 1991-2002 the gross yield of grain increased by 3.3 times; potatoes, by 2.4 times; vegetables, by 2.5 times; melons and watermelons, by 3.0 times. Successes in cattle breeding are less spectacular, yet where per capita meat production is concerned in 2001 the region outstripped the republic by 1.2 times (10.1 kg in the region and 4.7 kg in Tajikistan as a whole), milk, by 1.5 times; eggs, by 3.1 times; wool, by 2.8 times, etc. At the same time, the local demand for the basic foodstuffs is met on average by 70 percent (with the exception of potatoes). Flour, vegetables, melons and watermelons, etc. should be brought in great quantities from the valleys. The situation is strange: in 2001 the region produced 0.6 kg of melons and watermelons per capita even though there are idle lands while the local people would like to consume more of these products.

The economic reforms crippled the local industry: while in 1990 it gave jobs to 2.9 thou and produced goods to the total sum of 24,336 rubles, in 2001, only 974 people were engaged in industrial production (there are doubts that they really worked in industry) who produced goods to the total sum of 10,386 thou somoni (the local currency). It was 4.6 persons per 1,000 of population working in industry while per capita production reached 49.07 somoni (the corresponding average figures for the republic as a whole: 14.0 persons and 298.51 somoni—the gap is 3.0 and 6.1 times).

Some 10 to 12 years ago the region had varied industries (light, food, and stone working) as well as construction materials industry; it also produced electric power. Today, its industry is limited to the Gorno-Badakhshan network area consisting mainly of small hydropower stations responsible for two-thirds of the region's industrial output. By 2002, many of the local factories had been closed or stood idle. The Khorugh garment factor that employed 646 people in 1990 who produced 6,002 thou ruble-worth of products (\$8,418) in 2001 employed 102 who produced 14 thou somoni-worth of products. The meat-packing and milk factory that had employed 120 in 1990 and turned out products to the total sum of 4,484 thou rubles (\$6,289) in 2001 gave work to 18 people who produced 20.0 thou somoni-worth of products. The concrete product plant in Khorugh had hired 143 people in 1990 and produced 2.028 thou ruble-worth of products (\$2,844.3); in 2001 the plant was closed. The local bakery, the Garant enterprise, the services in the district centers, the poultry farm in the village of Buni, and many other enterprises are struggling for survival. In the past, the region's industry (with the exception of garment factory and the stone working enterprises) had a stable local demand and worked on raw materials and semi-finished products brought from other parts of the republic. The local businessmen had failed to revive the old contacts, therefore local enterprises are either idle or were closed down altogether. This

raises a natural question: how can local industry be developed in the absence of means to open new or, at least, to preserve the old enterprises?

The low economic development level, low prestige of industrial labor because of low wages frightened away many of those who used to work in industry; this created an employment crisis. In the last 11 years the local population increased at a faster pace than elsewhere in the republic: the civil war created large numbers of migrants. Despite the fact that in 1991-2001 the size of able-bodied population increased by more than 1.4 times the number of those working in the local economy dropped by 78.2 percent (20.4 thou). This naturally created unemployment. By the early 2002, there were 15.2 thou of officially registered unemployed in the Pamir³ (35.4 percent of the total number of unemployed in the republic). While in the republic in the last five years the number of unemployed dropped, in the region it doubled; over 65 percent of the unemployed are young people between 18 and 29. Unemployment is materially and morally humiliating; it is the hardest test and the gravest illness caused by the market economy.

Young and middle-aged people leave their homes and the republic in search of employment and are exposed to the hardships of the labor immigrants' lot. There is the opinion that labor migration may alleviate the problem and relieve pressure on the local labor market; much hopes are pinned on training in the countries where Tajiks are working and on the money they send back home that can be used for investments in the national economy, etc. One cannot deny that this is true—many families are living on the money they receive from abroad, yet the migrants themselves sacrifice a lot, even lives. They exchange life at home for hard, unskilled labor, adverse living conditions; they are underpaid and often not paid at all, they risk their lives. In short, the unorganized labor migrants are the most vulnerable and socially unprotected category of workers. As for the money they manage to mail back home no matter how large are the sums they are inevitably 8 to 10 times less than the cost of what they created by their labor. The migrant workers contribute mainly to the prosperity of the host country. It seems that Tajikistan will profit much more if it creates jobs closer at home and uses its human capital rather than be satisfied with short-term advantages.

The region is rich in natural resources and raw materials. If developed they will boost its own development and economic advance of the republic as a whole.

Agricultural Lands

According to the Tajikgiprozem Institute the region's agricultural land potential is 10.5 thou hectares (that can be used to grow grain, potatoes, vegetables, etc.), which is a lot in this mountainous country where the irrigated arable lands cover an area of 15.7 thou hectares.⁴ There are about 2.3 thou hectares suitable for industrial plantations of apricots, walnuts, mulberry, and pomegranates. According to the Regional Amelioration Association, certain measures designed to improve the region's water economy and strengthen river banks will produce up to 3.5 to 4.5 thou hectares of arable land in the next few years⁵ (of which 500 hectares will be found in the Darvoz District; 1,000 hectares in the Bartang Valley; about 800 hectares in the Roshtkala District; over 200 hectares, in the Ishkashim District, etc.). There is a possibility to create meadows and irrigated pastures over 5.0 thou hectares in the Murgab District that will be 4 to 5 times more productive than the already existing ones.

In the nearest future it is planned to develop, together with the AKF's Mountain Societies Development and Support Program (MSDSP), over 1,000 hectares of arable lands in the Bartang Valley. With an average grain yield of 15.0 metric centners per 1 hectare of irrigated lands the total grain yield may increase by 1.5 thou tons. Potato production may show the greatest increase: there is the opinion that the region can produce 35 to 40.0 thou tons or even more (in 2001 the region produced

³ See: *Statezhgodnik Respubliki Tajikistan*, Dushanbe, 2002, p. 74.

⁴ See: *Materialy Strategicheskogo seminaru po ustoychivomu razvitiu Tajikskogo Pamira*, Khorugh, 21-24 October, 2002.

⁵ *Ibidem* (contribution by D.S. Anoiatshoev).

27.0 thou tons). The following districts have the most favorable conditions for growing potatoes: Ishkashim and parts of the Shugnan, Roshtkala and Rushan districts. In the future, the region will cover the local needs and will be able to sell it to the republic's southern parts fresh and processed into chips and other products.

The available lands should be rationally used: in 2001 over 5.1 thou hectares of arable land remained idle for want of diesel fuel, spare parts for pumping stations, seeds, and for other reasons.⁶ Practically no fertilizers are currently used which cuts down the yield. In Soviet times, the land annually received 3.5-4.0 thou tons of mineral and 10-12 thou tons of organic fertilizers; the corresponding figures are: less than 900 tons of mineral and 5-7 times less organic fertilizers. This is wrong in the context of lack of arable land and infertility of local soils.

Water Resources: The Present State and Hopes for the Future

Water and hydropower resources are even less rationally used than the land. In averagely damp years these resources amount to 409 c m (over 25 percent than across the country). The main water resources concentrated in the River Panj and its numerous large and small tributaries are practically untapped. Today, the region used less than 1 percent of its water flow formed on its territory. About 90 percent is used for irrigation; the rest is consumed by industry and communal services. More rational use of the local water resources can be achieved by extending irrigated territories and developing industries; the extremely pure water made of melted snow and obtained from springs can be sold as drinking water. Middle Eastern countries badly need such water and are prepared to pay for it more than for oil and oil products: good customers can and should be found.

Hydropower resources are the region's main wealth: their potential is 8.23 million kW (25.7 percent of the republic's total reserves) and 4.9 million kW technically possible to exploit (25.4 percent of similar resources across the country). Today they remain untapped: the overall installed capacity of the region's electric power stations do not exceed 54.0 thou kW (1.2 percent of the similar index for the republic) of which 29.0 thou kW are produced by the hydroelectric power stations (0.6 percent of technically possible) and 25.0 thou kW by the diesel electric power stations. Since 1992 the latter have been idle for want of fuel.

Today, a superficial observer may accuse those who planned in the past diesel electric power stations for the area abounding in hydropower resources of thoughtlessness, yet there were reasons for this. First, capital investments have been limited at all times: diesel stations are much less capital-consuming per unit of commissioned capacities than hydroelectric power stations. Second, they were much less time-consuming than the hydroelectric power stations; third, petrol products and transportation costs were very low. It is true that the hydroelectric power stations are paid off swiftly, yet in the past people concentrated on the time needed for construction. Today, because of lack of diesel fuel the diesel electric stations are idle: time regained turned out to be money lost.

Between 1994 and 2001 the autonomous region received 21 micro hydroelectric power stations that all together produce 1,500 kW; the first two aggregates of the Pamir HEPS-1 with an overall capacity of 14.0 thou kW were also commissioned.

Still, power production in the region trails behind the average republican level: in 2001 all electric power stations produced 134 million kW/h (0.93 percent of the republican total); per capita production was 639 kW/h (3.6 times below the country's average).⁷ This is not enough and slows down the region's economic development. Indeed, the region has no alternative power sources (coal, gas, diesel fuel, tim-

⁶ Ibidem.

⁷ Calculated from: *Promyshlennost Respubliki Tajikistan. Statsbornik*, Goskomstatistiki Respubliki Tajikistan, Dushanbe, 2002, p. 63; *Statezhagodnik Respubliki Tajikistan*, pp. 23, 205.

ber, etc.) while over 40 percent of its settlements receive no electricity in winter; 10 percent of them are deprived of electricity all year round even though there are power lines connecting them with sources of electric power. People use kerosene lamps or even splinter torches: in the 21st century they have to return to distant past. Recently, when there was enough electric power for the entire region while the total population strength was much lower than today large and average settlements enjoyed the same communal services as towns (they lacked only central heating, hot water supply and sewage). Today, for want of electric power especially in spring and fall to cook and to heat their houses people have to fell trees in small groves and shrubs that prevent soil from erosion. They even have to fell fruit and decorative trees. In the Murgab District they uproot winter fat, the main forage for domestic and wild animals. There is information that it has nearly disappeared on the area of 35 to 50 km around settlements. In Eastern Pamir people heat their houses the year round; one family needs up to 126 c m of winter fat the heating value of which is low.⁸

According to the Pamir Biological Institute of the Academy of Sciences of Tajikistan, one hectare of winter fat provides from 0.3 to 0.5 centners of dry winter fat; it will take from 5 to 8 years (depending on the altitude) to restore the damaged vegetation. What is more, this felling causes desertification and damages the rather poor meadows of the Murgan District and soil, which is eroded while lands are degrading.

In 2002, the government of Tajikistan signed an agreement with the International Financial Corporation and the ACTED, a French NGO, on setting up a private company in the autonomous region to exploit and develop its electric power system. In the nearest years construction of a water outlet of Ashil-Kul Lake will begin; two aggregates (14.0 thou kW each) will be commissioned at the Pamir-1 Hydropower Station. In 2001, there were 4,621 kW/h of electric power produced per 1 thou kW of the capacity of the hydroelectric powers stations. If by late 2007 the republic receives 14.0 thou kW more it will produce 65.0 million kW/h more and the total amount of locally produced electric power will reach the figure of 200.0 million kW/h. In the same period population will increase at least by 1.2 percent to reach the figure of about 226.3 thou. Per capita production of electric power will be 878 kW/h, that is, 37.4 percent more than today. This will hardly improve power supply to the region's economic spheres and their development. To completely meet the local requirements in electric power in the foreseeable future (15 to 20 years) the region needs Pamir-2 and Pamir-3 hydropower stations with an overall capacity of 41 thou kW as well as the Rog hydropower station in the Vanch District with a capacity of 14 thou kW. Since the settlements are scattered across vast areas and separated by long distances the region needs small and micro hydropower stations; the latter are produced by the Tajiktekstil' mash Plant in Dushanbe; to overcome the region's isolation where its steady power supply is concerned it should be linked with the Dushanbe-Garm power system. This requires a 110 kV power line between Darvoz-Vanch, Khorugh-Rushan and, in the distant future, the 110 kV Pamir hydropower stations-Murgab line 350 km long so that to join the Murgab District to the system. The projects that are capital- and labor-consuming will be quickly repaid. The region has two coal deposits (Kurtekinskoe in the Murgab District and Ravnobskoe in the Darvoz District). The poor quality of the former prevents its development while the latter demands more detailed prospecting so that to identify the most promising stretches, and building roads.

Mineral Resources

The Pamir is Tajikistan's mineral and raw-material treasure-trove of resources. Today, according to geological assessments there are about 700 ore outcrops and about 1,000 stretches of non-metallic materials: building materials, precious, semi-precious, and trim stones. Some of the ore outcrops have been already geologically studied and found rich; there are completed feasibility studies for them; they have been registered by the State Commission for Mineral Resources for industrial development. In fact, the Pamir is the least studied region: out of a wide range of ore and non-metallic deposits only the deposits of

⁸ See: *Materialy Strategicheskogo seminara po ustoychivomu razvitiu Tajikskogo Pamira* (contribution by A. Navruzshoev).

boron, piezooptical quartz, sodium salt, construction materials, noble, facing and semi-precious stones and mineral waters have been studied and registered for further use. In all, 18 deposits have been registered of which 7 are periodically used (construction sand, mineral lazurite, spinel, marble, rock salt, mineral waters and piezoquartz). Today, geological prospecting for precious and semi-precious stones is underway. Unfortunately, mining in the Pamir is limited to the above.

Geological prospecting in the region is carried out by the Pamir Geological Expedition of the Republican Geological Administration that will soon mark its 50th anniversary and the Pamirquartzsamotsvety Expedition of the Ministry of Industry of Tajikistan that between 1992 and 2000 had remained idle for want of funding; later it started receiving 50 to 60 thousand somoni, an inadequate sum that could scarcely pay for the managerial team and a museum. To keep the expedition staff together and to pay wages the managers had to build roads, tunnels, etc.

The Pamirquartzsamotsvety Expedition, one of the largest in the republic, founded in 1939 managed to preserve its industrial capacities during the civil war and to produce goods at least at 40 percent level of 1990. It is engaged in prospecting for semi-precious stones across the country. In 1996, it served as the basis for the State Committee for Precious and Semi-precious Stones at the republic's government; in mid-1997 and later incompetent people were appointed the committee's managers under whose guidance geological prospecting discontinued, industrial production stopped, the administrative building together with the expedition's laboratories were lost. Today, a handful of managers and geologists rent floor space for which they cannot pay anyway. They expect eviction any day and have no time to think about geological prospecting.

Even though we obviously do not know enough about the Pamir our scanty knowledge of its geology speaks about great prospects: mining and processing along with hydroelectric power production can become the main economic branches. Geologically the region's territory is divided into six areas, each with its specific mineral deposits. For example, potential gold reserves of the Kalai-Khumbskiy area amount to about 100 tons. The same area is rich in coal, marble, jasper, ophite, ophicalcite, serpentinite, etc. The Vanch area is rich in high-grade marble and rock crystal, considerable amounts of copper, nickel, cobalt and platinum in the Gumastskiy mountain massive; molybdenum, gallium and rhenium in the Sungatskiy massive. They are preliminary estimated as having industrial prospects. Iron deposits and manifestations were discovered in Jangal, Potov, Sel, Tekharv, Van-Van, and elsewhere in the same area. The Rushan area is rich in wolfram, copper, cobalt, gold (the Ikar field), and there are rich gold deposits and manifestations in Khuf, Khujand, Iakhzev; iron (Barch) and other minerals. The Ishkashim area is rich in precious stones: rubies, spinel, humite, lazurite, garnet, ceramic raw materials, etc. The Murgab District has two large deposits: Alichur and Rangkul. It was long ago that considerable deposits of boron were discovered in the former (Ak-Arkhar) registered during Soviet times; silver (Akdjilga, Kara-Djilga, and Mardjonai), tin (Trezubets), copper, lithium, wolfram, etc. The Rangkul area has gold deposits in Rangkul, tin and copper in Zarechnoe; tantalum and niobium in Iasnogorskoe, precious and semi-precious stones (rubies, tourmaline, topaz, scapolite, in Snezhnoe and Kukurt), etc. There are traces of industrial diamonds—further prospecting and laboratory tests are required.

This concise geological survey shows that the Pamir is worth of much more attention while geological prospecting at the most promising deposits should receive better funding. In this case alone the region may develop from the country's potential into its real treasure-trove.

Today, industrial extraction of marble, serpentinites, trim and semi-precious stones is the easiest and most promising project. The region has certain processing capacities and skilled workers. For example, a North Pamir enterprise Khrustal (Crystal) operates on the basis of the Dashtak marble deposits in the Vanch District. In Soviet times, it produced several thousand sq m of trim, polished and mosaic plates, gravestones, vases and chandeliers of all types, marble aggregate, etc., that were readily bought. In 2001, the same enterprise hired 10 workers who produced 8.0 thousand somoni-worth of goods. Lack of electric power for 5 to 6 months a year is responsible for this poor performance; the enterprise still has several diesel power stations with a total capacity of 1,000 kW, yet it has no fuel for them; it also needs diamond instruments to process marble and produce other goods. The same can be said about other recently quite successful enterprises. La'l, a factory in the village of Porshnev during Soviet times supplied the country

with jewelry made of precious and semi-precious stones readily bought by even the choosiest of clients. Today the factory struggles for survival and badly needs high-grade stones to continue functioning. In 2001, it hired 31 people who produced goods to the sum of 20 thou somoni.

If working steadily Khrustal today can produce at least up to 100 thou sq m of marble facing slabs (not less than \$25 per 1 sq m); 10.0 thou sq m of marble mosaic plates (that will cost \$150 per 1 sq m); 600 c m of blocks for monuments and sculptures (\$200 per 1 c m); 10.0 thou tons of marble aggregate as well as consumer goods to the total sum of \$4,270 thou (not less than 12 million somoni). In other words, with the shortages mentioned above removed, the region will be able to improve its economy at the expense of stone processing alone.

Taking into account a demand for wolfram, molybdenum, tin, gallium, cobalt, nickel, platinum and other metals and the constantly rising prices on them and granted the local reserves are workable one can expect that foreign investments will appear. Neither Tajikistan nor the autonomous region have enough money, machines and technologies to set up mining and processing enterprises. The country and the region however have unskilled workers in abundance to be employed after adequate training. In the foreseeable future this and hydropower production should be treated as priorities. The rich reserves of construction materials can be used to produce bricks, lime, asbestos, cement, to obtain granite, etc.

Recreation Potentials

Local nature offers unlimited possibilities for a wide-scale recreation network of a republican and even international importance: recreation and tourist zones can be organized; the mountainous region can attract alpinists; the air and mineral waters can be used for treatment and for health maintenance. There are numerous thermal and mineral waters, glaciers, lakes, alpine and sub-alpine meadows, natural and historical monuments. Today, the region has no sanatoria or tourist bases. For false reasons the region is closed to foreigners and even to Tajiks from other areas. This deprives the local people of possible incomes and potential jobs: one tourist creates two or three jobs. An adequate recreation network requires money, yet to start the ball rolling it is advisable to look for sponsors among foreign and local businessmen.

* * *

Obviously, to rescue the autonomous region from the deep crisis and to improve the local standards of living it is necessary to adopt a program of the region's socioeconomic development for the next 15 years. It should describe the following concrete steps: development of agriculture and enumeration of lands to be developed and irrigated as well as irrigation projects by districts; improvement of the fuel and energy sphere (small, average and micro hydroelectric power stations and joining the country's energy system); industrial upsurge (enumeration of priorities in mining and processing); more energetic geological prospecting of deposits of rare, non-ferrous, and noble metals and their industrial development; wider contacts with the southern regions and neighbors; development of social infrastructure and of priority spheres (tourism, alpinism, sanatoria and tourist bases).

Money is the main stumbling block—the republic and the autonomous region need cooperation of foreign investors and international charity foundations.

One should say that at one time the area was made an autonomous region precisely because this status helped develop it and let it catch up with the rest of the country. Unfortunately, this has not happened so far.

UZBEK-RUSSIAN ECONOMIC RELATIONS AND THE IMPACT OF THE RUSSIAN ECONOMIC PERFORMANCE ON UZBEKISTAN'S GROWTH AND FOREIGN TRADE

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I n t r o d u c t i o n

The Russian and Uzbek economies were parts of the single economy for a period of over 100 years. These years resulted in establishment of a complex of deep economic, scientific, cultural, and military links between the two countries. There are well worked out technological and supplier-buyer relations between enterprises and, in some cases, the whole branches of the economies of Russia and Uzbekistan. This paper argues that, despite a significant decline in Uzbek-Russian economic relations after the break-up of the Soviet Union, Uzbekistan's economic development, to a large extent, is still dependent on the Russian economic performance. The number of trade and economic links decreased during the years of independence, but the majority of ties in the complex web of

bilateral economic relations were not eradicated. Good macroeconomic performance in Russia influences positively the Uzbek economy. This was especially noticeable in 2001. In conditions of global economic slowdown and a slump in world market prices for Uzbekistan's main commodities in 2001, the sustainable import demand in Russia and CIS saved the Uzbek economy from severe economic crisis. Part I of the paper highlights the major stages in the history of economic relations between the two countries in the years after the collapse of the U.S.S.R. Part II is devoted to analyzing the current status of economic relations. The next part will look at the prospects of the Russian-Uzbek economic and political relations in the near future. And finally, Part IV draws conclusions.

I. Uzbek-Russian Economic Relations after the Collapse of the U.S.S.R.

Since achieving independence Uzbekistan's relations with Russia have gone through different stages, which could be divided into three. In the first stage, which began after the dissolution of the U.S.S.R. in 1991 and lasted roughly till 1995, Russia disengaged from Uzbekistan and the other former Soviet Republics. The economic relations with the former Soviet Republics were not considered to be advantageous by Russia because they were not based on market terms but on terms of concessions and barter.¹ Besides that Moscow found itself busy with domestic upheaval accompanying the initial phase of economic and political reforms. The switch to world prices in trade with Uzbekistan immediately resulted in

¹ See: N. Abbas, "Uzbekistan Splitting Ways with Moscow," *Marco Polo Magazine*, No. 2, 1999.

a decline in the Uzbek-Russian trade volume. Whereas the share of Russia among the CIS countries in foreign trade of Uzbekistan accounted for 53.1% of exports and 52.9% of imports in 1992, it was reduced to 38.6% and 36.3%, respectively, in 1995.² Uzbekistan established trade relations with developed Western countries—U.S., Germany, Japan, France, Italy and others, and reoriented its foreign trade and economic relations to these countries. In fact, Uzbekistan's foreign trade with non-CIS countries increased at the greatest rate compared to other Central Asian countries.³ Further erosion of bilateral relations happened when Russia demanded that Uzbekistan deposit a sizeable part of its gold reserves in the Russian Central Bank in order to stay in the ruble zone. This demand was unacceptable for Uzbekistan. The Government of Uzbekistan opted out of the ruble zone and introduced its own national currency in 1993.

From 1994 to 2000 Russia undertook efforts to reestablish its influence in Central Asia in political and military areas. Uzbekistan also found it necessary to restore old links with Russia. Russian-Uzbek rapprochement was especially illustrative in the case of civil war in Tajikistan, where the Uzbek Army fought alongside the Russian Army for the sake of peace in the country and both Uzbekistan and Russia played a major role in ending the war in Tajikistan. The military cooperation between Uzbekistan and Russia was solidified by the common zeal to fight against Islamic fundamentalism as the most dangerous threat to both countries' southern borders. This also paved the way for significant improvement in bilateral economic relations, which resulted in the signing of trade and economic treaties with Russia. However, the notable strengthening of economic cooperation did not elevate the status of bilateral economic relations to its pre-independence levels.

Since Putin came to power in 2000, Russia started to accentuate on economic aspects of cooperation in building its relations with Uzbekistan. Initially, this was done with purely economic agenda in order to exploit benefits of cooperation, and later to counterbalance the rising U.S. presence and influence in the region. Russia is trying to use the reliance of Uzbekistan's infrastructure on Russia as a means to gain a firm foothold and avoid further crumbling of its geopolitical role in this part of the world. During the informal meeting of the presidents of 11 CIS countries in Shymbulak on 1 March, 2002, Kazakhstan, the Russian president Putin took the initiative and opened discussions on the possibility of cooperation in the gas sector between Russia, Kazakhstan, Uzbekistan, and Turkmenistan. He proposed to create the alliance of these countries in production and delivery of gas to Western markets.

II. Analysis of the Economic Role of Russia for Uzbekistan's Foreign Trade and Economy

The significance of the Russian economy for Uzbek economic development is clear even after more than 13 years since the break-up of the U.S.S.R. The Russian-Central Asian trade was estimated at \$7 billion in 2000. This makes up only about 5% of Russia's total foreign trade.⁴ However, Russia historically relies mainly on Uzbek cotton for its textile industry. Indeed, Uzbekistan supplies roughly 90% of Russia's cotton imports.⁵ In addition to cotton, Uzbekistan exports cars, textiles, and food products to Russia and imports industrial equipment, timber, and other construction materials. *Nexia* brand of cars produced by joint venture UzDaewooAuto, in terms of sale volumes, top the list of the most popular foreign made cars sold in Russia in 2001. Russians bought about 10,000 *Nexias* produced in Uzbekistan in 2001. *Nexia*'s sales performance edged *Skoda Octavia* and *Skoda Fabia*—8,500 cars.⁶ In addition to

² See: E.M. Ivanov, "The New Reality in Uzbekistan and the Economic Position of Russia," *Marco Polo Magazine*, No. 3, 1999.

³ See: N. Abbas, op. cit.

⁴ See: *Russia Rethinks its Central Asia Strategy*, March 20, 2001 [www.eurasianet.org].

⁵ See: E.M. Ivanov, "Contemporary Russian-Central Asian Countries Economic Relations," *Marco Polo Magazine*, No. 1, 1999.

⁶ See: *Narodnoe Slovo* newspaper, March 2001.

officially recorded trade, a great part of the trade turnover between the countries goes unrecorded. Russia remained Uzbekistan's key trading partner as regards informal trade as well.⁷ Thousands of small "shuttle" traders deliver thousands of tons of Uzbek fruits and vegetables to Russia in lorries, trains, and planes.

To expand its economic role in Uzbekistan Russia is also actively participating in privatization process and the development of the oil and gas extraction. There is a greater willingness to accomplish the expansion of economic ties on bilateral basis rather than within the CIS framework. For example, the Uzbek State Property Committee and the Russian Fund for Social Protection of Military Servants signed an agreement on the sale of 51% of shares of the Uzbek Joint Stock Company Photon. The Russian partner will invest \$2.88 million in kind by supplying Photon with technological equipment and has assumed obligations to keep the major production profile of the enterprise—production of the element base for electronics. The State Property Committee is also holding negotiations with another Russian company on selling 39% of shares of State Joint Stock Company (SJSC) Uzkabel. The SJSC Uzkabel is the largest enterprise in the country, specializing in production of cable. Meanwhile, the Russian oil and gas companies LUKoil and Itera are planning to start developing three gas fields in Uzbekistan in the near future.

The importance of the Russian import demand for Uzbek economic performance could be further illustrated in the example of the Russian economic crisis of 1998. According to *Uzbekistan Economic Trends*, an abrupt decrease in demand for Uzbek exports in Russia as a result of the crisis forced Uzbek exporters to direct part of their exports to non-CIS countries.⁸ However, such a sudden shift was not going to be without losses. As a consequence, *Uzbekistan Economic Trends* estimated that the commodities for the amount of over \$100 million remained as "excess supply" that Russian demand/market could not absorb. Because of an increase in transportation and insurance costs, Uzbekistan lost an additional \$15-20 million. Moreover, the crisis led to a decline of prices (in dollar terms) for Uzbek exports by 16.4%—the loss of export proceeds in hard currency equal to about \$44 million. It is estimated that in total the Russian crisis cost Uzbekistan about \$150-160 million in lost export revenue. As a matter of fact the Russian crisis had a contagious negative impact on the whole of the CIS. The crisis diminished import demand in not only Russia, but also in other CIS countries—economic partners of Uzbekistan. In the second half of 1998, Uzbek exports to the CIS (except Russia) decreased by 16.3% and imports by 16% year to year basis.⁹ IMF staff calculations indicate that the gap between projections prepared before crisis's outbreak and actual export revenues widened during the crisis. The shortfalls in Uzbekistan's export revenues reached 23% and 30% of the pre-crisis projections in 1998 and 1999, respectively.¹⁰

In 2001, Russia's macroeconomic performance was very good. GDP grew by 5.2%, bringing cumulative growth since the crisis of August 1998 to over 20%.¹¹ On the other hand, from 1999 to 2001 the Uzbek-Russian trade increased by 38%.¹² The signing of long-term trade agreements in 2000 further facilitated the bilateral trade. According to the Russian Center for International and Scientific Cooperation, Uzbek-Russian trade grew by 20% in 2001 annually to reach \$1.2 billion, which accounts for 18-20% of Uzbekistan's total trade. The statistics for geographical composition of foreign trade in Uzbekistan indicate that Russia's share in Uzbekistan's foreign trade fell during the crisis and expanded after it (see Table 1). The reverse is true regarding the share of the rest of the world—it increased during the crisis and decreased after it. This could mean that Russia is a trading partner of choice for Uzbekistan and during the crisis Uzbekistan simply had to reorient its exports to other markets.¹³ As soon as economic situation improved in Russia, Uzbekistan eagerly resumed its trade

⁷ See: C. Pastor, T. Damjanovic, The Russian Financial Crisis and its Consequences for Central Asia, IMF Working Paper WP/01/169, 2001.

⁸ See: *Uzbekistan Economic Trends* for 1998, 1999, 2000, 2001.

⁹ See: *Uzbekistan Economic Trends Quarterly*, October-December 2000.

¹⁰ C. Pastor, T. Damjanovic, op. cit.

¹¹ See: World Bank Moscow Office, *Russian Economic Report*, January 2002.

¹² See: *Uzbekistan Economic Trends*, 1999, 2000, 2001; Russian Center for International and Scientific Cooperation.

¹³ This was possible to do within such a short period of time because the major part of exports to Russia is cotton—a commodity, which is in demand in the world commodity markets.

relations with it. However, as the tables below indicate, the overall foreign trade turnover, balance of payments situation, and exports driven growth in Uzbekistan to a significant extent depend on the price fluctuations and production volumes of Uzbekistan's main commodities (cotton and gold).

Table 1

Uzbekistan-Russia: Selected Macroeconomic Data, 1994-2001
(US\$ million, unless otherwise stated)

	1994	1995	1996	1997	1998	1999	2000	2001
Foreign trade turnover	5,299	6,602	9,311	8,911	6,817	6,347	6,212	6,401
Exports of goods & services	2,690	3,720	4,590	4,388	3,528	3,236	3,264	3,265
Imports of goods & services	2,609	2,892	4,721	4,523	3,289	3,110	2,947	3,137
Trade balance	81	828	-131	-135	239	125	317	128
Cotton crop (1,000 tons)	3,938	3,934	3,350	3,641	3,206	3,600	3,002	3,300*
Cotton fiber exports	1,508	1,584	1,539	1,390	1,198	833	897	
Gold extraction (tons)	65	63	60	62	70	80		
Gold exports	375	611	906	738	788	810	809	
Russia's share in Uzbekistan's foreign trade			16.4	18.1	14.9	13.4	16.6	19.9
GDP growth in Uzbekistan	-4.2	-0.9	1.6	2.5	4.3	4.4	4.0	4.5
GDP growth in Russia	-12.7	-4.1	-3.4	0.9	-4.9	5.4	8.3	5.2

* Estimate.

Sources: IMF; *The Economist Intelligence Unit*, Uzbekistan Country Reports and Updates, 2001 and 2002; Ministry of Macroeconomics and Statistics of Uzbekistan, *The Basic Indicators of Social and Economic Development of the Republic of Uzbekistan in 2001*, Tashkent, 2002; *Uzbekistan Economic Trends*, 1998, 1999, 2000, 2001.

Table 2

Cotton and Gold Prices in Dollar Terms
(% changes from the previous period)

	1994	1995	1996	1997	1998	1999	2000	2001
Cotton	23.8	259	-16.5	-7.0	-4.8	19.7	+14.2	-18.7
Gold	6.8	0.0	0.8	-14.7	-11.2	-5.2	0.07	-2.9

Sources: *Uzbekistan Economic Trends*; World Bank.

Russian macroeconomic situation and, as a consequence of it, the state of Uzbek-Russian trade, is another important factor that determines the volume of export revenues¹⁴ and economic performance of Uzbekistan (see Tables 1 and 2).

III. Prospects

Uzbekistan and Russia could both benefit from the regional alliance of gas producers as both countries are important gas producers and transit countries. Some observers estimate that the revenues from exporting Central Asian gas through Russia should considerably exceed the size of the American financial aid offered to Central Asian nations as a reward for their loyalty. It is not ruled out that China, with its huge energy market, may also join in the project in the future.¹⁵ Russia would definitely play a leading role as the main link in the transit route and the largest investor.¹⁶ If the project materializes, this would allow Uzbekistan to diversify away from its poor and insolvent customers—Kyrgyzstan and Tajikistan—and gain access to European markets, Turkey and Russia. Many analysts believe that potential proceeds from the sale of gas in more lucrative markets are offered in exchange for some degree of political collaboration.¹⁷ The opening of the export route would give Russia an important instrument of exercising political control over the former Soviet republics of Central Asia, including Uzbekistan. If Uzbekistan takes on a pro-American policy, Russia will be able to exert pressure on Uzbekistan by creating difficulties or even by cutting access to export infrastructure.

In another development, an international forum on the Aral Sea jointly organized by the Russian Center for International and Scientific Cooperation and International Ecology and Health Fund Ecosan, made efforts to revive a plan conceived during the Soviet period to construct canals from Siberian rivers to Central Asia in order to alleviate the Aral Sea crisis. It is well known that Russia possesses excessive water resources, whereas Uzbekistan and other Central Asian countries face an extreme water shortage problem. These problems hit Uzbek agriculture and economy seriously. The project, if implemented, would undoubtedly help solve many economic, ecological, and social problems in Uzbekistan associated with water shortage.

According to Christof Ruehl, Chief Economist with the World Bank's Russian office, the Russian economy started to anchor itself outside the natural resources sector during the first half of 2003.¹⁸ This means that the Russian economic growth has become more broad based and less vulnerable to changes in the oil prices—Russia's main export item. Although growth is still driven by the oil price, the diversification of the economic base and increased economic stability seem to be the prevailing economic trend. This could be good news for Uzbekistan. The sustained and broad based economic growth and import demand in Russia could further expand the horizons of Uzbek-Russian economic cooperation and favorably stimulate the Uzbek economy.

IV. Conclusions

The era of dominance of centrifugal forces that followed the break-up of the Soviet Union led to disintegration of the majority of the connections among enterprises and branches of the economies of Russia and Uzbekistan. However, the sense of simple economic expediency, geographical proximity, cultural bonds, and foreign policy agenda made it necessary to restore and develop further economic relations between the countries. Despite notable increase in the share of the rest of the world in Uzbekistan's for-

¹⁴ According to *Uzbekistan Economic Trends*, Uzbekistan ran trade surplus with Russia in 1999 and 2000.

¹⁵ See: M. Yermukhanov, "CIS Leaders Meet at a Summit in Kazakhstan," *Central Asia Caucasus Analyst*, 13 March, 2002.

¹⁶ All the existing pipelines from Central Asia to Europe pass through the Russian territory.

¹⁷ See: M. Yermukhanov, *op. cit.*

¹⁸ Interview with Christof Ruehl, chief economist, World Bank Moscow Office. Moscow, 25 November, 2003 (Prime-Tass).

eign trade, Russia's share is still big enough to significantly influence the Uzbek economy. The potential for Uzbek-Russian cooperation is especially promising in oil and gas, agriculture, textile, machine building, construction and aircraft production. Attitude of Russia toward Central Asia—the region Russian politicians have portrayed since the end of the 19th century as the country's soft underbelly—is also changing in light of geopolitical shifts in the region after 11 September events. Some Russian observers compare the geopolitical significance of the establishment of the U.S. bases in Uzbekistan and Kyrgyzstan with the unification of Germany. In light of these developments, Russian policymakers devote closer attention to their Central Asian policy and Russia is becoming more assertive in Central Asia, including Uzbekistan.

In general good macroeconomic performance in Russia, in combination with the increased prices for Uzbekistan's main commodities as a consequence of the economic recovery in the US and EU, better weather conditions for Uzbekistan's main branch of economy—agriculture—would compose a “coveted” combination of positive external economic factors for Uzbekistan. It is unlikely that all these favorable conditions occur simultaneously in a given period of time. However, the expected sustained economic growth in Russia will help the Uzbek economy stay afloat by creating the demand for Uzbek products.
